

**Economic Development on the Local
and Regional Level
Initiatives in South-East Europe**

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Foreword

The publication *Economic Development on the Local and Regional Level* is the result of a workshop held in Zagreb in March 2003, organised by the Zagreb office of Friedrich Ebert Stiftung (FES). During the workshop, experts of the various countries of South-East Europe discussed the question of what a local government can do for its own economic development and the development of the region. Experience shows that the development of each local unit is unique, even though the juridical framework and regulations are the same for all units within a single country. Apart from natural resources, which in some cases promote the positive economic development of a community or region, there are cases where even within poor environments positive developments were initiated by the activities of the mayor, the administration or even by the citizens themselves. In this respect, the main topic of the workshop was the analysis of those factors and methods that lead to successful projects and to the positive economic development of a community. A further topic related to that was the question of how the co-operation of several communities can promote their own development and that of the region.

The presentation of cases from different countries of South-East Europe and the discussion during the workshops of those examples reflect various approaches and projects that have been actualised. Another result of the discussion was the elaboration of different phases and their components within the course of the economic development process. Of importance in this context were the questions: who initiates a project, who organises the activities, and who controls the implementation. The question of if and how co-operation with other organisations or public institutions takes place proved to be important as well. The details of this process are described in the summarising chapter of this publication.

i *Local Self Government and Decentralisation in South-East Europe. Proceedings of the Workshop held in Zagreb, 6th April 2001, Zagreb 2001.*

ii *Financing Local Self-Government. Case Studies from Germany, Slovenia and Croatia, Zagreb 2001.*

iii *The Interreg Model. Practical Experience in Cross Border Co-Operation, Zagreb 2001.*

iv *Citizens Participation in Local Self-Government. Experiences of South-East European Countries, Zagreb 2001.*

v *Decentralising Government. Problems and Reform Prospects in South-East Europe, Zagreb 2002.*

vi *National Minorities in South-East-Europe. Legal and Social Status at Local Level, Zagreb 2002.*

vii *Executive and Legislature at Local Level. Structure and Interrelation in Countries of South-East Europe, Zagreb 2002.*

The workshop on economic development on the local level is a further activity of the project on “Local Self-Government and Decentralisation in South-East Europe”. This project started in early 2001, when Friedrich Ebert Stiftung initiated, in the context of the Stability Pact for South-East Europe and in cooperation with national institutions, a regional project to analyse the situation and reforms of self-government and decentralisation in the countries of the region. The project covers the following countries: Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Croatia, Serbia, Slovenia, Romania, and Hungary. Based on the analysis and discussion of the experts on different experiences in implementing reform steps, as well as the preparation and distribution of publications resulting from the different workshops, the project aims at stimulating public discussion with policy makers, researchers, and experts at the national and local levels. Since the start of this project in 2001, several international workshops on various topics concerning areas of local self-government have taken place. The results of these workshops have been documented in publications, which are listed below as footnotes.

Zagreb, April 2003

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Economic Development as a Local Agenda

1. Introduction

Since the mid-seventies advanced economies have experienced severe structural changes. In most countries there has been a significant shift from the industrial towards the service sector. At the same time, in manufacturing, there was a shift from labour and capital intensive industries towards skill and knowledge intensive ones. Along with these sectoral and industrial changes were significant spatial changes that resulted in a new spatial pattern of economic activities: the decline of old industrial centres and the emergence of new ones. This change has resulted in a loss of employment encompassed with a loss of population in many "old" industrial areas that were unable to cope with the decline of their leading industries.

Central and Eastern European economies and cities entered the process of restructuring later. They had to wait for political changes and the abandonment of old political and economic systems. As latecomers to the world market, they have found themselves in a situation that is very hard to deal with. They missed the right moment, and now they have to restructure their economies under the uncertain conditions of transition from a socialist to a market economy and the pressure of very firm competition from already restructured advanced economies.

Since they have just started to build a new political, economic and institutional system, the state and cities lack resources to deal with complex problems, which have technological, ecological, regional, economical, social and political dimensions. In this period of transition the problems of industrial restructuring have become very acute. Traditional industries have suffered closures and downsizing with the resulting loss of employment. New development is mainly concentrated in few regions, while all other parts are experiencing high unemployment, poverty and out-migration of many workers to find employment elsewhere since these regions have been unable to cope with the decline of their leading industries. Rural areas have been heavily affected as well and many migrated to urban centres where they have at least a hope of finding some source of earnings. When such a situation of fearsome competition for jobs, housing and life-chances develops within local

communities, people easily resort to nationalism and ethnic mobilisation, together with the process of exclusion and segregation, physical and social, that accompanies this development.

This difficult situation in which the communities have found themselves is not only due to political, social and economic changes in South-Eastern Europe, but also due to changes in the world economy. Crises, decreasing production, instability, uncertainty, and increasing unemployment have become common problems. For some time, economic development has not been a phenomenon that stays within the borders of one national economy. It has strong international connection, because of the impact of the world market on the national economy and vice-versa. In addition, due to globalisation, regions and localities across the globe are entering into new relationships. A development or crisis in one place often leads to the (under)-development or crisis in another one.

Enhancing regional/local economic development has been an important governmental activity in many countries. Western European, EU and Japanese models of public intervention are nothing new. It seems that an active governmental economic policy is a necessary response to increasing technological complexity and to international economic forces, whose mastery eludes the capacity and forces of most individual private entrepreneurs. It is now widely accepted that economic development has taken its place among the principal planning activities carried out at both state and local levels. National governments have adopted a wide variety of policies to promote economic development over the last decades by trying to influence the elements of economic development: capital, labour, land and technology.

2. Economic Development as Local Agenda

The situation at the local level is similar in many ways to the one at the state level. The economic wellbeing of both localities and states is largely dependent upon their position in the global market relative to that of competing localities and states. A state with numerous economically competitive localities is itself likely to be economically competitive.

The economic health of any locality and the fiscal resources of any local government are closely connected to what and how much is produced within that local economy. The bulk of the resources used by the local government for service delivery are generated directly or indirectly from the economy, whether it is from property, wages, sales or other taxes, or user fees. However, local governments cannot get up and move like the companies with mobile capital upon which these governments so often depend.

Local communities and individual citizens feel increasingly powerless over

their own economic destiny when plants close or reduce their work forces. This absence of job opportunities robs a community of its civic purpose and individuals of their sense of pride. In essence, regardless of whatever local job loss is called, be it economic restructuring, dislocation, de-industrialisation, market failure, or capital mobility, it is a disaster for the locality in which it occurs, whether it be a small town, a major city, or inner-city neighbourhood. An uncertain economic future is one of the basic problems that individuals and communities in transition countries have to deal with. Being used to stability, lifetime employment, and the state provision of many services, it is hard for people to adjust themselves to new circumstances. Local communities that had governments within a centralised, planned system, were also highly state dependant, and with the introduction of a new system of local government, they must learn to exercise their own autonomy and responsibility. They are slowly accepting the fact that their future lies in their own hands and they will have to organise themselves for action if they want to improve their situation. Therefore, it is imperative for local civic leaders to mobilise their resources in order to create alternative economic and employment opportunities. As a result of these circumstances, the concept of local economic development has gained support and the importance of economic development as a function of local governance has become widely recognised.

Local/regional economic development refers to the process in which local/regional authorities and organisations purposefully engage in activities that maintain businesses and employment, stimulate business and new product development, and stimulate job retention or creation in the area. This development is especially important for underdeveloped, less-developed or declining localities, which are faced with high unemployment, poverty, low level of social services, etc.

The main objectives of local/regional economic development in transition states are:¹

- Strengthening the competitive position of localities by developing the potential of otherwise under-utilised human and natural resources
- Realising opportunities for endogenous economic growth by recognising the opportunities available for locally produced products and services
- Improving the physical and social environment as a necessary component of improving the climate for business development and enhancing the quality of life of residents
- Improving employment levels and long-term career options for local

¹ Based on the Organisation for Economic Cooperation and Development (OECD): *The Revitalisation of Urban Economies*, Paris, 1986.

residents

- Increasing the participation of disadvantaged and minority groups in the local economy
- Promoting economic and political stabilisation of the region by creating an economic base for decent life at the local level
- Promoting sustainable development.

3. Elements of the Development Process

In order to deal successfully with economic development issues, it is necessary to take into consideration elements of the development process. A local community can influence these elements through its actions. However, it is very important for it to try and influence the most critical elements, since otherwise it will use its limited resources inefficiently and ineffectively.

Economic development elements:²

- Human resources (labour, management, etc.)
- Physical infrastructure (land, buildings, locations, roads, water supply, energy supply, etc.)
- Financial resources (public financing, tax system, attracting private capital, etc.)
- Social infrastructure (culture, schools, housing, etc.)
- Physical environment (natural features, air quality, etc.)
- Regulatory environment (financial initiatives, planning - zoning, development permits, etc.)
- Development climate (attitudes of the local administration and others involved in the development process).

Although there are common elements of the development process, these elements have to be studied carefully to get an understanding of the specific situation and find an appropriate mix of activities to change them in a desirable direction. The development strategy, and the development process based on it, has to reflect specific local socio-economic circumstances to meet the requirements of a given locality. Communities differ and present specific circumstances irrespective of the similarities in the causes of their economic problems. Simply because one community has suffered plant closures with a

² Based on Edward J. Blakely: *Planning Local Economic Development*, Thousand Oaks: Sage Publications, 1994; Thomas S., Lyons and Roger E. Hamlin: *Creating an Economic Development Action Plan*, Westport: Praeger, 1991; Jeremy Alden and Philip Bolan (eds.): *Regional Development Strategies: a European Perspective*, London: Jessica Kingsley Publishers, 1996.

loss of jobs does not mean that the alternatives for it or actions to be taken are precisely the same as for another community that has found itself in similar situation. There are many intervening factors that influence each situation. In essence, the attitudes, the climate, the atmosphere within the community, in addition to the objective circumstances, are significant issues for the economic development professional. An approach to economic development has to be comprehensive, taking all local circumstances into consideration in assessing economic development needs as well as in determining the priorities for change. For successful change the atmosphere in which the action is to be made is as important as the action itself.

4. Methods of Development

Local government development initiatives have covered a broad range of activities, from improving infrastructure, providing public services, and sponsoring local employment projects to actually acting as joint venture partners with private enterprises to develop and manage new enterprises and even to develop and manage new enterprises by themselves. Local communities and governments are developing their own approaches to stimulating local business and creating new institutions like development agencies to boost economic development. They are searching for solutions to economic development issues and trying to find ways to enhance their economic position with appropriate actions.

There are different possibilities to explore. One response that most jurisdictions can and do implement is export oriented. It aims at increasing the demand from outside the locality for locally produced products. To increase the export of local goods and services, local businesses have to compete successfully with goods and services providers from other localities. Therefore, the local government seeks ways of promoting its own economic base. This is the rationale behind the various industrial retention, expansion, marketing and trade promotion programmes.

The second response aims at enhancing the competitive market position of the local jurisdiction through businesslike or entrepreneurial techniques. In essence, this is most often done by subsidies that can take various forms: tax increment financing, tax abatements, leasing arrangements, the write-down of land costs, the provision of infrastructure and parking, the provision of land and facilities, business incubators, equity participation through loan funds and venture capital, and the provision of job training, to name a few. Other ways of gaining a competitive advantage are investments to enhance the educational

system, social and cultural facilities, environmental quality, etc.

The third response aims at decreasing the import of goods and services. It focuses on increasing domestic demand for local goods and services or developing local substitutes for imported goods and services. They can stimulate local demand by advertising, marketing, support for local business co-operation, etc. In the case of import substitution strategy, local jurisdiction will use different techniques, mainly subsidies, to aid the development of businesses that can provide substitute goods and services.

The above mentioned methods of development can be sorted into two groups:

1. Direct assistance to firms:

- Land assembly, purchase, and write down
- Labour training and labour subsidies
- Tax abatement
- Capital - facilities, loans, and grants.

2. The development of process assistance:

- Marketing assistance
- Technical information and assistance
- Permitting, planning, and development control.

5. Institutional Capacity Building

Institutional capacity on the local/regional level is very often not sufficiently developed and the importance of institutional capacity building in development is undervalued. Institutional capacity building is the process through which individuals and organisations strengthen their abilities to mobilise the resources needed to overcome economic and social problems and to pursue economic opportunities in order to achieve a better standard of living and quality of life. Sometimes such institutions and organisations are lacking and need to be established. Within already established institutions and organisations it is important to recognise the need for the improvement of general management practices to get better results. Elected representatives in municipalities, administrators and professionals have key roles to play in the stimulation of local development, although development issues have not yet become a top priority on local political agendas.

The success of a community in promoting economic growth depends to a high degree on its ability to create an appropriate institutional framework. Institutions have an important role in creating support structures, trust and predictability. As regards this 'institutional' aspect, the role of local government is very important.

The organisational structures that communities have selected for development

activities, as well as the initiatives they have undertaken, are diverse. Irrespective of the form, however, the goal is the same; namely, to provide the neighbourhood, locality, or region with a greater capacity to determine its own economic destiny.

6. Cooperation and Partnership

As previously discussed, economic development activities are conducted by a variety of institutions at the local, state and national levels. In some instances, local governments and community groups act on their own, while in others they co-operate with other communities or tiers of government to embark on their economic development activities. However, due to the nature of the process, economic development activities are carried out in a wider framework of organisations and institutions at the local, state, and national levels and, more recently, at the international level. Co-operation and partnership between different levels, organisations, and interests are essential parts of implementing local development goals. They reduce the tendency of individual organisations and agencies to pursue their own agendas in isolation from the broader public interest. Furthermore, most problems can only be solved through co-ordinated action by a range of actors and agencies, in line with the principle of shared responsibility.

The successful formation and implementation of a development strategy depends upon the ability of local leaders to provide for the active involvement of local communities and the creation of partnerships with the private and voluntary sectors within the context of strong and supportive governmental frameworks at all levels. Political leadership and commitment are critical if progress is to be made.

7. The Role of Development Professionals

Many developmental organisations employ professionals from the field of economic development to carry out their needed activities. They try to sustain and promote the economic development of the locality focusing their activities on:

- Attracting business
- Stopping businesses from leaving
- Preventing businesses from going bankrupt
- Helping businesses deal with administrative requirements (getting needed permits)

- Finding relevant information (about credit, labour, location, aid, etc.).

Research reveals that much of the typical development professional's time is spent in promoting the advantages of a city for business development or working with businesses to encourage their growth, but economic development practitioners also work in two other areas. First, some are engaged in efforts to expand the economic pie by setting up publicly funded loan programmes, providing public funds as venture capital for start-up firms, or sponsoring technological research and its transfer to private industries.³ Also, in some cities, development professionals work directly with the poor and jobless for their economic betterment.⁴ For example, development professionals help community groups promote neighbourhood economic change⁵ or offer aid to those that have been laid off, etc.⁶

Therefore, development professionals are performing different activities, such as:

- Promoting activities (preparing locations for development and advertising them)
- Finding and providing different business incentives (publicly founded loan programmes, providing funds as venture capital for start up firms, tax breaks, etc.)
- Facilitating co-operation between the public and private sectors, working on partnerships (creating common bodies, strategies, and projects)
- Using regulatory authority (like zoning, planning, programming).

8. The Spatial and Economic Restructuring of Jesenice

The municipality of Jesenice provides a classic example of the problems facing industrial cities in transition countries as attempts are made to restructure and reinvigorate massive, antiquated, state owned industrial complexes. For the people in the city of Jesenice and the nearby region, almost all employment, income and social provisions were traditionally provided through ironworks that produced steel and metal products and consequently

³ See Richard D. Bingham, Edward W. Hill, and Sammis B. White (eds): *Financing Economic Development*, Newbury Park: Sage, 1990.

⁴ See Pierre Clavel, *The Progressive City: Planning and Participation, 1969-1984*, New Brunswick: Rutgers University Press, 1986.

⁵ See Robert Giloth: Community Economic Development: Strategies and Practices, *Economic Development Quarterly*, No. 2, 1988: 342-350.

⁶ See Neal R. Pierce and Carol F. Steinbach: *Corrective Capitalism: The Rise of America's Community Development Corporations*, New York: Ford Foundation, 1987, and Stewart E. Perry: *Communities on the Way: Rebuilding Local Economies in the United States and Canada*, Albany, 1987.

they were used to quite high standard of living.

After 1991, markets in Yugoslavia evaporated while entry to Western Europe was curtailed by import restrictions, and therefore, demand for their products shrunk considerably. The ironworks industry also was not competitive enough to be able to compete with foreign producers of the same products. So, this large enterprise faced a decline and a substantial loss of jobs, since many programmes were abandoned.

The community suffered, too. Increasing unemployment was something completely new and it did not know how to deal with it. At the same time, the social standard was decreasing since the ironworks industry could not support different local services and activities to the extent that it had before. While there have been major financial, technological and ecological issues to tackle, successful renovation and restructuring programmes depended first on achieving a psychological break-through. The population at large had to be convinced that changes in the industrial landscape, occupations and lifestyles were possible and that they could have beneficial long-term effects. In the beginning, however, in Jesenice there was no such perception and thus no genuine commitment to change. Now, however, the situation has changed.

The determination of the people and leaders to preserve the status quo stemmed partly from the absence of clearly articulated signals from the national government about new industrial and regional policies, and the direction and support of restructuring. Local reluctance to embrace change can also be attributed to the privileged position this region enjoyed in the socialist era. It was commonly referred to as the iron "heart" of the country and steelworkers received wages and other "perks" far in excess of those in other industries.

There were also many social barriers to economic development in the Jesenice area, like the prevalence of an old mentality (others will take care of us), the lack of an entrepreneurial tradition and mentality, apathy, poor social conditions (high unemployment and a high proportion of families below the poverty line), brain drain etc. To make the situation worse, these conditions were combined with institutional barriers like poor performance, inadequate skills, lack of knowledge, slow procedures, changing legal provisions and political barriers in the form of dispersed political power and strong disputes among various political parties. All of this produced a situation in which the municipality neither had a development strategy nor a strategy to manage its own properties.

The initiative for change came from outside the municipality. In 1994, the Ministry of Environment and Spatial Planning and the Ministry of Economic Relations and Development were persuaded by domestic and foreign experts

to apply for a grant from the 1995 PHARE CBC Programme to finance a small feasibility study. The study was designed to assess the feasibility of spatial and economic regeneration in Jesenice and the nearby region and the establishment of a local development agency. As a result of these PHARE project activities, a local development programme was elaborated within the municipality by the support of external experts. The programme was then approved unanimously by the municipal council, which helped in the process of its implementation.

The actors understood that success in promoting economic development in Jesenice depended on the ability to create an appropriate institutional framework, since institutions have an important role in creating supportive structures, trust and predictability. Institution building in Jesenice has included both new organisations and new rules of behaviour. Thus, in accordance with the development programme, a local development agency has been set up. Its task is the co-ordination of all development activities in the area. According to local circumstances, the agency is also supported by other municipalities from the surrounding regions. Its office is in a building that was co-financed by PHARE to accommodate a local business incubator. The two institutions thus gained an opportunity to work together to the benefit of the municipality and the broader area.

The success of the first programme convinced the municipality that it is necessary to continue with such activities, so it applied for the continuation of the project and it was successful. The 1998 PHARE CBC Programme helped to build the development of infrastructure in Jesenice (in particular, a bridge across the Sava) and to support training programmes for locals (training for potential entrepreneurs and young local professionals willing to work in the local development agency or other organisations). The local development agency with the new professional cadre employed can better assist Jesenice and other municipalities in fulfilling their development goals. It co-operates with businesses, non-governmental, and governmental organisations to provide conditions for the regeneration of Jesenice.

Although in Jesenice many are still not willing to join and support these new processes, the community has started to adapt to the new situation and the municipality of Jesenice has been taking in the new ways. The municipal officials have learned to value new approaches. They have tried to develop internal and external relations, based on cooperation and partnership. They have invested a lot of effort in the restructuring and diversification of their economic base, the provision of a business zone, and measures for stimulating new business development, technology and tourism.

The local development agency is actively participating in all these activities.

With professionals employed, it helps municipalities provide favourable conditions for development. During the last year it has been also responsible for the elaboration of a sub-regional development strategy and has got together with other development agencies within the broader region of Gorenjska for the preparation of a regional development strategy and the creation of appropriate conditions for its implementation. Municipalities have recognised that by joint and co-ordinated efforts they will be more successful in the promotion of economic development and the provision of a higher quality of life.

Case Study Laktaši: Good Governance as a Pillar of Local Economic Development

1. Background

In May 2001, the local representative of Friedrich Ebert Stiftung (FES) in Banja Luka initiated the idea of supporting the Laktaši Municipality in Local Economic Development (LED).

The following facts characterised Laktaši at that time:

- It was the fifth municipality in the Banja Luka region according to the number of its inhabitants - about 40 000 inhabitants placed in 11 communities and 37 villages.
- It was an explicitly agricultural¹ area with a constructed capacity and favourable natural conditions for engaging in arable farming, livestock breeding and fruit growing.
- The municipality was also rich in natural resources favourable for the “health and leisure industry” based on thermal mineral water springs. There are two such spas with all the necessary infrastructure and hotel capacities. (Laktaši and Slatina spas).
- A significant share in the realised economic effects was contributed by the private sector² with smaller and flexible capacities in all economic sectors and with different production programs.
- The local economy and local employment³ were not in such a critical condition compared to the other municipalities in RS.

Both sides (FES as a donor, and the municipal government as a beneficiary) expressed a significant willingness and readiness to do something in that area.

¹ Agricultural land covers 25 564 ha of the total area. It consists of 19 970 ha of arable land (18 291 ha are private property and 1 689 are in the public sector). Orchards cover 1 813 ha mostly in private property (70% of households are engaged in agricultural production). About 60 households are engaged in the production of vegetables with all the necessary equipment for production.

² There are more than 1000 registered private SMEs (more than 400 are really active) and about 700 small shops and crafts. Most of the SMEs are placed in two industrial zones. Their contribution to the GDP is about 70%.

The problems were **what** and **how**, in order to initiate a process with a significant long-term impact.

EDA organised a workshop focusing on the LED process and provided tools to a small group of key local players from the municipal government and the business community. During the workshop some important obstacles and constraints for applying the usual LED concept were identified. The most important one was related to the actual legal and administrative framework of BH, and its not providing an active role for local governments in local economic development issues. Local governments were not supposed to be leaders or the driving forces of LED.⁴

What to do? How can somebody do this job without the necessary responsibilities and tools?

SWOT analysis produced during the workshop did not call for such urgent action:

1. Key Strengths

- Image (enterprise municipality)
- Favourable location (very close to Banja Luka - university, administrative and cultural centre; airport, close to Croatia, etc.)
- Private sector tradition
- Resources and capacities for food processing and “health and leisure industry”
- Ecology.

2. Key Opportunities

- Growing organic food markets
- Growing health and leisure industry
- Changing focus of international assistance to BH (from humanitarian aid to sustainable development)
- Expected Public Administration reform (devolution of power).

³ Laktaši already achieved pre-war figures related to GDP and employment.

⁴ The following areas of activities, within the responsibilities of municipalities in RS, were to some extent connected with the LED:

- Local development plans and their implementation
- Urban and space regulating plans, as well as building and construction licences.
- The management of municipal properties
- The organisation of communal services and the maintenance of local infrastructure
- The complete process of registering shops and crafts and some activities in the process of enterprise registration
- Management of tourism resources, located at the municipality
- Different municipal administrative taxes
- Conducting inspections
- The protection and management of the environment.

3. Key Weaknesses

- Local government is not user-oriented enough (very slow process of obtaining urban licenses⁵, for example)
- Lack of “3 P” partnership (passive approach of the partners, an underdeveloped civil society)
- Lack of financial and business development support to SMEs.

4. Key Threats

- Slow and ineffective economic transition process
- Unfavourable socio-political environment in BH
- Distrust in upper political and administrative levels.

Again, what to do? If you are not able to go directly to your target, it is better to turn back and find some alternative way of initiating a process with significant potential long-term impacts. The rest of this paper is a story about one such an alternative.

The alternative way for Laktaši was to introduce Good Governance⁶ principles and mechanisms as key preconditions for expected LED⁷ projects in BH. Why? Governance includes the governments (including local level), but transcends it by taking in the private sector and civil society. The governments create a conducive business environment. The private sector generates jobs and income. Civil society facilitates political and social interaction - mobilising groups to participate in economic, social and political activities. Because each has its weaknesses and strengths, a major objective of improving local governance is to promote constructive interaction between all actors.

Being aware of real local needs and circumstances⁸ EDA launched the project “Introducing principles and mechanisms of a transparent, efficient and user oriented local governance in BH”⁹, funded by the Open Society Fund BH. The Laktaši Municipality was selected to be one of three “pilot” municipalities.

⁵ Of the current services of the local government, land management and urban licenses are the most important ones for entrepreneurs.

⁶ Good local governance ideally includes the efficient, effective, transparent and accountable management of public affairs on the local level as well as the inclusion of different actors in the decision making process.

⁷ At that time LED projects were not explicitly included in the agenda of the International Community in BH. Even worse, they were not included in any agenda of the domestic governments.

⁸ EDA: *Preliminary Diagnosis of Local Governments in BH*, Study funded by the Open Society Fund BH, Banja Luka, April 2001.

⁹ See: EDA/OSF: *Local Governance Development Project Introducing Principles and Mechanisms of a Transparent, Efficient and User-Oriented Local Governance in BH*, Banja Luka, 2002.

2. Project Goals and Main Ideas

The main goal of the project was **to introduce principles and mechanisms of transparent, efficient and user-oriented local governance in selected municipalities of BH** (Laktaši, Srebrenik and Tešanj).

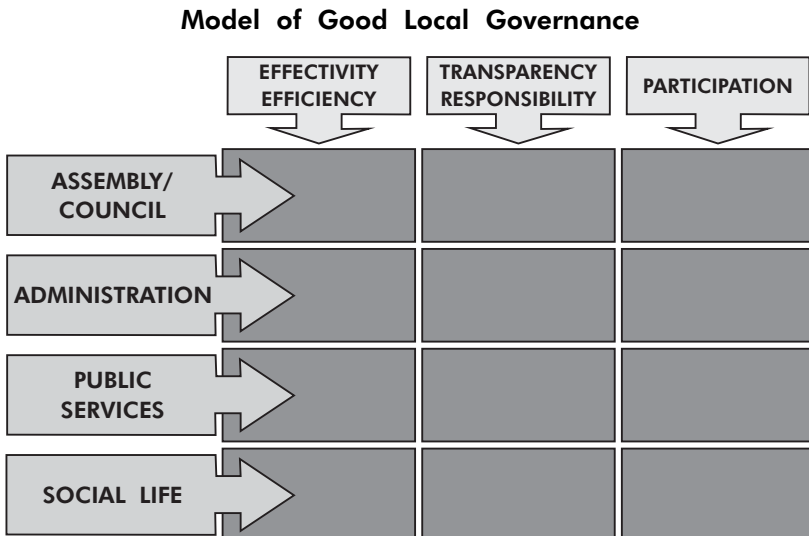
Project objectives were as follows:

- Motivating and educating the management and local governance staff in selected municipalities to introduce good governance principles and mechanisms
- Forming and training specialised teams within local governments to introduce good governance principles and mechanisms
- Designing and implementing transparent, efficient and user-oriented local governance in the priority functions of selected municipalities
- Creating exemplary, demonstrative practices of good governance at the local level, appropriate for further development in other BH municipalities
- Developing a comprehensive methodology for the "benchmarking" of local administrations in BiH
- Strengthening national capacities for the improvement of local governance.

The project approach was based on two main models:

- The **Good Local Governance Model**, and
- The **Change Management Model**.

The Good Local Governance Model is represented by the following chart:



In simplest terms, this is a matrix in which the main principles of good governance (efficiency, transparency and participation¹⁰) are matched against the basic components of local governance and areas of responsibility (the legislative component - represented by the municipal assembly or council, the executive component - represented by municipal administration, the public service component and the social life component in a municipality). The main meaning of this model is the concept that good local governance is efficient, transparent and participative, both to a necessary degree and in all its components and areas of responsibility. In other words, local governance where there is an obvious discrepancy in the application of the principles of transparency, efficiency and participation in local governance components is not a good one (if it is only efficient and/or transparent, or if the only developed component is the executive component etc.).

The introduction of the principles and mechanisms of good governance is really all about introducing important changes in local governance, primarily changes in the system of values and conduct. This was the reason why the second basic model by which the project was designed and run was the Change Management Model. The following necessary characteristics of successful change programs were applied:

- Creating the sense of urgency for changes with the project users
- Developing teams for the introduction of changes, i.e. "the critical mass" of people in municipal administrations and around them who are ready and capable of introducing changes
- Creating the vision of changes and communicating that vision to the citizens
- Achieving an effective, visible and low-profile initial series of successes
- Creating a new culture of behaviour.

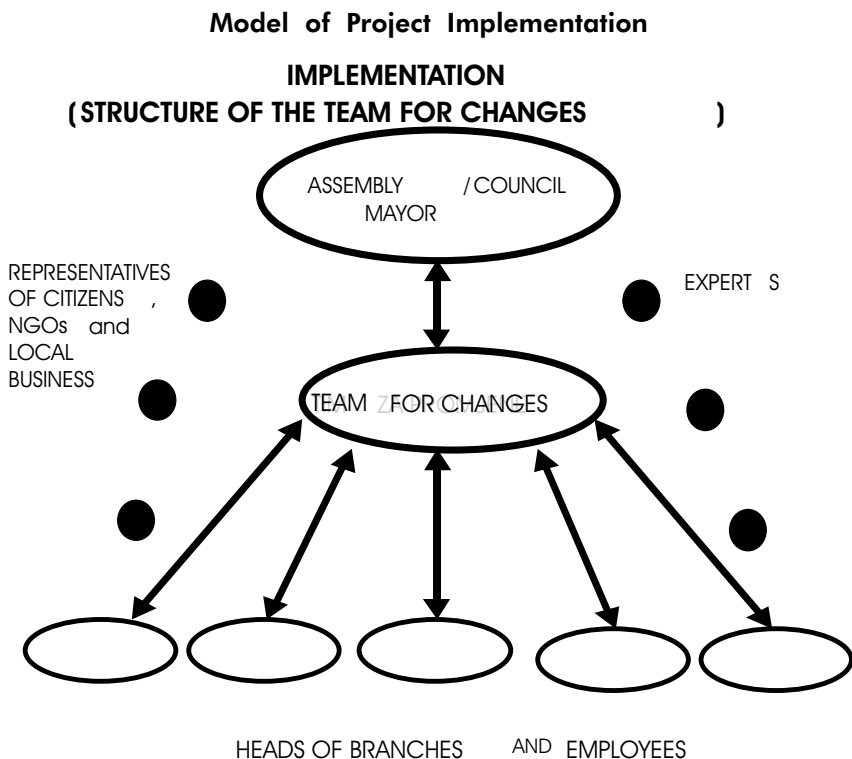
Each of these characteristics has been incorporated in the design and implementation of the project.

¹⁰ **Transparency** implies the public character of work and the openness of the local government toward monitoring and control in all its segments. **Efficiency** implies the quick, sound, user-oriented and economic performance of tasks and assignments in order to meet the needs in the jurisdiction of local governance. **Participation** implies the organised implementation of influence of citizens and tax-payers in decision-making and services in the field of local governance.

By linking together the two perspectives (present and wanted future), priorities for improvement in each municipal administration were selected, and, after that, improvement actions were developed and implemented.

3. Actors and Their Relations

The project has been developed thanks to the maximum participation of internal municipal teams for introducing changes. The place and the role of these main teams, supported by EDA's experts in accordance with their needs, is represented by the following chart:



The core team of the Laktaši municipality had 8 members with many specialists joining the team from time to time. Concerning the motivators, instruments of so-called 'intrinsic' motivation were used: challenges of the task itself that needs to be done, the attractiveness and visibility of expected results, possibilities for learning, self-affirmation and carrier moves, etc.

4. A Short Review of Actions Taken by Actors

The following actions were undertaken by actors:

A. Introduction actions

- Project presentations
- The preparation and signing of a Memorandum of Understanding between the actors (setting forth all important milestones of the project related to the realisation, goals and main activities of the project).

B. Seminars (aimed at providing an initial “critical mass” of joint understanding, skills and positive attitudes on the part of key actors in the municipality regarding good governance, change management and team work principles)

- Principles of Good Governance at the Local Level in BH
- Change Management and Team Work.

C. Workshops

- The Development Vision and Local Government Mission
- Developing Good Governance Code
- Diagnosing the State of Affairs, the Selection of Priorities and Action Plan for Enhancing Local Governance
- Developing Experimental Simplified procedures for removing “bottle necks”. within critical processes (the processes for obtaining urban licenses, for example).

D. Consulting activities in selected areas

- Improving processes and organisation
- Improving Human Resources Management
- Improving Information Systems
- Improving Public Procurement and Contracting (combined with a seminar: “International Public Procurement Standards, Rules and Procedures”).

Parallel with the activities mentioned above and carried out by the EDA, the Centre for Civil Initiatives was increasing the skills and motivation of different citizen groups to participate in local governance activities and decision-making processes. At some important stages in the project's implementation, both sides of the activity had been linked, having a very constructive atmosphere and a real co-operation between the local government and citizens in resolving local problems.

5. Break-down of Key Results

Key changes that occurred in the Laktaši Municipality, brought about by the impact of the project, can be summarized in the following way:

- The project idea was completely accepted, and the implementation leaders were motivated with the necessary skills acquired
- The Municipal team for designing and introducing changes (the principles and mechanisms of good governance) was formed and trained
- The **municipal development vision** was created and new **municipal governance mission** defined, as well as key local protagonists - vision and mission adopted by municipal assemblies/councils
- The **good governance code** was defined as a system of values and principles that enable the transition of municipal governance in the field of work and conduct toward a modern and quality service for the citizens, and a provision of incentives and guidelines for local economic and social development - the Good governance Code was adopted by consensus in Municipal Council
- The existing status of municipal governance was diagnosed and **improvement priorities** were defined
- **Key improvement actions** were designed (good local governance mechanisms) in the fields of transparency and efficiency¹¹)
- The **public procurement and contracting** process was fully developed (internal procedures were developed as well as all documents and instructions, the staff was trained, and the assignments were allocated and organised)
- The **system analysis and system design** were developed for four selected functions (budget, accounting and finances, office management and crafts/shops database) as a basis for the development and introduction of complete software support - the development of the software support has been completing
- **Work standards** for all assignments in the municipal government were developed
- The **models and instruments of work performance evaluation** of managers and executors in municipal governance were developed and adopted
- **Simplified, and more efficient procedures** for removing "bottle-necks" in **the critical part of urban planning** were developed (to speed-up of the process of obtaining urban licenses)
- A **training planning procedure** was developed and introduced with the annual training plan in municipal government.

¹¹ Key improvement actions in the field of participation were developed and implemented by the Centre for Civil Initiatives by working directly with the citizens.

Here are some examples of results achieved:

- **The Laktaši Development Vision** (created by key players from the local government, the business community and civil society):
 - The real centre of entrepreneurship in BH, recognisable by a well developed “health and leisure” industry and organic food export
 - The cleanest part of BH
 - Modern schools and very good quality of life
 - an area with great opportunities for young people.

The realization of this vision is a common task of the local government, entrepreneurs, non-government organisations, citizens and all those who live here and want to invest their knowledge and capital.

- **Mission of the Laktaši Government** (also created by key players from the local government, the business community and civil society): The municipal government/administration, in line with its utter commitment to the realisation of the vision of development in Laktaši, will make its best efforts to be, in a dedicated and systematic way:
 - **a service to the citizens**, paying full respect to their needs, problems and proposals
 - **a service to entrepreneurs**, creating a business environment with the necessary conditions for local economic development
 - **efficient**, providing fast, good quality and cheap services, with procedures that are simple and adjusted to the interests of its clients
 - **transparent**, ensuring full compliance with the law and openness toward the public, full responsibility and an equal approach for everyone
 - **open** to the initiatives and interests of the young, citizens from urban and rural areas, businessmen, potential investors, associations and non-government organisations and everyone else contributing toward the development of Laktaši
 - **pro-active and constructive** in its co-operation with entity and state bodies and organisations, as well as with other municipalities, international organisations and investors.

In order to accomplish its mission, the municipal government will try to set an example by its work and responsibility for others who would like to and are able to make a contribution to the development of Laktaši. This set of principles and values by which the municipal authorities will be governed was developed as a special Code of Good Local Governance for the Municipality of Laktaši.

- **Code of Good Local Governance** (created by local civil servants) - an extract:

- The Good Local Governance Code is a set of principles and values that enable the transition of Laktaši local governance in the field of work and behaviour toward a modern and quality service, as well as giving incentive and guidelines for local economic and social development.
- Apart from its declarative aspect, the Code also has a standard-forming role. It helps bridge the gaps concerning the partial inadequacy of laws and by-laws by foreseeing new roles of local governance in the transition period, without jeopardising at any moment the main principles of constitutionality and legality that represent the obligatory framework for all other regulated activities.
- At the same time, the Code represents the basis for making and applying good local governance mechanisms in municipalities covered by the project.
- Application of Good Local Governance Code should play a key role in contributing toward a significant enhancement of:
 - **Transparency and responsibility** of local governance toward the public and tax-payers
 - **Efficiency in the work** of local governance
 - **The participation of citizens** in the decision-making process and the work of the local governance.
- The Code has a long-term character and is related to accomplishing the defined vision of the municipal development and local governance mission.

6. Lessons Learned

Key lessons learned from the first phase of the project can be summarized in the following way:

- The training of internal municipal teams for the introduction of principles and mechanisms of good governance is a very good means if it is used:
 - a) Purposefully (it is not the purpose in and of itself, but primarily, the preparation of change “in the minds” of the most important people in the municipal government and their most important local partners)
 - b) In a timely manner (intensively at the beginning of the project, afterwards as an introduction to the phases of work on resolving real problems)
 - c) Interactively (with a minimum of seminar work, a maximum of workshops, and whenever possible, the use of participants from the local government for the presentation of their best experiences)

- d) As a boarding school (outside of their place of work)
 - e) As an addition to consulting (for the preparation and implementation of solutions).
- Consulting for the introduction of principles and mechanisms of good governance (often an absent, but very necessary, type of technical assistance to local administrations) is an exceptionally efficient means if it:
 - a) Supports the resolution of real problems
 - b) Is more methodological in character, oriented to systematisation and the better use of already existing comprehensive knowledge and skills of people who are working in local governance
 - c) Is based on the principle of assistance in the solving of problems, and not in the making of solutions for the people of the local governance.
- Creating a vision of municipal development and the mission of key actors at an early phase of the project enables:
 - a) The complete and quality co-operation of all interested local partners
 - b) The creation of a new, development-oriented perspective of observation, especially among participants from the local governance, who are otherwise occupied with solving daily problems
 - c) The critical achievement of consensus
 - d) The significantly easier process of introducing changes in upcoming phases.
- It is good to “tie up” the Code of Good Local Governance with the vision and mission because they give complete meaning to the Code. Also, a comprehensive creation of the Code should be given to local participants as much as possible (including significantly more representatives of civil society) because with that, besides the quality and reality of the Code, a significantly higher level of obligation for its adoption and implementation is achieved. Adopting the Code in due time (by consensus at the municipal assembly/council) makes the upcoming steps of the process easier.
- Running the project on the basic principles of change management proved to be a step in the right direction.
- The success of the project, and also its sustainability, depends on the interest and quality of the internal municipal teams that are engaged in the project. It proved to be better when those teams are “spontaneously” formed along the process of project, rather than at the very beginning. The problem of their motivation, however, should be solved in a more quality manner.

- Creative potentials exist which were not activated enough by the previous project. In a new project's design, solutions for encouraging the spirit of competition and potential innovations of the local participants should be found (both within particular municipalities and between them.)
- A new project should be designed so that it enables the achievement of results that will be smaller by volume, but of better quality, more attractive and measurable (so that at the end it is possible to “see and feel” the quality of improvement in the performance of the local governance).

7. Post Script

The first workshop focused toward LED really initiated a process with significant long-term impacts on the Laktaši Municipality. The municipal government is now in a final stage of preparation for being certified according to ISO Quality Standards 9001:2000. It is becoming a benchmark for other municipalities in the region.

Also, the Laktaši Municipality is now ready to make the best use of LED projects and funds starting this year in Bosnia and Herzegovina.

The Role of Economic Development Agencies in Promoting the Development of Lagging Areas of Croatia - The Case of LEDAs

1. The role of Economic Development Agencies in promoting local economic development

The creation of Local Economic Development Agencies (LEDAs) is based on the Local Economic Development Approach, also known as the **bottom-up approach**. The local economic development approach came as a response to the incapability of the central government in solving socio-economic issues of lagging regions (Maleković, 2002). This approach made it possible for local actors, and instruments for promoting development, to be considered in a new context.

1.1. What is Local Economic Development (LED)?

Local economic development is the process of transforming the local economy and broader society with the aim of overcoming existing difficulties. It seeks to improve the living conditions of the population by means of **consensus-based** actions among different social and economic local actors to take advantage of endogenous resources by promoting local business capacities.

The term 'Local Economic Development' can be derived as follows:

Local - based on endogenous potential, the promotion of the optimal use of local capacities and the creation of a systematic linkage with the national context.

Economic - promotes economic development through the identification of business opportunities, by supporting entrepreneurial initiatives and facilitating access to the market.

Development - promotes improving the quality of life through job creation and income generation.

The LED approach plays a fundamental role in the sustainability of the rehabilitation programme aimed at re-launching economic development process. The main reasons in favour of the LED approach are the following:

- The “top-down” approach proved to be unsuccessful in solving complex development problems
- The best knowledge regarding local problems, local needs, local resources, local development potential, as well as local motivation for promoting change, exist on the local level
- It is of fundamental importance that the local community sees its place in the future, has its development vision and development goals and participates in their implementation.

The LED approach promotes:

- Concentration among the main local actors involved in the economic activities and the setting of priorities
- Integration of local development priorities in regional and national plans for economic development
- Participation and consensus building in economic life at local level;
- Coordination of the few resources available in an area, avoiding double efforts
- Reinforcement of the intermediary capacity of local actors towards national and international organisations to facilitate resource mobilisation for the region
- Support to enterprise creation.

Successful examples of the development of lagging regions in Europe, which have based their success on autonomous and locally “owned” patterns, as well as, the previously mentioned unsuccessful top-down approach, have raised the interests of experts, scientists and policy-makers to the LED approach. Based on endogenous development, the LED approach gave new meaning to the internal coordination, i.e. coordination of local stakeholders in order to achieve synergy and cohesion at local level, at the expense of previously emphasized external coordination. This new approach has also offered new instruments for promoting successful local development. Local economic development agencies have an important place among these instruments.

1.2. What is a Local Economic Development Agency (LEDA)?

The **LEDA** is the **instrument** of the **Local economic development approach**. It is an important instrument of local/regional development in EU countries¹, but also in transition countries and other developing countries².

¹ There are more than 500 local economic development agencies operating in Europe, most of them are situated in the EU.

² For further information about LEDAs and the LED approach, see: *Local Economic Development Agencies, An instrument to promote Entrepreneurship and Decent Jobs at Decentralised Level*, ILO, Geneva, 1998.

The **LEDA** is supposed to be:

- the main tool and organisational form of the consensus building process on the territorial level
- the central axis of local development strategy
- an economic discussion forum for identifying common development objectives.

1.2.1. Features of LEDAs

There is no single model for local development and it is impossible to identify a single organisational model that can be mechanically replicated. Each country has its own distinctive historical, political, economic, social and cultural characteristics and those of different territories within each country are similarly distinctive. Nevertheless, several core characteristics of LEDAs have proven to be universal and are indeed essential in order to contribute significantly to the progress of the local economy.

It is an organised structure

LEDA is non-profit organisation and it has its own legal character that guarantees political and administrative autonomy. Its legal form permits the participation of local actors both from the public sector (local administration, decentralised parts of national government, etc) and the private sector (associations, chambers of commerce, trade unions, producer's organisations, banks, etc).

Mixed public-private participation and the private administrative status have proven to be factors of success. The participation of public institutions and administrations gives agencies political, institutional and programming links with various actors at all levels.

Territorial coverage

LEDAs are territorial structures whose areas of operation coincide with an administrative division of the country involved such as: the region, province, district, canton, department or other. The reduced territorial coverage of the LEDA has proven to be the most appropriate for involving decentralised state structures in LEDAs activities. This territorial dimension also allows LEDAs to activate a critical mass of natural, economic and human resources for self-sustaining development and makes it feasible for local actors to participate in their activities.

In countries whose administrative divisions do not envisage intermediate levels, consortia of municipalities have been promoted. In the case of LEDAs established in large cities, areas of operation have most often coincided with the administrative subdivisions of the city council.

It co-ordinates local economic development planning

A LEDA's first step is to assemble all the actors in order to design a strategy for local economic development. LEDAs can either co-ordinate the planning process directly or else provide technical assistance to the local administrations responsible for that planning. In this way the businesses that it has supported can be oriented to produce benefits for territorial development and not just for their owners and workers. Although these plans are based on valorisation and the use of local natural, human, technical and economic resources they should also provide space for attracting exogenous investments that are compatible with endogenous development.

It supports SME development

The obstacles of entrepreneurial activities in transition and developing countries are well known. They include a lack of entrepreneurial culture, technical expertise and market opportunities, insufficient support infrastructure and difficult access to financial resources. Banks have reservations toward SMEs, especially regarding start-up projects; they often require collateral that is beyond the means of most potential borrowers and are unwilling to bear the costs of examination of numerous small loans applications.

It is clear that a LEDA will be truly useful only if the assistance it provides in drafting business plans is followed by help in financing them. One of the factors of sustainability and success is a credit fund, usually formed with resources provided by the cooperation organisation involved. Credits are disbursed on the basis of business plans whose feasibility is thoroughly assessed by LEDAs technical experts. As a result, the chances that the borrower will repay the loan are increased. Local financial institutions are always included in this credit scheme because experience has shown that it is important that "clients" who previously had no experience with the financial system become familiar with it.

Besides support in drawing up business plans and providing inexpensive credit, LEDAs should also be able to offer technical support once the business has been started up, as experience shows that the initial phase is crucial for the survival of the entrepreneur. This means that LEDAs must have sufficient human resources, or, when its own resources are insufficient that they can draw from staff made available by its stakeholders.

It is a forum for social dialogue and negotiation

A LEDA agency is intended to be a forum for social dialogue and negotiation where local actors can promote and determine their own processes of economic development. Both the public and private sector have a clear

interest in participating in this process. The former reaps the political advantage of getting closer to society, to popular needs and opinions and promoting itself for voters. The public sector also benefits from delegating the implementation of policy decisions to a specialised technical structure. For the private sector, on the other hand, it is a forum for voicing its development demands in direct dialogue with the agency and public sector as well.

1.3. LEDAs in Croatia

It is necessary to emphasize that LEDAs in Croatia were not designed or implemented by the same recipe that was used in Bulgaria or in Honduras, or in any other country. LEDAs were designed just as an overall framework based on certain principles of the Local Economic Development Approach, but which ensures enough space to adapt itself to specific local conditions. One other important remark is that even Croatia's LEDAs themselves were not designed and founded following exactly the same path. Local stakeholders were the ones who were in position to influence the design of LEDAs, to discuss its mission and objectives, its relations to other relevant institutions and bodies, its legal status with the support of international and local experts. Of course, there was a line when deciding how LEDA should look, that couldn't be crossed and international and local experts were there to take care of it. Nevertheless, the whole framework brought by the international and local experts to the local stakeholders was wide enough to be adapted to local conditions.

Although distinctions between LEDAs have occurred over time, accentuation will be given to common features for all LEDAs, emphasizing only those distinctions which were judged as relevant.

Four LEDAs have been established up to now, the first two in 2000, in the city of Drniš (LEDA Krka), in the county of Šibenik-Knin, and in Okučani (LEDA Western Slavonia), covering the county of Slavonski Brod-Posavina and the county of Požega-Slavonia. The third was established in July 2001 in Sisak (LEDA Sisak), covering the county of Sisak-Moslavina and the last LEDA was established in December 2001 in Vukovar (LEDA Vukovar), covering the county of Vukovar-Srijem.

1.3.1. Background information relevant for the process of setting up these LEDAs

Two important factors influenced the setting up process, and, to a lesser extent, the performance of LEDAs. The first one was the decision to set up LEDAs in specific lagging areas, i.e., Areas of Special State Concern (ASSC), and the second one is the fact that integral regional development policy did not exist at that time.

ASSC comprise primarily war-torn areas³ that had been previously occupied during the 1991-1995 period. These areas have suffered enormous devastation and the deterioration of physical infrastructure, industrial facilities, mine contamination, and a significant loss of the domestic, especially young and skilled, population, all of which contributed to a sharp decline in economic activity. By way of illustration, the unemployment rate in the ASSCs in June 2002 was around 35%, while in the rest of Croatia it was around 20%⁴. These areas are also characterised by a small number of economic support institutions⁵ and the weak organisation of civil society and private institutions. (Van Empel, 2000).

A favourable consequence of this situation, where similar institutions do not exist, was the fact that LEDAs were not seen as a threat or a competitive institution⁶. Other consequences were not so favourable and they included the following:

- Substantial time and effort had to be spent in order to bring the local actors closer to the ideas of the local economic development approach and a role of institution like LEDA
- Problems with finding appropriate employees for LEDA-s, as the most capable human resources had already left the ASSCs
- The lack of SMEs in the ASSC and the non-existence of entrepreneurial culture left LEDAs to deal with a very limited number of potential clients.

The non-existence of an integral regional development policy has influenced the project in several aspects⁷:

³ Most of these areas are situated along the borders with Serbia and Montenegro and with Bosnia and Hercegovina.

⁴ Calculation of the author, based on the data from a research study conducted by Jurlin, Puljiz, Maleković and Polić (2002).

⁵ This is not the case in the rest of Croatia where there are several successful examples. For example, Istria was the first county to found a county development agency (in December 1999). Further on, the most successful entrepreneurial centres are situated in the northern part of Croatia, Međimurje, and the western part, in Rijeka. This situation is understandable knowing that the County of Istria, Primorje-Gorski kotar and the County of Međimurje did not suffer from direct war damage, the level of overall economic activity in these counties is much higher, and they have long tradition of successful small and medium entrepreneurship, etc.

⁶ The only exception is the case of the Entrepreneurial Centre in the County of Šibenik-Knin, where efforts had to be made in order to break this fear of the LEDA as a threat to the Centre.

⁷ For further details regarding the situation of regional policy in Croatia, see Maleković, S., Polić, M., Puljiz, J., Jurlin K. (2001): *Conceptual framework for Croatia's regional policy*, Technical assistance of the EC (OBNOVA 2000 programme) to the Ministry of Public Works, Construction and Reconstruction, IMO, Zagreb.

- Local and regional (county) development agencies were not recognised as an important tool of national/county development policy and therefore attempts to found such institutions were, in the beginning, faced with skepticism about the need for such institution. This was particularly the case with the first two LEDAs
- There were no other development agencies that could be used for the transfer of knowledge and experience about the setting-up process and, later, about the operation phase
- Development planning, an important aspect of LEDAs activities, is still not developed in Croatia and local stakeholders still do not see it as an important tool of development.

It is important to notice that the central governmental development policy towards ASSC was focused on the reconstruction and construction of physical infrastructures and living premises, while the promotion of business activities was backed only with different tax and non-tax allowances and concessions for businesses and employees⁸. Instruments like institutional support for businesses were not considered important. The role of local actors was only to identify the infrastructure, premises and buildings that needed to be reconstructed or constructed, and then to wait for ministries and other responsible bodies to come and start the building activities. Of course, this is a very general picture, and exceptions exist, but nevertheless it shows the state of the spirit in the ASSC. At the time when UNDP/UNOPS and other involved institutions arrived with the initiative for setting up LEDAs, the local stakeholders got used to this “simple” kind of support and were very passive about searching for other ways and other instruments for development promotion.

1.3.2. Situation (the reasons for the project)

Setting up LEDAs in Croatia was part of the UNDP/UNOPS programme in Croatia. The main objective of the UNDP/UNOPS mission in Croatia was to support the process of revitalisation of war-torn areas and LEDAs are recognised as an excellent tool for the realisation of that objective. This finding was supported by the success that LEDAs that were established during the 90s of the last century, where there have been significant increases in employment⁹, which is especially important for the ASSC in Croatia, as they

⁸ Even these concessions and allowances were often changed which contributed to the overall insecurity among existing entrepreneurs and also among potential external investors.

⁹ Since 1993 13 LEDAs in Central America have created more than 25000 permanent jobs and 16000 temporary ones (ILO, UNOPS, EURADA, COOPERAZIONE ITALIANA, 2000).

are faced with very high unemployment. Another reason for setting up LEDAs in the ASSC was the non-existence of economic support institutions in that area¹⁰.

1.3.3. Project (main idea, goals and obstacles)

The main idea of the Local Economic Development Agency is to promote economic development within its territory by helping to re-establish normal conditions for economic growth and job creation, strengthening local economic and administrative capabilities and promoting local participation.

LEDAs should contribute to "...an integrated and comprehensive planning of the regions economic development on the basis of democratically determined development priorities and taking into account social and environmental issues" (Van Empel, 2000).

The process of setting up local development agencies in Croatia turned out to be a longer and more complex process than expected. One of the main reasons is the situation in Croatia, where a clearly defined regional policy is still missing. There is no national regional development strategy, institutional structure is still unclear, regional policy instruments are insufficient and underdeveloped, etc. This situation was reflected on the local level in the sense that local actors didn't have a clear understanding about the local economic development concept, nor about the main instruments of this concept.

The whole setting-up process was, in fact, a process of learning for the local actors, raising their awareness about the importance and potentials of this local economic development concept (Maleković, 2002). This (learning) process took more time than expected due to the current situation where local stakeholders found themselves for the first time in a position to think about development, to identify their strategic objectives, to identify possible fields of cooperation with other local units, institutions, etc.

1.3.4. Actors and their relations

In the situation where regional policy is still a concept on paper, and the sectoral approach is the standard policy approach, it is not surprising that the task of establishing the first Local Economic Development Agency was realised at the initiative of international organisations, in this case UNDP/UNOPS. The role of the ILO was to provide expert support due to their

¹⁰ Support institutions like the Centre for Entrepreneurship in Šibenik, which formally covered the part of the county that was in the ASSC, had no significant activity in that part of the county. Instead, they were focused on the coastal, urban parts of the county that have a developed tourism sector.

international experience in LEDA development and the IMO had the role of local partner¹¹.

The LEDA concept is based on the participatory approach, meaning that all relevant actors must be actively included in the process of designing and setting up the LEDA. Actors which were invited as potential LEDA members to take part in the process of setting up the LEDA were the following:

- The County, and all municipalities/towns within the County.
- The Chambers (Chamber of Commerce/Chamber of Crafts)
- NGOs active in that area
- Financial institutions based, or with a branch, in the territory
- Co-operatives
- Other relevant institutions.

All these actors were invited as potential LEDA members to take part in the process of setting up the LEDA.

1.3.5. Actions (measures, mechanisms) taken by actors

The LEDA was set up in several phases, which included a series of workshops about the local economic development concept and the role of the LEDA, designation of the future LEDA and definition of the roles and obligations of relevant actors.

The first phase in setting up the LEDA, the sensibilisation phase, was very important, because it served as the basis for the following phases. This phase was focused on bringing closer the local economic development concept to the actors in a series of workshops. This phase also included collecting and analysing all relevant information about the socio-economic situation in the county. A number of discussions with local stakeholders were held in order to get a clear picture of the situation.

This phase took longer than expected, mostly due to the specific circumstances, which included the lack of knowledge about the concept of local economic development, followed by scepticism about the benefits of the project. This scepticism was slowly diminishing, mostly due to study tours (to local economic development agencies in Portugal and Germany) and the first workshops, as well as numerous briefings with local experts.

The second, designing, phase was preparation for the future concept of the LEDA. Roles and relations between various actors were analysed. Questions, such as the territorial coverage of LEDA, and the legal forms and activities in

¹¹ UNDP-United Nations Development Programme, UNOPS United Nations Office for Project Services, ILO International Labour Organisation, IMO Institute for International Relations, Zagreb

which it will be engaged were also defined. These issues were dealt with by several working groups during the workshops.

The third phase, the foundation of the LEDA, included numerous technical and organisational assignments such as: the designation of the LEDA statute, elections of the Board of Directors, the calling of the assembly general, accepting all proposed legal documents as well as others.

The fourth phase, the internal structural setting and the start of functioning, included the creation and acceptance of a working plan, organisation of databases, designing of training schemes, signing contracts with different institutions, etc.

The fifth phase, the consolidation phase, includes steps such as self-evaluation and the development of cooperation with different financial sources, etc.

Of course, the duration of each phase was different for each LEDA. Also, the activities within each phase were also slightly different, depending on the environment and the estimations of the expert team that was in charge. It is also understandable that with each new LEDA, phases were implemented faster and more successfully.

1.3.6. Critical factors for success or failure

Firstly, it can be said, that establishing LEDAs in war-torn areas through the participatory approach, having in mind all political and other hindering circumstances that accompany this task, is success by itself. Secondly, it is still too early to judge the overall success of the task as the LEDAs are still in the “incubation” phase.

Critical factors in the success of the process of setting up LEDAs are also hard to judge, as they differ from one case to another. But it is certain that the particular engagement and “drive” of the local and international experts has a substantial impact. On the other hand, the readiness of the EC to cover the majority of financial expenses during the first two years has certainly contributed to the readiness of local actors to accept this project. Here, however, also lies the threat for LEDAs as the EC established a decreasing scale of financial support for the operational costs of the LEDAs: 100% in the first 2 years, 75% in the third, 50% in the fourth and 25% in the fifth.

On the other hand, counties and municipalities, especially those in ASSC are currently not ready to substantially contribute in the financing of LEDAs activities. The reason lies in their very limited budgets, but also in the still present scepticism towards LEDAs possibilities. The way to win over this scepticism is to show concrete, successful results of LEDA activities, and these results again would require financial means and so we would arrive at a dead end position if the UNDP and EU were to withdraw from this project

The sceptical position of local officials forced LEDAs to focus on business support activities, where they could obtain visible results very quickly. This was done by setting up credit and guarantee schemes for local entrepreneurs. When the first projects were successfully implemented in accordance with these schemes, the position of LEDAs in the eyes of the local stakeholders improved, and many of the municipalities started again to pay their membership fees to the LEDA. The ILO-expert who was assigned to work with Croatian LEDAs (although on a part-time basis) had a crucial role in this success. His knowledge and experience with other LEDAs worldwide significantly helped to improve the capacity and motivation of the local LEDA staff.

Other important factor in the success of LEDAs is the quality of their employees. A couple of remarks are worth mentioning:

- The employees of the first two LEDAs did not participate in the setting up process, which later took substantial time to introduce them to the overall idea, other local stakeholders, their responsibilities, etc.
- Both directors of the first two LEDAs were young and educated, but without previous experience in similar activities. They had never worked before in a local administration or anywhere similar, and they had no previously established connections and relations with local stakeholders.
- The other two LEDAs employed persons from the county administration as directors, ensuring in that way a stronger position in the county, but also in communication with municipalities and other local actors.
- An ILO expert, who was hired to work with LEDA teams (although on a part-time basis), has significantly contributed to the overall performance of LEDAs, especially in the case of the first two LEDAs.

The problem of lacking experience and credibility seems to be a major obstacle of LEDA staffs. Some training was provided by international organisations (such as the ILO) in order to raise the capacity of these staffs, but still this is not enough in order to solve the problem of experience and credibility. It is also obvious that the lack of education possibilities in Croatia for workplaces like LEDAs is a closely connected issue.

1.3.7. Results

The main activities of LEDAs can be summarized as follows:

- **Support to local SMEs**

Support includes either direct assistance through Guarantee Funds or by selecting the right support institution for them. LEDAs are also very active in the counselling of entrepreneurs and business plan elaborations. Further important activities include the elaboration and implementation of educational programmes for local entrepreneurs, where an emphasis is

given to the start-up entrepreneurs for whom a Start Your Business programme¹² was launched in cooperation with the UNDP-UNOPS, the ILO, the Ministry of Crafts, Small and Medium Enterprises and the Croatian Employment Service.

Guarantee funds

The introduction of Guarantee Funds was an important factor in the overall performance of LEDAs and for the improvement of the position of LEDAs in the eyes of local stakeholders.

Guarantee Funds are part of the Quick Impact Facility (QIF) programme, which is designed by the EC in order to enhance reaching objectives from the CARDS and the SAA. The QIF Croatia programme is implemented by UNDP/UNOPS with the technical support of the ILO.

Although all credits are approved by banks, and disbursed with their own resources, the programme insures the risk of any individual loan through the Guarantee Fund. The programme normally guarantees up to 50% of each single operation / credit; but, in the case of SMEs, this percentage may, in exceptional cases, go up to 70%. The actual "leverage level" given by the banks is one to one. For each euro the programme deposits into each Guarantee Fund, the corresponding bank adds one euro from its own resources.

- **Evaluating local development resources with the aim of promoting local entrepreneurship and creating a favourable climate for business development.**

In cooperation with other supporting institutions in the county and with the active participation of other important local stakeholders, including those in the local business community, an investment guide was elaborated which should serve as the basis for attracting potential investors, both from other parts of Croatia and internationally. This was elaborated for the Krka LEDA and the LEDA in Western Slavonia. Also, LEDAs elaborate specific studies about production possibilities in the county. For example, studies on organic food production for the Šibenik-Knin County and Western Slavonia were elaborated by the LEDA in Krka and the LEDA in Western Slavonia. These studies were presented on several occasions to potential domestic and international investors.

¹² The Start Your Business (SYB) course is a tailor-made product based on the ILO SYB Training package and it is run by local ILO-licensed trainers. It is a nine-module management-training programme with a focus on starting and improving small businesses as a strategy for creating more and better employment in transition economies. Another aim of the training is to create easier access to finance through the existing Guarantee Fund.

- **Organising seminars and lectures which aim to represent the successful examples of economic support institutions in Croatia and worldwide to local communities.**

In cooperation with the ILO, this new form of education for local actors was introduced. The LEDA of Western Slavonia organised a lecture by the head of the entrepreneurial centre in Čakovec¹³, in the County of Međimurje.

- **Informing the county (region) about existing entrepreneurial opportunities and access to financial and technical support.**

This activity was particularly important in Sisak-Moslavina County, where the LEDA was, at the time, the only economic support institution that provided such relevant information.

The level and extent of the mentioned activities differs slightly for different LEDAs depending on their duration, capabilities and specific local circumstances.

2. How can the position of economic support institutions in lagging regions be improved?

It is quite obvious that economic support institutions in Istria, Rijeka, Zagreb or Međimurje are in a more favourable position due to the more developed social and business environment in which they operate. Local actors in those areas are more open and ready for cooperation with economic support institutions and besides, local municipalities and counties there are financially stronger than those in the ASSC. Additionally, the number of supporting institutions in the ASSC is still very low, and local actors are still skeptical about their involvement and cooperation with such institutions. Overall economic activity in those areas is still at a very low level, which results in limited possibilities for business support activities. Development agencies working in the LEDAs of ASSC still depend on international (financial) support, which puts them in an insecure position having in mind that international organisations plan to reduce their support. These are, among others, the reasons why stronger support, especially on the county level, is needed for development agencies in these lagging regions.

The position of development supporting institutions, particularly those in lagging regions like LEDAs, is still very unstable. Currently, LEDAs are dependent on technical and financial support from foreign governments and international organisations. This situation is slowly changing, meaning that

¹³ This entrepreneurial centre was awarded as the best in Croatia for 2002 by the Ministry of Crafts and Small and Medium Enterprises.

LEDAs are beginning to rely more on their own, and governmental, sources of funds. Yet, the situation is far from satisfactory.

In order to increase the confidence level of local actors, LEDAs had to quickly show some tangible results. This situation forced LEDAs to focus on business support activities, especially for credit and guarantee schemes for local entrepreneurs. As credit access is still a significant problem for entrepreneurs in ASSC, the entrance of LEDAs in credit support activities increased their value and recognition in the eyes of local actors.

Currently, it seems like LEDAs do not differ much from entrepreneurial centres, with the only exception of providing guarantee schemes for entrepreneurs. This is a significant advantage, however, when comparing them to other entrepreneurial centres, but it depends on the readiness of international organisations and governments (such as those in the EU) to further participate in the scheme. On the other side, LEDAs so far have devoted little attention to areas such as development planning, monitoring of strategy implementation and evaluation processes, which all fall under the possible/expected activities of the development agencies.

Although local actors and their cooperation and communication with LEDAs, together with the LEDAs' capacities and capabilities still represent key determinants of LEDA activities and results, another important actor is arising and that is the formulation of national regional policy followed by a new institutional set up. This ongoing process is closely connected with the process of the adjustment of Croatia towards the EU in the field of regional development.

The current situation suggests that important improvements in the institutional framework are expected. According to the SAA¹⁴, up to 2005, a number of institutions like the National Regional Development Agency and regional development agencies should be founded and the CARDS programme offers financial and technical support for fulfilling these tasks.

With special regard to expected institutional improvements, some possible steps in order to improve the current position of development supporting institutions in lagging regions (in this case LEDAs) could be:

- **To include LEDAs (at least in the beginning, only those that are most advanced) in the overall regional policy institutional framework as the regional (county) development agency.**

The status of a regional (county) development agency should be to strengthen the position of LEDAs among local actors. It should bring new tasks to LEDAs such as coordinating the elaboration of the county development strategy, the monitoring and evaluation of the strategy

¹⁴ SAA: Stabilisation and Association Agreement.

implementation process, and cooperation with the coordinative body on national level. Another important detail is that in this way the performance of LEDAs could also be easily monitored and evaluated (for example by the national agency for regional development).

- **To engage LEDAs in assisting the economic support institutions at the central level.**

Institutions like the Fund for Regional Development are currently very active in financing regional and local development projects. They are faced with numerous financing requests from the local level. LEDAs could assist the Fund by prioritising project proposals due to their very good knowledge of the situation in the field. They could also be very helpful in monitoring the project implementation and reporting to the Fund about the project impact.

- **To provide LEDAs with sufficient technical support in order to further improve their capacities and capabilities.**

It is still necessary to raise the capacity of LEDAs in the field of development planning, monitoring, evaluation of strategy implementation and in marketing i.e. public promotion activities. Although the UNDP/UNOPS and the ILO have provided LEDAs with different types of technical support, it still seems that permanent technical support has been missing, especially at the beginning of the LEDAs' work. Domestic experts could be better used regarding this issue in the future, particularly because they are much cheaper than foreign ones, and today they possess valuable experience in this field.

- **To improve the public promotion of LEDAs at all levels.**

Since the future of LEDAs very much depends upon their “acceptance” at the local and county levels, but also on the national level, it is necessary to further continue and strengthen all public promotion activities. It is particularly important to emphasize the specific features (advantages) of LEDAs, which distinguish them from the other economic support institutions like entrepreneurial centres.

These steps do not presume, however, that LEDAs should leave their present engagement in supporting businesses. On the contrary, implementation of these steps should provide LEDAs with the additional capacity in their communication and cooperation with the business community.

Most of these steps can also be implemented for other institutions in the rest of the country due to one simple reason - Croatia needs institutions that can perform tasks such as the elaboration of development programmes. Just for illustration, in February of 2003, the Ministry of Public Works, Reconstruction and Construction announced the first tender for the elaboration of

sustainable island development programmes. It will be very indicative to see how many economic development support institutions on regional and local level will apply for this task.

3. Concluding remarks

There are some interesting conclusions that can be drawn up from the experience of LEDAs:

- The initiative for setting up local economic development agencies in ASSC came from an external actor, in this case the UNDP and the EU. This is a very common situation for lagging areas. The reason could be found, among others, in the low capacity of local administration in dealing with economic development issues.
- The most important issue in getting initial interest and support from local stakeholders, necessary for the whole process to start, was the financing issue, as the financial strength of local municipalities is very weak. In this case, external actors, i.e. the EU, promised to cover all expenses of the project in the first two years which was crucial in order to get support from local stakeholders.
- It is very important to develop, within the local stakeholders, the feeling of ownership of the setting-up process and later of the LEDA itself. This feeling of ownership motivates local stakeholders to actively participate in the process. This feeling can later easily fade away if LEDAs do not actively “feed” it (by its active cooperation with local stakeholders, for example through common projects, regular meetings, workshops, etc).
- The role of the local partner is very important, particularly in the initial setting-up phase, when local stakeholders showed certain political mistrust of the international organisations¹⁵, and when local partners had to put in significant effort in order to overcome this situation. Local partners were in a position to achieve this due to the easier and more accessible communication with the local stakeholders.
- The number of LEDA employees is for now very limited (up to four) and therefore the quality of its employees is a critical issue for LEDA self-sustainability. Individual capabilities and motivations, especially those of the LEDA's director, are of the greatest importance. From this point of view, it seems that it would be very beneficial for LEDAs if their staff (at least the director) already had successful experience in dealing with local economic development issues.

¹⁵ The reason was the view of some local stakeholders that LEDAs are just to be an instrument of international organisations for further support of the Serbian minority in these areas.

- Policy makers on central and regional levels should have in mind that for several (earlier mentioned) reasons economic support institutions situated in lagging areas are faced with greater difficulties than the ones in more developed areas and therefore they require more attention and support. Now that the LEDAs have survived their first most critical “incubation” phase, and when the external technical and financial support is gradually diminishing, the support from the part of regional, but also central government, institutions, could be of key importance.

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Lucica Matei

The Creation of SMEs, and Development in Industrial Restructuring Areas

Case Study

I. Initiation

The first initiative

The first initiative was taken on an external level, namely on the national level. The development of SMEs represents a continuous and dynamic process, comprised of the economic policy of the government. For the local development strategies, the initiative for local development and the models of local development are different. The following factors determine their individuality:

- Decisional autonomy of local development
- Local performance
- Local partnership management
- Promoting the initiative, the innovative industries.

Awareness of emergency - economic and social difficulties

- The Down Danube area concentrates on industrial activities and is also relevant when discussing the issue of labour forces. In 1999 alone, there were 24 enterprises, each holding over 1000 employees; 10 of which were based in Braila and Galati and 4 in Tulcea.
- All three regional cities - Galati, Braila and Tulcea have accumulated a lot of tension, during the last decade of industrial activity.
- **Galati** - the largest national iron-and-steel centre (with 35 000 employees) and one of the greatest in Europe, holds partnerships with more than 70 urban-industrial centres, but it has recently faced a hard but necessary reorganisation process. SIDEX - the iron-and-steel centre was privatised in 2001; the effect of this important decision will definitely continue to have a major impact on the quality of life in this area, as well as on the economical structure of the entire Galati city. SIDEX is also important for Romanian export activity, while the starting materials necessary for the activity make the viability of naval installations in Constanta and Galati possible. This reorganisation process also affects other local enterprises (with over 1000

employees) that are active in the railway construction domain or the iron-and-steel industry, for example.

- **Braila** - a relevant industrial centre for machine construction domain until 1990, has in the past decade been subject to different reorganisation processes - the shipyard, the rolling mill, the plant stock or the timber manufacture industry being affected by the above-mentioned changes. The Cenlhart Donaris Enterprise is, for example subject to reorganisation in the PSAL 1 project, while the ready-made clothes industry is presently active in the “lohn” system only.
- **Tulcea** - with a wide range of industrial activity, has been affected by a low level of production capacity. The fireproof brick and aluminium oxide industry or naval constructions are three relevant examples when it comes to judging the effects of the reorganisation of the Romanian industry as a whole. Tulcea has also lost its dominant position in the canned fish food industry, which had as a primary result the exclusion of Romania from the list of the countries with oceanic fishing activity. At present, the city is a relevant centre for the non-ferrous metallurgy (Ferom enterprise), a domain very difficult to reorganise and also extremely dangerous for environmental protection (The Danube Delta Natural Reservation, especially). The reduction of tourism is also an important matter that has to be dealt with by Tulcea's authorities.
- The activity in the Macin and Isaccea quarries has also been narrowed.

The feeling of ownership of the development process

The Braila, Galati and Tulcea municipalities belong to the counties that form the industrial area of the Down Danube in the South-East Region. It is considered to be an industrial restructuring area, and it comprises five urban centres and 669.894 inhabitants (meaning 22.83% of the South East Region's population). The main cities of this region are Galati (327.000 inhabitants), Braila (231.000 inhabitants) and Tulcea (95.000 inhabitants). This area contains efficient roads, railways and fluvial structures; it also possesses high quality industrial centres, with great importance for the national economy and it develops a wide range of international partnerships with foreign investors, relevant for the Romanian development process.

The motivation complex - strategic motivation

The motivation complex - strategic motivation consist of the following issues:

- The stimulation and development of the SME sector leads to the development of all economic-social fields
- The European integration policy and the experience of the developed states indicate the necessity to take into account the development of SMEs as a priority direction

- Correlating the genuine possibilities and needs of the regional development in a national context
- The perspective to increase and strengthen the middle class, as a social support of development
- Taking into account the innovation and development capabilities
- Taking advantage of favourable possibilities in the region based on the efficient use of financial, material, and human resources at the local level.

The support is provided by important actors that are performing the following roles:

- County Council - Co-ordination and Decision
- Decentralised Public Services - Application
- Local Council - Decision
- Executive of Public Authority - Organisation and Control
- Citizens - Support
- Existent SMEs - Support, Application, Beneficiaries
- NGOs - Support
- South-East Development Agency - Decision, Financial control, Monitoring, Evaluation
- Chambers of Commerce and Industry - Beneficiaries
- Consultancy Centres - Beneficiaries
- Incubators - Beneficiaries.

Leadership

The authorities responsible for financial control, monitoring, evaluation are as follows: the Agency for Regional Development of South - East Development Region, County Councils and Local Councils.

Motivation and the specific objectives of the project

Motivation

In order to assist the SMEs and to support new private initiatives, it is necessary to extend the network of consultancy centres.

The consultancy centres will assist SMEs in preparing and implementing the business plans, and will offer services for business start-up, marketing, management, consultancy and assistance for the organisation of the information system.

The policy of crediting with high interest rates in the last years as well as the unfavourable economic-social context lead to reduced SMEs access to

various forms and financing sources. Therefore, it is necessary to support the SME sector by creating and developing attractive financial mechanisms. Most of the SMEs in the region are using obsolete technologies with low output, which have a direct effect on the quality of products and services, which have a low effectiveness in foreign markets. In order to enter the market, it is necessary to endow the SMEs with effective technologies, to introduce international systems of quality assurance, to participate in international fairs and exhibitions.

Objectives

- Facilitating the set-up and development of SMEs in the region by ensuring consultancy services in business and other related services.
- Strengthening a diversified and complementary system of financial support for SMEs in the region.
- Increasing the effectiveness of SMEs and aligning them to international standards.

2. Structuring

Forming the body in charge of development

Law no. 151/1998 of Regional Development, Law no. 215/2001 on Public Administration stipulate the responsibilities of local and county councils on local development.

There are agencies for regional development (for each region there is one agency, therefore, there are 8 regional agencies), and on the national level there is the National Agency for Regional Development.

Partnership

Complementary to the structures involved in the application of regional development strategies, established according to the above-mentioned laws, there are inter-institutional partnerships, focused on specific objectives. The existent partnership for project accomplishment comprises the County Councils of Galati, Braila, Tulcea, the Local Councils of Galati, Braila, Tulcea, trade unions, companies, banks, consultancy centres for SMEs in the three municipalities, the Chambers of Commerce and Industry of the three municipalities, NGOs, and the local media.

Expertise

Public employees and civil servants from county councils, decentralised public services, local council and municipality authorities provide the expertise in this field on administrative level.

The expertise on the intermediary level is provided by professional associations, chambers of commerce, financing institutions, trade unions, development agencies, associations of entrepreneurs, consultancy centres, technological and innovation centres, incubators, banks, companies.

Initial resources

- Each of the three cities already mentioned has an important commercial and transportation history (it dates from the 19th century). Therefore, an improvement of the navigation on the Danube would help their development processes
- A special interest is represented by the free zones of Galati and Braila
- Due to a favourable structure of commercial network, the three cities that have been discussed so far will for sure become important tourist attractions (cruise ships) and eventually ports
- Some of the reorganisation processes with foreign investors (Galati - Santierul Naval Damen) have been successfully employed (Braila - ARTFERO - ironware production for Laminorul enterprise). The restructuring of the textile industry (Braila - BRAINCONF) could represent the core of other developmental activities
- The area has an important role in developing commercial relations with abroad regions
- A high capacity for scholarly, professional and academic education
- Favourable historical links with the South Moldavian and North Dobrogean hinterlands
- The free zones of Braila and Galati can, in normal management conditions, offer proper ways for investment implementation development
- Where pollution is rather reduced - in the north - in the Dobrogean area of Macin, for example, there is a real possibility for creating (in Isaceea and Macin) collection and processing centres for medicinal herbs
- Population concentration in urban centres, a good chance for a fast increase in the demand for services and goods
- Support structures for setting up SMEs, NGOs, associations, etc.
- 4 free zones out of 6 in Romania, providing facilities and incentives for the support of SMEs
- European transport corridors (E 60, 85, 87) that are passing through the region
- An industrial tradition (30,5% from the regional GDP)
- The private sector has become more and more important as a generator of new jobs
- The telecommunication network is extending very rapidly in the urban areas

- Access to European markets
- Adaptation to the best practices in the field
- Stimulus to the demand of higher skills
- Consumer demand for quality products.

Strategy and action

- Granting support for setting up and developing consultancy centres for businessmen in productive and service areas, i.e. consultancy and assistance in management issues, rationalising and modernising the decision-making process, consultancy and assistance on the organisation of information systems, human resource management, financial management, consultancy on the elaboration of the development strategy for companies
- Supporting and stimulating the partnership between private entrepreneurs, and between private entrepreneurs and public institutions in order to create business associations at local and regional levels
- Encouraging the participation of SMEs in seminars, conferences, fairs and exhibitions, organised on national and international levels, in specific fields of activity
- Awarding grants aimed towards SME support with direct investment in production
- Creating mutual schemes for guarantees
- Subsidised loans for the set up of new SMEs, from reimbursable credit funds
- Subsidised loans for the SMEs that need credit on long-term investments in equipment and hard infrastructure
- Creating funds for leasing equipment
- Co-financing leasing companies or venture capital companies for SME support
- Co-financing leasing operations.

3. Implementation

Sustainability of the process

The beneficiaries of the project, namely Business Consultancy Centres, Chambers of Commerce and Industry, Centres of Research, Business Incubators, consortia comprising banks in the region, local authorities, and leasing companies focused on SMEs will ensure project development after the end of its financing.

Results

- An increase in the number of SMEs in the region
- The creation of new jobs
- An increase in the number of SMEs that attend fairs, exhibitions, economic missions, and seminars in Romania and abroad
- An increase in the number of SMEs that will improve the quality of their products and services
- An increase in the number of SMEs that will be assisted by business consultancy centres
- An increase in number of SMEs that have access to various financial forms
- An increase in the number of SMEs that are involved in a network with enterprises on a regional level
- An increase in the number of SMEs that are involved in export activity.

Funds

- PHARE projects
- Support for setting-up and developing consultancy centres for businessmen in the production and service areas, i.e. consultancy and assistance in management issues, rationalising and modernising the decision-making process, consultancy and assistance on the organisation of information systems, human resource management, financial management, consultancy on the elaboration of the development strategy for companies
- Funds for leasing equipment
- Funds provided by leasing companies or venture capital companies for SME support
- Funds for leasing operations.

Skill development

In this context, we emphasise the following issues:

- Improving the managerial skills of entrepreneurs, with direct implications on increasing economic efficiency
- Improving cooperation between SMEs and public institutions
- Creating local and regional partnerships, with positive effects on business environment in the region.

Clear guidelines and rules for gaining public support

In this respect mention should be made about:

- Improving the business infrastructure
- Improving the cooperation between SMEs and public institutions

Sustaining a favourable environment

- Restructuring the processes of industrial state enterprises
- Foreign assistance for increasing awareness among the employed and the unemployed in order to start up their own business
- Increasing the support to SMEs by increasing available services
- Stabilisation of the consultancy market
- Improving the mentality of the business community by the web
- Improving the effectiveness of SMEs in the region
- Promoting the efficient use of economic resources
- Promoting environment protection.

Mariana Cernicova

Partnerships for Development as an Instrument of Fostering Economic Growth: A Case Study of the Partnership for Restoring Navigation on the Bega Channel

One of the newest achievements in Romanian local policy concerns learning the path of partnership in order to achieve major local and regional goals. Timisoara, as one of the largest municipalities of Romania (fourth in the ranking of Romanian municipalities according to the number of inhabitants and economic development criteria) is one of the boldest attempts to innovate development strategies. The most evident document is the “Strategic Concept for Economic and Social Development of the Timisoara area”, a 200-page result of team-work that gathered, in 2000, over 130 partners invited by the local government to put together efforts and ideas. The document was signed by the leaders of all political parties, ensuring that changes in the positions of mayor, vice-mayors and city councillors, triggered forth by elections would not send the strategic concept to the waste-basket.

Among many ideas, projects and proposals, one is devoted to the project of restoring the navigability of the Bega Channel, the river that is the life-support for Timisoara and which was formerly a major transportation route linking Timisoara to European cities and markets. Though many other projects could be quoted as well, this particular one has the most obvious characteristics of a discussion on how a local project can become a European one and how partnerships enhance the possibilities of local authorities for action.

Background of the project

Activities for transforming the Bega (which flows into Tisa on the territory of Serbia and, finally, into the Danube river) into a navigable route were first undertaken in 1728. In the high period, 1932 - 1938, a number of 6,800 ships transported 530,000 tons of goods. Many of the ships that sailed to and from Timisoara came from the Danube. In 1958 the channel fell into disuse due to political tensions between Romania (part of the Eastern bloc) and Yugoslavia. In the years before, the channel had made a valuable contribution to the

development of the region. In the region, the channel was used for conveyance of passengers and for the transport of bulk goods and agricultural products from the country to the city. Passenger launches continued sailing until 1963, but afterwards only occasionally a ship passed on the channel to maintain the conditions of navigability.

In 1985 Apele Romana, the authority that bears the responsibility for the Bega Channel started with renovating the two sluices and navigation locks on Romanian territory. Yet, the works stopped after 1989, due to a lack of financial resources.

Reasons for the project

Roads and railways have taken over the functions of swift transportation to and from the Timisoara area. However, the Bega channel not only has significance in the context of the transportation of goods and passengers, but also for water-management and ecological projects. There are two projects pursued by the local authorities: renovations and navigation locks and the resumption of navigation, which will allow the re-opening of the channel for ships of 500 tons or, even better, modernising and enlarging the channel for ships of 1000 tons, thus connecting Bega to the Danube-Rhine system.

The implementation of the project will:

- Improve the water supply of Timisoara
- Influence the drainage function of the Bega
- Improve the irrigation system of the area
- Improve the hydro-electric use of power-stations in the neighbourhood
- Enhance the recreation possibilities.

Actors involved

The project started as a typically local one, the Town Hall and Council of Timisoara pursued it as early as 1991. Yet, even at that time, partners such as the water authorities, the Ministry of Transportation and the Chamber of Commerce had to be connected. Ever since, the number of partners grew, the project became, at the special request of local and regional authorities, one of the topics at the Conference of Donors at the Stability Pact (in 2001) and received finances from the Government of Holland.

Since the implications of the projects exceeded the interests of Timisoara, it was more than natural that lobbying and negotiating techniques were used to bring the project to the national, Euro-regional and European arena.

Though the list of partners is much longer, here are the main ones:

- 1) The Town Hall and Council of Timisoara - the political and organisational power to take initiatives in this matter. The administration of the municipality is responsible for the maintenance of the banks above the waterline
- 2) The County Council and Prefecture - the County Council has to look for infra-structural developments and represent the interest of the villages connected with the Bega water system, while the Prefecture looks for the interest of state actors
- 3) Apele Romana Banat (Romanian Water Company Banat) - the public body that has the main responsibility for managing the channel and the professional body that authorised the pre-feasibility and feasibility studies;
- 4) The Environmental Protection Agency - with strategic, supervising and executive functions in protecting environment
- 5) Aquatim - the municipal water company that ensures drinking and industrial water supplies, responsible for the collection and treatment of sewage
- 6) The Chamber of Commerce
- 7) The Politechnic University of Timisoara (Faculty of Hydrotechnics)
- 8) Most important of all for the current status of the project (which is the completion of the feasibility study) is the Dutch Truivist Entreprising Foundation.

Measures taken by actors

- Large numbers of conferences, the most glamorous one being labelled the “Parliament for Bega” (2001)
- Bringing the topic to the Euro-regional arena (in the Co-operation Agreement between the Timis County Council, the Csongrad County Council and the General Assembly of the A.P. Voivodina - 22.10.2001) which stipulates that the project is of utmost importance (among other infrastructure projects)
- Bringing the topic to the attention of Stability Pact, via the special envoy from Romania, Razvan Ungureanu (2001), which triggered the response of Dutch authorities
- Pursuing the topic with Dutch authorities (including a visit of the Dutch Queen to Timisoara)
- Signing the partnership agreement for the feasibility study (2001).

Critical factors for success

- Consensus among actors
- Large interest for local and regional (Euro-regional) partners
- Bringing the project to international arena (though it started as a local initiative)
- Stirring public interest and the support of the media.

Critical factors for (possible) failure

- International environment effects (e.g. in 1999/2000 the project slowed down, due to events in Yugoslavia and lack of interest for developing projects in the area)
- Lack of financial resources for the implementation of the project
- Reconsideration of cost-recovery.

First results

The project is now at an intermediary stage. The feasibility study is ready (November 2002) and the implementation is due by 2005. The most obvious results are:

- Exercising partnership (also in terms of public-private partnership) on local, regional and international scale
- Bringing international attention to problems in the area (the Bega channel, Timis county, and the Bega-Tisza-Danube water system)
- Completion of the main instrument for attracting funds from national/international sources.

Nora Ananieva

The Limitations and Factors of Local Strategies for the Economic Development of Municipalities in Bulgaria

The topic concerning economic development on the local and regional level has been well defined, as, in fact, the economic development of municipalities is impossible without an adequate regional economic strategy. Considering the current range of competence of the municipalities in Bulgaria, in which decentralisation is still nothing more than the idea, as well as the budgets being allocated to the municipalities, which are not sufficient even to meet the expenses of medical care and social benefits, most often economic strategies on the municipal level remain just an element of pre-election platforms.

In spite of this, it cannot be maintained that local authorities do nothing for the development of municipalities and regions. However, these municipalities and regions need the cumulative effect resulting from their local initiative, including the initiative of individuals, business and cultural circles, relevant regional policies, inter-municipal, and in certain regions, trans-border, co-operation.

1. The need for a **purposeful regional policy** is defined in the new constitution of the country via the provision that the state should provide balanced and sustainable development of its various regions. In the course of almost ten years after the start of the transition, this element of state policies has been non-existent. As a result of spontaneous and unplanned development and the large-scale concentration of investment only in the bigger cities, a high degree of differentiation among the regions in the country is observed, both economically as well as in terms of quality of life. The annual reports of the UN on human development can serve as a proof of the striking differences in the development of the municipalities. Just as an example, the unemployment rate in the capital is 5%, while in a number of peripheral municipalities it is 80%.

The Law on Regional Development, adopted in 1999, set the beginning of its planning, the management and the resource provision of regional development. A series of actualisations of the National Plan for Regional Development were performed. An attempt was made to apply some of the

European principles for regional planning and the start was given to the process of building up the potential in the field of regional development. Forthcoming is the preparation and the adoption of a fundamentally **new law on regional development**, which we hope will place emphasis on the functioning of local authorities as generators of ideas, initiatives and projects, and as a significant partner of the central authorities in the process of developing and implementing plans for regional development.

The creation of incentives that would stimulate the municipalities, business circles and non-governmental organisations to cooperate and contribute to the development of the regional programmes, presupposes new normative solutions as well. Under the acting legislation, the bulk of targeted state subsidies are allocated by the regional governors, who are the official representatives of the government and who often turn into politically motivated “filters”.

The economic potential of the municipalities depends, to a large extent, on **tax legislation and policies**. In this respect it is worth mentioning one positive development, although it has not yet yielded practical results. In compliance with the amendments of the Law on Corporative Income Taxes, companies operating in regions of unemployment over 50% higher than the average for the country are to be freed from profit tax, which is 23.5% at present. In implementing this law on the initiative of the Ministry of Social Welfare, the Minister of Finance undersigned a list of 117 out of the 263 total municipalities, where companies shall not pay income tax, including the tax for work done with materials of the client.

2. Local strategies for development with municipalities being the leading factor can be:

Municipal

Inter-municipal

Trans-border.

Independent municipal strategies for general or sector development are prepared mainly by larger municipalities. However, their implementation also depends on central and regional factors.

The Russe Municipality (the largest Bulgarian city on the Danube) works on independent micro-projects, inter-municipality projects, including projects developed in trans-border cooperation. It also functions as a partner in large-scale investment and infra-structural projects of the type of the European transport corridors.

The specifics of the region are defined by its strategic location and marked by the grave problem of environmental pollution. With regards to this, two major

projects of great significance have been developed, or are in the process of being developed:

The “Trans-border pollution Bulgaria - Rumania” project (under the PHARE Programme), in which the central issue is the Russe - Gyurgevo region

A project developed under the “Ecolinks” Programme with the Municipality Russe, BG, the Municipality of Gyurgevo, Rumania, and Dulut, USA, as partners, has laid the foundations for a system of management of the environment and natural resources in the region. This project also includes the development of a package of practical programmes, for instance the construction of a joint water treatment plant for the two cities, or the joint reconstruction of the river stations in both towns, etc.

In the process of work on the projects, the municipal authorities have gained experience and, more and more often, they are engaged in projects that produce an immediate impact on the infrastructure and the life of people, rather than develop the type of “consultancy projects” that were characteristic of the initial phase. For instance, the new proposals concerning the elimination of sulphur in the two thermal power plants on the banks of the Danube that have been polluting the atmosphere for decades, or the joint project to develop the town plan of the agglomeration Russe-Gyurgevo, etc.

Another example is the situation in a much smaller municipality - the **Kozlduy Municipality**, very famous due to its Nuclear Power Plant. The municipal authorities worked on an adopted **municipal model of sustained development**. This model forms the basis for the development of various micro-projects aimed at the improvement of the environment, infrastructure, local businesses, as well as at the development of the citizens' initiative, etc.

The **Association of the Danube Municipalities** is a significant factor for the work on the strategies of development and their implementation. This association also multiplies the possibilities to exert pressure on the central authorities, to provide for the development of trans-border projects (between Bulgaria, Romania, and Serbia), and to stimulate mutual understanding and cooperation. In this respect, a number of initiatives and projects have been developed, some of which are:

Initiatives and efforts to provoke government actions aimed at the opening of two new border check points

A project concerning the construction of inter-municipal roads in Bulgaria and Romania, which will considerably shorten the access routes leading to the international highway

A project aimed at an agreement between the trade and economic chambers in the following towns: Vidin (Bulgaria), Krayova (Romania) and Zaichar (Serbia) and the establishment of a joint information centre for the development of private business and the attraction of foreign investment. It is expected that work on this project will result in economic animation after the construction of the Danube II Bridge.

3. The established **Euro-regions** also play a significant role in the economic development of the municipalities and the regions. In cooperation with the border-regional association NESTOS, which unites the municipalities and the non-governmental organisations from the region of Drama in Greece, **the MESTA - NESTOS trans-border association** was established in 1997 and it was given the statute of a Euro-region. The **objectives of the Association** are:

To contribute to the solution of the specific problems connected with the isolation of border regions

To contribute to economic development and the encouragement of investment

To facilitate contact between the citizens, businesses, and the authorities, etc.

The Association was accepted as a full member of the Association of the European Border Regions, which gave it the statute of a Euro-region. Its greatest achievement so far has been the start of construction works on the road connecting Gotse, Delchev and Drama, and on the “Ilinden” border check-point (under the PHARE programme).

In conclusion, we find the ever broadening social and economic abyss between Sofia, Plovdiv and Varna, on one hand and the rest of the country, on the other, totally unacceptable. The tendency of the marginalisation of entire regions is extremely worrying and it could prevent the overcoming of economic and social crisis in the whole country. We cannot aspire to Euro-integration with only two or three oases of prosperity. In order to overcome this tendency, we should rely on modern regional policies aimed at the creation of incentives for trans-border cooperation, the intensive and effective cooperation of the municipalities in specific regions and the involvement of the bodies of local self-government in the whole process of modernisation.

The Sevlievo municipality in Bulgaria - a good example of the results of joint efforts between local authorities, local businesses and civilians

The Sevlievo Municipality is situated in the geographical centre of the country. It covers a territory of about 1 000 square meters and has a population of about 47 000 inhabitants, which includes 25 000 citizens in the town - the municipality centre and the population of around ten villages.

The policies of the municipal authorities, still in the beginning of the transition, have been successful in opposing the general tendency in the country of being in an industrial, agricultural and social decline. Important factors in this situation are:

- Early privatisation
- The accelerated development of private businesses on the basis of the traditional entrepreneurship of the population
- An efficient managing team open to civil initiatives
- The commitment of businesses to the construction of a modern infrastructure following programmes of the municipality
- The involvement of the population by means of various forms including also the conduct of referendums.

The accelerated and early privatisation has attracted strategic foreign investments. In 1992 the American company, 'American standard', bought 51% of the factory for sanitary faience which has undergone a reconstruction of its existing base, construction of an entirely new base and - connected with this fact - the doubling of investments which were at the beginning 6.5 million dollars, and now have exceeded 100 million dollars. Besides the base in and around the town - the municipality centre, one of the production structures has been built on the territory of the village part of the municipality.

Foreign investments have created (in comparison to the situation of inherited production) 3400 new working positions and 300 working positions for accompanying activities. It is true that following taxation legislation the municipality received a large financial back-up. But it is also true that these resources could have dissipated and not been used fully for a lasting development of the territory without the united efforts of the municipality, businesses and the civilians. It is mainly through public discussions and along the line of these coordinated efforts that a number of projects have been realised as follows:

- Modernising the educational system, including also a larger involvement of foreign language education
- The reconstruction and new construction of hotels
- Constructing an optical telephone communication
- Modernising the street and road network
- Starting to build the basis of the gasification of the houses and industry in the town.

As a result of the entire development, unemployment in the municipality has been kept at around 6-8 %, which is twice as low as the average level for the country. Employees get comparatively high wages, when compared to the country averages. New possibilities for local businesses have been opened.

On the initiative of the business circles, civilians and the mayor's team, many concrete projects have been realised along the line of European Union programmes and of various foreign foundations and institutions.

The Sevlievo municipality has turned into an attracting centre also for other foreign and Bulgarian companies. It is interesting that in many cases the municipality authorities act as a special representative of these companies before the central power, and it stands up for the advantages of its bases, territory and population, irrespective of the fact that the privatisation and investment process itself is centralised. The example of the Sevlievo municipality shows that the general tendency of the country - that foreign investments are orientated only to the capital and the bigger towns, as a result of which the imbalance in the economic and social development of the country is growing, can be overcome by means of a municipality strategy and by means of utilising local resources and initiative.

Nora Teller

Mórahalom - Case Study

History of the City

Mórahalom, a settlement of 5800 inhabitants in South-Eastern Hungary, 20 km from Szeged, the capital of Csongrád County, became a city in 1989. At that time, the soft and hard infrastructure of the settlement lacked many objects: there was no school, no police, no medical services were available, not to mention telecommunication facilities. Today, however, the city has an elementary school (developed in 1996 in a new building with up-to-date information technology) and a music school, wide ranging medical services, a cultural centre, it is 100% supplied with public utilities, 70% of the roads have solid road surface. Mórahalom has become a centre of the Homokhát micro-region with e-services and a lively agricultural area.

Initiation

In 1993, one year before the issue was brought to the Hungarian Parliament, the Mórahalom Municipality established a local economic development department in order to ensure a better coordination of information and input of material supply for the local population, most of which depends on agricultural production, since the cooperation of the individual growers was lost after the agricultural cooperative was privatised. Additionally, at this time the bigger ventures, mostly seated in Szeged, had gone bankrupt and only small local enterprises were working in Mórahalom, and so the local government realized the need to open new prospects for employment and occupation for the inhabitants.

Structuring and initial results

In 1994, the Hungarian Parliament passed a decree on local tax incomes, including, among others, the local business tax, and set the admissible amount at 0,8 percent. At that time, Mórahalom was not able to make use of this opportunity, since there were no major enterprises that could have paid a considerable amount of taxes to the local government. Consequently, the

department decided to support firms that would soon recover the municipality's outlay. Thus, the municipality started to apply for all relevant types of funding, and at the same time, it started to support the gathering of local NGO's, mainly local foundations. The sources that were gained were not great, but nonetheless, two new occupational centres for the disabled would soon be opened, and since municipal institutions could also file applications, other developments, such as an elderly club could be opened. Local infrastructure was developed, roads and bicycle-ways were built, public lighting was renewed, and the rubbish-shoot was put in order.

Implementation

The municipality formed enterprises to better accomplish its duties and established a co-operation with the surrounding municipalities.

In the middle of the nineties, the municipality bought the area of the former military barracks and, as an infra-structural investment, made its own enterprise construct a gas pipe to this outskirts of the settlement. Nowadays there are flats, an occupational centre, and the elderly club in the building of the renovated old school. This investment induced more investments, since the enterprise had to develop its machine stock. The enterprise, originally established with 1 million forints and 8 people, currently has 45 million forints capital and employs 60-70 people.

One of the biggest investments in the settlement was the foundation of the Agro-Industrial Park in 1997. The cost of 146 million forints was in 50% sponsored by central funds and 30 million forints were gained from the county. The park is fully supplied with public utilities, has a so-called 'incubator' house and an 'incubator' hall, offering low rent for the enterprises.

The most prominent enterprise of Mórahalom, Mórakert, also has its seat in the industrial park, renting offices in the incubator house. Additionally, Mórakert has built its own plant for vegetable and fruit buy-up and packaging on a rented plot in the industrial park. This company is the 'successor' of the local economic development department of the municipality. After 1994, the local entrepreneurs found out that having their own foundation would enable them to more successfully deal with the issues of purchasing. However, this formation turned out to be insufficient after one year; therefore, they established a co-operative, Mórakert. The co-operative's tasks are arranging the buying-up, manipulation of the products (waging and packaging), storage, and finally, distribution. All members pay an entrance fee and further investment contributions. The municipality was one of the 52 founding members of Mórakert, and today, it is one member among 258. During the

wintertime, the company organizes trainings for members about the treatment of different vegetables and fruits, economic issues, and monitoring.

The companies in the industrial park receive tax allowances and all administrative issues are arranged as primary tasks of the municipality. At present, there are 12 enterprises in the park, three of which work closely together - Mórakert, Herena, which produces the packaging materials for Mórakert, and Móra prizma, which also prepares products for Mórakert. The firms altogether employ 200 people.

A second pillar of the local economic development is the thermal spa with medicinal waters, also attracting people from the nearby county capital. For the development of the bath, the municipality won a PHARE subsidy as well. This year, the construction of a thermal-hotel was completed; the municipality was its investor.

The municipality is one of the most important actors of the local economic development. The mayor, who was recently re-elected for the third time with 80% support of the voters, is one of the most important initiators in the city. Since most employees of Mórahalom work in municipally run institutions, and also the municipality employs most people with university level diplomas in the field of economics, the human capital of the local government is the best in town. Further, the municipality has the greatest stock among other economic actors of Mórahalom.

Outcomes and further goals

While observing the output of the local economic development processes in Mórahalom, during the past some years an average proportion of 1:34 of local tax is dedicated to the founding of projects. The tax income of one million forints in 1994 has grown to 30 million forints, however, for further developments, such as establishing secondary education, health service development and sport investments new sources still must be found. Since the change of central government, Mórahalom now faces some obstacles in receiving higher amounts of funding from central funds but its central role in the region cannot be questioned, being the standard-bearer, with its development strategy and implementation success.

Gjergji Buxhuku

Local Government and the Encouragement of the Voluntary Establishment of Albanian Farmers' Joint Ventures in the Framework of the Decentralisation Process

The promotion of economic development is stipulated by Albanian organic law as one of the functions of local government. Practically, however, the financial means of local governments to achieve this function are very limited. Even with this lack of financial capacity, though, the local governments have good possibilities for participating and helping the economic development and prospering of its community.

Given this Albanian reality, and the psychology of the Albanian citizens, the role of local government could be very decisive in the beginning of this institutional reorganisation of Albanian agriculture.

The following article presents a concrete example of a project in the process of implementing from the IEPP where the capacity of the local government on economic development and the principles of the decentralisation process are clearly involved.

A very important way for local governments to promote economic development on its own territory is the encouragement of the voluntary establishment of farmers' joint ventures in Albania through the incorporation of the community development principles of the Albanian farmers, involving the commitment of the local governments in the framework of governmental decentralisation.

Statement of the problem

Albania is a country in which agriculture has historically been the main sector of the economy. More than 55 percent of the Albanian population still lives in the countryside and gross agricultural production comprises about 55% of the GDP of the country.

During the socialist system, more than 65 percent of the population lived in the countryside and agricultural products generally satisfied the needs of the country.

A characteristic of the agriculture system prior to 1991 was that the ownership of land was 100 percent collectivised and it existed in two main forms: **State farms**, whose land theoretically was a state property; and **Agricultural co-operatives**, land that was formally a property of the co-operative members' group. In both cases, the collectivisation was dictated by state structures and the members of the co-operative did not consider the co-operative property as theirs.

After 1991, along with the transition of the country towards a market economy, the privatisation of Albanian agriculture started with the distribution of the land and assets of the farms and agricultural co-operatives to their members, mostly on the basis of the number per capita of members for each subject and neglecting, to a considerable degree, the right of the former land owners to the agricultural lands. Nonetheless, it must be stressed that the legal system was partially executed, and in a great part of the country the land was distributed on the basis of the old boundaries and through the understanding among the inhabitants themselves. In this respect, it must be pointed out that the partial execution of the law served as a cause for the creation and existence of a great number of property conflicts, which are felt at present as well.

The distribution of the land to private individuals contributed to the division of the agricultural land into very small plots, reducing to a great extent, the work efficiency as a result of the maximal increase of the individual costs compared to that of the collectivised lands. Adding to this was the completely insufficient information given to the Albanian farmers of the basic elements of a market economy such as marketing, inputs, credits etc., and the inappropriate policy of the state with regard to the protection and encouragement of local production. Consequently, Albanian agriculture went almost towards total collapse, a situation that it is actually experiencing. This situation led to the abandonment of agricultural land, along with the considerable fall of production, low quality products, the cultivation en masse of narcotic plants under the influence of Mafia groups, abandonment of the countryside, a rush of people towards the cities and emigration, mass poverty, etc. A great part of Albanian farmers have absolutely no possibility to go to the market, reverting almost to the stage of natural economy. For all these reasons, and taking into account the great specific weight of the rural population in Albania, the whole country experienced economic, social and political instability.

As a consequence of this dire state of affairs, it is critical to:

- Provide information, making the masses of Albanian farmers throughout the country aware of the current situation

- Involve the local government, whose voluntary organisation in farmers' enterprises, and the experience of the countries which have recorded development in this sector is essential
- Establish, from regional governments, permanent specialised centres that will help encourage and create farmers' associations in Albania and offer the indispensable technical assistance and experience of the countries which have recorded development in this sector
- Create a general institution with voluntary representatives from Albanian farmers' enterprises with the aim of realising in continuity professional training programs for the already established farmers' enterprises and
- Create different lobbies of farmers' associations to deal with government policies in the field of agriculture and co-operation.

In order to realise these objectives the partners are thought to be the representatives from the central government and agricultural associations and communes in Albania.

The Institute for Effective Public Policy (IEPP), based on the analyses of its specialists, is of the opinion that an element of decisive importance in bringing the Albanian farmers out of this situation of massive poverty, taking into consideration the present maximal partitioning of individual property owned by Albanian farmers (up to 1,2 hectares per farmer), is to increase the labour effectiveness and the natural resources they possess through the organisation of farmers' joint ventures, in which the partial or full rights of land ownership of its members is socialised along with the rights to full or partial ownership of the means of labour and other natural resources that the member farmers have in their possession. So far, there is not any such association existing in Albania.

In spite of the positive factors of farmers' associations, known by world experiences and the countries similar to Albania in size, it is worth mentioning here some factors of the Albanian reality, which may oppose their organisation in Albania. There are two main factors:

- The insufficient experience of Albanian farmers to work in the conditions of a market economy and consequently the preliminary acknowledgement of the superiority of organisation in associations and
- The negative historic experience of the collective obligatory work forced by the former socialist state.

Precisely the above elements have been taken into consideration while we were determining the objectives of the project, the details of which are in the following. Exactly in these two above-mentioned critical issues, the role of local governments could be very decisive.

Project goals

1. Elevating the living standard of farmers and the entire Albanian population and increasing their interest in the land and agriculture.
2. Lowering figures of emigration and domestic migration of Albanian farmers, and increasing local employment.
3. Creating greater economic, social and political stability in the country.

Project objectives

1. To increase the efficiency of the work and utilisation of natural resources that are in the possession of Albanian farmers and consequently creating economic possibilities for them to change the present very low living level.
2. To create a greater sense of collectivisation and social awareness of the solution to the problems that cover the whole community.
3. To intensify the contact of Albanian farmers with the local government in the terms of the decentralisation of local governments and the central government in the financial and political policies related to their interests.
4. To make the mass of Albanian farmers stop cultivating narcotic plants and involving in other activities of a criminal character.

Project results

It is of vital importance for the psychology of the Albanian farmer, who was traumatised by 40 years of imposed socialist collectivisation, to create the idea of ownership, via voluntarism and economic interest without any compulsion by the government. This should be conveyed not only through the media, but first and foremost through educated and reliable people, that is, directly from the farmers themselves. This is a very positive method of promoting and strengthening farmer awareness. In this way, ideas distributed by written and electronic media and other methods of raising awareness through the involvement of different levels of local governments will have a quicker and more powerful impact on changing the mentality of Albanian farmers.

What the seminars/workshops realised, in co-operation with the local government representatives, and by providing direct examples from democratic and developed agriculture countries, is that the only way to get out of extreme poverty is to increase the effectiveness of the agriculture ownership by joining it.

In addition, the arrangement of the above activities aims to better know the straightforward opinion and thoughts of the participants who will reflect more

clearly the farmers psychology with regard to several issues, such as the level of ownership rights transfer within the joint enterprises, the functioning of these enterprises, and the election of the managers. All these problems should be dealt with later during the formulation of standard acts for the foundation and functioning of farmers' enterprises.

In the above activities the opinion of the bank representatives will be present, regarding the potential bank crediting of agriculture in terms of the actual fragmented agriculture of Albania which is to be grouped later, emphasising the concrete bank requirements needed to have access to bank crediting for both Albanian agriculture in general and specifically farmers' enterprises. The emphasis should be put always on the direct profits and interest that the farmers will gain due to their work in groups, compared with their current situation.

The successful implementation of these projects requires a close co-operation with Albanian local governments especially now that the decentralisation of the local government is on its way in Albania. The promotion of economic development is a direct function of the local government as part of the decentralisation process, and this is bound directly with the presented project. For this reason, the Union of Albanian Farmers and the Albanian Communes Association, which have shown their wills and interests, are chosen as the main partners for carrying out the project. Also, the co-operation and exchange of opinions with the Central Government representatives will be in place in the seminar organisation areas.

In order to successfully realise the seminars/workshops, the Institute for Effective Public Policy, Tirana-Albania, will involve the most distinguished representatives of the agricultural, economic and research fields in Albania in the preparation of the discussions. Based on the Albanian farmers' psychology, the personality of the person presenting an idea is of great importance and this is the reason for involving the most serious representatives of the fields. The presentations and discussions will deal necessarily with issues such as:

- The experience of the developed, democratic and agriculture countries on the establishment of farmers' joint enterprises. We will aim to provide concrete examples from the lives of member farmers as well as a diagram of their living level before and after the establishment of these enterprises.
- The main elements for the establishment of the enterprises and their essential contrast with the former socialist co-operatives in Albania. The contrast is striking when we consider the voluntary methods of its creation, the control of the activities by each member later, the selection of the leading staff and managers, etc. At the same time, various types of

obligations should be pointed out that are obligatory for each member versus the other colleagues after the establishment of the enterprises.

- The real advantage of this organisation of farmers' enterprises in the market economy in general and in the Albanian conditions in particular, (keeping in mind the low effectiveness of Albanian farms under the conditions of fragmented ownership). Only the above organisation can, in a short time, ensure the knowledge of basic marketing elements, bank crediting and an increase of effectiveness of both the farmers' estate and their work too. All these will ensure investment and new technology for the agriculture and animal husbandry farms of Albania. They will also ensure several modern inputs, increasing production and quality, reducing production cost and ensuring necessary markets, which will result in increased profits for each member. This will secure the conditions for escaping the current state of extreme poverty.
- The organisation of farmers' joint enterprises has a great potential to contact, and have access to, several donor institutions in the agriculture section. The development of joint enterprises provides the potential to improve the co-operation of farmers with the local government, especially to profit and make maximum use of the advantages of the decentralisation of the local government. Later, the setting up of representative institutions of the joint enterprises might be accomplished; they will have their saying and express directly their interests during the formulation of various agriculture policies of the central government.

Zlata Ploštajner and Ana Briški

Economic Development on the Local and Regional Level: Workshop Summary

In the process of establishing functional self-government and implementing the principles and mechanisms of decentralisation, economic development may be one of the most important factors that will determine the success or failure of the whole process. Therefore, it was deemed important to discuss the topic of economic development at a specific workshop in the framework of the regional project on local self-government and decentralisation.

The purpose of the workshop was to show different experiences in the area of economic development at local and regional levels. The first presentation introduced the topic and structured the process of economic development. Other participants presented different case studies that could be considered as practical examples of economic development efforts in their countries. During the discussion it was pointed out that a distinction should be made between more and less developed areas within the countries. It has been these less developed areas and regions on the peripheries that have been hit the hardest by transition and many of them have not yet started the process of recovery. On the other hand, while more developed areas have experienced economic crises after transition, the process of economic recovery has been underway for some time already and has given positive results. Very often this economic development is not dependent upon local or regional government activities, rather it is the result of the spontaneous functioning of the market forces themselves. However, if the market is not supplemented by active public policies, its spontaneous functioning will lead to greater inequalities between the localities and regions, resulting in social tensions. A strive for greater social cohesion, which is one of the main objectives of the EU, has to be part of the national, regional and municipal government efforts. By the promotion of economic development they will provide the very basic conditions for greater social cohesion within the country and between countries.

The main issue of the workshop was the question of what local governments can do for the promotion of local economic development. Many citizens confront the situation where they are unable to provide basic things for themselves and their families. In areas of high unemployment and scarce

economic resources, the question of future economic development is crucial, since certain levels of economic and social well-being can significantly improve chances for peace and prevent social unrest in this part of the world.

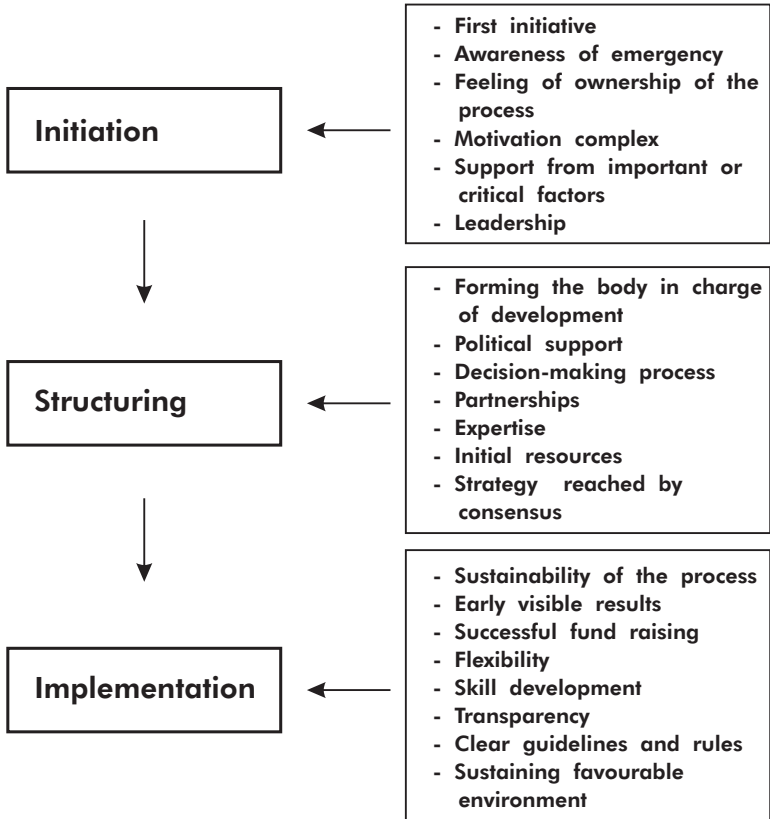
When speaking about local economic development, as explained in the first paper presented at the workshop, we should have the following concepts in mind. Local economic development refers to the process in which local authorities and organisations purposefully engage in activities to maintain business and employment, to stimulate business or new product development, and to stimulate job retention or creation in the area. This 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 socio-economic circumstances to meet the requirements of a given locality, since circumstances and development milieu vary from case to case. One of the possible actions that might be undertaken is an attempt to increase the demand from outside the community for locally produced products by supporting marketing actions. The competitive market position of the local jurisdiction can be also enhanced through businesslike or entrepreneurial techniques that can take many forms - from tax abatements to creating business incubators, or investing into educational capacities.

Another form of help to local communities can come from different institutions or organisations. The success of a community in promoting economic growth depends, to a high degree, on its ability to create an appropriate institutional framework that will provide the neighbourhood, locality or region with greater capacity to determine its own economic destiny. However, local institutions and organisations act within a broader national and international context.

Better chances for economic growth can be achieved through entering partnerships and co-operating with different levels - local, regional, national and even international. Also, such co-operation reduces the tendency of individual organisations and agencies to pursue their own agendas in isolation from the broader public interest. Furthermore, most problems can only be solved through co-ordinated action by a range of actors and agencies.

When the participants looked into the process of economic development to place the presented cases into a wider prospective, the distinction between less and more developed areas was important for understanding governmental actions in different stages of the economic development process. The discussion among participants resulted in distinguishing three basic stages of the local economic development process: the initiation stage, the structuring stage and the implementation stage. Activities undertaken by local/regional authorities would differ, taking into account the above-mentioned stages.

STAGES of the process of local economic development



1. The initiation of the local economic development process

The initiation stage involves the development of an active attitude toward economic development, i.e. that local actors must get the sense that they have

to act in the area of economic development. With the tradition of centralised planning, the patronising state local governments are very often passive, feeling powerless and waiting for somebody else (the state) to change their economic position. It is hard for them to comprehend that under these new circumstances they have to take much greater responsibility for themselves and that their future, to a high degree, depends upon their own action or inaction. For economically powerful localities, the role of the local government in the promotion of economic activities should be to look beyond local boundaries, to broaden horizons and make comparisons with global models. In that way, they will be able to detect eventual weaknesses and further the development of their regions. On the other hand, in under-developed areas, it is necessary to first create the basic capacities and infrastructure that will support the development process, which could be one of the main tasks of the local government. So, while for economically powerful localities the role of local government in the promotion of economic activities is not so crucial, in less developed localities it is, and it can make the difference between stagnation and development.

Economic development can occur as a spontaneous process. However, within less developed areas or areas affected by crisis and the transformation process, very often it has to be purposefully initiated. This initiation can come from internal actors or from the outside. External actors have to start activities in the area of economic development promotion because internal actors do not feel the need, do not feel competent or powerful enough to make change, they lack knowledge and how to do it, etc. As cases show, the initiative for action can come either from local actors (Mórahalom, Hungary or the Bega Channel, Romania), or from external actors (LEDA's in lagging areas in Croatia), or from a combination of the two (Jesenice, Slovenia and Laktaši, Bosnia and Herzegovina). Especially in the least developed localities, external actors can make an important contribution to change in local attitudes toward the promotion of economic development (as the Croatian case with LEDAs clearly shows). While more developed and propulsive regions in Croatia have initiated developmental activities and established development agencies by themselves, lagging areas have needed external support. National and international actors have played a very important role in convincing local actors in areas that lack their own capacities that they have to start improving their own institutional, social and human capacities to be able to later participate actively in the process of economic development. However, for this process to become sustainable, each locality has to take ownership over itself and it has to realise that it is responsible for its own process and subsequently it has to develop its own leadership capacity. One of the problems in Albania, with the implementation of the project of joint ventures

for Albanian farmers, seems to be that the local communities and farmers, among other things, lack the feeling that they are responsible for their development, that they “own” the means and the resources that will help them. Therefore, one of the most important goals of external help should be to aim at developing local capacities, leadership, commitment and motivation for the promotion of economic development.

One of the psychological ingredients that adds to the initiative is the awareness of emergency. People in the community realise that the local economy is either completely devastated, as in Mórahalom, where the mayor and citizens realised that their city was going bankrupt and that they had to do something, or that they should be proactive and support further development, which was the case in the municipality of Laktaši in Bosnia and Herzegovina. In Laktaši, the otherwise well developed local community realised with some help from the outside agency that they wanted to have a more efficient local administration, which was becoming a bottle neck that was hindering further development.

Another factor that we called the “favourable environment” is also quite important. That term can be applied to the physical, but even more so to the social and political environment. The local government can play a vital role in creating such an environment, by means of elaborating local development plans, or just avoiding arguments on political and party bases. But, it was also realised that a person with great leadership skills, able to formulate strategies and gain support from important actors, will turn even unfavourable circumstances into favourable ones.

2. Structuring phase

The structuring stage is a phase of organising and setting-up an institutional system that will put in place the necessary permanent structures for the promotion of economic development. The creation of an appropriate institutional system aims at providing the co-ordinated action of all local and external actors. It can require the establishment of new organisations (like LEDAs in Croatia, the department for economic development in Mórahalom, or the development agency in Jesenice) or it can build on already established organisations. Building a system requires co-operation among different parts. It includes building institutions and structuring relations among them, because by co-operation they can benefit from the effects of synergy. Without an adequate institutional capacity, which includes also developing the needed expertise and skills among local actors, the process would be too much dependant on chance and individual persons.

So, one of the first supporting pillars of the process would be the authority in charge of the development, which will be able to carry on the project through longer periods. Such authorities usually take care of the logistics, and collect the initial funds and resources, that are necessary for next steps. Forming a specialised authority is also usually the sign of reaching a political decision or a political consensus among the main actors within the community. Political agreement will serve as another supporting pillar, which will carry the project during longer terms, and which will assure the survival of the project despite of the changes in party majorities. Such agreement was reached in the case of the Bega Channel in Romania, which ceased being just some local project and became a project supported by the whole region and almost all parties. On the other hand, in the case of Mórahalom in Hungary, it seems that their development, after being steadily pursued by a very popular mayor throughout a longer period, might face new obstacles because the mayor (being one of the strongest driving forces behind the development) has become a member of the opposition after the elections on national level, and it is likely that after this change the free flow of funds from the government might slow down, if not downright stop. Still, if the community remains supportive, they will find alternative sources of funding.

The main goal of the structuring phase is to put permanent decision-making structures in place, which are necessary for programming. Through the process of programming, localities discuss their developmental possibilities and form the development strategy as a basic policy document for further actions. So, this phase should result in specific plans and strategies. This strategy, however, cannot be a collection of good wishes, it has to be realistic and feasible, and it would have more of a chance of coming alive if it is reached by consensus within the community. This broad consensus signifies public participation and is different from political decision making or consensus reached by political parties or main political decision-makers. Consensus within the community involves the whole community, it represents another pillar of support, and it provides for the sustainability of the process, because citizens can apply pressure and push projects even if the political climate changes.

The nature of inter-organisational relations depends on the type of organisations involved. These relations can be based on hierarchy, like when the local administration implements projects through its department of economic development, or it can be based on ownership, when governments act as the founder of enterprises or non-profit organisation as the case of the city of Mórahalom reveals. At present times the networks, either local or broader, are becoming widespread and they are serving as a place for the connection of different actors, while providing channels for communication

and co-ordination as in the case of the Jesenice development agency in Slovenia, the Bega Channel in Romania or the “Ecolinks” of the municipality of Russe in Bulgaria.

When public, non-profit and private organisations are involved, they often take the form of a partnership (like in the case of the Timisoara development project of restoring the navigability of the Bega Channel). Partnerships can extend beyond the local boundaries to include actors from other areas, different levels of government or even international actors. Including international actors is quite usual in our countries when local organisations want to use international financial resources and/or expertise, such as in the case of Croatian LEDAs, Jesenice development agency, the Bega Channel, Albanian farmers' joint enterprises, or the Laktaši good governance project.

3. Implementation

The implementation phase, where the plans and strategies are carried out in practice, will be a coherent process if it is based on a development strategy that settles priorities and criteria for action. Implementation is the most important phase for the continuation of the process and its sustainability. It is also a practical check on strategy and the strategy should always be made with implementation in mind. If a strategy cannot be implemented, the process of programming should be repeated to elaborate a new, more realistic strategy.

Implementation is crucially dependent on human resources and finances. Sometimes it is necessary to improve skills first and then to undertake other actions for the promotion of local development. The Laktaši case can serve as an example, where efforts to improve the skills of the local administration should produce benefits for the local business community and provide better conditions for economic development.

It has been also stressed that projects have to produce visible, tangible results quite soon, because without them the commitment and support of local actors and population will be lost. Although the initiation phase very often starts with “consultancy projects” and “institution building” projects, experience in all countries shows that it has to evolve into projects which will give tangible results as soon as possible. The Bulgarian municipality of Russe, Jesenice, and Mórahalom are already well on their way to implementing projects with tangible results. In the case of LEDA's in Croatia, the inhabitants of the areas of special concern did not want to participate in the funding of their own development agencies before they saw some very real results. Through implementation, local actors also gain knowledge and experience that will enable them to improve their performance in the future.

The whole process, not just its implementation phase, has to be transparent, and has to have very clear guidelines and rules that will help in gaining public support and fund raising. If the project really takes off during this phase, it may very well become financially self-sustainable and able to generate income for the community, which is one of the goals of development projects. Even if they do not generate income by themselves, because they serve as the attraction for future business, local economic development projects still have to be financially sustainable, and have to sustain a favourable environment. That is why the actors and the projects themselves will need to be flexible, to be able to adapt to changing circumstances in the economies, societies and environments.

The question of what actions can be taken by local authorities is the hardest to answer. Not because there is no answer, rather because there are so many possible actions, from (co)financing big flag-ship projects to improving administrative processes related to business. Although localities are limited by national legal systems and the division of competencies between the different levels of government, financial and human resources, there is in reality no limit to the imagination of what can be done to change the present situation. It is the question of seizing existing opportunities and creating new ones. What is really very basic is a will to act, to promote change, to do something for a better future and not just to wait for it to come around by itself. Therefore, localities have to understand that they are actors, and as actors they have to act and they are also responsible to act, since the quality of citizens' life is also dependent on this (in)action.

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