Local/Regional Economic Development in South-Eastern Europe

Concepts, instruments, and lessons learned

September 2006
Preface

Promoting region-specific development, whether in the framework of economic development or by strengthening administrative structures, is one of the most important themes of Development Cooperation. Its importance is a result, on the one hand, of globalization and the need to increase the competitiveness of economic areas; on the other hand, the topic has gained new momentum through renewed efforts by the international community to reduce poverty. In addition to development policy considerations, our work in South-Eastern Europe is also driven by the political will to help integrate the region into a unified Europe.

Regional policy is a constituent element of the European Union (EU). The “Europe of regions” must complement the level of Europe as a whole and that of the various countries. This requires that comparable living standards be created in order to strengthen internal peace and European unity after the traumatic experiences of the Second World War, the end of the “iron curtain” division of Europe, and the Balkan wars. With the already agreed expansion of the EU to include Bulgaria and Romania, this challenge becomes even greater: the large remaining gap between average income in the EU and that in South-Eastern Europe must be closed as quickly as possible.

In order to achieve these goals (comparable standards of living, peace and social stability), the EU is looking to cross-border cooperation. Governments, administrations, non-governmental organizations and above all the citizens of Europe are working together to achieve common goals.

Many of our projects are taking up this fundamental European idea and are thereby making use of proven development policy approaches: for the promotion of manufacturing and industry, the food industry, rural areas, the service sector and sustainable tourism.

Economic development is also a task of municipal and regional administrations, which shape the optimal framework conditions for a local economy in global competition for investment. In addition to highly sought foreign investment, this particularly concerns investment from the region for the region: a marketable profile of regional and municipal competitiveness results primarily through the mobilization of local monetary and human resources and through the sustainable strengthening of strategic capacities and competencies.

Creating a functioning cadastre, or land register, increases legal security for investors; well-founded, strategic planning at the local and regional levels provides planning and thus investment security. The development of cities (or the restoration of historical city centers, such as in Sibiu, Romania) proceeds hand in hand with the creation of jobs. Proven instruments such as the promotion of business start-ups find a place here and make crucial contributions to regional economic development. Development policy experience and European experience complement each other; development policy approaches that do not take into account the European aspect cannot succeed.

Experience in promoting economic areas and regions is as varied as the economic areas themselves: people, policies, geographic and cultural conditions all influence the projects to different degrees. It is this wide range of experience that we wish to present in this collection of documents. It includes contributions from Division 3 (Div. 311, Mediterranean Region, Europe, Central Asian Countries and Div. 312, Twinning), Division 4 (Div. 41, 42, and 45, Planning and Development), Division 7 (International Services), CIM (Center for International Migration and Development) and by external experts.

You must decide which of the tips are useful for your own work. We hope that the individual contributions will facilitate the exchange of information between colleagues in the field and will aid the training and orientation of new staff members.

We wish to thank all those who contributed to this collection of documents and hope the readers find it interesting.

Dr. Detlev Böttcher
Ulrike Gantzer-Sommer
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Eschborn, September 2006
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<td>ACDI/VOCA</td>
<td>Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance</td>
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<td>APF</td>
<td>Agricultural Policy Forum</td>
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<tr>
<td>ASEMB</td>
<td>Adriatic Sea Environmental Master Plan</td>
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<td>BA</td>
<td>German Federal Employment Agency</td>
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<td>B2B</td>
<td>Business to Business</td>
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<td>BDS</td>
<td>Business Development Services</td>
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<td>BiH</td>
<td>Bosnia and Herzegovina</td>
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<td>BMI</td>
<td>German Federal Ministry of the Interior</td>
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<td>BMZ</td>
<td>Federal Ministry for Economic Cooperation and Development</td>
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<td>BOGK</td>
<td>German Association of the Fruit, Vegetable and Potato Processing Industry</td>
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<td>BSC</td>
<td>Business Service Center</td>
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<td>CAP</td>
<td>Common Agricultural Policy</td>
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<td>CARDS</td>
<td>Community Assistance to Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and Former Yugoslav Republic of Macedonia (EU)</td>
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<td>CB</td>
<td>Capacity Building</td>
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<td>CBC</td>
<td>Cross Border Cooperation</td>
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<td>CDG</td>
<td>Carl Duisberg Gesellschaft</td>
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<td>CEEC</td>
<td>Central and Eastern European Countries</td>
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<td>CEFE</td>
<td>Competency based Economies through Formation of Enterprise</td>
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<tr>
<td>CEMAT</td>
<td>European Conference of Ministers responsible for Regional Planning</td>
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<tr>
<td>CHF</td>
<td>Cooperative Housing Foundation</td>
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<tr>
<td>CIM</td>
<td>Centrum für Internationale Migration und Entwicklung (Center for International Migration and Development)</td>
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<tr>
<td>CIS</td>
<td>Confederation of Independent States</td>
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<td>DIHK</td>
<td>Association of German Chambers of Industry and Commerce</td>
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<td>DSE</td>
<td>German Foundation for International Development</td>
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<tr>
<td>EAR</td>
<td>European Agency for Reconstruction</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>EDEP</td>
<td>Economic Development and Employment Promotion</td>
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<td>ENPI</td>
<td>European Neighborhood and Partnership Instrument</td>
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<td>ERDF</td>
<td>European Regional Development Fund</td>
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<td>EU</td>
<td>European Union</td>
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<td>EUREGIO</td>
<td>European Region</td>
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<tr>
<td>EUROSTAT</td>
<td>Statistical Office of the European Communities</td>
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<tr>
<td>FAMAD</td>
<td>Promotion of the Lovetch Mountain region and Bulgarian wine and fruit cultivation</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organization</td>
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<td>FBiH</td>
<td>Federation of Bosnia and Herzegovina</td>
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<td>GACP</td>
<td>Good Agricultural and Collection Practices</td>
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<td>GAP</td>
<td>Good Agricultural Practices</td>
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<td>GDPDRD</td>
<td>Global Donor Platform for Rural Development</td>
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<td>GHP</td>
<td>Good Hygiene Practices</td>
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<td>GPS</td>
<td>Global Positioning System</td>
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<td>GTZ IS</td>
<td>GTZ International Services</td>
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<td>GTZ</td>
<td>Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH</td>
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<tr>
<td>IAMO</td>
<td>Institute for Agricultural Development in Central and Eastern Europe</td>
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<tr>
<td>IBD</td>
<td>Integrierter Beratungsdienst für die Privatwirtschaft (Advisory Services for the Private Sector)</td>
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<tr>
<td>ICT</td>
<td>Industrialized Country Training</td>
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<td>IE</td>
<td>Integrated Experts (CIM)</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IFOAM</td>
<td>International Federation of Organic Agriculture Movements</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>IHK</td>
<td>Chamber of Commerce and Industry</td>
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<td>ILO</td>
<td>International Labor Organisation</td>
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<td>ILT</td>
<td>Industrielandtraining (Industrialized Country Training, by InWEnt)</td>
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<tr>
<td>INTERREG</td>
<td>Community initiative concerning border areas</td>
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<td>InWEnt</td>
<td>Internationale Weiterbildung und Entwicklung gGmbH, (Capacity Building International, Germany)</td>
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<tr>
<td>IP</td>
<td>Integrierte Produktionsverfahren, (Integrated Production Procedures)</td>
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<td>IRD</td>
<td>International Relief and Development, Inc.</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>ITB</td>
<td>Internationale Tourismusbörse (International Tourism Fair Berlin)</td>
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<tr>
<td>KfW</td>
<td>Kreditanstalt für Wiederaufbau</td>
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<tr>
<td>LED</td>
<td>Local Economic Development</td>
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<tr>
<td>LEDA</td>
<td>Local Economic Development Agency</td>
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<td>LRED</td>
<td>Local/Regional Economic Development</td>
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<td>MAP</td>
<td>Macedonian Association of Processors (Fruit and Vegetable Processors)</td>
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<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<tr>
<td>MED</td>
<td>Municipal Economic Development</td>
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<tr>
<td>MIPIM</td>
<td>Marché International des Professionnels de l’Immobilier (International Fair for Location Marketing, Cannes)</td>
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<tr>
<td>NGO</td>
<td>Non-governmental Organization</td>
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<td>NIS</td>
<td>Newly Independent States</td>
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<td>NUTS</td>
<td>Nomenclature des Unités Territoriales Statistiques (Classification Scheme for territorial units for statistical purposes)</td>
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<tr>
<td>OE</td>
<td>GTZ organizational unit</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>OEITFL</td>
<td>Organization of European Industries Transforming Fruit and Vegetables</td>
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<tr>
<td>PACA</td>
<td>Participatory Appraisal of Competitive Advantage</td>
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<td>P&amp;E</td>
<td>Planning and Development (GTZ unit)</td>
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<tr>
<td>PHARE</td>
<td>Program of Community Aid for Central and East European Countries</td>
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<td>PMG</td>
<td>Producer Marketing Group</td>
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<td>PPP</td>
<td>Public-Private Partnership</td>
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<td>PSP</td>
<td>Private Sector Promotion</td>
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<td>RDF</td>
<td>Regional Development Framework</td>
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<td>REED</td>
<td>Rural Economic and Enterprise Development</td>
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<td>RM</td>
<td>Regional Management</td>
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<td>RS</td>
<td>Republika Srpska (Bosnia and Herzegovina)</td>
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<td>SAPARD</td>
<td>Special Accession Program for Agriculture and Rural Development</td>
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<td>SDC</td>
<td>Swiss Agency for Development and Cooperation</td>
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<td>SEE</td>
<td>South-Eastern Europe</td>
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<td>SEED</td>
<td>South East Europe Enterprise Development (IFC)</td>
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<td>SELLER</td>
<td>GTZ Sector Network for Central and East Europe, the Caucasus, and Central Asia</td>
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<td>SHO</td>
<td>Self-help Organizations</td>
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<td>SMEs</td>
<td>Small and Medium-Sized Enterprises</td>
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<td>SIEPA</td>
<td>Serbia Investment &amp; Export Promotion Agency</td>
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<tr>
<td>SoBon</td>
<td>Socially equitable land use</td>
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<td>SWAp</td>
<td>Sector-Wide Approach</td>
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<td>SWOT</td>
<td>Strengths – Weaknesses – Opportunities – Threats</td>
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<td>TACIS</td>
<td>Technical Assistance to the Commonwealth of Independent States (EU)</td>
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<td>TC</td>
<td>Technical Cooperation</td>
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<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organization</td>
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<td>UNMIK</td>
<td>United Nations Interim Administration Mission in Kosovo</td>
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<td>WHO</td>
<td>World Health Organization</td>
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<tr>
<td>WIRAM</td>
<td>Economic reform and development of a competitive market economy</td>
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Glossary

**Acquis communautaire** – this is the common foundation of rights and obligations that are binding for all member states of the European Union. The Acquis includes the Community Law, consisting of the treaties of the European Union, the regulations, directives, decisions of the EU bodies, decisions handed down by the Court of Justice, legal acts of the Common Foreign and Security Policy, judicial and domestic policy as well as treaties and agreements signed by the EU and other states or confederations.

**Capacity building** – the processes, instruments, and methods for strengthening the competence of individuals, groups or organizations to enable them to analyze their environment and identify problems, development opportunities and needs. This is to enable them to draw up strategies for problem-solving, use existing potentials, develop action plans, use available resources efficiently, take responsibility for implementation, establish and maintain a monitoring and evaluation system and analyze lessons learned and use them in modifying strategies.

**Change agent** – these are innovative thinkers from business, politics, or civil society who are able to initiate changes and engage relevant actors (stakeholders).

**Change management** – the processes, instruments, and methods for managing change processes, with the objective of initiating effective changes among change agents within the teams responsible for implementing the changes, and putting in place additional systems to ensure the company or institution implements them on a long-term basis.

**Cluster** – in an economic context this denotes networks of companies, often competitors, within a common sub-sector, as well as the service institutions that work closely with these companies. The companies (producers of identical or complementary products, suppliers of preliminary products and providers of engineering services etc.) are connected to each other via production, process, and market-oriented exchange relations and closely cooperate with relevant service providers (banks, insurance companies, chambers, associations, local/regional development institutions, research institutions etc.).

**EUREGIO** – **Euroregion** or **European region**, these are transnational regions in Europe, usually with an economic focus; also for the promotion of cross-border co-operation regarding society and culture. These could take the form of a legal entity according to public or private law, or could simply be loose associations with no legal status.

**Good governance** – this is when it is deemed that good decisions are made or systems implemented to enable efficient and effective cooperation between participants from the fields of politics, private business, and civil society on national, regional and local levels.

**Institution building** – this denotes measures for developing efficient, financially feasible national, regional and local administrative services and demand-oriented business development services for strengthening sustainable market-economy structures. For example, German Technical Co-operation supports local administrations, chambers, associations and other administrative and economic promotion institutions to develop effective organizational structures and strategies, demand-oriented company-related services and the required capacities for personnel.

**Twinning** – this is an EU instrument for sharing technical knowledge and experience, and for long-term cooperation between administrations of the EU member countries and candidate countries. The objective is to help candidate countries develop efficient administrative structures (institution building i.e. the development or strengthening of ministries, administrations, regulatory authorities), as well as in the full transposition, implementation and enforcement of the Acquis Communautaire.
1 Introduction
The contributions presented in this collection provide an impressive insight into the wide range of GTZ’s experiences and its abilities in the field of local/regional economic development in South-Eastern Europe. In line with the GTZ Vision, we are “successfully promoting international co-operation which contributes to sustainable development” in South-Eastern Europe and are strengthening our “position in the global market for international co-operation services.”

Professional networking throughout the world and 15 years of successful Technical Co-operation (TC) in Transition Countries (GTZ has been active in this region since 1991), has meant that GTZ has both conceptual competencies and institutional knowledge that combine a variety of economic, social, institutional and political instruments for analysis and implementation. This combination of skills and experience has been put together to provide services for local/regional economic development that are demand-oriented and tailored to the situation.

However, the key to developing customized concepts and their successful implementation has been the work of our employees in the region, together with the freelance consultants and advisors that we employ for specialized tasks. Over the past 15 years we have established a team of German, international, and national experts that, alongside with partners from politics, business, and civil society in the regions, are committed to economic development, European integration, and regional co-operation in South-Eastern Europe. The co-operation of these skilled and highly motivated personnel has yielded our problem-solving competencies, from the analysis of a situation through to achieving the desired results.

Our main client is the Federal Ministry for Economic Cooperation and Development (BMZ), although we also work on behalf of other German ministries. As one of the most significant financing organizations for multilateral Development Cooperation, the German Government, has put co-operation in multilateral organizations, including the European Union, the World Bank, and the United Nations, as a major priority. As a result, a comparatively small amount of funding has been earmarked for bilateral Technical Cooperation, which is shared by various small amount of funding has been earmarked for bilateral Technical Cooperation and Development (BMZ), although we also work on behalf of other German ministries. As one of the most significant financing organizations for multilateral Development Cooperation, the German Government, has put co-operation in multilateral organizations, including the European Union, the World Bank, and the United Nations, as a major priority. As a result, a comparatively small amount of funding has been earmarked for bilateral Technical Cooperation, which is shared by various
tion program, despite the needs of numerous disasters and crises throughout the world requiring financial support.

Integration of the region into Europe is the primary goal. The prospect of membership in the European Union is a unique and special aspect of TC in the countries of South-Eastern Europe, and the governments, businesses and civil society organizations receive support in preparing for accession to the European Union. Funding made available by the bilateral German TC (BMZ/GTZ) program is equally distributed to the countries and is not concentrated in particular regions. Once accession has been achieved bilateral TC will be withdrawn from the new member states to be replaced by European funds and instruments for co-operation.

Economic reconstruction and development are crucial for meeting the development policy criteria (poverty reduction), as well as for supporting European integration. In all countries in this region the starting position was similar; warlike conflicts and/or misallocations of resources in planned economies, which led to the collapse of national economies. Therefore initially the main objective of TC was short-term effective support for reviving economic activity and improving living conditions. The next step was to provide advice to transform the economic system. Today TC (BMZ/GTZ) focuses on supporting the development of long-term effective and sustainable structures for economic promotion and improvement of the investment climate, which include the approaches to local/regional economic development described in the following chapters.

The effectiveness of TC in this region was confirmed in an appraisal carried out on behalf of BMZ (Lührmann 2005), which reported that GTZ employees had succeeded in developing solutions, based on a wide range of experiences globally and regionally. Through the careful and pragmatic selection and combining of the development policy instruments used, the solutions were successfully adapted to particular situations and the needs of target groups and partners.

A result of our work was to contribute to easing the return of refugees in the years following the warlike conflicts, to facilitate economic co-operation through fostering a spirit of partnership and to contribute to peacekeeping. The goal of many transnational approaches is to promote a growing feeling of solidarity and support, and the realization that co-operation contributes to economic growth and improved living standards of each person more effec-
tively than working in isolation. Regional co-operation is the first essential step on the way to European integration.

Many examples in this collection demonstrate that co-operation between TC projects in the region, various ministries, other German implementing organizations such as CIM (Centrum für International Migration und Entwicklung), InWEnt (Capacity Building International, Germany), and KfW (Kreditanstalt für Wiederaufbau) and co-financing with other donors (clients) can be a major factor for success. GTZ also implements multilaterally financed development measures such as the EU’s Twinning, CARDS, and INTERREG programs. Thanks to the variety of project and program approaches, GTZ is in an ideal position to build on and provide experience to its clients and partners.

GTZ uses its up-to-date, field-tested expertise to engage in the international dialogue on development co-operation. GTZ’s internal sector network, SELLER (Association of field staff and employees at the GTZ headquarters of the South-Eastern Europe Division, Caucasian and Central Asian Countries as well as Planning and Development and International Services), combines expertise acquired throughout the world with regionally specific experience in transition and EU association issues. In the more than 30 years of its existence, GTZ has established outstanding contact with national, state and local administrations and with regional model structures that can all be involved in TC, via partnerships with South-Eastern European regions and municipalities. Similar co-operation agreements exist with networks of twinned cities, economic promotion and regional development agencies, chambers and associations, as well as with universities and research institutions. German experience serves South-Eastern European partners by providing an example of, and stimulation for, the development of efficient and sustainable regional and local structures.

An outstanding characteristic of bilateral German TC (BMZ/GTZ) is its continuity. Consulting services are provided over a long time frame, as projects successes are less dependent on allocated resources than the time frame of resource allocation. We strive to bring about short-term benefits, which motivate our partners to rethink traditional views and develop a new understanding of economic development. However, significant time, patience, pragmatism, and sufficient operative flexibility are equally important in order to anchor changes in obsolete structures, substantially change behavior patterns in politics, administration, business, and civil society and to invest in creative energies (change management). In order to achieve this TC must be equipped with sufficient time, expertise, and personnel to adequately respond to delays caused by politics and ensure consensus among those involved.

The success that we, and our partners, achieve is measured by the results that are sustained long-term, in developing stable, competitive, and effective economic regions, to which prospects offered by EU can legitimately be opened up. Consistently harnessing the synergism of complementary approaches of local/regional economic development, while allocating funds effectively, is an integral component of the design of projects and programs implemented by GTZ.

Starting from our core competency, the capacity development (qualification) of experts and managers, we combine sector-specific and regional approaches in a systemic approach on the macro level (state/administration), the meso level (institutions), and the micro level (businesses). We support confidence-building measures between governmental and civil society actors and moderate a constructive public-private sector dialogue. Concepts for economic development that are a basis for consensus, and can be implemented, can be generated through open debate about the issues and demands of both sides. In this way, the cluster potentials that emerge from co-operation among companies, between companies and political actors, administration and service organizations, research, development and training, can be tapped and exploited in a spirit of trust along the entire value chain. The positive effects of clusters and sustainable networks strengthen the competitiveness of entire regions.

GTZ moderates processes for analysis, planning, implementation, and evaluation, conceives of experiences that follow good practice guidelines, trains multipliers and promotes cross-border co-operation as a neutral partner. In the interest of our partners, we have high requirements for the expertise and personal qualifications of our employees and external experts. We work in professional, interdisciplinary and international teams whose members have years of experience working abroad and in management, with a broad spectrum of practical experience in a number of areas. Our services, Regional and Sectoral Expertise from a Single Source, are tailored to the needs of our partners as they seek to join Europe.

Examples from GTZ’s implementation practice described in the following chapters illustrate this regional and sector expertise:
- Effective co-operation with other donors, (Peter Bonin, Chapter 6.7)
- An example of the Development Corporation, Tuzla, illustrates the connection between emergency aid and the development of long-term structures of economic promotion (Chapter 4.10 by Wulf Goretzky).
GTZ projects cover various sectors (industry and trade, agriculture and food industry, tourism and other service sectors), encourage broad participation in the regional development process (Chapter 4.12 by Dr. Annegret Westphal and Dr. Petra Stremplat-Platte), support a new awareness of civil society that is emerging, and support City Twinnings by supplying experts from Development Co-operation (Chapter 5.4, Axel Mayer and Elke Breckner).

Other projects leave “visible” marks by adequately using local subsidies (Chapter 5.6, Steffen Mildner), address economic promotion from an entrepreneurial perspective (Chapter 5.7, Peter Welling) or give a detailed look at instruments that have been adapted to the particular situation (Chapter 5.8, Daniel Cosnita).

To improve the quality of life in rural economic areas it is essential to capacity building personnel so they can responsibly design regional development processes (Chapter 7.6 by Velislava Vatova et al, and Chapter 7.8 by Jens Adler et al).

It is essential to stimulate self-reliant conceptual work in the country itself, to motivate key personnel to cooperate on a long-term basis (Anica Palazzo, Chapter 7.1), to engage innovative thinkers as lead personalities (local champions) in the change process (Ulrich Höcker, Chapter 3.2), to develop a culture for promoting private sector initiatives and to jointly develop realistic proposals (Aleksandar Karaev, Chapter 4.4).

The example of cross-border cooperation of South-Eastern European associations shows that co-operation makes sense, despite competition for the markets (Andrea Maassen, Margret Will, Chapter 7.7).

Providing consultancy services on political issues, at political levels has been shown to lead to concrete results (Lührmann 2005), and international development co-operation makes important contributions to global structural policy and to the enhancement of framework conditions. Providing this level of expertise has assisted GTZ come closer to attaining its mandate, to enable a modern business region in South-Eastern Europe that is equipped for global competition and offers its people European living conditions and attractive prospects.

Recommended reading
1.2 Local/Regional Economic Development in South-Eastern Europe – Introduction to the Collection of Documents and a Brief Description of the Approaches

Margret Will, Dr. Rainer Neidhardt

The majority of the countries of South-Eastern Europe have successfully completed the process of political transformation, whereby the people, as the ruling power of their countries, confirm governments in office or initiate political change through democratic elections. In contrast, the transition from a planned to a market economy appears to be far more difficult to achieve than was originally anticipated. Most of the countries are still in economic recession, which has been evidenced, among other things, by high rates of unemployment and inflation, greatly expanded trade and balance-of-payments deficits and increasing poverty.

Thus, economic development continues to be an enormous challenge for political authorities, business and civil-society representatives, and international development cooperation alike. Socially acceptable economic development in South-Eastern Europe is crucially important for sustainable political stability in the region.

The importance of regions for economic development

In a world of global economic interdependence, regions, with their natural resources, people and respective abilities and competencies, are increasingly competing with each other, especially with the increasing realization of the strategic importance of these potentials. As different regions have differing economic, social, human, ecological, and geographic resources, stakeholders at regional and local levels must link their efforts. Only by uniting the forces of politics, business and civil society will it be possible to identify real potentials, develop region-specific competitive profiles and turn strategic development approaches into sustainable economic development.

The goal of Local and Regional Economic Development in South-Eastern Europe, is to identify value-added potential in rural and urban regions or municipalities, and thereby to ensure employment and income and to create new jobs, while protecting natural resources in the interest of sustainable development.

It is therefore necessary to develop the relevant competencies. These range from; strategic business and regional management skills to organizational development, from the transfer of new technology to the training of specialists, and from new forms of communication and technology to business co-operation, including the co-ordination of production and processes and the networking of business, civil-society, administrative, and political actors with the corresponding moderation skills.

Networking members of private sector, civil-society and government serves to strategically unite the capacities and competencies found in the regions, in order to awaken the innovative power of the regions and stimulate the dynamism of economic development.

Local/regional economic development – definition of terms

In liberalized markets competitiveness is the key to economic development and thus to poverty reduction. Competitiveness, in turn, is dependent on smooth, mutually beneficial collaboration between efficient firms (micro-level), competent private sector and government services (meso-level), and supportive economic, legal, and political framework conditions (macro-level), embedded in the meta-level (which includes the socio-cultural and institutional structures and encompasses the ability of social groups to learn and adapt normative structures). Measures used in modern local/regional economic development operate on these four system levels, according to the principle of systemic competitiveness.

In the last few years, local/regional economic development has evolved far beyond the earlier conception of simply providing economic infrastructure and setting up industrial zones. Today, local and regional economic development encompasses an entire spectrum of instruments for tapping economic potential:

- From the identification of regional value-added potential and the development of regional development concepts to positioning in specific competence areas and location (site) marketing
- From business start-ups and advising of small and medium-sized enterprises (SMEs) to sector development concepts, technology transfers and the introduction of innovative technologies
- From opening up business contacts and promoting business co-operation to developing business networks in the form of clusters and value chains
- From improving the credit supply for small and medium-sized enterprises to the introduction of innovative financial instruments (e.g. micro credit, venture capital, and export credit insurance)

Parallel to this expanded range of instruments, the institutions responsible for local/regional economic development are also undergoing a process of differentiation. Roles, functions and responsibility for implementation are being redefined and reassigned in dialogue between government, private sector, and civil society members. New organizational forms of economic promotion are emerg-
GTZ’s task in local/regional economic development is to initiate these types of change processes, moderate networking processes, accompany organizational development, and support competency building, with the ultimate goal of contributing to the creation of sustainable, self-supporting structures.

Local/regional economic development – distinctive features in South-Eastern Europe

In view of the close economic and geographically strategic relations between Western Europe and the partner countries in South-Eastern Europe and given the common European tradition, the European Union (EU) has paved the way for intensive political and economic co-operation. However, accession eligibility will be measured by the fulfillment of the so-called Copenhagen Criteria, set by the European Council in 1993, as conditions for accession of Central and South-Eastern European countries to the EU. According to these criteria, the candidate country must have achieved stable institutions guaranteeing democracy and the rule of law, must have implemented the acquis communautaire (community patrimony of rights and obligations) and must have introduced a functioning market economy able to cope with competitive pressures within the EU.

The second chapter of this collection of documents will present the EU context for local/regional economic development in South-Eastern Europe and the EU promotion measures available in the framework of the EU Neighborhood Policy and EU policies for association and accession countries.

This collection of documents – purpose and target group

As explained above, local/regional economic development in South-Eastern Europe faces unique challenges. In view of these challenges this document has been developed using case studies from the field for application in the field, provides an overview of the broad range of services and innovative approaches used and records GTZ’s specific competence areas in local/regional economic development in South-Eastern Europe. The primary purpose of this collection of material is to assist colleagues in GTZ to familiarize themselves with this area for the first time, to provide ideas for their project work, or to assist them identify partners with whom to exchange information on concepts and instruments.

The following table provides an overview with brief descriptions of the major approaches of local/regional economic development.
### Local/regional economic development – short description of the approaches

<table>
<thead>
<tr>
<th>Goals</th>
<th>Application focus</th>
<th>Application in project cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local (Municipal)/Regional Economic Development Promotion (LRED)</strong>&lt;br&gt;Concept for local and regional economic development that focuses on implementing a multisectoral multistakeholder approach</td>
<td>Increasing income and employment with the broadest possible distribution <em>(pro poor growth)</em>. Et Region (<em>Europe of the Regions</em>) as main pillar/level of economic development in the EU.</td>
<td>- Program/project appraisal&lt;br&gt;- Program/project planning&lt;br&gt;- Program/project implementation</td>
</tr>
<tr>
<td><strong>Regional management (RM):</strong>&lt;br&gt;Conceptual and organizational framework for identifying and implementing visions/particular development opportunities of a (geographically and/or politically defined) region.</td>
<td>Regional focus, can concentrate on sectoral components during implementation.</td>
<td>- Project planning&lt;br&gt;- Project implementation&lt;br&gt;- Monitoring &amp; evaluation (M &amp; E)&lt;br&gt;- Proposals for individual projects</td>
</tr>
<tr>
<td><strong>Municipal economic development (MED):</strong>&lt;br&gt;Development approach for improving local governments’ planning and management capacity in business promotion including local economic units.</td>
<td>Strengthening of planning and steering capacity of local authorities in order to guarantee sustainable local economic development.</td>
<td>Implementation concept based on analytical preliminary work in the framework of project appraisal.</td>
</tr>
<tr>
<td><strong>Rural Economic and Enterprise Development (REED):</strong>&lt;br&gt;Analytical and planning framework for measures for rural economic development.</td>
<td>EEP; decentralization and regional development programs.</td>
<td>- Project/program identification&lt;br&gt;- Project/program planning&lt;br&gt;- M &amp; E and benchmarking</td>
</tr>
<tr>
<td><strong>Participatory Appraisal of Competitive Advantages (PACA):</strong>&lt;br&gt;Instrument for participatory analysis of the potentials and problems of local economic development, focused on the entrepreneurial point of view.</td>
<td>Implementing activities that promise short-term success on the basis of short participatory analyses of competitive potentials of a region or local government.</td>
<td>Primarily at the onset of implementation phases in regions for which no in-depth planning exists.</td>
</tr>
<tr>
<td><strong>Business Development Services (BDS):</strong>&lt;br&gt;Instrument for developing sustainable transsectoral and/or sector-specific service structures.</td>
<td>Strengthening competitiveness of small and medium-sized enterprises (SMEs) via access to demand-oriented, competent and sustainably financially viable company-related services.</td>
<td>- Project planning, Analysis of the offer and need for BDS as well as planning adequate interventions&lt;br&gt;- Project implementation, BDS as an implementation instrument</td>
</tr>
<tr>
<td><strong>Cluster approach and value chain approach:</strong>&lt;br&gt;Approaches for developing business networks for enhancing competitiveness of small and medium-sized enterprises by using existing synergy potentials.</td>
<td>Both approaches can be used independently but are typical components of projects and programs of EEP, LRED, and related project/program types such as RM or MED.</td>
<td>Approaches and instruments of cluster and value-chain promotion are used throughout the overall project cycle.</td>
</tr>
</tbody>
</table>
Focal points: Coordination between public and private sector; frequent systemic approach (micro, meso, and macrolevel) for developing promotional economic framework conditions (enabling environment); setting up business development services; promotion of locations and competitiveness.

- Project identification, creation of programs REED (Rural Economic and Enterprise Development), participatory intervention planning PACA (Participatory Appraisal of Competitive Advantages), implementation, process design, participatory forms: BDS, Cluster, value chains, local economic development, regional management.

WIRAM Online Library: [www2.gtz.de/wbf/library/topics-en.asp](http://www2.gtz.de/wbf/library/topics-en.asp)

WIRAM-instruments (Toolkit): [www.wiram.de/toolkit](http://www.wiram.de/toolkit)

GTZ products (Local/Regional Economic Development Promotion, market-oriented agricultural and food industry): [https://intranet.gtz.de/produkte](https://intranet.gtz.de/produkte)

REED: [www2.gtz.de/agro-based-development](http://www2.gtz.de/agro-based-development)

Focal points: Coordination of public and private actors with the aim of coordinated use of regional/local resources; development of agencies for mobilizing regional and sectoral innovation potentials and for eliciting and distributing funding from various promotion programs; monitoring and evaluation (M & E).

- Planning: REED
- Implementation planning: includes PACA
- Implementation: LRED, BDS, clusters and value chains.

GTZ products (Governance and Regionalization): [https://intranet.gtz.de/produkte](https://intranet.gtz.de/produkte)

EUREGIA (info letter): [www.euregia.org](http://www.euregia.org)

Focal points: Orientation toward experiences in the EU; designing a climate conducive to business and investment (enabling environment) on the local level; designing conducive framework conditions on regional and national levels; positioning local governments as a designing actor of a conducive business and investment climate on the local level.

- Planning: REED
- Implementation planning: includes PACA
- Implementation: BDS, clusters, and value chains.

Sector project WIRAM: [www.wiram.de/regionale_wirtschaft/regionale_wirtschaft.htm](http://www.wiram.de/regionale_wirtschaft/regionale_wirtschaft.htm)

GTZ product (Local Economic Development): [https://intranet.gtz.de/produkte](https://intranet.gtz.de/produkte)

Focal points: Analysis grid for prioritizing and identifying fields of intervention in the (a) political and institutional environment, (b) infrastructure, services, and markets, (c) entrepreneurial competence, and (d) involvement and networking of stakeholders.

- Regional approaches: EDEP, LRED, RM
- Operationalization: LRED, BDS, clusters and value chains

GTZ product (Market-oriented agricultural and food industry, REED): [www2.gtz.de/agro-based-development und](http://www2.gtz.de/agro-based-development und) [https://intranet.gtz.de/produkte](https://intranet.gtz.de/produkte)


Focal points: Initiation of local economic development and stimulation of participatory learning processes; identification of potentials whose development promises additional income and employment in the short term; prioritization of quick win activities.

- Integration in: EDEP, RM, and LRED
- Contribution to: LRED, BDS, Cluster and value chains

Participatory Appraisal of Competitive Advantages (PACA): [www.paca-online.de](http://www.paca-online.de)

Focal points: Promotion of the institutional and human resources capacities of the providers of company-related services (BDS – Business Development Services); development of a market for BDS by enhancing the market orientation of the range of services, stimulating the demand for company-related services and improvement of framework conditions.

- In the framework of larger EDEP, LRED, and RM projects as a component
- Complementary instrument in cluster and value chain promotion

Module in GTZ Product SME Promotion Policy: [https://intranet.gtz.de/produkte](https://intranet.gtz.de/produkte)

Focal points: Promoting strategic groups of SMEs with network positions that are chiefly not in direct competition (a) primarily on the same production/marketing level (cluster approach) or (b) primarily on sequential production/marketing levels (value chains); enhancement of coordination, cooperation, information exchange among each other as well as with other institutions in the environment (for example, BDS, financial service providers, research and development).

- Project identification and planning, creation of programs: DEP, REED
- Participatory intervention planning: PACA
- Implementation, process design, participatory forms: BDS, LRED, MED, RM

GTZ cluster-oriented promotion strategies: [www2.gtz.de/wbf/library/detail.asp?number=1391](http://www2.gtz.de/wbf/library/detail.asp?number=1391)

The EU Context for Local/Regional Economic Development in South-Eastern Europe
2.1 Local/Regional Economic Development in the Context of the EU Association and Accession Process

Ulrike Gantzer-Sommer

The unique features of South-Eastern Europe, described in this chapter, is the prospect of EU membership, which was proposed on June 21, 2003 by the European Council in its joint Final Declaration of the Summit in Thessaloniki, but which presupposes successful implementation of the relevant reforms.

The work of GTZ in South-Eastern Europe is increasingly characterized by the symbiosis between closer association with the European Union and the use of development policy instruments. Development co-operation is committed to the goals of European integration working together with poverty reduction and raising living standards to a European level. The latter is a long-term goal, full of complexities, but it is this vision underlies all of our project concepts.

Support for economic reform and the development of a competitive market economy (WiRAM) as well as for a sustainable economic development constitutes the main focus of German Technical Cooperation with South-Eastern Europe. The GTZ project portfolio has developed accordingly: economic development and employment promotion, technical advice on modernizing business law, development of cities and municipalities, development of land registries and cadastres and the reform of the vocational training system, which are all key areas and have been allocated a significant volume of financial resources. Many projects concentrate on promoting joint regional focus and are mutually reinforcing. The experiences described in the following chapters describe project approaches with a regional or local focus.

In South-Eastern Europe even the term or concept of a Region is new. During the period of planned economies there were only two major political decision-making and administrative levels: the Central State and the Municipalities. Real Regions in the EU sense exist only in exceptional cases, such as the autonomous province of Vojvodina in Serbia, which has its own regional parliament. The EU understands a Region as a territory, the population of which is characterized by a common ethnic, language, culture, or religion. The term “Europe of Regions” was coined to attempt to cultivate close contact between citizens and political decision making, and to decentralize administration, to strengthen competitiveness, and implement the basic principle of subsidiarity. In order to develop a parity in living conditions within the regions, and thus to better implement the concept of region identity, the EU created Structural Funds and other promotion instruments, in which cross-border co-opera-

tion plays a particularly important role (for example programs such as Cross Border or INTERREG). The EU is also asserting this basic European principle of regions and regional development in the ten new member states, and wants the countries of South-Eastern Europe to benefit from the positive experiences in this field. The formation and development of regions in SEE will play a large role in developing closer ties with the EU.

As a result of the focus on EU integration as well as increasing globalization, there are new, more active roles for the municipalities in the economic development of specific localities. Irrespective of differing constitutional characteristics, as can be seen by looking at the different models in Germany, France, or the non-EU country of Switzerland, a division of labor with respect to economic development has emerged between the various levels of national, regional and local governance in all developed countries.

Furthermore, new self-responsibility and economic-development capacities must be stimulated at both regional and local levels. The public/civil-society dialogue and the identification of actors with their new responsibilities play an essential role. The challenge is to moderate the planning, implementation and evaluation processes and then to communicate the experiences in the form of good practices.

The processes of transformation in the region have their own regional characteristics. Under the previous economic system businesses were often set up according to regional policy criteria, in order to ensure that employment was relatively equally distributed throughout the country. Thus little attention was paid to the criteria of competitiveness. Many investments were financed by loans taken out by the government. Ultimately this system of accumulated debt burden could no longer be financed. With market conditions already largely in place regional differences are now increasing. While several urban centers and regions demonstrate full employment and positive income development, less favorable localities are falling behind. During the recession phase of the transformation process agriculture provided employment and income for labor that was no longer required elsewhere. However without linking the agricultural/agro-industrial and non-agricultural value-added potential to regional and local development this is not sustainable solution in either the medium or long term.
As was found within the EU, the process of adjusting to globalization and new economic structures requires geographic mobility and flexibility from people. However reality is not so simple. With the increasing cost of living, despite still low incomes in South-Eastern Europe, many people survive only due to the houses they acquired at a low cost years before, either in prefabricated apartment blocks in the suburbs, or in small houses in the country. Only gradually is a market for affordable rental housing emerging, and still a person can rarely afford to move to the growth regions.

In light of all these issues what are the opportunities available to structurally weak regions in South-Eastern Europe? Where does GTZ begin its project work?

South-Eastern Europe has the advantage of a favorable location. The region is incorporated into the trans-European transportation routes, trade and border agreements are increasingly facilitating the transportation of goods and people, markets for selling goods within the region (with its 55 million people) are becoming more accessible, tourism (including the Adriatic Sea, the Black Sea, the Danube, ski areas, historical and cultural sites) offers a new source of income and create markets for domestic products, the Mostar Bridge, rebuilt after the recent war and recently declared a UNESCO World Heritage Site, is becoming a symbol of stability and growth in the region. Furthermore despite bitterly contested markets, the highly traditional wine industry has potential for development and modern sectors such as information technology, and even more so software development, build on earlier scientific capacity and transcend borders while old co-operation networks, such as those in the automotive industry (such as around the automotive center in Serbian Kragujevac) can be revived.

Information concerning, and experiences of, new economic development instruments can be exchanged, thanks to common historical backgrounds, the shared goals of European integration, and in some instances related languages. Successful experiences can be passed on and good practice guidelines developed, which is one of the basic ideas of this collection of documents. In line with the EU principle of cross-border and cross-country co-operation, the projects being implemented in the region on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) are promoting cross-border co-operation in South-Eastern Europe. The relevant BMZ division is presently considering introducing open regional funds, which would make cross-border and transnational co-operation even easier.

Recommended reading
Wissensspeicher GTZ-Intranet:
003 lokale und regionale Wirtschaftsförderung;
005 Dezentralisierung;
036 Ländliche Regionalentwicklung;
037 Geschäfts- und Investitionsklima;
082 Integriertes Küstenzonenmanagement;
083 Rural Economic and Enterprise Development REED;
096 Regionalisierung;
106 Nachhaltige Industriestandorte;
und zahlreiche andere

Contact
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ulrike.gantzer-sommer@gtz.de
The countries of South-Eastern Europe (SEE) face a double challenge. They not only need to orient their policies toward the structural changes resulting from the transformation process that has taken place regionally, but as a result of their candidacy for membership of the European Union they are also required to meet standards stipulated by the EU.

The regions outside metropolitan areas have undergone massive structural changes. The majority of industrial production has collapsed and agricultural market production fallen dramatically. Survival by subsistence farming became widespread as alternatives for earning an income in the rural areas were increasingly scarce. The younger residents of these structurally weak regions migrated either to the cities or to other countries in the West. For a long time prospects for development were hard to see, especially for these agriculturally oriented regions, either in the political arena or by the affected inhabitants.

More than 850 million people throughout the world live in pitiful conditions, facing extreme poverty and constantly threatened by hunger. As part of the Millennium Development Goals (MDGs), the political leaders of the industrialised countries have committed themselves to cutting this number in half by 2015. In contrast to the general poverty line of US $ 1.00 per day, the World Bank has set the absolute poverty line for the region of Eastern Europe and the former Soviet Union at US $ 2.15 per day. This amount takes into account the additional basic needs for this region of heating and warm clothes. In addition, US $ 4.30 has been defined as threshold below which certain portions of the population could become impoverished in the case of economic downturns.

In its latest poverty report for Eastern Europe and the countries of the former Soviet Union, the World Bank has concluded that during the period from 1998 to 2003, more than 40 million people throughout the region moved above the stated absolute poverty line. Previously, 20% of the population was considered impoverished, whereas today 12% live below the poverty line. For South-Eastern Europe, the figures are between 4% and 24% of the population (see table), and a reduction in poverty can be observed in all of these countries. Despite this there are still more than 60 million people in Eastern Europe and the countries of the former Soviet Union living below the poverty level, and more than 150 million living on the verge of poverty. In South-Eastern Europe between 24% (Macedonia) and 71% (Albania) of the population are considered to be susceptible to poverty in times of economic crisis (see table).

<table>
<thead>
<tr>
<th>Year</th>
<th>Albania</th>
<th>Bosnia and Herzegovina</th>
<th>Bulgaria</th>
<th>Macedonia</th>
<th>Serbia and Montenegro</th>
<th>Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic environment</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Population (millions)</td>
<td>3,150</td>
<td>4,158</td>
<td>7,823</td>
<td>2,049</td>
<td>8,160</td>
<td>21,744</td>
</tr>
<tr>
<td>Annual growth in GDP (%)</td>
<td>5</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Main poverty indicators</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Poverty rate US $ 2.15/day</td>
<td>24</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Poverty rate US $ 4.30/day</td>
<td>71</td>
<td>35</td>
<td>33</td>
<td>24</td>
<td>42</td>
<td>58</td>
</tr>
<tr>
<td>Poverty profile: regional breakdown</td>
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<tr>
<td>Poverty contribution (%)</td>
<td></td>
<td></td>
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<td>60</td>
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<td>Rural areas</td>
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<td>40</td>
<td>40</td>
<td>29</td>
<td>54</td>
<td>73</td>
</tr>
</tbody>
</table>

1 = share of the population living below the poverty line (in percent)
2 = share (in percent) of each region in overall poverty (poverty structure)
Source: World Bank 2005
The primary reasons for the positive developments in poverty reduction are higher economic growth together with increases in actual earnings throughout the region, which follow on from many years of stagnation and negative development, even when compared to global standards. These economic developments benefit all levels of society, both the poor and those with higher incomes, as well as skilled and unskilled laborers. However, while new and more productive jobs have been created, there were not enough of them to replace those lost during the transition process.

The poverty profile not only varies among the individual countries of SEE, but also reveals substantial regional discrepancies within the countries. As shown in the table, the majority of those living below the absolute poverty line are in small and medium-sized towns and cities, or in rural areas. In contrast, the capitals are less, or minimally, affected by absolute poverty.

Economic growth and poverty reduction are closely connected. Economic development and employment promotion are key factors for poverty reduction in South-Eastern Europe. The EU association, as a driving force for strengthening competitiveness and integrating product and factor markets, will open up new opportunities.

With regard to poverty reduction, three areas are of particular importance:

- Reforms in the corporate sector and the creation of an enabling business environment, with particular emphasis on encouraging the founding and growth of new companies
- Stronger growth and higher productivity in the agricultural sector, which continues to be the primary economic activity in many rural regions, in order to allow more competitive operating structures to emerge
- The creation of non-agricultural income alternatives based on investments in manufacturing, trade, craftsmanship, and tourism, designed to reduce poverty in rural areas on a long-term basis

**Action Areas for German Development Co-operation in South-Eastern Europe**

At national level, political consultations are needed in order to draw up national policies that promote structurally weak regions. It is essential to develop EU-oriented promotion instruments in the accession process. Since 2001, there has been continual political dialogue for regional rural development between the countries of South-Eastern Europe. International forums with high-ranking representatives from South-Eastern Europe and the EU take place on an annual basis. A permanent task force consisting of representatives of seven Stability Pact countries for regional rural development was established in May 2005. Formulating and implementing a regional rural development policy is a high-priority area of policy formulation in all SEE countries. Promoting cross-border cooperation in crisis regions such as the Balkans is a way to securing peace.

On the regional and local level it is essential to design developmental approaches that can then be implemented in structurally weak regions. One priority area is the qualification of regional and local personnel for planning, implementation, and impact analysis of regional rural development strategies. Policies designed for local/regional economic development within the context of decentralization processes, which include the participation of all actors, are essential for the success of sustainable poverty reduction in the countries of South-Eastern Europe.

**Recommended reading**


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EU structural policy: the instruments with which to strengthen territorial cohesion

The EU invests about one-third of its budget in strengthening territorial cohesion. In the budget period 2000–2006 EUR 213 billion has been made available for the EU Structural and Cohesion Fund. For the subsequent finance period, 2007–2013, EUR 336.1 billion has been proposed for structural policy, in order to allow for the expansion to 25 member states. A differentiated system of promotional policies for economic and social cohesion seeks to balance the development of the entire territory and to reduce structural differences between regions in the EU.

Territorial cohesion has various dimensions. At the social level, the most striking regional disparities lie in the distribution of income and unemployment, both of which are very serious problems in most EU accession countries. The risk of living in poverty varies according to country and type of household. Policies that promote territorial cohesion attempt to balance the attractiveness of the economic centers with peripheral areas, through strengthening economic activities and labour markets in the periphery, and thus encourage more balanced and harmonious development in the EU. Starting in 2007 the Cohesion Policy will concentrate primarily on key economic development issues in the EU, particularly on the promotion of marginal economic regions.

In order for the Structural and Cohesion Funds to achieve these goals, the measures financed by these funds are based on the principle of complementing corresponding national promotion programs. They are designed and implemented in close co-operation between the Commission, the member states and the implementing institutions, and the principle of co-financing applies to all activities. All programs are also established following the principle of partnership whereby the relevant economic and social partners are granted intensive participatory rights in the design of promotion policies. Furthermore continual monitoring of expenditures and multiple evaluations during the entire duration of programs guarantee that structural-policy projects demonstrate a high degree of sustainability.

The Structural and Cohesion Funds cannot be employed unless the member states have a complex institutional system to administer fund resources. The new member states and the EU accession candidates in South-Eastern Europe have been creating these administrative structures for several years now, as part of their preparations for EU membership. On behalf of the German Federal Government and the European Commission GTZ is supporting this ongoing process of institution building at all administration levels, both in the new member states and in the EU candidate countries. In preparation for the allocation of funds a planning process that both satisfies EU regional policy requirements for participation and meets high monitoring and evaluation standards must be carried out. In the implementation of these projects member states are strongly urged to ensure the correct, efficient and effective use of funds, by complying with the regulations, particularly those concerning eligibility of expenditures for subsidies and financial control and revision.

EU promotion of regional development for countries without current accession prospects

Even in the South-Eastern European countries to which the EU has not yet offered accession prospects the process of European unification has had an impact on regional economic development.

Activities of both the European Council and the EU are designed to create decentralized and participatory administrative structures in order to stimulate and advance regional development processes. Within the framework of the European Council forty-five national regional planning ministers have been brought together to form a European Conference of Ministers Responsible for Regional Planning (CEMAT). CEMAT is endeavoring to build a consensus regarding uniform regional planning principles, as the basis for the respective national regional development plans. The EU has been supporting the countries of SEE, since 2001, through the CARDS Program (Community Assistance for Reconstruction, Development and Stabilization, in Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and Former Yugoslav Republic of Macedonia). In the area of regional policy the CARDS program also aims to establish the regional policy principles agreed upon in the EU, in those partner countries that are CARDS members. Sustainable development processes and regional integration are to be the prime focus of work financed by regional development funds.

The European Commission has outlined its strategy for the promotion of neighboring regions in the newly formulated European Neighborhood Policy. One pillar of this policy is the regional structural policy, the European Neighborhood and Partnership Instrument (ENPI), planned to begin in 2007, which promotes the initiation of sustainable regional development processes. A substantial part of the planned ENPI budget, approximately EUR 15.3 billion for the years 2007–2013, will be used for regional policy.
GTZ also supports regional development measures in these EU neighbor countries. Activities encompass the national policy level as well as regional and local administrative institutions, private firms and work with non-governmental organizations as target groups and as intermediaries. At the center of all these activities is the capacity development of administrative institutions to enable them to formulate and implement regional policy and design concrete concepts to support decentralized and sustainable economic development.

Transnational co-operation as a link between the regions of old EU members, new EU countries and EU neighbors

With the development of regional structural policy instruments, promotion of greater interaction between sub-national units was encouraged. Transnational and inter-regional co-operation facilitates integration between new and old EU members. Starting in 2007 the European Association for Cross-border Co-operation will strengthen such processes within the EU, and will replace the EU’s relatively small INTERREG Program. Cross-border co-operation is also relevant for the countries that will not become EU members. Particularly in South-Eastern Europe close integration between members and non-members of the EU is essential for long-term economic development.

In addition to purely national and regional measures in South-Eastern Europe, the EU Neighborhood instrument will offer greater opportunities to participate in transnational co-operation, and thereby promote long-term integration at both economic and social levels. Germany, as the most important economic partner of the SEE countries, is also genuinely interested in further expanding transnational co-operation with partners in this region.

Thus GTZ supports co-operation between administrative institutions, through cross-border partnerships, in a wide range of sectors. GTZ initiated INTERREG projects to assist with regional economic integration in the areas of energy markets and the modernization of trans-European railway connections. In the area of administrative structure, GTZ is involved in cross-border co-operation to improve networking between regional planning and regional economic development, and is involved in the development of joint concepts for tourism in all countries through which the River Danube flows.

Recommended reading
CEMAT
www.coe.int/T/E/Cultural_Co-operation/Environment/CEMAT
European Neighborhood Policy
http://europa.eu.int/comm/world/enp/overview_en.htm
Proposed regulations for the ENPI

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Efficient administration and transparent structures are an essential basis for economic and social progress as well as regional growth and cohesion. Administrative partnership, or Twinning, has evolved as an important method of administering EU funds made available through various regional policy instruments, such as the work to promote regional economic development through economic integration of regions within the EU and with their neighbors, funded by Structural and Cohesion Funds.

The EU accession and association process of the South-Eastern European countries requires the creation of coherent institutional structures to administer these funds. This process of institution building is supported by the European Commission in its work to develop administrative partnerships, and is based on the principle that if similar administrative institutions are paired the twinning partners in old EU member states can assist to adjust the institutional landscape of new EU member states, and association and accession countries, to the requirements of the European Union.

The creation of an effective, transparent, and responsible Structural Fund administration is of the utmost importance, which ultimately guarantees that funds from the Commission are not withheld due to misallocated spending. Only in this way can sustainable cohesion effects be ensured.

On behalf of the German Government and the European Commission GTZ has, in recent years, been intensively involved in the preparation and implementation of partnerships between German and Central and Eastern European administrations. The objectives of GTZ activities have been to competently prepare the projects of the various administrations to conform to EU requirements, and to manage their implementation. With respect to regional policy issues, GTZ is supporting the successful realization of partnerships between government institutions. In Germany, at Federal level, the Federal Ministries of Economics and Labour (BMWA) and of Finance (BMF) are primarily responsible for twinning. Under contract to them, GTZ supports these ministries in their regional policy administration partnerships. In addition East German state authorities, with their experience in managing transition, have been particularly active with GTZ, in these partnerships.

**Project preparation**
A key factor in the success of these EU funded projects is comprehensive preparation. Thus, for example, GTZ helped the BMWA to build up partnerships with two regional development agencies, initiated by the Commissions in Bucharest and in Alba Iulia. The project contract stipulated that the German support must provide the Romanian partner with a complete overview of the promotion instruments of EU regional policy, and that concrete projects and programs be prepared in line with EU criteria. In addition to the identification of two long-term advisors from Brandenburg and Saxony, as well as short-term experts from the federal ministries and state administrations, GTZ helped the German and Romanian partners to define achievable objectives. Intended by-products of the partnership were a balance between the interests of the national and regional administrations in the allocation of funds, strengthened decentralized structures and non-governmental organizations and positive impacts on democratization.

**Project implementation**
During the process of partnership implementation GTZ supports and advises all administrative institutions involved in the projects, both in Germany and in the partner countries. The focus of GTZ’s activities is in assisting the regional policy partnerships with organizational details, so they can concentrate on substantive co-operation. Furthermore GTZ provides assistance in the spheres of advisory services and training the institutions in the partner country. Several examples are mentioned below.

**Programming funds for sustainable development projects**: GTZ advisors are helping the programs to set priorities for the allocation of their funds. In Bulgaria, the Ministry of Economy is being advised by experts on how to develop concrete and targeted measures and activities, in their operational programs, in order to improve the competitiveness of the Bulgarian economy within an expanded EU. By contrast, in Slovenia the work concentrated on the development of uniform program planning documents with the prime objective of separating institutional responsibilities for the funds, in order to create clear and functional areas of responsibility within Slovenia, that relate to the relevant EU institutions.

**Implementation structures at program and project levels**: In Poland, a long-term GTZ expert worked alongside the Polish Ministry of Economy, the central administrative authority for the European Regional Development Fund (ERDF), providing advisory services and training in the voivodships, or regional administrations. These are the bodies primarily responsible for both project planning and implementation, under the ERDF. In several South-East-
ern European partner countries GTZ experts supported the establishing of monitoring and evaluation structures for the funds, in line with EU requirements. As a partner institution of the Bulgarian Labor Ministry, GTZ organized the deployment of experts from Bremen, North Rhine-Westphalia, several East German states and other European countries, to familiarize the Bulgarian partners with the various models of administrative structures within the EU. Furthermore GTZ offered training in the preparation of sustainable labor-market projects, specific application procedures and efficient project implementation, at both the regional and local levels.

**Efficient use of funds and financial controlling:** GTZ experts provided advice on efficient financial management and effective financial control to the Structural Fund projects in Bulgaria, Poland, Slovenia and Hungary. This advice emphasized corruption prevention and how to meet specific regulations required to qualify for assistance through the EU subsidy policy. Projects of this nature, that relate to EU financial control issues, are usually implemented by the German Federal Ministry of Finance, not GTZ.

**Outlook**

Administration partnerships on regional policy issues are also operating in countries to which the EU has not yet opened the door to accession. Particularly with the newly formulated Neighborhood Policy for the regions bordering the EU, the EU is relying on the instruments developed under the regional structural policy programs. GTZ on behalf of both the German Government and the European Commission, is continuing to offer government advisory services in order to support integration between the old EU countries and the countries of Central and Eastern Europe that have recently joined the EU, or will do so in the future.

GTZ promotes co-operation between administrative institutions in transnational cooperation programs, through which regional policy concepts are further developed and improved. Examples are the GTZ initiated INTEREG projects, in the areas of regional energy markets, the modernization of trans-European railway connections and their regional economic links. It is a logical step to include partners from the regions bordering the EU in these transnational partnerships.

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**Recommended reading**

- Regional Policy – Inforegio (structural/cohesion policy)
- The European Regional Development Fund – ERDF
- Twinning – EU
- Twinning – GTZ

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3 Local/Regional Economic Development – Success Stories in the EU and Germany
As already described in the previous chapters, the Structural and Cohesion Funds are the central financing instruments of EU regional policy, considered essential to reduce the development gap between different regions and between member states, and thus to strengthen economic, social and territorial cohesion. In the budget period 2000–2006 the Structural Fund allocation is EUR 195 billion and the Cohesion Funds EUR 18 billion. The responsible and efficient use of these funds is one of the key tasks of each recipient country.

Project and objective
The objective of the twinning project “Setting up a Coherent System for the Structural and Cohesion Funds in Slovenia, for the Managing Authority and the European Regional Development Fund (ERDF) Measures Implementation,” was to strengthen the Slovenian institutions, to ensure reliable administration of the Structural and Cohesion Funds is guaranteed. In order to achieve this goal the EU provided around EUR 1.7 million, from PHARE funds, for a Europe-wide 20-month government-agency partnership (twinning). Supported by the Federal Ministry of Economics and Labor (BMWA), the project was headed by a representative of the Berlin Department for Economics, Labor and Women's Issues. The Regional Development Department of the Portuguese Ministry of Finance also participated as a consortium partner. GTZ, as the central institution managing each project phase during the entire project term, was commissioned to be the link between the project and EU agencies, and also to provide experts to advise on structural policy and regional development. The Berlin Senate provided both of these experts.

Project components
The partners chose a three-tiered approach. Firstly, the project helped the Government Office for Structural Policy and Regional Development (GOSP) to establish itself as the national administrative agency for Structural Funds, and to create the necessary coherent administrative system. This was to enable the Government Office to independently carry out national co-ordination and maintain control of the Structural Funds.

The second level was for the Berlin Senate Department and GTZ to assist the Slovenian Ministry of the Economy to develop structures that enabled the Ministry staff to administer the funds from the ERDF and to prepare the ERDF-funded projects.

The third component was also directed towards the Office for Structural Policy and Regional Development, this time with the objective of providing administrative and control systems for the use of resources from the Cohesion Funds.

Experts and responsibilities
On the first level, the activities of both long and short-term experts included: preparing guidelines and manuals for the participating national, regional and local administrative units; collaborating on the standardized program planning document and drawing up criteria for project selection in accordance with the program complement. In addition, responsibilities within the relevant agencies were worked out and distributed, and guidelines for a monitoring committee were established. The GOSP personnel were trained by EU experts by a variety of methods, including workshops, internships and study trips.

In the second project component the primary focus was the division of labor among Slovenian government agencies. The focus was the preparation of a series of project proposals for four ERDF measures, their selection, evaluation and implementation. The technical experts prepared guidelines, routing slips and check lists for the Slovenian partners, to prevent common mistakes in the application process, and study trips were used to give Slovenian civil servants an understanding of how German government agencies carry out ERDF programs. Other activities concentrated on the flow of information, standardized reporting procedures and the financial management of ERDF funds.

The third project component dealt primarily with nationally important infrastructure projects. Thus legal issues surrounding the awarding of contracts were addressed, with special emphasis on proven procedures. Partners were then able to take over these procedures with few changes. Slovenian civil servants gathered additional practical information for project implementation during study trips to Portugal and Germany.

Impact
The Slovenian-German-Portuguese Twinning was very successful. Slovenia set up a complete institutional administration for Structural Funds in line with EU standards, which by the end of the project was self-supporting and independent. This meant that responsibilities were distributed within the Office for Structural Policy and Regional Development, corresponding agencies were set up and workflow processes were developed.
The experts deployed from the old EU member countries enabled the staff members of the Slovenian partner administrations to build up, sustain and direct the management and co-ordination structures for program planning, implementation, evaluation, monitoring and financial controlling. A further success of the project was to develop guidelines for documentation in the individual agencies, together with official regulations and reporting models for internal distribution of tasks. One of the key factors in the achievement of the objectives in all project phases was the high competency levels of the Slovenian civil servants, who requested and employed the German and Portuguese experts in accordance with their specific needs.

Recommended reading
Government Office for Structural Policy and Regional Development of the Republic of Slovenia (GOSP)
www.sigov.si/svlr/eng.html

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3.2 Local/Regional Economic Development (LRED) – Short Description of the Approach Using the Example of Schwäbisch Hall

Ulrich Höcker

Local/Regional Economic Development (LRED) is a program that works to promote and improve the efficiency of economic areas, particularly working with the private sector, to prepare them for competition between localities, and to create permanent jobs. Central to the program is to enable local and regional actors to identify and implement, by way of social and political consensus, economic development and employment promotion initiatives. Local initiators learn to design strategies to meet the defined objectives, through analysis of an areas potentials and deficits, and in dialogue with stakeholders in their community, district or region. Key qualifications of local initiators are the ability to create dialogue and co-ordination platforms and to moderate decision-making processes.

**Project implementation**

A broad range of proven approaches and instruments from the areas of private sector promotion, rural development and regional, municipal and urban development are available for the implementation of strategies for local/regional development identified through the LRED processes. In the projects that it carries out on behalf of BMZ, GTZ does not follow a set format, but develops demand-driven approaches that are oriented toward the following principles, among others:

**Division of labor between the public and private sectors:** the local and regional administrations make their contribution to favorable framework conditions for private sector activity. The private sector articulates its interests and works to create income and employment. Co-operation occurs in such a way that market mechanisms and initiatives are meaningfully linked, and active development and location strategy processes arise. The moderation of these processes plays an important role.

**Activation of private sector forces and initiatives:** LRED depends on the mobilization of private sector resources through involving the business sector in a sustainable and profit-oriented manner, for development of the region. Thus, for example, Public-Private Partnerships (PPP) should play an increasing role in co-operation projects between public administrations and the private sector to expand municipal policy options, particularly where public finances are limited.

**Incorporating the economic, political, social and environmental dimensions of development:** Local/regional economic development should also integrate poor population groups into the active production and growth processes. Broad-based employment is achieved primarily through an employment-oriented focus on sectors and locations, which leads to the functional integration of marginalized and dominant economic areas. Policies that create equal opportunities need to be strengthened in order to secure these processes.

**Promoting competitiveness through competition:** Regional economic development is linked to competition between the regions. Taking into account cross-regional interdependencies and the relative importance of the different regions of a country, each of the regions is assisted to develop their own profile.

**Creation of a system of incentives:** Subsidies of public and private efforts must not necessarily be excluded, however they must be employed in accordance with the principle of subsidiarity, so must be time limited, and should have the least possible negative impact on economic efficiency. Subsidies should always be designed as incentives to stimulate efforts by the recipients. Initial public sector inputs are sometimes needed, for example to develop infrastructure, in order to mobilize regional resources.

**Participatory advice** is at the heart of the methodology, to create transparency in decision-making processes and identifying stakeholders with the objectives and activities, to release energy for the implementation processes. The participation of various social stakeholders in all critical decisions regarding the process of regional economic promotion is a profitable investment in future successes. When necessary, German advisers support local/regional actors in identification, organization/planning, motivation, moderation, management and implementation.

**Impact**

The existing local/regional economic potential is specifically identified and activated in order to increase the competitiveness of selected locations and economic zones. Public-private collaboration mechanisms at the local/regional level to prepare economic development strategies for specific locations ensure effective and sustainable implementation of these strategies, and strengthen the efficiency of sub-national governance. As a result, new opportunities arise for employment, and increased incomes for the populations of these regions or locations, which, in turn improves the financial basis of local/regional governments.

**Lessons learned**

Some interesting lessons were obtained, about local/regional economic development, from the example of
Schwäbisch Hall in Germany. In, or even before the mid-1990s, competitive disadvantages and basic structural problems in the region became apparent. Thus regional stakeholders agreed to re-orient their regional development and economic promotion. In 1997 a study was commissioned to analyze the economic prospects of the region, and formulate recommendations for innovative ways to promote economic development. The study concluded that growth prospects were fundamentally positive, due to a relatively balanced and stable industrial base, but that essential structural adjustments to the economic location, and the framework conditions that influenced it, were necessary.

As a result a new concept was drawn up for regional economic development, which was primarily intended to improve the understanding and trust between firms and regional stakeholders, and thus create the basis for more intense co-operation. It included the following core activities:

- Provision of economic support was designed to be more transparent, efficient, and pro-business, for example through addressing the businesses, creating roundtable discussions and producing newsletters.
- Exchanges between firms and relevant regional stakeholders was promoted and intensified through the organization of both intra- and inter-sector focus groups, the creation of an internet-based business database and other methods.
- Entire business-related administrations were simplified, and co-operation and information exchange were institutionalized.

Today regional economic development in Schwäbisch Hall is focused primarily on initiating, deepening, and expanding networks on various levels, such as between firms and promotion institutions, between the business sector and research institutes, between various municipalities and higher administrative levels. The chief objectives are to stimulate business co-operation and provide comprehensive, demand-oriented business development services. The centerpiece is the Haus der Wirtschaft, or Business House, which is a one-stop shop, containing a whole series of key business development service providers and associations (e.g. The Chamber of Commerce and Industry (IHK), trade associations, the Schwäbisch Hall Technology Center), as well as offices and services for business start-ups.

Recommendations
On the basis of project experience and the current academic discussion on competitive-oriented approaches to economic development and regional locational policy, the following recommendations for the design of approaches to local/regional economic development can be made:

**Public-private dialogue**: The central theme of an LRED project is often that of overcoming differences between public and private stakeholders. Once the various parties are willing to engage in dialogue, a region can use its own and external resources and capacities, to focus on promoting the local economy and in turn creating employment.

Creating and supporting forums between the public and private sectors has proven to be an effective instrument with which to stimulate dialogue between the two groups. Many projects have had a positive impact through initially focusing on the practical problems facing these firms, through these forums, and only later focusing on greater collaboration between the public and private sectors and on strategy development. Attention should also be given to relatively rapidly implemented and highly visible issues (quick wins), and to whether problems can actually be solved by the participating stakeholders (no mega-problems).

**Conditions for LRED approaches**: LRED approaches require demanding preconditions, an issue that is frequently raised, and given the differing origins of the projects here, it is particularly important to mention:

- There needs to be political will and commitment from the local/regional government agencies to promote the local economy, and a willingness by the private sector to work together, and with other stakeholders. There also needs to be a common perception of the problematic pressures.
- There has to be capacity to act at the local level, the existence of preliminary planning and initiatives, a local budget and acceptance of and experience with participatory approaches.
- The existence of a private sector, minimum constituency, economic potential (not only subsistence level), a support system and a minimum number of institutions.

**Leading figures**: LRED initiatives need supporters. These are often charismatic individuals, “local champions”, who keep the implementation of action plans and the LRED processes moving. In addition to their support, it is important that private sector participants are prepared for the process of a participatory LRED, so that it is not borne by only a few individual businesspersons and thereby lacks broad-based effectiveness.

**Sector approaches**: In projects supporting clusters and value chains, sector strategies are more often supported than regional strategies. The business network then develops a sector-specific lobbying function, which plays an important role in the design of specific sector or employment policies.
Structure formation: If possible, LRED approaches need to be embedded in larger economic policy strategies in order to achieve structural impacts. However it is also important that economic development instruments and political framework conditions be supplemented and adjusted through feedback from implementation experiences.

Approach: LRED processes require the right sequencing. It is important to carefully plan entry into the region, the consolidation, moderation and support of public-private forums, seminar work and working groups involving stakeholders, the formulation of action plans, strategies, or tasks for the various initiatives, as well as to support stakeholders during implementation.

Recommended reading

Product descriptions:
LRWF WIRAM Website: http://www.wiram.de
LED Toolkit: http://www.wiram.de/Toolkit/index.html

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3.3 The Region of the Future – Urban Regional Organizational Structures in the Region of Hannover

Eike Ulrich Vater

The Region of Hannover as an urban-regional administrative authority

In November 2001, the Region of Hannover was incorporated as a Public Administrative Unit, after a law to establish the Region of Hannover was passed by the State Parliament of Lower Saxony, on May 16\textsuperscript{th} 2001.

This is the first time, in Germany, that regional and municipal development have been linked, and it opens up unique prospects. A common regional policy and area of activity was created from the State Capital, Hannover, and its surrounding territory. As the legal successor to the former County of Hannover and the Association of Municipalities of Greater Hannover, the Region of Hannover as an urban-regional government unit, brings together all the essential tasks and social services of a regional administration authority. The regional reform in Hannover builds on an almost 40-year tradition of co-operation with a regional association. It is expected that the positive experiences here will lead to the development of similar urban-regional administrations in other parts of Germany.

The organization of the region essentially corresponds to that of a municipality in Lower Saxony. The central body

Map of the Region of Hannover

www.region-hannover.de

With around 1.2 million residents, over 500,000 jobs, per capita gross domestic product of EUR 30,300 (2000), and a yearly per capita growth rate of 2.7\% (from 1992 to 2000), the region and the state capital of Hannover have a higher than average economic capacity – in comparison to all German cities and counties. City and regional authorities are convinced that there are good chances to improve the economic performance of the region.
is the Regional Assembly, whose 84 representatives are elected directly by the citizens. It is important to note that, contrary to initial reservations, the State Capital does not proportionally dominate the Regional Assembly; rather, elected politicians from other cities and municipalities form the majority. The region's president is directly elected by its citizens to head the regional administration.

Tasks and responsibilities
The concrete tasks of the Region of Hannover are listed in §§ 8 ff. of the Regional Law. In general the Region has assumed all tasks that were previously performed by the Association of Municipalities. Thus the tasks and responsibilities of the Region of Hannover are far more extensive than those of other regional institutions in large German urban regions.

Among other things the Region of Hannover is responsible for all vocational schools, special-education schools and social assistance programs throughout the entire region. The regional contribution for these services is jointly financed by all municipalities, whereas the operational costs are borne primarily by the cities and local governments. The Region is also responsible for public transportation and regional planning, as it is the lowest level Land and Permit Authority for the land-use plan of all 21 cities and municipalities. The Regional Law gave the Region and no longer central government, the responsibility for preparing regional development concepts, its own economic development and employment promotion.

The example of economic development and employment promotion
Economic prosperity is a key element for successful regional development. Overseeing the Region of Hannover's economic development is the Department of Economic Development and Employment Promotion. General regional economic development is divided into the following core areas:
- Business office/locational consulting
- Strategic locational development
- Locational marketing
- Employment promotion
- Women at work

Economic development and employment promotion in the Region of Hannover form the foundation for regional economic development. The subsidiaries of the region deal with special areas of concern:
- Hannoverimpuls GmbH (deals with focus sectors, business start-ups and regional growth and development)
- Tourismusverband Hannover Region e. V. (deals with tourism and promotion of the Region)
- Hannover Region Beschäftigungsgesellschaft (is concerned with employment promotion issues)
- Technologie-Centrum Hannover GmbH (the provision of services for business start-ups, technology consulting and infrastructure)
- Hannover Region Grundstücksgesellschaft GmbH & Co. KG (deals with land development issues)

Job creation and security are crucial to the economic development of the region. Two important co-operation projects between the State capital, Hannover, and the region have already made a significant contribution to the preservation and viability of the economy of the whole Region. The first is the creation of Sparkasse Hannover, through the merger of the Stadtsparkasse Hannover and the Kreissparkasse Hannover to produce the fifth largest savings bank in Germany, now under the auspices of the Region of Hannover. For small and medium-sized enterprises in the region this is an important step toward preserving public credit institutions.

The second important project is the Hannover Project, which was finally re-organized into a company, Hannoverimpuls GmbH, founded in 2003. This company implements concepts to strengthen the economic efficiency of the Region, the heart of which is the formation of clusters. Practically this means a concentration on five focus areas, in which the region already has a comparative competitive advantage, and in which future growth potential is expected. These five focus areas are:
- Automotive industry
- Laser technology
- Production technology
- Biomedical and medical technology
- Information/communication technology

There are also individual measures and cross-cutting projects concerned with issues such as business start-ups, growth, co-operation and the relocation of businesses into the region. Their function is to stimulate economic growth and provide greater employment in the Region of Hannover. A regional business office was created as the central co-ordination and contact agency. In consultation with the 21 municipalities of the Region, it has assumed the function of facilitating contact between authorities and the firms located in the Region, or those intending to move there, primarily through attempting to shorten permit procedures. A service centre for business start-ups was established at the office, providing both financial support and inexpensive office space for e-business, IT and media.

The comprehensive range of services offered through the economic promotion program, by the subsidiaries of Region of Hannover, has led to tension in its relationships with the Chambers of Industry and Commerce and of Trade. The establishing of regional economic development and employment creation programs has created parallel
structures, incurring high additional costs and frictional losses. Nevertheless it is apparent that there is a great deal of potential for regional economic development. The City of Hannover has lost approximately 26,000 jobs since 1960, however approximately 34,000 jobs have been created during that same period in the area that has now become the Region of Hannover. The growth sector of the future is expected to be the service industry. Approximately 125,000 jobs in manufacturing in the Region are still under threat, while the sectors providing greatest levels of employment in the City of Hannover, the health and social services, public administration and vehicle manufacturing sectors, are not engines of growth, but are undergoing a phase of structural change.

Transregional challenges for the Region of Hannover
The Region of Hannover faces great challenges both nationally and internationally. In order to continue to strengthen the foundations of economic development and employment promotion, the region is building on its international image as an EXPO city, and focusing on establishing itself as the metro-region of Hannover-Braunschweig-Göttingen. The Region of Hannover has been a key member of this planned metro-region co-operation from the outset, and sees its particular role as that of bringing together the big cities and counties. A further international point of contact has been the economic co-operation developing between the Region of Hannover and the Finnish region of Oulu, since June 2005. Four Finnish IT firms have indicated they are interested in relocating to this Region.

The Region of Hannover is a good example of the growing trend whereby efforts to solve political, economic, social and environmental problems at an internationally operational level, namely that of a region. Reformation processes within the Region are still very young, but early successes in the areas of economic development and national and international positioning of the region demonstrate that the concept of regionalization does produce results. This could mean the Region of Hannover acting as a national, or even international, pioneer for this concept in the future.

Recommended reading
Gesetz über die Region Hannover vom 05. Juni 2001 – Nds. GVBl. S. 348 – VORIS 20300 31
PLS Ramboll Management (2001): Die Organisationsstruktur und Steuerung der Region Hannover. Ergebnisbericht

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3.4 Commercial Land Management – the Example of Munich
Regina Kallmayer

Background
The changes in production, sourcing and sales conditions that have arisen as a result of the liberalization of international trade and the ensuing globalization of markets, have provided companies with an increased range of operating locations. The consequences of these on municipalities, cities and regions is that there is steadily increasing competition in all areas for business premises, to maintain and create jobs, to offer subsidies and on tax revenues.

In Germany, in the construction industry sales levels for industrial and commercial real estate almost match sales for housing construction. In the interest of socially acceptable and ecologically sustainable tapping of economic and culturally specific potentials, German municipalities face the challenge of planning and managing commercial land development in a long-term, sustainable manner. So far commercial land management has not been a priority for either local or regional development within Southeastern Europe. Until now, with the goal of integration into the European Union, the South-Eastern European municipalities, cities and regions were faced with the task of re-orienting their economic structures and achieving a sufficient level of competitiveness in their intra-community market.

The example of Munich, capital of Bavaria
The City of Munich has the third largest population in Germany, however it is a small and compact city, covering a relatively small area. Munich’s long established strategies for urban development and implementation-oriented land management have made it one of the cities in Europe with the largest range of experiences.

Since 1994 the administration has successfully included all stakeholders in strategic commercial land development. The goal is to create demand-oriented offers to meet the various needs of production, manufacturing and trade, as well as the so-called “future sectors” such as the high-tech industry, information, communications and financial services. The concept of “Perspective Munich” was created, which has become the symbol for the economic stimulation of the city, social equity and greater justice in the development of new areas. For these cases the city developed guidelines and model projects that included economic and social aspects in spatial development planning. From the outset these new concepts were taken into account for developing neighborhoods, city-friendly public transport and for networking with the surrounding municipalities, to develop an economic area that could be globally competitive.

Important action areas include: creating building rights, programs for commercial land development and providing the right of continuance for already existing buildings. Economic structural change and rising land prices have resulted in a decrease in commercial and industrial sites within the urban area, by approximately 27% in the past 15 years. However the continual need for commercial land means that the City of Munich has had to respond with adequate programs. The newly developed urban district “Messestadt Riem” demonstrates how developing a compatible mixture of commercial sites together with housing and parks, can produce lively, self-sufficient urban neighborhoods. Currently similar plans are being developed for 33 other locations, which will double the areas available within the city for office and administrative purposes.

Urban development planning entails substantial financial burdens for municipalities. The development of new residential and commercial areas requires the provision of economic infrastructure (roads, water and sewage, electric power etc), social infrastructure (kindergartens, schools, health care etc), as well as parks, or green areas. As a result of a steadily worsening financial situation in the early 1990s, the City of Munich was faced with the question of how it could continue to finance its future-oriented urban development program. The new laws regarding investment relief and land for housing then entitled the municipalities to draw on the planning beneficiaries concerning the co-financing of the promotion and securing of urban development goals.

For example, in 1994 the City of Munich developed the instrument “Socially equitable land use” (SoBon), which involved all planning beneficiaries sharing in the expenses, at an appropriate level.

“The procedure … is being used for urban development measures in the framework of urban land use planning that gives rise to expenses for the City of Munich and which lead to a substantial increase in the value of land.”
www.muenchen.de/print?depl=prod&oid=87925

After initial resistance by the residents and businesses, the detailed urban plans were passed, and new construction rights created, despite the city’s financial situation. This in turn, opened up new opportunities for the use of and profit from the increased value of the development sites for the planning beneficiaries, which justified their co-financing expenses.

The Lord Mayor, Christian Ude stated at a press conference: “The program Socially Equitable Land Use was a
major trigger to economically stimulate the city, for social equity and for more justice in the development of new settlement areas.” (March 26, 2004, www.muenchen.de/print?depl=prod&oid=88027)

The guidelines for the “Perspective Munich” concept are:

- Securing and promoting employment and economic prosperity, looking particularly at mixed-sector economic structures, innovative sectors and ecologically acceptable economic forms
- Improving co-operation within the region, to strengthen the competitiveness of the economic area, focusing on coordinated regional location policy and regional land management as preconditions for the competitiveness of the area
- Securing social peace through social municipal policy, looking in particular at affordable housing, gender orientation in urban development, the integration of foreign citizens and access to culture and education for all sectors of the population
- Strengthening neighborhoods through neighborhood development, by enhancing the quality of life in neighborhoods, looking at the local job market situation, local self-help potentials, social networks and neighborhood culture
- Developing community structures that are equipped to face future challenges through the intelligent use of existing land potentials. Key tasks are to increase housing within the city, secure and develop green areas, provide relief for the downtown areas and create urban variety in peri-urban areas
- Maintaining the Munich urban design and promoting new architecture by combining traditional and contemporary construction and design in the city, to create a blend of the historical cityscape with modern architecture and to enable citizens to identify with the city
- Preserving and enhancing mobility for all road-users without giving priority to traffic in all cases. Key concerns are public transportation, bike and pedestrian networks, improving the economic infrastructure by establishing centers for distributing goods and planned traffic regulation
- Maintaining municipal peace through creating security, social, educational and cultural policies. This entails introducing preventative measures especially in socially problematic areas, ensuring access to education, the promotion of cultural identities and introducing integration-promoting measures
- New media, which is the access to and participation in the development of an information and knowledge society, the acquisition of media competency as a basic qualification and the equipping of public schools with computers
- Developing Munich’s ecology, through focusing on the current status, development trends, goals, strategies and measures for ecologically sustainable activity with respect to environmental issues such as soil, water, air, flora and fauna, noise, energy and waste

The lead projects of “Perspective Munich” are:

- Concepts and model projects for adequate urban development
- Concepts and projects for city-friendly mobility, i.e. the new traffic development plan
- Urban and regional land management, incorporating land information and marketing, project management for infrastructure, free space and housing
- Neighborhood development and management which integrates economic, social and spatial renewal projects
- Concepts and projects for securing and developing free space – green belts in the city and networks of green areas
- Continued and increased public relations work to promote the city

The reality in South-Eastern Europe

Since the 1990s the sluggish privatization of formerly government-owned real estate and war-effected waves of migration left unclear legal and ownership structures, and have hindered the development of commercial land in South-Eastern Europe. In many countries of this region the demand for commercially and industrially usable real estate still remains low. As a result of association with Europe and the acquis communautaire, and supported by the German Technical Cooperation (GTZ/BMZ), cadastre and land register were introduced and developed, and municipal and regional planning methods were improved. Growing legal and planning security have increased investment confidence.

The supply of high-quality real estate is limited. Many commercial buildings are technically obsolete and in need of rehabilitation, and commercial land is frequently highly contaminated or not developed according to today’s standards. Current demand is primarily for real estate with a very specific profile, creating a growth of economic activity in some sectors and regions: On the Adriatic Coast the demands of the boom in the tourist trade have meant hotel real estate is experiencing a brisk trade with investment confidence. In cities such as Zagreb, the demand for high-class retail space far exceeds supply. A further increase in demand for suitable commercial real estate can be expected with regional free-trade agreements between SEE countries opening up a new market area with 55 million people, and, at least in Croatia, a comparatively high per-capita income. The countries of SEE, with lower salaries and corporation taxes (Serbia is the lowest at only 10%) than their EU neighbors, are attracting manufacturers.
The SEE municipalities and regions are thus at a crossroads in their development. It is important to maximize the advantages of their location as well as shape urban development through commercial land management. In order to do this the municipalities need to offer potential investors adequate infrastructure, attractive models for temporary financing or measures for investment promotion. At the same time, measures must be put in place to ensure that future profits earned by those investors locally will benefit the municipalities; in this way, municipalities will be able to develop sources of income that will expand the margin for local/regional economic development, in the mid- to long-term.

Spatial, social and ecologically acceptable solutions need to be found that both contribute to the economy and tap the potential of the region. The necessary institutional structures and technical and management competencies need to be developed. By networking cities and municipalities, regional commercial priority areas can be created that can impact an entire region. In view of the financial situation of cities and municipalities within SEE there is a need for innovative and viable funding concepts, which the City of Munich has been demonstrated to be feasible. Support is needed, particularly in the areas of location development, maintenance, consulting and marketing locations nationally and internationally.

**Initial experiences in the promotion of commercial land management**

On behalf of BMZ, the GTZ’s programs for “Economic development and employment promotion” (EDEP), and “Land management” support early initiatives for marketing SEE commercial land locations on the international stage.

In order to provide a general picture of the quality and price of commercial real estate compared with other international locations, the projects enabled SEE stakeholders to attend the international trade fair “EXPO Real”, an annual event in Munich. In the autumn of 2005 the fair brought together 18,000 visitors and over 1,400 exhibitors, from a total of 60 countries. Eastern Europe was well represented with over 80 exhibitors, mainly from the Czech Republic, Poland and the Russian Federation, while South-Eastern Europe was lagging behind with only 6 stands from Croatia, Bulgaria and Serbia. The “Vojvodina Investment Promotion Fund” presented over 4,000 hectares of commercial land at its stand, which was co-financed by BMZ/GTZ. The large number of inquiries by investors was an indication of the high potential of this part of Serbia, which is the country’s most developed region.

As EXPO Real was taking place, GTZ and the Association of German Chambers of Industry and Commerce (DIHK) were preparing a follow-up event, the 2004 South-Eastern Europe Economic Conference, with its focus on commercial land management. Several ministers and numerous representatives of municipalities from 8 SEE countries participated in the event and joined panel discussions, in order to gain insights into the market situation and marketing principles. Participants received information on the City of Munich’s strategies and instruments for commercial land management in “Perspective Munich”.

**Recommendations for supporting commercial land management**

As the example of Munich has shown approaches to future-oriented planning and management of commercial land development, for socially acceptable and ecologically sustainable harnessing of economic potentials are very complex. With rapidly growing competition between potential commercial locations, the cities and municipalities of SEE have to develop mid to long-term strategies for commercial land development and management, together with viable financing concepts. This can only succeed with equitable and balanced dialogue between administration, business and civil society. Experience has demonstrated that both the levels of interest in developing commercial locations in the area of SEE, and the need for consulting, are great.

In Montenegro and Kosovo the land management programs have begun to address this topic. A regional conference on commercial land management has been discussed, as has a visit to the international real estate fair, MIPIM, in Cannes, France. MIPIM offers an overview of all types of real estate, not just commercial, and enables visitors from SEE to gain better insights into the real estate market.

Vojvodina’s participation in EXPO Real demonstrated that, at least for small to medium-sized municipalities, inter-municipal or regional approaches are essential. Location marketing to the international market requires a combined effort, financing and competencies that are not available in the smaller local and regional authorities. A joint approach, also helps avoid competition between neighboring municipalities, which undermines the common good and which would only serve the businesses. The new locations in SEE should position themselves with a common regional profile in the “Competition of the Regions”, in order to attract the attention of potential investors.

**Recommended reading**

EXPO Real (international commercial real estate fair):
www.exporeal.net
MIPIM (international real estate fair):
www.mipim.com
Urban development planning Munich:
http://www.muenchen.de/Rathaus/plan/stadtentwicklung/37889/index.html

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Following the publication of *The Competitive Advantage of Nations* by Michael Porter in the early 1990s, the cluster concept developed into a significant instrument in structural and regional policy in Europe.

The concept appears to be simple and attractive; Regions can achieve a competitive advantage if businesses and business-related service providers combine their experience and strengths, and use them to improve their common competitive position against international competitors.

Cluster co-operation has several important advantages:

- Experiences of different businesses complement each other and enable the development of new products.
- By-products of clusters are new business start-ups, more jobs and stronger competition that in turn encourages development.
- Cluster success stimulates development in related sectors.
- Regions become more attractive in international locational competition.

However, cluster-oriented policy is primarily an instrument for further developing regional and entrepreneurial strengths and is not a quick fix to structural weaknesses. The necessary precondition for successful cluster development is a sufficient number of complementary and active firms that are competitive, at least on the European level.

Important elements of a cluster-oriented policy are:

- A clear focus on core competencies from which the cluster can derive a strong common identity
- A critical mass of firms with international standing
- Firms that will benefit from their participation in a cluster, from the outset, to ensure that these clusters are supported by the firms themselves
- That clusters need to be learning networks, with the motto “Learning from the best” as the guiding principle
- Clusters need appropriate, lean and professional service and management structures.
- Cluster development is the responsibility of small and excellent teams between firms and experts from research and development, with administrative and social partners.
- The public sector can substantially support clusters through appropriate impulse programs, partnerships and innovative service models, such as the one-stop shop concept, but it cannot build clusters.

### Clusters as a response to the challenges of globalization

In recent years, virtually no other economic concept has attracted as much attention as the relatively diffuse and unclear systems that are concealed, or assumed to be behind the notion of a cluster. This concept has attracted the attention of researchers, economic experts in a wide variety of public and semi-public institutions, consultants and businesses, and there are a seemingly infinite number of symposiums, seminars and publications on clusters. It is difficult to define the reason for this extraordinary interest in clusters. Do clusters deserve such levels of attention and what kind of dynamics do they possess?

Globalization and market deregulation have both increased competition throughout the world and have opened up to businesses opportunities in new and larger markets. Rapid technological changes and rising, or changing, requirements for quality and services by buyers require companies to increase their levels of innovation. To be successful under these complex and turbulent framework conditions, firms need to manufacture and market products that are both technologically advanced and competitively priced.

Businesses need to simultaneously optimize their operations and intensify their marketing efforts, requiring them to focus on their core competencies. This leads to division of labor, and more economic linkages, with several businesses becoming involved in the success of another, and increasingly complex value chains evolving between suppliers, partners and even including the final consumer.

Thus a significant factor in the success of a business is the regional density and quality of competing and complementary firms. Competition serves to mobilize entrepreneurial skills, essential for achieving and maintaining a leading position in the international arena. However, increasingly firms co-operate along the value chain, in order to make specialized and complementary contributions to produce a superior end product. Corporate success is increasingly becoming the performance of an “orchestra” in which many “soloists” mix together to make an unmistakable ensemble sound.

Successful clusters usually consist of a complementary mix of three types of firms:

- Multinational firms that are market and technological leaders,
- Firms that are suppliers, or complementary partners, located in a “dense cluster”, and
- Innovative and dynamic knowledge-based specialists.
These geographically concentrated developments, or Regional Innovation Systems (see below), enable regions become increasingly significant in creating environments that promote corporate co-operations, business start-ups and innovative service providers. Key regional priorities are to provide a modern infrastructure, in order that both knowledge and firms develop as complementary elements to aid cluster formation. Furthermore, the private sector needs to engage in the process as a partner, innovator and moderator of clusters. Regional administration bodies need to act as a service link in a value chain, to optimize their interfaces with businesses, manage their own responsibilities in a process-oriented manner and guarantee high levels of service orientation.

Clusters provide new opportunities for SMEs
Through networking the development of clusters offers SME-dominated economic structures the opportunity to market themselves internationally. Regions of Europe that were traditionally smaller, such as Northern Italy, Denmark, Wales and Northern Spain have significantly improved their international position through cluster formation. A good example is the formation of an automotive cluster in Austria. Fifteen years ago this cluster was formed in one of Austria’s weakest regions both developmentally and structurally, but as a result the region has prospered and Austria has become a net exporter of automotive products despite not having its own automotive production industry.

A further opportunity provided by clusters is to strengthen the marketing potential of SMEs and create new marketing opportunities by enabling joint marketing of goods and services.

Clusters enable new perspectives in regional policy
Cluster development offers a new framework for regional policy, in which regional strengths are combined with supra-regional systems, resulting in a new orientation toward economic policy and regional actors. Limitations of regional frameworks can be overcome, as well as region being allotted new tasks as a result of cluster-related resources and structures.

Clusters offer a new framework for the co-ordinated use of new and old economic policy instruments
Clusters open up new perspectives and opportunities for business development institutions, through developing links between businesses and supporting service providers. This means that various instruments that were conventionally being used in isolation, such as innovation promotion for individual firms and the development of regional impetus centers, can be developed more effectively in the context of clusters. Cluster projects are a positive locational factor and provide an incentive for firms that offer complementary products to a cluster core, to settle in that same region.

Is this euphoria regarding clusters merited?
Despite the advantages of, and potentials offered by, cluster development, their formation is a complex process, as some of the following issues highlight:

- Each cluster is unique and even the cluster definition itself varies according to the structural conditions of a country and those involved.
- Clusters cannot be copied and their high level of complexity and context dependency hinders replication.
- Clusters are not automatically successful or sustainable. There are numerous examples of clusters that have reached a point at which the dominance of large firms, or too narrow a specialization of firms and service providers, has caused their demise.
- The ability of economic policy to influence or maneuver clusters is limited. Problems such as the lack of necessary core business competencies or the absence of a suitable co-operation culture within a particular cluster cannot be eliminated through external interventions.
- Clusters are only viable if the firms involved are innovative and healthy, therefore this approach is not appropriate for rehabilitating or upgrading weak and unstable firms.
- Cluster development should bring about plausible innovation and structural benefits for the SMEs involved, and the beneficiaries of cluster formation should not only, or primarily, be the leading or large corporations. It is essential to prevent the SMEs from becoming dependent on one or a few large corporations, particularly in countries such as Austria and many of South-Eastern Europe, whose corporate landscape consists primarily of medium-sized enterprises.

“Clusterland” Austria
Since the mid-1990s the Austrian states have implemented cluster-oriented policies, initially reluctantly, but once the benefits had been felt, with great enthusiasm. This was pioneered by the state of Styria, which formed an automotive cluster. In just a few years Styria developed a dynamic network of leading automotive firms, suppliers and business-related innovation service providers. A high-profile core team served as the engine for its development, comprised of the three large automotive companies located in Graz, the Federation of Austrian Industry and the Styrian Business Promotion Agency (SFG). As a state-run organization the SFG handles the state’s entire economic development, operates an increasingly dense network of technology centers and is responsible for attracting new businesses. The cluster is also backed by the economic policies of Styria. With this solid foundation and a timely
boom in the automotive sector, the Styrian automotive
cluster quickly became a success story that attracted a
number of copycats.

In the second half of the 1990s all 9 federal states appeared
to be competing for the title of “Clusterland” (cluster
state), and by 2005 a total of 32 clusters had been estab-
lished. The winner is the federal state now carrying the
title “Clusterland Upper Austria”.

“Clusterland” Upper Austria
Since 1998, the state of Upper Austria has committed itself
to cluster-oriented economic and technological policies.
The policies were founded in both Strategic Programs of
Upper Austria of 2000+ and 2010, as well as the proceeds
from the privatization sale of the power energy utilities,
of more than EUR 80 million, added to the newly estab-
lished “Future Fund”.

The following eight clusters were set up in the relatively
short period of five years:

• An automotive cluster (AC)
• Drive technology (CDT)
• A plastics cluster (KC)
• A wood cluster (MHC)
• An eco-energy cluster (OEC)
• A food cluster (UA FC)
• A health cluster (GC)
• A mechatronics cluster (MC)

The Upper Austria Technology and Marketing Company
(TMG) was responsible for most of the clusters, as well
as location policy, business settlement and business and
regional promotion. The majority of the financing for
cluster projects, cluster service and cluster management
service was through the Future Fund. The contributions
made by the parent companies of the clusters were initially
very low, with annual promotion fees of EUR 58 for SMEs
with up to 9 employees, EUR 516 for medium-sized enter-
prises and EUR 1,032 for large enterprises.

After a few years of operation the clusters are expected to
cover at least 45% of their costs themselves. A study car-
rried out in 2002 showed this roughly corresponded to the
direct surplus value derived from the cluster development.
The balance of 55% is the indirect economic benefits to
both region and the state, and therefore these costs are met
by the public sector.

Currently more than 1,500 businesses, employing about
265,000 people, have become partners in the eight clusters
of Upper Austria. The majority of the firms have used their
partnership to implement one or more co-operation proj-
ects. To date almost 300 co-operation projects have been
started, involving more than 1,200 firms. The focus of a
large number of these co-operation projects is the develop-
ment of new products and processes, while another is co-
operative qualification projects. This has resulted in Upper
Austria becoming the front-runner, among the European
regions in network and cluster development.

In addition to the strong political backing and compar-
atively high financing, the Clusterland Upper Austria is
distinguished by an open cluster organization, in which
each cluster has a team of 4 to 8 members looking at the
following activity areas:

Information and communication:
• Establishing and maintaining a database with detailed
  company profiles
• Organizing regular company tours
• Documenting all capabilities and services
• Establishing and maintaining cluster websites
• Publishing the monthly “Cluster News”
• The publication of quarterly journals
• Carrying out study tours to various firms

Training:
• Regular events led by leaders from business and sci-
ence, at the cluster firms, on topics selected through
  needs surveys
• Analyses of cluster training needs

Co-operation:
• Initiation and support of co-operation projects be-
tween partner firms, R & D facilities and training
  institutions
• Promotion of innovative co-operation projects,
  whereby co-operation projects between a minimum
  of at least 3 firms can receive a grant to cover up to
  25% of the project costs, and staff and travel expenses
  required for the project can be reimbursed, up to a
  ceiling of EUR 37,000 per partner
• Support in the preparation and implementation of
  co-operation projects and comprehensive services,
  such as for the search and referral of business part-
ners, and the organization and moderation of work-
shops for project preparation and implementation

Marketing and public relations:
• Enhancing the image of the cluster firms
• Strengthening regional identity
• Improving national and international image building
• Events and presentations at fairs
• Promotion of location marketing

Internationalization and quality development:
• Carrying out special events
• Organizing study trips
• Carrying out studies and consultations
The results of cluster policy in Upper Austria are striking. According to an evaluation carried out in 2002, more than three-quarters of the partner firms say that the following results have been achieved already, or could be achieved in the next two years:

- They have participated in innovative programs
- Contacts have been established with new customers
- New products have been developed
- They have been part of successful co-operation projects
- There is an increase in the level of employees’ qualifications.

### The Regional Innovation System Upper Austria (RIO) Program

The Cluster policy and the Promotion of Co-operation projects within clusters, are not the only major components of an economic policy in Upper Austria that consistently relies on innovation and cooperation. Another significant building block in value chains of successful clusters is the strategy and co-operation capability of the management and the service facilities that are firmly established in the region. In order to further develop these so-called Regional Innovation Systems, Upper Austria has developed and implemented the short-term program, Regional Innovation System Upper Austria (RIO).

In this program networking projects among stakeholders of the Upper Austrian Technology Network were promoted, in order to strengthen the innovative capabilities of economic and regional actors and further develop existing structures. Additionally innovative pilot projects between research institutions, innovators and the businesses were promoted so as to strengthen the innovative energy and international competitiveness of the Upper Austrian economy.

The networking and pilot projects focused on the following: human resources; research, technology and innovation (RTI); logistics; design & media and regional innovation. The specific needs of small and medium-sized enterprises (SMEs) were addressed, and the financial support provided through this program was intended to facilitate significant contributions to further developing and strengthening the regional innovation system by:

- Intensifying co-operation between research facilities and firms through innovative pilot projects
- Networking among the individual actors of the Upper Austrian Technology Network and regional management (or regional development agencies) on a project basis
- Promoting and enhancing the innovative capability of the existing technology network and regional management
- Strengthening the regional economic effect of innovation networks in Upper Austria and in turn promoting regional development
- Strengthening and further developing Upper Austria’s position among European regions in the area of regional networking.

### Practical suggestions for cluster development

Cluster structures vary widely, needing diverse methods and processes to be applied to aid their development. The following suggestions are derived from practices that have proved to be particularly effective, and have been successfully used in a large number of projects.

#### Carry out a well researched diagnosis:

Cluster-development projects are challenging and dependent on numerous factors. If macro- and micro-economic preconditions are not in place, a cluster-development project will not work. If it is the psychological and/or cultural preconditions that are lacking, commitment from the businesses, which is essential for a cluster, cannot be generated. For a cluster to be successful the economy and sociology, as well as communicative ability and desire are essential. In order to carry out a thorough diagnosis, it is necessary to realistically assess strengths and weaknesses, opportunities and risks. Purely academic and statistical analyses are not sufficient, as clusters rely on people’s commitment, which can only be effectively examined through conversations, surveys and various forms of joint reflection and deliberation.

#### Strike while the iron is hot:

The analyses of complex systems can be extremely prolonged, and therefore have a tendency to become an end in themselves. This calls for a willingness to brave the gaps and quickly set up activities that make the cluster visible and tangible. One of the most important initial activities is to engage promoters, (opinion leaders), and multipliers for the cluster development project. These need to be in place before analyses or surveys of large numbers of firms are carried out, as it is essential to respond rapidly to the needs revealed through activities and offers, which is often dependent on the availability of enough promoters and multipliers.

#### Start with the firms’ real bottlenecks and needs:

Cluster development means being customer-oriented in a creative and focused manner. The cluster’s most important customers and partners are the firms, who need to receive tangible benefits from the clusters they support.

#### Provide high quality internationally recognized knowledge and expertise to clusters:

A major component of the cluster development project is to upgrade the clusters, businesses and organizations, so as to improve their ability to compete internationally. There-
fore it was essential to provide cluster partners with international expertise from the outset of the project, inspired by the slogan “Learning from the world’s best”.

Realize lean, professional and innovative organizational and steering models:
Clusters are networks of differently structured systems that require their own methods of organizing and steering. They need to be able to mobilize different resources, without becoming monopolized, or controlled by those allocating the resources. They need to respond rapidly and at a high level to a wide range of demands. They need to be able to connect to many different systems and cultures. They need to involve supporters and promoters, mobilize partner network of technical experts, organize complementary external service providers, develop and carry out several different projects and manage cluster-specific information and PR systems.

Experience has shown that the multifunctional roles of cluster organizations can only be implemented by organizations or structures that have been explicitly set up for this purpose. Clusters need to have sufficient human resources, and partners need to be engaged using their strengths. Public-Private Partnership is a proven organizational principle for cluster projects.

Cluster development is teamwork
In order to cope with the demands of cluster development projects in a professional manner, high-level teamwork is required to implement the different functions and tasks needed to implement the concept. The following functions are vital:

• A cluster broker or manager, whose role is to develop relationships and projects among the cluster partners and to promote networking
• An economic expert, preferably with international experience, who can provide a wide range of expert services that are required for developing the corporate core competencies within the specific cluster context
• A process guidance expert who will be involved in the steps needed to develop the cluster, its design, organization, structure, processes, problem solving strategies, internal and external relationships, identity and culture. Preferably this role should be given to external, systemic consultants, with experience in establishing processes, and who are able to maintain their distance from daily operations.

The role of the public sector
The public sector has 3 roles in the process of establishing functioning clusters, those of impetus, partnership and innovation.

• The first is to provide the impetus to stimulate cluster formation, with the goals of drawing up a cluster diagnosis, clarification of its feasibility and engaging initial promoters and multipliers. Financial support is needed for between 6 months and one year, to carry out a cluster diagnosis to ascertain co-operation levels and provide a plan for subsequent phases.
• The second role is involvement in creating cluster partnerships, which may range from a strategic function to the short-term assumption of the co-ordination function. This co-operation, over 2 to 3 years, should guarantee an optimal cluster-oriented approach for individual cluster administration and promotion, and a high level of commitment from the public sector. Many forms of assistance could be provided, but it is essential that cluster financing and start-up expenses are met, and the result should be a viable multi-functional cluster organization with an elaborate, attractive and novel range of services.
• The third role is that of innovation, in order to reorganize business-related administration and development into a cluster-oriented service network, with cross-divisional orientation to responsibilities, projects and processes, following the “one-stop-shop” principle. To achieve this, cluster-related platforms need to be established, in which experts from different divisions or facilities co-operate and define cross-institutional processes and projects. A process owner works with the companies and organizes the solutions and services as a system provider, in order that areas currently operating independently are linked to become a part of a service chain within the cluster value chain. This process may require several years of input.

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3.6 CENTROPE Central European Region – Transnational Approaches Austria, Slovakia, Czech Republic, and Hungary

Günter Scheer

Context and development

The initiative for founding the Central European Region, CENTROPE began in September 2003, as part of the Kittsee Conference between the governors of the regions of Vienna, Lower Austria and Burgenland, the presidents of the bordering regions in the Czech Republic, Slovakia, and Hungary and several mayors from cities in these regions. The Political Declaration of Kittsee stated a common political aim to combine efforts to develop this region in all ways, to become an attractive and high-quality European location.

This declaration was signed by the following, who thus become the partners of CENTROPE:

- The Austrian states of Vienna, Lower Austria and Burgenland,
- The Austrian cities of Vienna, St. Pölten and Eisenstadt,
- The Slovakian counties and cities of Bratislava and Trenava,
- The Southern Moravia Region and the city of Brno in the Czech Republic and
- Győr-Moson-Sopron County and the cities of Győr and Sopron in Hungary.

CENTROPE does not define itself according to existing administrative borders, but is an economic and social area whose exact borders depend on each particular co-operation task. This means that between 4.5 and 6 million people live in CENTROPE.

CENTROPE contains three EUREGIOs, or transnational European regions, generally with an economic focus for the promotion of cross-border co-operation of society and culture. These are:

- The EUREGIO wine region of Weinviertel in South Moravia-Western Slovakia, located in the triangle of Lower Austria, Slovakia and the Czech Republic
- The EUREGIO Silva Nortica, between the Lower Austrian Waldviertel (a forest district) and the bordering regions of the Czech Republic
- The EUREGIO West/Nyugat Pannonia, between Burgenland and three Hungarian counties

Following the formation of this initiative, at the Kittsee Conference, the Austrian partners established the CENTROPE Consortium, consisting of regional development agencies and consulting firms in public-private partnerships, to prepare the development of fields structures for co-operation in an approximately two-year program. This program is funded by three INTERREG IIIA sub-projects that Vienna, Lower Austria and Burgenland sponsor, and is implemented by the CENTROPE Consortium.

To date the Consortium has focused on:

- Developing multilateral working groups by engaging partners in neighboring states in Austria and other locations, via CENTROPE’s Platform and Advisory Board
- Creating and maintaining the CENTROPE website, www.centrope.info
- Setting up multilateral working groups for implementing activities of the CENTROPE project
- Drawing up profiles of the sub-regions and establishing CREP, CENTROPE Regional Development Perspective
- Developing CEPS, CENTROPE Sectoral Development Perspectives, for individual action areas, such as the job market, economy, infrastructure, research and development and co-operation structure
- Preparing and assigning pilot projects in priority areas, such as the job market, information system, culture, image and regional development
- Advising and supporting the neighboring regions to prepare CENTROPE mirror projects, in order to
have the necessary resources available for establishing and developing CENTROPE

• Public relations work to promote CENTROPE ideas

Stakeholders in cross-border co-operation

In September 2005, two years after the political declaration of Kittsee, CENTROPE is still in the development phase, in which themes and structures of future, more intense co-operation are being identified, discussed and developed. The following assessments provide an overview of the current status.

Political leaders are central to CENTROPE and without political backing this historic project cannot exist. In view of the huge range of cross-border relations in the different European regions, and with the existence of numerous cross-border co-operation platforms, such as the EUREGIOs, a “binding multilateral co-operation structure”, which is the objective of CENTROPE, can only be developed with the full commitment of political leadership in partner regions and twin cities.

The current status of CENTROPE politically varies between the different parties. The governors of the three Austrian states involved expect successes within the project that are visible, rapidly achieved and generate publicity, which would appeal to the electorate. Those below the level of governors and presidents have only minor involvement in CENTROPE. Therefore their representation in the strategically important CENTROPE Advisory Board remains (too) limited.

The politicians in countries neighboring Austria remain hesitant about CENTROPE for several reasons. Probably the major one is that since joining the EU, these states and cities have re-evaluated their priorities, or are having to deal with urgent challenges, particularly the development of functioning structures and instruments in economic and regional policy, together with the regionalization of competencies and the search for new forms of balance of power. This has left limited resources for developing a European region.

Currently the main stakeholder in CENTROPE is the administration, including the business agencies that have been outsourced from the administration. The state governments in Austria are sponsors of the INTERREG projects, which currently fund the development of CENTROPE. Representatives of these administrations are members of the steering committee that makes all major decisions.

Representatives of the administration also dominate the multilateral CENTROPE Advisory Board. The administration expects CENTROPE to be an efficient information and coordination resource, that supports its own work, creates new options, and generates projects that add value. Concurrently the administrations’ own time resources should be protected and duplication of efforts avoided.

In the administration there is also a striking lack of synchronicity, and an imbalance between the Austrian side and the neighboring countries. In parts of the region there is a high, or quickly growing, level of business linkages, though large deficits remain in the infrastructure. For instance, there is no efficient road connection between the central area of Vienna and South Moravia, or between Vienna and West Slovakia.

In recent years the Federation of Austrian Industry initiated a scheme to strengthen business ties, named “Central European Region”, with the objectives of facilitating quicker development of business-related infrastructures, and deregulation to remove obstacles for cross-border economic co-operation. So far this initiative has not been operationally linked with CENTROPE, but according to the CENTROPE consortium, it is increasingly active with good levels of information exchange.

Currently neither firms nor business chambers are directly involved in the CENTROPE projects, but ways to incorporate them are being mapped out. Public/civil society is also not yet involved, and more is needed to create awareness of the CENTROPE vision. Media reports, information broadcasts on Austrian television and the production of a CENTROPE map are possible first steps toward publicizing CENTROPE, which the Consortium see as crucial to provide information to activate the public. Several pilot projects have been established to achieve this; CENTROPE IMAGE, the public relations work for CENTROPE, and CENTROPE SOUND, which promotes live music by young people for young people.

Potentials and goals of cross-border co-operation

Prior to the launch in 2003 the Austrian participants declared: “The objective of the European Region is strengthening economic power, by using and developing the existing high-quality potentials in Greater Vienna, St. Pölten, Eisenstadt, Bratislava, Trenava, Brno, Györ and Sopron. Already existing relationships and co-operation shall be expanded and improved, beyond the still existing borders” (Declaration of the Governors of Vienna, Lower Austria and Burgenland, June 23rd 2003).

In the initial phase, which lasted until late 2005/early 2006, “... the preliminary work for founding the European region ...” was to be completed and supported by pilot and model projects” (ibid.), and the following basic activities implemented:
Strategy: Identifying themes of common interest on the basis of previous cross-border activities, in order to maximize benefits to this European region.

Regional development plan: Creating a super-ordinate regional development perspective.

Co-operation structure: Investigating, conceiving and compiling proposals for a binding, multilateral co-operation structure to support the politically defined co-operation in CENTROPE.

Information and public relations work: Press or information activities, including jointly marketing the European region to its citizens.

Pilot projects: Developing and implementing pilot projects with particularly high relevance for the formation and establishment of CENTROPE.

In 2004 several goals for the preliminary phase were established, such as to include and co-operate with institutions and firms, and to enlist neighboring countries to Austria, as equal partners in CENTROPE, particularly through them successfully submitting and co-financing their own CENTROPE mirror projects in INTERREG.

Organization of cross-border co-operation

Until early 2006 CENTROPE was organized as an Austrian INTERREG IIIA project with the following structures:

A Steering Committee in which the administrative officials of the three Austrian states are represented, together with the CENTROPE Advisory Board, on which sit two politicians or administrative officials from each participating region and city. Ideally the 2 delegates from the regions or cities should either come from mid level politics, for example the members of provincial parliaments or the chairpersons of the European Commission (a legislative political level), or secondly be a representative from top-level administration, such as department heads or directors (executive level).

The Advisory Board is currently dominated by experts from regional administrations. The Board:

• is the institutionalized, moderated working forum to discuss the form and content of the CENTROPE region, and provides the means of interaction between official representatives from participating regions;
• is the key committee for the cross-border establishment and implementation of the CENTROPE project on political and administrative levels, for the new EU neighbors;
• is a preliminary level of the multilateral steering committee that is to be established for CENTROPE;
• provides technical and political advice, and elicits contributions from politics and administration to develop CENTROPE;
• provides impetus and makes suggestions for cross-border activities, pilot projects and other areas of involvement;
• advertises CENTROPE, participates in the concept and outcomes of CENTROPE, and provides the link to INTERREG advisory boards;
• does not have formal decision-making authority in the CENTROPE project.

The CENTROPE Platform is a public forum in which interested or newly enlisted individuals, institutions, organizations and the different sponsors of cross-border projects, from the border quadrangle are informed about the activities of CENTROPE. Also it serves to garner support, suggestions and critical reflections from newly enlisted or interested parties that can enhance CENTROPE’s work, as well as sponsoring presentations, lectures and panel discussions for newly enlisted parties to participate, or where topics are prepared specifically to address issues relevant to them. In contrast to the Advisory Board, the Platform is extremely flexible and informal, can change its constitution, increase or decrease in size, focus on specific sectors such as cultural identity, economy, research, education and transportation, and does not insist on continuous membership commitment.

The CENTROPE Consortium. The three Austrian states sponsoring the INTERREG project assigned the CENTROPE Consortium the management, co-ordination and leadership responsibilities of operational activities. The regional development and business agencies of the three states and two firms that specialize in cross-border and European co-operation, work in the Consortium. It cooperates with a large number of partner firms for project implementation.

Results of the cross-border cooperation

It is too early to draw many conclusions about the results of CENTROPE’s project in the participating regional systems. However, after the first two years of CENTROPE’s work, the following minimum observations can be made about the effects of the stakeholder systems:

• Austrian stakeholder expectation levels remain low, but the opportunities to use CENTROPE for one’s own projects and strategies are being increasingly recognized, together with a common understanding of realistic goals and implementation processes.
• Critics have become observers, and observers have become stakeholders. Partners in the neighboring countries have been activated and are much more closely associated with the project today than they were initially.
Success factors and barriers for cross-border co-operation

Representatives of the Consortium consider the following success factors highly relevant:

- CENTROPE needs to be visible and tangible to the public.
- The focus of future co-operation should be concepts and projects that yield added value for all participants, and not ones in which individual partners are required to surrender competencies, or which have potential to create internal conflict.
- Existing structures and projects must benefit all stakeholders, or become beneficial to them, via CENTROPE, without restricting or competing with them.
- CENTROPE must be positioned as a brand in the light of increasing competition between regions.
- CENTROPE’s co-operative practice needs to increase its efforts to engage political, social and business partners.
- CENTROPE’s co-operation structure, which operates as an information broker, coordinator and innovator, needs a lean structure and to work efficiently.

The greatest obstacles to success were considered to be the widely varying structures and pre-requisites between Austria and the new member states, the lack of synchronicity in setting priorities and allocating resources for the CENTROPE, the high levels of complexity of the participating systems, themes and projects which confounded expectations of rapid, significant successes and the contradictory interests between participating or affected systems of actors and regions.

Recommendations for developing cross-border co-operation

Designing context-related goals, activities and organizational structures requires detailed attention to one’s own cross-border region, raising questions such as: What linkages already exist and who is involved? How is involved? How are systems changing? What barriers to co-operation are present, and what effect are they having? What differences exist within the region, such as different legal systems, and what is their impact? What cross-border co-operation exists outside the organized region?

Assessing the market in this way can be facilitated by a wide range of pre-existing tools, such as:

- The extent of, and potential to, modify existing linkages can be examined using a social network analysis or another tool for empirical social research. These methods enable one to visually depict existing linkages and their most important stakeholders, thereby making them easier to understand and modify. However this usually requires time-consuming data collection or re-evaluating existing data, and thus can only be recommended if qualitative estimates or other existing information sources are insufficient.

Comparison of and structured exchange between various European regions can yield interesting and relevant information about one’s own positioning. In the start-up phase of cross-border networking it appears to make sense for a region to regularly reflect on its own organizations and activities, and subsequent qualitative comparison to other European regions helps to improve a region’s own positioning. The comparison with experiences of other complex regional forms of co-operation, for example municipal hinterland co-operations, enables conclusions to be drawn about a region’s own development opportunities.

Professional public relations are essential for cross-border regions, though it may erroneously lead to the impression that the only results achieved are those making the headlines. However by realistically estimating and then proving results, one creates the opportunity to enlist the cooperation of regional stakeholders, and demonstrate that added value has been achieved.

In order to realistically assess project results and outcomes in advance, and then plausibly test whether they have been achieved, methods such as outcomes-oriented monitoring can be used. However, the choice of method does not appear to be crucial, but rather that goals and expected results be examined and considered in a structured manner.

In order to reflect on an existing organizational form it can be useful to consider the advantages and disadvantages of various organizational models. The criteria for good governance offers a useful framework, and in a similar way to which the balanced scorecard is used as a business management instrument, the criteria for good governance depicts the various dimensions, which can at times contradict each other.

Another recommendation is to consciously design the relationship to include relevant national level actors, though to do so successfully is a major challenge for European regions. In order to adapt legal framework conditions, or implement larger infrastructure projects, support at the national level is essential. This support can be gained by lobbying, even if there is a conscious separation of the levels, or by actively enlisting national representatives in the work of CENTROPE.

These recommendations include ideas for improved self-examination and reflection, primarily as an important basis for strategic decision-making processes. However this should not mean allowing the operative work of the European regions to take second place to these strategic processes, or to block them through endless reflection. A
suitable framework needs to be established for important strategic processes that enlists major actors and allows strategic work that is both structured and has a defined time limit.

The most important recommendation, however, is to preserve and constantly expand the foundations of the European region, in the form of trust, openness and mutual interests. This task shows what European regions probably most urgently need: commitment and patience on the part of the regional stakeholders.

Recommended reading
(This article is a revised version of the content of the ÖROK study.)

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Regional Economic Development and Regional Management
The measures carried out by the project "Support to the SME Sector in Serbia" had the objective of preparing an integrated regional development plan (RDP) in the Province of Vojvodina in accordance with the demands of the EU Structural Funds.

The aim was to arrive at clear priorities for regional development, lay the necessary groundwork for negotiations between the province and neighboring regions, and achieve broad-based consensus between the public and civil-society sectors on the most urgent tasks of regional development in Vojvodina, in consultation with the central government. Special care was taken that the steps of the process could easily be adopted by the other regions of Serbia.

Given that past accession negotiations have shown that assumption of the EU acquis communautaire in the area of regional policy is particularly difficult, this project also represents preparation for a possible accession process. However, the main purpose was to introduce modern methods of regional planning and regional development in the region.

Project implementation
The first step was an analysis of bottlenecks and a SWOT analysis, undertaken in conjunction with the University of Novi Sad. At the same time, the approach was continually discussed with the provincial government and the central government, in order to ensure political support.

Both analyses were evaluated by scientists who had not participated in the study, in order to ensure that the data was as current as possible and the results were in line with current research. This led to a reworking of the plan; which was reviewed and accepted in modified form by the provincial government and the provincial parliament.

The priorities of the development program were drawn from the analyses and were approved, in turn, by the provincial government and the provincial parliament.

The adjusted programs were then summarized in a paper with supplementary explanations and again presented to the provincial government for approval. Parallel to this process, work was begun on the creation of regional institutions: members of the provincial government formed a coordinating and decision-making body, which was supported by a technical office. Offices for acceptance of orders, payments, supervision, and evaluation were strictly separated in order to increase transparency and discourage corruption to the greatest extent possible. Underlying this was the belief that the region, which has a convincing concept and at the same time ensures results monitoring through strict supervision, is in a good position to obtain international funds.

In order to guarantee the sustainability of the project, an institute for economic research was set up at the University of Novi Sad to continue the analysis and also to serve the provincial government as a resource for conceptual questions.

The regional development program was passed by the provincial parliament. In addition to the economic research institute, the Vojvodina Investment Promotion (VIP) agency was set up and charged with marketing the location. Regional cooperation projects were begun with Hungary and Romania.

Impact
Rational planning of regional development facilitates the optimal use of scarce resources in order to overcome the crucial bottlenecks in the region. In supporting small and medium-size enterprises, tourism, and agriculture, in particular, realistic objectives that directly impact the availability of jobs were set.

At the same time, decentralized structures and regional self-reliance were strengthened. For the first time, the secretariats (ministries) of the province developed their own program proposals in line with Western European standards. Because the integrated program proposals usually affect several secretariats, an unusual degree of cooperation was also required, promoting thinking in global concepts.

Lessons learned
Problems always arise when there is political upheaval at the national level or when elections are imminent. This has led to regular paralysis of the administration and the hesitancy of political authorities to make decisions. It has also shown that consensus between the central government and the regions can be helpful in this regard.
There is a tendency in the administrations to make exaggerated budget demands. In this case, it is the task of the external expert to help draft more realistic approaches. Departmentalized thinking in the preparation of integrated programs is widespread and can only be overcome through the power of persuasion.

Familiarity with the World Trade Organization (WTO) rules and EU standards is rare. There is a tendency to use subsidy programs, especially in agriculture and in heavy industry, which would result in export prohibitions according to WTO rules. It must then be made clear that product-related assistance is compatible with a market economy only in exceptional cases and can result in serious trade-policy consequences.

Particularly in the case of the textile industry, which is strong in all the Balkan countries, the question must be posed as to what extent it is viable in the medium term, given the competition from China.

Cooperation with the universities varies greatly depending on the department. In the technical and scientific areas this is approaching western standards. There are problems in economics, where models and conceptual structures from the socialist era often prevail.

**Recommendations for similar projects**

Such a project must be based on the internal structures of the country in which it is to be realized. Thus, in a highly centralized country with a weak university structure, different solutions would have to be found than those introduced here. Given that the infrastructure in most countries is of very poor quality, it is advisable to concentrate regional planning on central locations in the first stage.

It should be clear from the beginning that regional economic policy does not represent an intervention in the administrative structures of the country; rather, it complements national economic policy.

**Recommended reading**

The analyses are available in German, English, and Serbian. They can be obtained from W. Limbert/GTZ in Belgrade.

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Short description of the approach
In comparison with the national average, North Albania has a considerable growth lag. Demographic trends are influenced by large-scale migration abroad and to the central region. The infrastructure – if it exists at all – is of very poor quality. The administrative structures of the country are highly centralized. Regional institutions must still be built. The rights of the municipalities remain very limited and even if they have latitude for independent action, their hands are tied because they do not have their own budgets. This fact, in conjunction with increasing poverty, implies considerable potential for destabilization of the entire country.

This project uses a multi sector approach based on an ex post analysis of socio-economic development. Relying on the planning methods of the EU Structural Fund produces a transfer of knowledge about modern regional planning methods. At the same time, closer relations with the EU are supported, since competent implementation of Structural Fund regulations is one of the most important obstacles in the association process.

The programs to be developed cover the areas of infrastructure (for example, revitalization of an industrial site in Shkodër), agriculture, tourism, vocational training measures, and support for small and medium-size enterprises. The derivation of the programs from the analysis is flanked by the creation of regional decision-making structures, which at the same time improve the transparency and supervision of program development. This increases the competitiveness of the region in acquiring international aid money and also helps to fight corruption.

Given the significant infrastructure bottlenecks, the programs will concentrate on larger cities – the growth poles of the region – in the first phase. While implementing the advisory measures, it also became clear that the administrations require assistance in order to participate in EU programs such as INTERREG.

Project implementation
First of all, the project implemented by GTZ on behalf of BMZ carried out an ex post analysis and a SWOT analysis in conjunction with the University of Shkodër and the statistical office of the Albanian government. This process was accompanied by in-depth discussions with ministries, local authorities, and international organizations. After the election scheduled for mid-2005, the creation of regional decision-making and implementation structures is slated to begin.

From the beginning, it was considered important that the benefits of regional development for North Albania be demonstrated to regional stakeholders through quick-win measures integrated into the project. Examples of this include a promotion measure for small and medium-sized enterprises (artisan workshop in Shkodër), planning for the renovation of an industrial site in Shkodër, an upgrading project, and implementation of a measure to promote tourism in all of North Albania. In addition, the District of Shkodër was assisted in the preparation of an INTERREG application. This in particular revealed that regional actors have little idea about modern regional development planning, so that they do not make use of EU funds. Much the same can be said about the area of spatial planning, which is largely unknown in Albania.

The project also stimulated cross-border cooperation with Montenegro and southern Kosovo in the areas of tourism and the environment.

Impact
Attempts are being made to systematically promote regional economic development in North Albania, which is a key prerequisite both for access to promotional funds of the international donor community and for attraction of foreign investment.

The objective of economic development measures is to create jobs that are competitive in the European market. Successful, sustainable economic development guarantees an increased number of jobs. This is, in turn, a prerequisite for the reduction of migration pressure on the population and thus for the long-term stabilization of regional development. Furthermore, it is an initial contribution to regionalization of economic policy in Albania.

This is a pilot project in Albania. All the steps were designed so that they could be understood and implemented in other regions of the country.

Lessons learned
In large parts of the western Balkans, there is very little awareness of regional policy issues. Economic policy is often equated with the demands of the International Monetary Fund.

The long-term effects of serious regional imbalances play no role in policy unless they are addressed by international organizations. Especially for questions of local spatial planning and local economic development, one cannot
assume that there is any basic knowledge in the western Balkan countries.

In terms of infrastructure, interruptions in the supply of electricity represent a central obstacle in the way of regional success. Because of the blackouts that last for several hours, productivity is extremely low and, despite low wages, the country is not competitive with other countries in the region.

**Recommendations for similar projects**

Orientation as far as possible toward EU procedures. This improves the chances for third-party financing and, at the same time, contributes to the creation of regional institutions.

**Recommended reading**

The basic texts on this project can be viewed on the Internet after contacting Mr. Beka/GTZ Tirana.

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4.3 Regional Development in Apuseni, West Carpathians, Romania – Agricultural Microcredits from the Banca Carpatica/KfW Credit Line

Dr. Hans J. Jakob

**Background**

Insufficient access to loans for developing and modernizing farming enterprises is a major obstacle for farmers in Romania who are willing to be innovative. As a result of the planned accession to the European Union and the opening of the market connected to it, in the development of enterprises, only production, quality, and service goals are being taken into account that correspond to the market demands of the EU domestic market. As the productivity – under technically needs-based conditions for cultivation, fodder and animal management – shows, this is manageable from both the technical and business point of view. However, to ensure a successful position until the country’s market opening, huge investments in business expansion and equipment are required.

This development is taking place with a great deal of time pressure, since the Romanian agriculture is not competitive on a liberalized market because of the continued poor technological state of development and the ensuing poor quality in agricultural production. As is the case everywhere in the EU, prospects are extremely limited for part-time farming to survive in the long term, hence the objective to develop full-time farming that will guarantee family income. This forces small enterprises to grow rapidly, which is nearly impossible without taking out loans.

The European Union’s Special Accession Program for Agriculture and Rural Development (SAPARD) offers important aid for rapid business development. However, this program assumes the ability of the investors to pre-finance the SAPARD subsidy. This means that smaller farms in particular that actually have good growth potential generally do not meet the SAPARD requirements at the outset of development because they lack bankability or their own capital. One solution is qualifying farm managers as bank customers for short-term and – with increasing income – progressively larger bank loans. However, this requires long-term business and investment planning and the primary use of these funds in areas that will have a quick impact on income.

In order to trigger quicker development of smaller farms and also qualify them for larger loans they will require in the future, a short-term (maximum of 12 months) micro credit system (up to EUR 1,500) was required that would build the confidence of both the customers and the bank, with loans that could be granted quickly and unbureaucratically. At the same time, the risk for the bank and the investment risk as compared to the positive business impact should be realistic.

These considerations led to the planning of a joint test program for agricultural micro credits in a cooperation between the Kreditanstalt für Wiederaufbau (KfW), the Banca Comerciala Carpatica, and the project “Regional development Apuseni” which was carried out by GTZ on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) in the district of Alba and enlisting an agricultural credit advisor from the agricultural office of Alba who was trained for the credit program of the International Fund for Agricultural Development (IFAD).

**Project implementation**

- Agreement on a joint approach and division of labor into recruitment of customers and customer services among the partners
- Credit assessment by the agricultural advisors on technical and business aspects
- Assessment of creditworthiness of potential new customers by the Banca Comerciala Carpatica
- Preparation and – if appropriate – escorting the potential new customer to meetings with the bank by project staff
- Investment and potential analysis of selected enterprises by the project in order to assess short-term investments that can impact income as a basis for future consulting
- Advising potential customers by an advisory company founded by the project on technical and business questions in high-priority areas such as basic feed crops, the use of modern farming machines, as well as production of quality silage for rapid improvement of market service in livestock farming
- Setting up demonstration fields for silage corn and green fodder as well as model feed silos for practical training of open-minded farmers from small and large enterprises
- Instructing farm managers who are willing to make investments at selected partner enterprises in Bavaria in week-long practice-oriented farm stays
- Integrating the young farmers’ program for practical training at Bavarian farms for several months in collaboration with InWEnt (Capacity Building International, Germany), and the Bavarian Farmers’ Association

**Impact**

**Bank customers’ qualification:** The micro credit program allowed several farmers to become permanent bank customers in the lending business. Several customers who had never taken out a loan were offered an extension on their
current loan or new loans even before the term of their first loan had ended as a result of their reliable repayment habits.

**Relationship bank – small-scale customers:** Granting micro credits as an introduction was a valuable contribution to reducing distrust on the parts of the bank, inexperienced borrowers, and bank employees. Many of these micro borrowers are now valued bank customers. On the other hand, the positive experience with loans has led to a business-like manner on the part of the borrowers and a relaxed attitude when dealing with the bank. This change in behavior is striking compared to inexperienced bank customers.

**Customer qualification for larger loans:** The hoped for effect of micro borrowers remaining in the lending business and acquiring larger loans after a positive initial experience has occurred in several cases. Two new customers have already received loans for up to EUR 10,000 and are preparing to apply for a grant from the SAPARD program.

**Bank’s assessment of micro credits:** Although they are time-consuming and of little financial interest for the bank, the bank’s attitude toward micro borrowers has changed. The banks recognize the advertising impact for other loans, which may have a higher credit amount, as well as for attracting new customers. The micro credit is now an established component of the range of loans financed by the bank’s own funds, supplemented by funds from the programs of the KfW, the IFAD, and the World Bank. Despite the very high interest rate (11%), the micro credit has a regular clientele. This can be attributed to the simple, unbureaucratic conditions for granting micro credits, low requirements for collateral, and fast availability (after 2 days).

**Improved competitive situation of banks from the perspective of the borrowers:** The idea of offering micro credits are available quickly by way of an alternative credit fund and via an additional bank, primarily evolved in response to the lack of flexibility of the IFAD credit program’s credit fund managed by the Banca Comerciala Romana (high fees, long lead times, excessive requirements for collateral, and high bureaucratic effort). The program had few recipients and as a result, did not make the expected contribution to advancing development of small farming enterprises. The competition for bank customers in micro lending prompted IFAD and its partners, the Banca Comerciala Romana and others, to reconsider their lending conditions. This broke up the monopoly the Banca Comerciala Romana had enjoyed for years and also integrated the IFAD fund into a healthy market competition.

**Business development:** Operational investment assessment assumes that capital and interest payments based on the borrowing can in turn be raised by the increased performance of the enterprise. Examples of this include relative reduction as a result of improved basic feed, higher per-hectare productivity with no increase in expenditures, or higher milk output. Real results in the investment area included a doubling of the per-hectare productivity for silo corn even beyond the average level in Germany, as well as a 20% increase in milk output as a result of using energetically higher value silages as the enterprise’s own basic feed, and a reduction of costs for purchasing by covering their needs for basic feed from the farm’s own production. Hence the additional need for feed and land arising from expanding the farm could be offset by purchasing more cows and improving the capital payments of the farms.

**Short-term micro credit as an introduction for inexperienced bank customers:** The micro credit of up to EUR 1,500 with a term of no more than 12 months is well-suited for preparing managers of small farms who are inexperienced in banking in order to prepare them as future entrepreneurs and bank customers. A positive experience helps reduce unfounded fears and reservations. The short term prevents the farm from being held back in its development over a long period in case the borrowed funds are not used effectively. The interest rate is irrelevant to a large extent as long as it is in line with the usual market conditions, but for many new customers it proves to be an irrational obstacle in the decision-making process. For this reason, the discussion with new customers should primarily focus on the actual monthly payments, since paying off the principal poses the real difficulty for the customers and may not exceed 50% of the actual monthly family income.

**Business training in developing farming enterprises:** Access to loans for business development can easily lead to a reduction in the net income of a farm if loans are not used in a way that enhances income. Examples of this include building barns or purchasing cows without improving the supply of feed or using feed that is too expensive. For this reason, business management training in how to best use loans is essential. Banks are normally not able to provide this advice.

**Inadequate impact of theoretical specialized courses:** A popular instrument in many projects is massive upgrading of advisors and farmers via theoretical specialized courses that have a high standard. Although they are expensive, they are easy to organize with advisory staff and good numbers of participants, and as such are a popular means of attesting to the achievement of a project.

The experience of the Apuseni project with participants who have completed such training shows, however, that
the impact of the progress on the practical development of the enterprise is limited if the courses are not accompanied by intensive practical observation and practice. The reason for this is the participants’ lack of ability to visualize the suggestions and their inability to distinguish practical details, which is essential.

Complementary cooperation between the bank and the specialized organization in the development of the farm enterprise: Experience has shown that in lending to farm managers who do not have a sufficient level of technical and entrepreneurial know-how, cooperation between the bank and expert advisors is a good idea. The requirements for expert advisors need to be high and need to include their own practical experience as entrepreneurs.

Recommendations for similar projects
Improving success indicators: Raising income via the additional use of investment capital can only be proven at the enterprise itself. A large number of participants or certificates for supporting activities such as courses are not proof of progress in the expected results. In the case of basic procedures such as cultivating basic feed, producing silage, or using machines, which impact many farms in the same way, a regional impact assessment is enough to provide an orientation.

Better elaborated cooperation between the bank and agricultural consulting: Many loan programs require this type of cooperation but still do not achieve the expected results. Potential borrowers are often required to prove that they have participated in technical training in order to qualify for a loan. However, certificates do not substitute for essential entrepreneurial business advice. One way out of this dilemma is the qualification of suitable agricultural consultants with sufficient practical experience in investment consulting and farm development.

Recommended reading
GTZ, Regional development Apuseni, Rumänien: Betriebswirtschaftliche Analyse von bäuerlichen Milchviehbetrieben in der Region Apuseni, Triesdorf Consult, 8.2003

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4.4 Regional Economic Development in Weakly Structured Areas – Promoting Strategic Partnerships in the Eastern Part of Macedonia

Aleksandar Karaev

Regional development policy in Macedonia
Taking into consideration the aspirations for accession to the EU and the need for harmonization with EU policies, the elaboration of a regional policy for economic development is one of the key priorities on the policy agenda of the Government of the Republic of Macedonia. The current policy for regional development of the country does not correspond to the EU’s regional policy approach. It is characterized as follows:

- Lack of a clear vision and strategies for balanced development of all regions both at national and regional levels
- Lack of institutions responsible for economic development at regional level
- Lack of institutional capacity and legal framework for regulating regional economic development
- Lack of reliable statistical data for development planning at regional level
- Significant disparities in the level of development of different regions

These discrepancies emphasize the need for approximation of the regional policy of the Republic of Macedonia with that of the EU, not only for decreasing the disparities between regions, but also for meeting the criteria for EU pre-accession and Structural Funds.

According to the existing legal framework, the Ministry of Local Self-Government is the competent government body, which proposes the system, policies, measures and instruments for promoting regional economic development.

In January 2002, a new Law on Local Self-Government was adopted that significantly broadened the competencies of the municipalities, which represent the only level of local government in Macedonia. In 2004, the Ministry of Local Self-Government prepared a draft Action Plan for establishing a legal and institutional framework for balanced regional development, which was adopted by the Government of the Republic of Macedonia.

In order to enable collecting, processing and distributing of comparable regional data, Macedonia introduced a classification scheme for territorial units for statistical purposes in 2001 (Nomenclature des Unités Territoriales Statistiques, NUTS), according to recommendations by EUROSTAT. According to NUTS, the whole territory of the country is NUTS 1 and 2 level (political and administrative); NUTS 3 has 8 units (statistical or non-administrative regions) and NUTS 4 level has 34 units (groups of municipalities, non-administrative units).

Project implementation
The overall objective of the project, which is jointly implemented by the Ministry of Local Self-Government of the Republic of Macedonia and GTZ on behalf of the German Ministry for Economic Cooperation and Development (BMZ), is to initiate and develop support for the regional economy and employment according to EU criteria for selected regions in Eastern Macedonia.

The REDEM project (Support of the regional economy and employment in weakly structured areas in the Eastern part of Macedonia) builds on an analysis conducted in 2003. It is to enable the governmental and private actors in the economic sector of Eastern Macedonia to carry out an effective economy and investment promotion of the region, aimed at increasing the efficiency and the competitiveness of this region.

With this project, local actors from the private and public sector and the civil society are to be put into a position, on the basis of analysis of their potential and deficits to design strategies for improving regional economic development. The set of activities for support of the regional economy and employment contains various instruments and is tailored according to the target groups’ needs. The actors have been advised, trained, and supported to do the following:

- Take up and institutionalize the dialogue on and the cooperation within the local/regional economic development (through stakeholder forums, roundtables, network management, concentrating and interest balancing instruments)
- Determine the potentials of their location, respectively region, to develop models, and to design strategies for location marketing
- Formulate and implement an EU-compatible regional policy
- Realize concrete initiatives and to support their implementation
- Represent successfully the regional interest at the national level

Impact
Existing potentials in selected economic regions are supported in view of increasing their competitiveness. Thus, new possibilities for employment and income generation for the population in these regions are expected to arise. The expected results are:
• Improved competitiveness of selected locations in Eastern Macedonia
• Job creation and income generation for the population in these regions
• Strengthening the financial basis for businesses in the region
• Establishment of institutions at sub-national level through public-private cooperation in political dialogue and for service provision (local and regional governance)

Lessons learned
Although the project only started recently, some conclusions can already be made, based on the previous analysis and activities implemented so far.

Business-promoting approaches require, besides an economic potential, a consequent pursuit of national and regional policies, as well as a linkage between the essential economic, political, and social actors.

It is crucial for the success of support to the regional economy to enable the actors to find a social and political consensus on joint, autonomous initiatives, which are aimed at developing their region and their position in the country or even in global competition.

In the process of EU integration, the emergence of regional policies for economic development is inevitable. And the main question is which approach is most appropriate for developing a regional policy that will secure balanced economic development of the regions according to EU criteria.

While creating a favorable macro environment for regional economic development top-down, it is very important that the units of self-government (municipalities) initiate bottom-up activities through intermunicipal cooperation in order to influence the whole policy and decision-making and the implementation process.

For that purpose, it is necessary for the municipalities to strengthen their capacities in order to be able to respond to the new requirements and responsibilities deriving from decentralization. In this context, emphasis needs to be put on getting beyond local boundaries to develop partnerships at the local government level, as well as to build strategic partnerships between municipalities and the central government on development issues.

Recommendations
Entering into interdependent relations and various forms of partnerships would not be efficient without favorable macroeconomic framework conditions and strong institutions. Each actor involved, regardless whether from public institutions, the private sector or non-governmental organizations, needs to strengthen his capacities related to local and regional economic development. Therefore, parallel efforts are required at both macro and micro levels.

Formulation and coordination/adjustment of concepts for regional development (macro level): Given the commitment of the Government of the Republic of Macedonia to EU integration, there is an overriding need for the competent state bodies to take all necessary actions within the scope of their competencies to harmonize the national legislation with EU regulations and directives. As part of this, the Ministry of Local Self-Government with assistance of the REDEM project has been given the task to develop the Strategy and the Law on Regional Development. It will regulate, in a comprehensive and complex manner, all issues related to ensuring balanced regional development throughout the entire territory of the country. The Strategy and the Law shall define the principles of the regional development policy in compliance with the goals of the EU regional policy for promotion of economic and social cohesion in EU member states and reduction of the disparities between regions.

Strengthening business related institutions and entrepreneurial competitiveness (meso and micro level): Developing capacities and competencies of local and regional actors from public administration, the private and the civil sectors is of great importance for the promotion of regional (intermunicipal) economic activities in the project region.

Recommended reading
UNDP (2004): Socio-economic disparities among municipalities in Macedonia  
UNDP (2004): Profiles of municipalities in Macedonia  
www.undp.org.mk/Publication/mapping/Profili%20na%20Opstinite%20A.pdf

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4.5 Island Development Program Croatia—Between Preserving Natural Resources and Economic Transformation

Dr. Stefan Dräger

Short description of the approach

To a large extent, Croatian regional structure is shaped and influenced by islands. The islands not only represent an important part of Croatian regional identity, but also mirror the current conflicts between preservation of natural resources and socio-cultural identity, on the one hand, and economic-social transformation, on the other hand. Island-specific phenomena, however, also come into play here and make the resolution of such conflicts even more difficult: limited carrying capacities and strong social cohesion that, on several islands, goes hand in hand with a tendency toward insularity.

Economic development is focused almost exclusively on tourism and in turn, on increasing the number of beds. In contrast, upstream and downstream production and services are largely ignored, although there are regional differences. Municipal investment is oriented primarily toward the interests of an extremely short tourist season (July–August). There is really no investment policy in the sense of broader economic development. As a result, there is migration from many of the islands, with all the negative consequences for demographic development and local economic development potential.

On the basis of the law on island development and in conjunction with the 26 Sustainable Island Development Programs (local development strategies) and the 14 State Programs for Island Development (sector development strategies), instruments were created that allow government investments and subsidies to be focused more directly on island development. In addition, they allow sector and local demands to be better coordinated and more closely harmonized with the interests and strategic orientations of the island communities. Overall development efforts can thus be designed to be more effective, efficient, and of course also more transparent. Joining measures of individual programs into yearly island plans creates an annually updated program that covers all the islands of Croatia.

Project implementation

The project “Advice on Regional Development Planning in Croatia” is helping the relevant department in the Ministry of the Sea, Tourism, Transport, and Development (until the end of 2003, Ministry for Public Works, Construction, and Reconstruction) to prepare the island, government, and sector programs. Project support is concentrated on advising the responsible department, including in-house training, on-the-job training, and discussion of methodological and legal questions. The activities have the character of coaching. This allows project staff members to critically address issues relevant to the current political culture and government organizational structure.

The sector or government programs were prepared by interministerial working groups. This was done through presentations and joint working-group-specific discussions to familiarize participants with the individual steps of preparing a strategy.

Specialized institutes and private firms were commissioned to draw up island programs, their methodological weaknesses becoming apparent as they carried out their commissions. Local experts in the project advised the contractors on methodological questions, after consulting with the ministries and at times in conjunction with staff members of the ministry; they also supported implementation of the studies.

An important element of the advisory services is goal orientation and implementation of the planned programs. This includes setting implementation guidelines and the process of preparing the Annual Island Plans as the basis of the annual financing volume and its regional and sector distribution. It also includes identifying appropriate local and central implementing structures.

Impact

The activities and outputs of the project consist of advising and accompanying local and central-government actors in the preparation of integrated municipal and island programs. The objective is the strategic design and promotion of island development away from an inconsistent, uncoordinated approach to a process based on effectiveness, efficiency, and transparency.

Providing the methodological bases, procedures, and instruments and introducing implementation structures helps to institutionalize a sustainable development process on the islands as a prerequisite for local economic development. Additionally, supporting and training responsible actors at the central level promotes improved framework conditions for the actors at the local level of activity.

The outputs are used for raising the effectiveness of actors at the local and central level by incorporating local stakeholders in the process of program preparation. In particular, articulating the interests and expectations of citizens creates increasing pressure to plan concrete measures and implement them for the benefit of the citizens. In addition to the direct identification, implementation, and evalu-
ation of investment projects in the economic and social areas and in environmental protection, the application of the procedures and instruments of integrated development planning also improves existing institutional structures at the local and central level.

Up to now, decision making and implementation and horizontal and vertical communication have functioned almost exclusively by way of individual authorities. Under the present circumstances, many have little interest in sharing their information and communication channels with others, not to mention making the process structured and transparent.

Important results of the project include the fact that by strengthening municipal development management and promoting implementation structures in the municipalities, local economic-development competency has also been strengthened. Successful, sustainable economic development and employment promotion depends on the existence of appropriate institutions, above all, at the local level as the main level of economic activity. This is also important in order to be able to make use of comparative advantages - taking into account social and environmental aspects and restrictions. The multilevel approach also helps to address the interdependencies at and between the local and central levels and to move them into the focus of adjustment processes. This is a crucial precondition for regional and local economic development.

With EU candidate status, EU regional policy guidelines and approaches also move more firmly into the center of the adjustment. Methodological approaches to program preparation and the promotion of implementation structures - for example, strengthening the relevant department in the Ministry for Sea, Tourism, Transport, and Development as a program management unit (or as an implementation management unit) - produce improved understanding of EU guidelines and standards for pre-accession promotion and later the Structural Funds.

Lessons learned
The experiences can be categorized into five critical aspects:

- A different understanding of politics hinders introduction of administrative reforms and comprehension of the necessity for a structured approach as the foundation for development management in line with EU concepts and thus for successful economic development.

- Lack of absorption capacity at the local and central levels, caused above all by lack of management skills and little specialized competence, hinders the implementation of both structural (e.g. training, organizational consultancy) and investment promotion measures.

- Legal foundations that are not sufficiently harmonized with other relevant regulations and are often internally contradictory, as well as the frequent lack of implementing regulations, hinder standardization of action and open up room for speculative activity. In addition, laws are often not viewed as authoritative and binding.

- Low propensity for structured horizontal and vertical communication creates a concentration of information; measures often fail to be successfully implemented because crucial stakeholders are not integrated (sometimes intentionally).

- Perception of islands as isolated regions often undermines support of development efforts. This way of looking at things often leads decision-makers to mistrust and fail to accept project experts and external expertise.

Recommendations for similar projects
Recommendations that can be drawn from the experience of island development programs correspond to key aspects that should generally be heeded in consulting to improve institutional structures and procedures:

The advisory services must be provided over a long period; it is not so much a question of the volume of deployed resources, as a question of the time horizon of resource use. Successful local/regional economic development is, above all, a question of appropriate institutional structures and the existence of appropriate instruments, procedures, and competencies. These cannot be achieved through short-term investments, but only through the adoption of another way of looking at things and through thorough understanding on the part of regional and local decision-makers.

At the same time, the partners must be motivated by benefits that are apparent in the short term. Project activities must find a balance between results obtainable in the short and long term, unspectacular structural improvements. The results that can be achieved in the short term or the visible benefits must be understood as means to an end and not as the objective of the project. Only in this way will the sustainability of the project interventions be ensured.

Because the participatory approach is so strenuous, it has proven advantageous to supplement participant involvement - given the above-mentioned aspects - with complementary partial components carried out by the project itself. This parallel approach prevents standstill in important areas caused above all by blockades that are the result of individual, unforeseeable decisions of political decision-makers, unclear legal foundations, or unwillingness to communicate.
Working with stakeholders at the various levels often requires sufficient operative flexibility. The activities carried out in conjunction with the island programs are often oriented toward new forms of cooperation as an instrument of local and regional economic development, which, in turn, leads to some unforeseeable follow-up activities.

Recommended reading

Ministry for Sea, Tourism, Transport, and Development (project partner) www.mmtpr.hr
Ekonomski Institut Zagreb (Implementing partner of the project) www.eizg.hr
Internet portal for regional and municipal development in Croatia www.regio-hr.com
ODRAZ – Non-governmental organization that is active in island municipalities http://www.odraz.hr/stranice/about_us.html

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4.6 Environmental Management in Croatia – Nature Conservation in the Conflict of Interests among Tourism, Agriculture, Transportation, and Housing Construction

Dr. Stefan Dräger

Short description of the approach
The Croatian Adriatic coast is characterized by intense competition for its uses: economic activities (tourism, industrial production, trade), important national and international transportation (harbors, airports, transnational roads, ferry service), widely scattered and, in part, illegal and unregulated housing construction, agricultural activities, and growing interest in the protection of natural resources. All these utilization claims lead to serious conflicts of interest among groups of actors and (political) protagonists. Making it even more difficult is the fact that these competing uses are concentrated in a narrow space limited by topographical conditions.

Incorporating environmental aspects into planning and implementation as well as investment is not simply justified by partisan support for the protection of natural resources as such; rather, failure to include environmental protection into planning and implementation/investment can quickly damage the foundation of important economic sectors – above all agriculture, tourism, and related sectors, thereby hindering successful long-term economic development in this region.

The approach is based on the conviction that proactive environmental protection measures are essential in this ecologically valuable and sensitive area, given the existing intense conflicts over usage. The objective is to ensure environmentally friendly, sustainable (forward-looking) economic development, taking into account the existing comparative advantages, which include the favorable environmental conditions.

Central government and municipal administrations are thus particularly important; they can resolve the conflicts of interest and achieve environmental protection objectives through an appropriate mix of regulations, incentives, and negotiation strategies, without allowing themselves to be guided exclusively by economic necessities.

Project implementation
The environmental problems have been largely identified and the lack of preventative environmental planning is well known at the political level. Nevertheless, there is no far-reaching social and political awareness to serve as the foundation for environmental protection measures. Especially lacking is the institutional capacity to implement environmental protection measures and to introduce effective environmental management, particularly with respect to EU standards, which are especially important for the environment – an area that transcends borders. The project was initiated as part of the German contribution to the Adriatic Sea Environmental Master Plan (ASEMP). The project assists in the introduction of environmental management, strengthening of the relevant administrative institutions, and promotion of environmental protection as part of investment decisions.

In order to demonstrate to the stakeholders (Ministry of Environmental Planning, Spatial Planning, and Construction; joint regional/municipal administrations, municipal administrations, the private sector, the population) the possibilities and benefits of linking environmental management with planning and implementation/investment, a limited number of model measures were carried out. At the same time, the implementation of awareness raising measures increased the awareness of environmental protection and environmental management in the minds of the population and intermediaries.

An important concern of the project is to establish environmental protection as a vehicle of sustainable economic development in the coastal region. In the long term, the conflicts over usage must not lead to “either … or” situations, but must be viewed as “both … and”. With the present institutional structures and practically uncontrollable influences on (investment) decisions, this is not now the case. The “either … or” usually ends in favor of investment without consideration of long-term environmental protection and thus continues to be a shortsighted approach to local and regional economic development.

Impact
Positive results in the area of environmental protection can only be achieved in the long term. The approach and character of the current project allow results to be anticipated on the basis of what has already been accomplished. The advisory services of the project have planted aspects of environmental management such as appropriate instruments and necessary procedures more firmly in the minds of key actors.

In particular, there is increasing recognition of the fact that environmental protection does not mean the abandonment of economic activities and investment, but rather helps to ensure the long-term foundation of economic activity and proactive resource protection in this area characterized by intense competition over usage.

Local administrations, civil-society groups, and businesspeople have become more aware of the need for active environmental management. This is because failures, inap-
appropriate and lacking mechanisms, and the unwillingness of many decision-makers to change are perceived more clearly.

**Lessons learned**

There are already numerous regulations in existence concerning environmental protection (e.g., preparation of environmental impact studies for investment measures, preparation of strategic environmental assessments at the joint regional/municipal level). However, some of them are ineffective and unused. There are few appropriate instruments with which to apply them, and the responsible administrations are not highly motivated to implement such standards, protective concepts, and guidelines.

Politicians on all levels are still not fully prioritizing the topic—particularly that of environmental protection in the sensitive coastal region. In times of socio-economic transformation, the focus necessarily lies on employment and ensuring livelihoods. Comprehension of the necessary link between economic policy and promotion and environmental protection is still not fully developed. Thus, the administrations, as executing agencies for policy standards, are not yet fully motivated to promote environmental protection and management.

Furthermore, there is still a lack of inter and intra-ministerial communication on the topic of environmental protection. In addition to the inherent complexity of the topic, this lack of communication further impedes the anchoring of the topic, which might be perceived as a peripheral problem or even a superfluous component.

Given this perception of the topic, there is naturally also a lack of expertise with respect to important instruments and procedures of environmental management, seriously hindering the introduction of effective environmental protection and management.

However, there are civil-society initiatives to promote environmental awareness and environmental protection. New forms of communication and cooperation aimed at achieving consensus with respect to improved environmental and resource protection still need to be fostered in the region.

Beyond that, it is clear that segments of the local population have become increasingly interested in environmental protection. This is because of direct experience with more obvious environmental burdens and diminishing resources, for example, through unregulated land use and unplanned settlements. What still needs to be further developed is the link between such individual interests and the provision of instruments and mechanisms that can also be used by civil-society groups and actors.

When a country achieves the status of EU accession candidate, the confrontation with EU guidelines and procedures takes on a new quality. Experts in responsible ministries see the need to more strongly orient environmental protection and management in Croatia toward EU standards. However, at present this is still concentrated primarily on legislation and less so on the operational side.

**Recommendations for similar projects**

Protection of natural resources as an important component of sustainable local/regional economic development should be an integrated part of all economic promotion projects and thus be accordingly incorporated into all relevant projects. However, projects that are focused on supporting economic development should not delve too deeply into environmental management advising or environmental consultancy as the task of administrative activity. Given that previous experience has revealed serious deficits in key areas (legislation, procedures and instruments, political support, specialized expertise), a well-intentioned additional project component can turn into a multilayered, in-depth, and time-consuming advisory service. Before planning corresponding components or activities, it is advisable to carry out a detailed analysis in order to determine the extent of interventions that are necessary and useful.

A promising approach would be to cooperate with existing initiatives, including those of other bilateral and multilateral donors. This permits concentration on the development and dissemination of instruments and mechanisms which enable those directly responsible for regional or local economic development to incorporate existing knowledge and experiences into their work. However, as a rule, environmental protection projects also fail to link environmental protection and economic development/promotion.

**Recommended reading**

- Ministry of Environmental Protection, Spatial Planning, and Construction (project partner) www.mzopu.hr
- Regional Environmental Centre for Central and Eastern Europe (REC) http://www.rec.org/REC/Publications/publications.html
- Priority Actions Programme Regional Activities Centre (PAP/RAC) http://www.pap-thecoastcentre.org/
- Priority Actions Programme Regional Activities Centre (PAP/RAC) – downloadable documents http://www.pap-thecoastcentre.org/publications.html
- Internet portal for regional and municipal development in Croatia www.regio-hr.com
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4.7 Land and Soil: Valuable Resources – Land Management in Transition Countries

Reinhold Thomas Bäuerle

The significance of land management for economic development

Economic growth and creation of jobs, market-economy structures and social equity, as well as the protection of basic living conditions all require legal security for business and private investments. Only people who can reliably plan based on land will invest in long-term real-estate-related projects, be they in industrial parks or associated with horticultural long-term cultivation (orchards), or in commercial or housing real estate. A major prerequisite for the prosperity of national economies is freedom of ownership, access to the real-estate market, and the legal security of land and soil. This is lending ever greater significance to land management in the context of sustainable economic development.

In contrast to the production factors of work and capital, land is location-bound and cannot be reproduced. This means that in development planning, land must be dealt with in an economical and future-oriented manner (quantitative land protection). In urban areas in particular, these aspects significantly define the land market, especially because in places where land is scarce, it increases in value. This means that land is often an object of speculation whose economic, and even more so, social significance as a basis for housing and business is not accessible to large parts of the population. These negative developments can be observed in many transition countries, where the development into a market economy remains inadequate from a social point of view.

Central to nearly all transition processes is the creation of private land ownership according to legal criteria. The goal is to secure access to the real-estate market and in so doing, to promote economic growth. In order to guarantee the needed legal security, cadastre and register structures have to be (re-)developed. Land registers describe the rights to a property (ownership, right of use, liens). A legal entry in the land register is considered to be a token of “public faith”, which is synonymous with the government’s guarantee of ownership. The cadastre is a property index that establishes the spatial relation (location form, size with clear property boundaries) and sets down the essential uses (type and extent of building, use). The cadastre and land register are thus closely linked.

These structures reflect the major aspects of European development, whereby variations exist, such as the institutional consolidation of cadastre and land register. Some countries outside Europe have completely different systems: In the United States, for example, the government does not have a public register with governmental guarantee, and a (certain) legal security can only be achieved by having the proper insurance governed by private law.

Implementation

Although the Technical Cooperation (TC) measures for promoting cadastre and land-register structures are primarily designed to create legal security, their use for achieving economic impacts – in the sense of an integrated approach – is also supported. Important elements include:

- Municipal land order (development of building sites, conversion land, etc.)
- Municipal land use with regard to a controlled, resource-saving development (e.g. prohibiting illegal building, economic infrastructural measures)
- Processes for land evaluation for creating a transparent land and/or real-estate market and for facilitating property transaction

In line with this, GTZ is currently implementing six projects on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) and on behalf of the European Agency for Reconstruction (EAR):

- Land management/cadastre in Serbia
- Municipal land management in Montenegro
- Developing cadastre/municipal land management in Croatia
- Cadastre and land register in Bosnia and Herzegovina
- Municipal cadastre/land management in Albania
- Land management/cadastre in Romania
- Institutional Capacity Building of the Republic Geodetic Authority in Serbia (EAR twinning project)

The promotion measures include the following components:

- Capacity building
- Developing methods and processes
- Complementary promotion of the private sector (licensing the geodetic offices, promoting professional associations)
- Developing the sector-policy and legal framework (often in cooperation with legal advice projects)
- Use of cadastre information by cities and municipalities (real-estate management, infrastructure planning, property tax, land-use/development planning and control, etc.)

Impact

The major results brought about by a functioning cadastre and land register system include:
Legal security for owning or purchasing real estate (land, houses, apartments): The entry in the land register is a guarantee by the government based on legal criteria. This is significant from the point of view that land as financial value or investment are often the only or at least a major basis for the individual’s existence. Conversely, legal insecurity can threaten livelihood to the extent that the willingness to own and maintain property is greatly reduced.

Legal security generally goes hand in hand with borrowing capacity. The better the legal security is anchored to real estate, the greater the willingness of the banks to grant loans in the first place or to provide higher credit lines. The interest rates also drop as legal security rises, which promotes the acquisition of property.

Closely linked to the previously mentioned aspects is willingness to invest and investment security. Few investors are willing to invest in acquiring land and its development if the legal circumstances are unclear. If the legal security of property is generally considered to be risky, it not only affects the particular property, but eventually hinders the economic development of a municipality, regional, or an entire country.

(Spatial) planning security is similarly closely linked. Municipalities need planning security for identifying building sites, developing physical infrastructure, or for sustainably managing their real estate. If there are potential legal claims on the property (e.g., restitution) and a municipality allows it to be developed without clarifying the legal status, this can have huge (legal) consequences.

In addition to the economic significance, the social dimension of legal security of land and soil is extremely important. Legal insecurity regarding land ownership and use can lead to protracted conflicts that can disrupt social peace in the long term. The social significance is especially evident in post-conflict countries such as Bosnia and Herzegovina. Acceptable solutions are extremely difficult to negotiate, because the large number of refugees and displaced persons often means that returning to one’s own land is no longer possible.

Levying property taxes and taxes on acquisition of real estate, as well as other land-related taxes opens up sources for government/municipal revenues. In many countries, property tax is a major source of revenue for local and regional authorities. A complete and up-to-date cadastre is required in order to systematically levy the taxes. This provides the municipalities with much more financial leeway.

**Recommendations**

Promoting and being actively involved in the sector-policy and legal framework (land policy, property law, other specialized laws) – often in close cooperation with the consulting projects on economic law reform – is generally inevitable for creating legal security of land and achieving the targeted results.

Since the cadastre/land register creates essential framework conditions and the informational basis of a wide range of applications, a user and service orientation is essential for project design. The users, whose needs should be catered to by the services, include individual economic units (property owners, notaries, investors, etc.) as well as municipalities as public users.

The nature of the measures calls for close cooperation with projects for municipal and urban development as well as with projects for economic development and employment promotion.

Land is a commodity that is economically and socially important and which is subject to the danger of misuse, corruption, and speculation. For this reason, legal aspects and promotional measures are extremely significant and need to be taken into account in project design.

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4.8 Coastal Protection and Sustainable Tourism – Integrated Coastal Zone Management in Montenegro

Thomas Waldraff

Introduction
The coastal region is the most densely populated region of Montenegro, where environmental problems due to uncoordinated development are becoming ever more apparent. Since March 2004, the project Integrated Coastal Zone Management, implemented by GTZ on behalf of BMZ, has been supporting the preparation of a binding steering and regulative instrument for sustainable development of the coastal zone.

Twenty-five percent of Montenegro’s population lives in the coastal municipalities, which cover only 9% of the country’s total land. The economic foundation of this region is primarily tourism, but also maritime trade and transportation, fishing, agriculture, and industry. The competing ways in which various sectors make use of the region’s resources lead to environmentally incompatible spatial development and unsustainable use of natural resources, threatening the living space and resource base of the coastal zone (land and sea). Environmental problems are becoming ever more apparent. The chief cause of this problem is the lack of an interdisciplinary spatial and institutional management and development strategy for the protection and development of the coastal zone.

Short description of the approach/implementation/results model
The project concept is based on a strategy for inter-institutional and interdisciplinary cooperation. Essential elements of an Integrated Coastal Zone Management Plan (ICZMP), such as horizontal and vertical cooperation/coordination procedures, environmental standards, multi-sector planning guidelines, monitoring/controlling, implementation and sanction instruments, will be compiled in a cooperative work process.

Through specialized working groups, consisting of representatives of the municipalities, the Coastal Zone Management Agency, and the ministries, the different interests and goals are brought together into a joint management and development strategy for the coastal zone. Furthermore, through workshops, cross-regional forums and conferences, the experiences and best practices of neighboring Mediterranean countries are also evaluated and, if appropriate, incorporated into the ICZMP. By way of informational brochures and press releases, information on the ICZMP is broadly disseminated. This promotional component is supplemented by direct expert advising in the area of spatial planning and inter-institutional cooperation between staff of the Coastal Zone Management Agency and city administrations of coastal municipalities.

The Coastal Zone Management Plan thus is prepared by way of an inter-institutional process, while, at the same time, the intermediaries involved in the formulation and implementation of ecological development objectives are trained and the public is continually informed.

The joint preparation of an ICZMP (project output) and its implementation (use of output) will establish a steering instrument (outcome) that enables both the Coastal Zone Management Agency and the coastal municipalities to better harmonize their goals, activities, and investments, integrate private investors into a spatial development that does not further endanger the resource base of the coast, and thus jointly implement effective protective measures (impact). A highly aggregated, long-term benefit emerges from the reduction of environmental burdens, the improved use of coastal resources, and an economic and, especially, environmentally friendly, allocation of coast-related activities and investments.

Objective and impact
The objective is to establish an Integrated Coastal Zone Management Plan in line with the guidelines of the EU Barcelona Convention of 1995 as a binding regulative and steering instrument for the sustainable development of the coastal zone. The work and anticipated results are concentrated in the following core areas:

• Binding procedures for inter-institutional cooperation are set out in the ICZMP.
• A government controlling system to supervise private, municipal, and central government investment activity is defined in the ICZMP and guarantees environmentally compatible development of the coastal zone, providing the basis for sustainable tourism.

The project creates the preconditions for long-term preservation of the coastal zone and its resources, as well as its economic and environmentally compatible development. The ICZMP improves the planning basis for investors and supports the decision-making process for implementing development and protective measures. This fosters better, more environmentally friendly, and more cost-effective public and private investment decisions and transparency in central government and municipal decision-making processes.

The great potential for environmentally compatible tourism as a key municipal economic factor is strengthened in the long term by identifying appropriate areas. By reducing the uncertainty surrounding investment (including legal and planning security), Montenegro will become in-
creasingly interesting for foreign direct investment in the tourism sector. International investors have already signaled great interest in participating in the development of tourism, and initial agreements with coastal municipalities have been signed.

**Lesson learned and key recommendations for similar projects**

The extremely complex inter-institutional and interdisciplinary nature of coastal management, involving a multiplicity of relevant ministries, government institutions, coastal municipalities, etc. with very different interest and objectives, requires an extraordinary degree of negotiating skill, an inter-disciplinary team, and patience. A project term of at least five years with a budget of at least EUR 3 million is advisable.

Preparing strategies/plans as steering and regulative instruments can only be a means to an end. Early and continual contact with potential (tourism) investors is thus recommended, in order to facilitate timely implementation of strategies with visible results.

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Short description of the approach
The Centre for International Migration and Development (CIM – www.cimonline.de) places successful applicants as so-called integrated experts in developing and transition countries. The integrated expert signs a contract with a local employer and is paid the usual local salary. CIM tops up that salary. The average deployment in the country is four years. Within the system of German Development Cooperation, CIM is a small, flexible organization; the working partnership has two strong members: the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH and the German Federal Employment Agency (BA); the proficiencies of the two complement each other.

Since February 2003, an integrated expert has been working in the cantonal government of the Canton of Zenica-Doboj in the Federation of Bosnia and Herzegovina. The canton is one of ten largely independent administrative units (constitution, parliament, ministries) within the Federation.

Before the expert was deployed, there had been no targeted measures by the cantonal government to promote economic development.

The integrated expert, together with local colleagues from the Canton's Economics Ministry, was to assist the government in developing and implementing economic development measures. There was no existing concept for this.

On the basis of a concept drafted by the integrated expert and staff of the cantonal Ministry of Economics, the Business Service Center (BSC) was founded and built up in mid-2004 as the economic promotion agency of the cantonal government. The BSC is a public corporation and, like the ministries, is one of the canton's administrative units (www.zdk.ba).

Because of the administrative fragmentation in the Federation of Bosnia and Herzegovina (FBiH), it was necessary to bundle responsibilities in the area of economic promotion at the regional level. The organizational form as an administrative unit of the cantonal government was chosen in order to ensure the canton's support and to provide the opportunity to directly influence the design and application of legal regulations in areas relevant to the economy.

Project implementation
First, a study was undertaken to identify the key obstacles to an economic revival of the region (approx. 400,000 residents, 3,750 square km, 12 municipalities, approx. 9,000 economic units) and the opportunities to overcome these obstacles through an assignment with a local employer.

Because there was no economic promotion in the real sense of the word, it was possible to persuade the cantonal government (with delays due to a change of government) to found and build up its own economic development agency, the Business Service Center.

In setting up the BSC, special care was taken that the personnel (currently 5 staff members and one integrated expert) were independently selected on the basis of transparent criteria and that the responsibilities of the BSC were clearly stipulated beforehand. The BSC reports directly to the cabinet of the Prime Minister (of the canton) and is headed by the integrated expert.

The BSC consists of the One-Stop-Shop (to support firms in administrative procedures), Information & Services (for information and initial advice to local firms, development of economic promotion projects, regional marketing and acquisitions, as well as support for foreign investors). The services of the BSC are free.

Besides the development of market-appropriate services for businesspersons, networking with cantonal ministries and the economic departments in the municipalities and training of local staff are important to the success of this agency.

In addition to the operational activity of the OSS (support for completion of permit procedures), the OSS also drew up proposals for the simplification of administrative procedures and for legal changes and implemented them through the cantonal government.

Impact
Services offered by the BSC are in high demand from the business sector (500 clients in the first business year). The successes of the work are apparent and have meant that the agency is viewed as a model for economic promotion in the FBiH. Other administrations in Bosnia and Herzegovina are very interested in setting up BSCs. A BSC was already founded in Mostar.

On the basis of the practical experience with administrative procedures (OSS), numerous proposals for simplifi-
cation and improvement of procedures have already been drawn up and implemented, also with the help of the partner city of Gelsenkirchen, Germany, which sent experts from its own administration (in Gelsenkirchen, this was also seen as an opportunity to design new types of city partnerships in the future).

After only the first year of activity, the BSC was able to establish itself as the central promotion instrument of the canton government. This allowed it to set up a good network with the 12 municipalities in the canton. Because the BSC now serves as the central point of contact for international cooperation, it was possible to initiate or intensify numerous interregional cooperation agreements.

Collaboration with development cooperation partners was intensified and participation in third-party financed projects improved. In particular, good approaches were developed with GTZ and InWEnt.

Because of clearly defined services and supporting measures for regional marketing, numerous inquiries from foreign firms were received in 2005, some of which have already been successfully implemented.

The qualifications of local staff members were significantly improved. This was made possible through new work processes and training on the job, as well as through participation in training measures (InWEnt, among others). Local personnel are highly motivated – thanks to already visible results; they put in many unpaid overtime hours.

Lessons learned

In hindsight, the following points in particular appear to be important for successful advisory services on regional management in general and through integrated experts, especially:

• Trust between the integrated expert and the employer and between the expert and local staff members, in order to foster integration
• Respect for intercultural differences (particularly communication and conflict behavior)
• Persistence, active participation, and willingness to assume responsibility
• Integration of the integrated expert into personnel management (selection, training, and guidance) of local employees
• Commitment and pronounced support of local politicians
• Intensive networking with local and cross-regional actors
• Respect for the local business culture in order to develop market and target-group-appropriate economic development services

Recommendations for similar projects

The deployment of CIM integrated experts is based on integration in existing structures of the local employer. Particular care must be taken to determine whether the expert is appropriate to the employer.

Recommended reading

CIM regional brochures: www.cimonline.de
(German know-how for the transition processes in Central and South-Eastern Europe)
Business Service Centre Zenica-Doboj – Activity Report 2004
www.zdk.ba

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After the war, the social and economic situation was extremely difficult. The large firms had been destroyed, their machines were obsolete, and their markets were gone. One of the chief problems was the high unemployment. Nevertheless, hundreds of thousands of refugees were supposed to resettle in their land. Small and medium-sized enterprises were intended to play a decisive role in the economic development of Bosnia and Herzegovina, because privatization and market restructuring of large firms had yet to occur.

The first priority of most internationally supported programs was the rehabilitation of housing; after that came the restoration of technical and social infrastructure: streets, bridges, electrical power installations, telecommunications, schools, and health stations. In order to create jobs, economic development measures were also to be carried out. The Development Corporation (DC) Tuzla was founded in 1997 in order to implement an integrated approach to reconstruction and economic development measures for local and foreign clients.

Approach
The Development Corporation was formally incorporated as a private limited company under Bosnian law (doo). The shareholders were the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH and the canton of Tuzla. This legal form made it possible for the Development Corporation, as the contracting partner of foreign donor institutions, to transact commissions quickly, flexibly, and transparently. The advantages included the fact that local partners shared the responsibility, facilitating knowledge and methods transfer; sufficient independence to be able to comply with the standards and procedures required by clients, and the adjustment of local accounting regulations to EU realities.

The Development Corporation Tuzla aimed to respond to the specific needs of the population and returnees, as well as those of international clients and – supplementing the short terms of the emergency aid projects of international donors – to achieve a medium-term orientation by linking reconstruction measures with economic development.

In its initial phase, the Development Corporation was headed by a German and a Bosnian director; the board of directors had members from Germany and Bosnia and Herzegovina. Because of the people appointed to management positions, there was permanent contact both to local authorities and institutions and to international donor institutions and banks in the country.

Implementation
At first, the work of the Development Corporation was concentrated on the reconstruction of housing and infrastructure in selected municipalities. It quickly became clear that these humanitarian measures and small projects alone were not enough to facilitate the integration of refugees returning from abroad or from other parts of the country. Thus, the Development Corporation prepared an economic development program, integrated into the reconstruction program and focused primarily on job creation measures, which was presented to international donors. In 1999, the Development Corporation also accepted commissions to support the privatization process and medium-term regional planning. To the greatest extent possible, it worked together with local service providers when carrying out individual program elements. From 1997 to 2000, the Development Corporation Tuzla carried out 22 individual projects with a total volume of around EUR 21 million; the major clients were the European Commission and the German Government.

The recipients of the services of the Economic Development Department were primarily small and medium-sized firms and (potential) business start-ups. Foreign firms also requested services such as information about business opportunities and cooperation partners. The activities were organized into the following areas:

- Business development services (BDS); drawing up and advising on business plans, advising business start-ups, information services, etc.
- Business contacts (business trips to Germany and Austria; cooperation exchanges; several joint ventures were set up)
- Export promotion (including joint trade-fair participations in Germany, Croatia, Slovenia)
- Training (business start-ups and technical seminars in cooperation with local service providers)
- Advising chambers (including delegation trips to Estonia and Germany)
- Advising the cantonal Employment Office (reorganization and establishment of a model employment office, introduction of labor-market policy instruments, staff training)
- Financial services and advising (e.g. EU micro grant program, leasing)
- Privatization (seminars, studies, advising the privatization agency)

Impact
The successful work of the Development Corporation in the canton of Tuzla and neighboring regions in northeast-
ern Bosnia and Herzegovina was based especially on the integrated approach of humanitarian re-integration and reconstruction, on the one hand, and economic development, on the other. The experiences of the Development Corporation Tuzla were incorporated into the concept of the EU CARDS Project for regional development of the country. The corporation became the full responsibility of the canton and continues to carry out construction orders, but now with more emphasis on the canton. At the same time, as a canton corporation, it can act as project executing agency and contracting partner for other agencies. Thus, since 2005, it has been the partner of a German training and testing institution for the purposes of setting up and operating a welding center in Tuzla.

With the support of the European Commission, the Economic Development Department was expanded into the Regional Development Agency; since 2005 it has been the Regional Development Agency for Northeastern Bosnia. Today, coordinating tasks are more prominent; the business development services have been reduced. They have largely been taken over by experienced local providers.

Today, the Development Corporation Tuzla is viewed as a best practice to which other regions look, and the Employment Office in Tuzla is seen as a successful model of adjustment from pure unemployment administration to the modern requirements of regional economic development.

Lessons learned
As a local institution, the Development Corporation Tuzla was able to develop and offer solutions that were optimally adjusted to local conditions. At the same time, open communication with local institutions, non-governmental organizations (NGOs), and international organizations was possible. The Development Corporation was thus able to meet expectations for an integration concept for refugees and displaced persons.

Founding the Development Corporation Tuzla was the beginning of a process of structural improvements for the economy and support for economic and social reforms that is still continuing. It was an enormous challenge to get the administration to assume ownership, to integrate the Development Corporation as an instrument and partner for implementation of cantonal economic policy. As long as the German side was present, local authorities saw the Development Corporation as a German institution and not as their own agency. Given that the structure was maintained after the Germans left, ownership increased significantly, so that the Development Corporation Tuzla is seen today as a purely Bosnian Institution with an international past.

Another way to strengthen ownership could have been a further expansion of the number of shareholders. Municipalities and local self-help organizations, as well as banks could have been integrated, as they were active in the preparation of regional planning.

Integrating local BDS proved to be effective; several BDS continue to apply the techniques and seminar material they learned while working with the Development Corporation Tuzla.

Recommendations
Development corporations as partners of local administrations and international organizations can be an effective instrument of regional development. However, from the beginning, there must be local ownership. This requires that the following conditions be met:

- Services offered by the development corporation correspond to the needs of the local administration, local agencies, and the private businesses.
- An approach of integrated program components, e.g. reconstruction, economic development, and humanitarian assistance, contributes to broad acceptance by the population.
- Reliability in fulfilling contracts and agreements as well as the long-term availability of key personnel and contact persons creates an atmosphere of trust in the organization.
- Transparent structures and formulation of the statutes, clearly stipulating the non-profit-making status of the organization, including clear regulations with respect to taxes and contributions.
- Integration of co-ordination relationships with other international organizations and government agencies by way of participation in an advisory board.
- The development corporation should have its own legal status in order to facilitate sustainability after termination of international support.
- Early harmonization of the measures to privatize government firms with measures to promote small and medium-sized enterprises and regional development.
- Guarantees that the employment offices will be involved.
- Experience with economic development has shown that it is more important to define a unified economic area than to respect administrative boundaries.

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4.11 Spatial Planning between Environmental Needs, Social Demands, and Economic Objectives – the Example of Montenegro

Thomas Waldraff

Introduction
The Republic of Montenegro has no current national spatial plan to provide the framework for sustainable development of the country. The project Spatial Planning in Montenegro, carried out on behalf of the German Federal Ministry for Economic Cooperation and Development since August 2004, is helping the Ministry of Environment and Spatial Planning to prepare a binding national spatial plan and assisting the municipalities with urban planning.

After the planning period for the existing spatial plan of the Republic of Montenegro ran out in 2001, the Montenegrin parliament passed a resolution to prepare a new spatial plan and to adjust the entire planning system to the changed political and social conditions. Preparation of the national spatial plan to promote sustainable economic development and to mobilize investment is one of the government’s priorities.

The principle of regional development and management is based on balance between environmental needs, social demands, and economic objectives. In this context, the national spatial plan sets the framework conditions for balanced (regional) development in Montenegro through cross-sector, linked problem-solving proposals and includes the development of cross-border transportation, energy, and communication systems, without which no economy today can prosper. The core problems here are insufficient expertise in the use of procedures and instruments with which to create an appropriate foundation to steer spatial development in Montenegro and the lack of inter-institutional communication and cooperation.

Short description of the approach/implementation/results model
Through management and technical consultancy to the relevant ministries and institutions, (co-)financing of studies, and provision of technical equipment (project outputs), the project supports the preparation of the national spatial plan, institutional capacity building, and the improvement of required steering and planning processes. The project thus uses a multi-level approach. The outcomes of the project consist of greater professionalism in specialized and management questions and improvement of inter-institutional cooperation in the area of spatial planning in Montenegro. With the enactment of a binding national spatial plan and established coordination mechanisms, the framework conditions in this sector will be radically improved (impact). In addition, positive results for economic and social development (e.g. greater investment security through the identification of development zones, reduction of land-use conflicts, etc.) as well as protection and sustainable use of natural resources are expected.

Objective and impact
The objective is improved professionalism of the Ministry for Environment and Spatial Planning and its cooperation with other planning actors. The work and expected results are concentrated in the following core areas:
• The draft of the national spatial plan has been prepared by the Ministry for Environment and Spatial Planning in a participatory manner and has been well defended in parliament.
• Services and support requested by the municipalities are provided by the Ministry for Environment and Spatial Planning in a professional manner.
• Municipal urban planning occurs in coordination with the national spatial plan and creates planning and investment security.

The project helps to strengthen overall economic growth potential and reduce social and regional disparities and supports a better resource allocation of scarce public and private resources through:
• Creation of efficiency and transparency in central government and municipal decision-making processes, which facilitate environmentally compatible and cost-effective public and private investment decisions
• Creation of improved planning and legal security for private and public development agents through formal identification of building sites
• Steering of spatial development through legally binding planning with controlled, resource-friendly land use and improved infrastructure development, particularly in the coastal municipalities with strong development momentum

Lessons learned and key recommendations for similar projects
Because of the socialist past, ministries, government institutions, and city administrations do not (yet) see themselves as service providers for investors, who must create planning and investment security through binding land use plans. In addition to specialized technical advisory services, sufficient resources and time for innovative promotion of behavioral changes (which, as everyone knows, require an adequate time horizon) must be planned and made available. A project term of at least five years and a budget of at least EUR 2.5 million are recommended.
In South-Eastern Europe, land was largely nationalized. The lack of clarity surrounding land and planning rights quickly leads to misuse of power and corruption, with the corresponding negative consequences for citizens and potential investors. Without clarity about property/user rights for land and access to reliable cadastral data, any spatial or urban development plan remains an academic planning exercise without any chance of implementation. Spatial planning projects must have a cadastral component, which includes the creation of a clear legal foundation for real estate and effective utilization of existing cadastral and land register information; if not, the plans will be worthless paper.

Creating planning security at the municipal level is often underestimated as a factor that promotes income and employment. Investments are only undertaken when legally binding land use plans guarantee the construction of hotels, production facilities, etc. It is only with the creation of this investment and legal security in and with the municipality that many locations first become attractive for domestic and foreign direct investment.

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Short description of the approach

The “learning region” describes project approaches in the framework of regional development concepts which support the organization of lifelong learning for all segments of the population as a task for the future. The objective is to guarantee continuous adjustment to the changing framework conditions in the region and to promote the sustainable competitiveness of the regions and the firms located in them.

Learning regions create new points of view and uncover potential that was previously unused or underutilized. Opening up institutions strengthens the link between tradition and innovation and facilitates new forms of cooperation between education, the business sector, and regional or municipal administrations. Model, innovative projects are being developed in networks centered on educational and other forms of cooperation.

The concept of a learning region is a method that facilitates the promotion of less developed regions through targeted bundling of financial resources. This approach appears particularly interesting under conditions of transformation.

For these reasons, the regional development concept of a learning region should be disseminated and tested under transformation conditions in a transition country. The district of Pereslawl, Oblast Jaroslavl in the Russian Federation was chosen as a pilot region. The criteria for the selection were the existence of a regional development strategy and of concepts for its implementation, including new economic development instruments. On the basis of good access to new information technologies, new approaches to networks and modern information management were already in place. The level of education and science in this central Russian, structurally weak, and rural province is potentially high.

Project implementation

The project began with preliminary discussions and a workshop to communicate the concept. The participants were actors in the regional development process and providers of educational services. The results of learning re-

![Diagram of learning region participants](image-url)

Participants in the learning region of Pereslawl
In Europe and, above all, in Germany were presented (in Germany, the Federal Ministry of Education and Research, with the participation of all federal states and the European Social Fund of the European Union, promotes regional cooperation and networking in 73 regions in the framework of the program Learning Regions – Promoting Networks).

Three Steps to Becoming a Learning Region

Analysis of stakeholders, call for exchange of information and experiences, problem analysis, operationalization

Systematization and operationalization – identification of four themes and project components

Steering, scientific backstopping, political and legal acceptance, long-term financing mechanisms

The context for project activities was comprised of the initial steps to network firms, the administration, and the public that had already been organized and coordinated by the district development center. From this emerged the task of compiling the various network approaches, making them transparent, and preparing and implementing organizational recommendations. There are currently around 20 active information points established in the network. On the basis of the problem analysis and systematization of the work areas, four project components (job campaign, educational campaign, youth campaign, and network activities) were formulated, each of which entailed a number of activities.

Impact

The creation of new jobs in the rural area is organized through the support of small and medium-sized business start-ups and all new business structures, while incorporating the administrations and employment offices. Providers of training and upgrading services are increasingly coordinating their services and continually adjusting them to changing conditions. The youth of the region are effectively included in the implementation of the prepared development strategy.

Education is recognized as crucial for the future development of the region, a fact which allowed very broad participation of actors from several hierarchical levels and different types of organizations. Scientific institutes coordinate the network and make the initial concrete and measurable contributions to local and regional development. Firms increasingly recognize the importance of the services of the educational institutes and their own ability to influence the quality and quantity of these services. Their trust in political decision-makers has grown.

The Pereslawl Center for Information, Communication, and Development, as an important economic development structure, was able to compensate for lacking competencies in the area of new technologies and training and upgrading by cooperation with the training and scientific institutions and was able to make better use of the overall potential of the region of Pereslawl in order to achieve the development objectives.
Lessons learned

The process of preparing a sustainable development strategy, which is becoming ever more complex, presupposes an in-depth understanding of sustainable development and requires negotiating skills and effective conflict management. It is based on knowledge of and experience in communication and cooperation, monitoring and evaluation, knowledge and information management, analysis, participatory mechanisms, planning, priority setting, decision making, and change management, as well as economic, social, and environmental assessment and mobilization of financial resources.

The learning region is a new concept for project implementation, which can address all the potential of a region through a holistic approach and forces the educational establishments and scientific community, more than before, to assume concrete responsibility for the implementation of visions and development strategies.

The bundling not only of ideas but also of the financing mechanisms by including many different sources at several levels – all on the basis of modern information technology – leads to very broad participation in the regional development process, promotes transparency, and strengthens the regional consciousness of the actors. The learning region can be the initiator of many important projects that foster change processes, also in the structurally weak regions of transition countries.

The learning region as a concept for project implementation met with an unexpected degree of interest by actors in the Russian pilot region. Although the experience of cooperating with GTZ in earlier projects played an important role in this, the degree of self-organization by the participants in the implemented GTZ-financed measure was especially high and noteworthy. Municipality-Oriented Development Planning projects or the project Regional Economic Development Jaroslavl, financed by the German Government’s TRANSFORM Program, have made important contributions to the preparation of the regional development strategy and the establishment of new economic development instruments.

But only through joint future-oriented learning did a definite willingness to engage in cross-sector cooperation emerge. The either regional, federal, or private educational institutions finally assumed responsibility for the regional development process and coordinated their activities with the district-financed agencies, the economic development agencies, and the business sector and thus also pooled their financial resources for joint projects. One of the most important conclusions of the work in Pereslawl is the fact that not only ideas and technical inputs should be bun-
The second important conclusion resulted from the great importance of learning and education for the entire Russian society. Given that the economy is developing well, there are now attempts to again build on the long periods of high educational standards in the Soviet times, which have disintegrated during the transformation period.

This is the explanation for the impressively broad participation in the Learning Region Pereslawl. Although the project is still in the initial stages, even after termination of the German support, the actors have realized that a higher, more modern educational level, with an orientation to economic development possibilities, can reduce migration of young people and increase the competitiveness of firms and the region as a whole.

**Recommendations for similar projects**

Experience in the district of Pereslawl shows that certain conditions must be met in order to use learning regions to actually tap the existing potential for sustainable regional development. However, the experiences also lead to the conclusion that these preconditions can be met especially in the context of transformation because of the incomplete restructuring of the economy, the continual reorientation of educational and cultural policy, and the new awareness developing in civil society. Above all, education and educational policy still have very great importance in the minds of the people, despite the grave financial problems in the public educational sector.

**Criteria for successful learning regions:**

- Common identity and mutual trust
- Favorable political framework conditions
- Support of local and regional administrations
- Transparent fields of activity
- Target-group orientation and visible benefits for all actors
- The existence of communication structures and joint resources
- Potential for scientific flanking, quality assurance, and clear signals for regional marketing
- Key people, who assume responsibility, make decisions, and communicate

It is crucial that the educational sector be mobilized as a resource for improvement of the economic and social situation in the region, whereby the consequences of rapid structural change still occurring particularly in the regions of the transition countries must be taken into account.

**Recommended reading**


German Federal Ministry for Education and Research, Work Area Educational Research: Learning Regions – Promoting Networks Video Trailer, Documentation, Newsletter):

www.lernende-regionen.de


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Introduction
Can successful free trade zones be set up in Montenegro, similar to those in South-East Asia? That was the question directed to us by our partners – the Small and Medium-Size Enterprise Development Agency (SMEDA), the Harbor Association, and the Municipality of Bar – in 2003. Concretely, they were considering making use of the harbor for industrial development and the creation of jobs by using and developing the existing facilities.

The city of Bar (13,000 residents) and its harbor on the Adriatic coast are easily accessible; not far from Albania and Croatia and linked to Belgrade by way of a railway connection, they have good connections to their South-Eastern European neighbors. The road links and the proximity to the airports of Podgorica, Dubrovnik, and Tivat are also attractive. Presently, the economic area in question of over 200 hectares is divided into a harbor zone and an industrial zone.

The harbor zone is already being used for industry and fulfills the prerequisites for handling raw materials cargo. Although it had the status of a free trade zone until 2000, it could not really use that status under the then prevailing framework conditions (embargo, socialism). Supplementing the harbor, the industrial zone is an already developed area with an office building, a production building, and access to the harbor, roads, and the railway. The sole operator and owner of the entire enterprise zone is the harbor association.

The enterprise zone produces lime, sand, and crushed stone for building construction and underground structures. It is ISO 9001 certified and offers services in the areas of logistics, goods administration, customs procedures, building management, marketing of the economic zone, and acquisition of potential investors. Nearby there is a marina with tourist potential and a harbor for small boats.

Short description of the approach
The topic of industrial and technology parks was already part of the development policy debate in the region in the 1990s. The first priority for many was the very costly construction of buildings and infrastructure. It was hoped that this would create adequate conditions for attracting very large foreign investors, who would create a great many jobs all at once. However, these ideas were unrealistic; this has happened only rarely.

For bilateral Technical Cooperation, the envisioned investment budgets were in any case unrealistic. Nevertheless, in principle, the economic and financial possibilities of appropriate industrial and enterprise zones, perhaps in conjunction with efficient universities, are an interesting economic development instrument, also for South-Eastern Europe. Firms are geographically bundled, can use the same infrastructure, and take advantage of the services. The project to promote private sector development in Montenegro was therefore more than willing to offer advisory services to clarify the basic questions and draw up a concept for an industrial zone in Bar and to train the managers if an industrial zone were set up.

Advising and training were to be carried out in conjunction with an experienced operating company, in this case with Infraserv (Industrial park of Höchst in Frankfurt am Main). At first, the partners were to be assisted in arriving at a basic agreement on the concept. An evaluation was done to clarify whether and, if possible, then how the above-described harbor area could be developed to the point that national or international firms would invest in the zone.

Project implementation
The project began with several workshops for the participants, a study trip to Germany, and an appraisal to prepare the basis for the political decision-making process.

However, the appraisal came to the conclusion that a free trade zone for international investors was not feasible. Although investors encounter good conditions here, the conditions are even more attractive at other places. It is nearly impossible to quickly succeed against the intense worldwide competition for large-scale investments. Wage level and productivity in Montenegro cannot compete with either the low-cost offshore production sites in Asia or locations such as, for example, Romania. Adoption of the euro as the currency has resulted in a high price level. Together with productivity that is low in international comparison and a high wage level for the region, the initial conditions for larger foreign investors with labor-intensive processes are not sufficiently attractive. Furthermore, the idea of a (duty free) free trade zone in Montenegro loses specific locational advantages to the degree that Montenegro is integrated into the European Union and thus into a South-Eastern European free trade zone.

On the other hand, it appears far more promising to develop the industrial zone into an enterprise zone for national investors. The easily accessible site with its good
infrastructure would be ideal for this. In several production and service branches linked to the growing tourism sector (e.g., food production, hotel equipping, building materials production) there are profitable business areas. Thus, there is an opportunity to create a business start-up environment that produces a self-reinforcing momentum. This favorable environment could also become attractive for international investors one day. However, in that case, it would not be a matter of transporting raw materials to Bar, processing them there, and transporting them again to distant markets. Rather, the alternative would be to, as far as possible, manufacture products with local raw materials and sell them primarily in the wider region.

Instead of a free trade zone, one could consider the model of an “especially promoted area,” for which pro-investment rules would apply. Internationally, conditions such as the following are usual:

- Temporary tax exemption for business start-ups
- Tax breaks for international investors
- Easy credit conditions and guarantees
- Free rent for three years
- Subsidies for every local employee

At first, the focus should be on attracting manufacturing firms (SMEs). Furthermore, service providers such as business, tax, and personnel advisors, lawyers, electricians, and suppliers will be needed. A one-stop shop for investors/business start-ups would complete the range of services. There could be also targeted attempts to attract business start-ups; a business-plan competition could provide an overview of the corresponding potential.

If the concept is accepted, there still remains a lot to do before the industrial zone can be actively marketed: the existing building has no windows and can only be used for production purposes (in Germany, regulations require daylight for production). It might be a good idea to also install an expandable office building and a flexible production hall, the floor space of which can be increased. With the infrastructure in place, an advertising brochure would be the next step (also on the Internet). Customers must be recruited and tours for those interested organized. Descriptions of services, guarantees, and products, confidentiality agreements, offers, declarations of intent, rental and service contracts, site regulations, statutes, and service measures must be prepared. In addition, there must be brochures for firms (How do I start up a company in the industrial zone of Bar? How do I locate my business in the industrial zone?)

Impact
The idea of an industrial zone in the harbor economic zone of the city of Bar is basically promising. If this project succeeds, it will certainly strengthen the entire economic location. The firms and business start-ups that settled in the industrial zone would enjoy plant-level benefits because of the good infrastructure and available advisory and other services. Thus, they could probably realize their growth potential more easily and quickly than at other locations. This yields the macroeconomic benefits for employment, exports, and tax receipts.

Lessons learned
Much time has passed since presentation of the appraisal. The decision-making process of the partners is not yet complete. The debate is not only about utilization concepts, but above all about the initial investment costs. Only when the political debate promises to reach a consensus, can advisory services and perhaps training measures again be useful.

Recommendations
The prerequisite for a project such as the establishment of an industrial zone is a political consensus that can win a majority. GTZ cannot make this happen or replace it. GTZ can, however, be a technical dialogue partner, which offers partners – who must be in basic agreement – technical and neutral advice on preparation and realization of their concept (if needed, with the help of the GTZ construction specialists BAUTEAM in OE 3140).

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5 Municipal and Local Economic Development
5.1 Stimulating Participatory, Pragmatic Local Economic Development in South-Eastern Europe: Experiences with PACA

Dr. Jörg Meyer-Stamer, Frank Wältzing

Local economic development (LED) has been a growth sector in donor programs in transition and developing countries since the 1990s. The orthodox approach to LED is based on three key assumptions:

• LED needs a strategy, in the sense of a written document.

• LED is driven by government, yet needs the involvement of the private sector and civil society.

• LED needs an institutional basis – an LED section in local government or a Local Economic Development Agency (LEDA), a municipal LED office, a business association, or a stakeholder forum.

In South-Eastern Europe, LED has gained prominence more recently. To some extent, it came about as the evolution of EU-sponsored programs that combined a sector and a territorial focus in private sector development by promoting SME promotion agencies and Regional Development Agencies.

Donors like the International Labor Organization (ILO) have emphasized the creation of LED Agencies. Other donors (e.g. USAID) focused their support on the foundation of LED units in municipalities. According to existing evaluations, the track record and impact of such donor programs has been disappointing. The exit of donors has left many agencies as well as LED offices struggling for survival.

Since 2002, some donor programs (including GTZ, the EU, USAID) have been using PACA (Participatory Appraisal of Competitive Advantage) in their effort to come up with an alternative approach to LED. PACA is a business and action-driven approach to LED that emphasizes the need of quick wins to create credibility and to motivate stakeholders. It has been introduced by GTZ and Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) in Serbia, and by International Relief and Development (IRD) and Cooperative Housing Foundation (CHF) in Montenegro. The initial experiences in Serbia were mixed although many learning processes were made. After the PACA Exercises several projects were implemented, but subsequently the process fizzled out. The third PACA project in Montenegro is still at too early a stage to assess its success, though it did start very well – not the least since the lessons learned in Serbia were fed into the design of the process.

What were the reasons for the sobering result, and what do they tell us about LED and about PACA? In our view, the most important reason is the role played by donor organizations in the build-up, selection and follow-up process. They introduced PACA, and the credibility of PACA depended to a large extent on the backing by the respective donors. However, they introduced PACA into a setting where many if not most of the local stakeholders were skeptical of this approach. There are several features of PACA which pulled local actors out of their comfort zone:

• PACA emphasizes the importance of the PACA Team, and in particular the active participation of local stakeholders in the PACA Team. It is recommended to have individuals from local government, the private sector, NGOs and other players that are relevant for the local economy (for instance a local university) in the team, the assumption being that interaction in the team creates an opportunity for individuals from different segments to rehearse collaboration. However, individuals from the different segments initially view each other with distrust, and they tend to feel uncomfortable about the need to work together.

• PACA does not encourage the elaboration of comprehensive plans but rather the identification of quick-win activities which are then swiftly implemented. However, individuals who have been socialized in a centrally planned economy are much more comfortable with a planning effort than with a business-like behavior that constantly scouts for opportunities. This applies particularly to officials in local government.

• After the first PACA Exercise, the focus is supposed to be on implementing activities that render a visible result within three months. For some local actors, such activities appear to be trivial and strategically unimportant. They tend to neglect the learning element involved in the implementation of simple activities, not to mention the necessity to create social capital before any more ambitious projects can be launched. In one location in Vojvodina, local government decided not to conduct a PACA Exercise and to go for more ambitious initiatives immediately – and failed.

We generally observe that it is difficult to pursue Technical Cooperation activities that pull local actors far out of their comfort zone. It can only work if there is consistency and perseverance on the side of the donor organization. In the two processes in Serbia, this was not the case. Due to issues internal to the implementing organizations, support of the PACA processes could not be continued once the project had ended. On the side of the local counterparts, this was perceived as a vote of non-confidence, so that
most of them moved back into their comfort zone. To our knowledge, the only exceptions are the PACA practitioners in a small rural community in Vojvodina who continued the PACA process despite patchy support. In this case, their perseverance was due to their entrepreneurial spirit and their determination to improve the economic prospects of a collapsing rural economy.

So can you expect smooth sailing if a donor organization is sold on PACA and consistently propagates and supports it? Unfortunately, that is not the case. PACA offers a realistic opportunity to launch a sustained LED process, but it still has to battle with a number of serious obstacles that mutually reinforce each other:

- Low credibility of the public sector in the private sector: The public sector is perceived to be a source of trouble – registration, permits, taxes; insufficient provision of basic services like roads, water, electricity; bribes and politically motivated interference.
- Fragmentation of the private sector between the old statist system, the criminal economy, and micro and small enterprises that have come up since the 1990s. Talking about the private sector makes little sense. The enterprise sector still consists to some extent of state enterprises that are passing through a slow privatization process, and it consists of private businesses that do not want to be lumped together with state enterprise. It is thus unlikely that the business sector will speak with one voice, let alone be organized in a single association.
- Lack of contact between public and private sector is a logical consequence of the two issues mentioned before. Both the public and the private sector will respond skeptically to the suggestion that public-private partnership may be the most appropriate way to drive LED.

**Conclusion**

At present LED is very much concentrated on supporting LED offices and the strengthening of municipalities. International donors as well as the national public agencies are supposed to develop their support of municipalities and LED offices into a wider and more holistic approach to LED.

An understanding of local economic development as a process-oriented and participatory approach of territorial change management, based on the integration of local and regional actors from the business sector, civil society and public representatives, is still very weak in the region. LED aims at companies, and it therefore must pursue a business logic, not a planning logic. Encouraging LED with a business logic will be one of the main economic challenges in South-Eastern Europe.

LED is generally organized in a network of different actors. In EU countries LED is only rarely a mandatory role of the government. Much more it is a voluntary activity based on networks that consist of various government agencies, the private sector, trade unions, NGOs, and other players at the local and regional level. Yet LED will not be successful if the private sector will have to participate in endless meetings without concrete results. But without the participation of the private business sector, LED will be an ineffective approach. Urban planners are happy with planning horizons of five to ten years, businesspeople, especially owners of small businesses, are decidedly not. Therefore, it is crucial to employ methodologies like PACA that appeal to the private sector: action oriented, practical, business minded, efficient.

**Recommended reading**

Products and publications related to LED concepts and instruments  
www.mesopartner.com

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5.2 Help Toward Self-Help—PACA as an Instrument for Local Economic Development in Serbia and Bosnia and Herzegovina

Ute Dannenmann

Short description of the approach

PACA stands for Participatory Appraisal of Competitive Advantage. It is a method that combines the theoretical ideas of Michael Porter on competitiveness and the concept of systemic competitiveness (Esser et al. 1995) with participatory planning instruments (Participatory Rural Appraisal, Action Research). In contrast to the approaches to local economic development that use spatially oriented strategic planning as the starting point for all activities (as is done by the World Bank, for example), PACA’s goal is to prepare concrete proposals for action that can be implemented with local resources and yield results that are visible in the short term.

In Germany, the notion of municipal economic development stands for all activities that enlist a local government for developing the local economy. This affects the areas of business start-up, improving the business climate for both existing and new companies.

In contrast to this, the term Local Economic Development (LED), which is generally used in international discussion on this topic, is understood as coordinated development efforts of all economic stakeholders of a certain territory, not just local government. In line with this, mesopartner (proprietor of the PACA® trademark) emphasizes that PACA can be initiated by a wide range of stakeholders. The method is helpful as a management methodology in municipal economic development in order to also enlist private sector actors in a participatory manner and strengthen trust between administration and the private sector. Using PACA, appropriate and tailor-made instruments for business start-up and improving the business climate for existing companies can be identified and location conditions such as labor potential or locally available services and supply options can be improved.

PACA teams with relevant stakeholders from administration, business, and civil society use a participatory approach to carry out workshops and interviews that lead to a diagnosis of competitive advantages and disadvantages and to concrete suggestions for implementation. These initiatives, which can be implemented with the municipality’s own funds can include a wide range of suggestions such as establishing a farm producer organization, setting up a local tourist information center, or holding cultural events, technically oriented training courses, or informational events on health issues.

Project approach

The programs carried out on behalf of BMZ on Economic Development and Employment Promotion (EDEP) in Serbia and Bosnia and Herzegovina (BiH) have used PACA as an approach to local economic development and gained experience with various approaches.

In the project on promoting small and middle-sized enterprises in Serbia, contact to several municipalities was initiated via the government of the autonomous Province of Vojvodina and the methodological approach was explained in personal discussions at the local level. Personnel from the municipalities interested in cooperation participated in the PACA training seminar organized by the project. The trained contacts then set up a PACA team in their home municipalities that consisted of representatives from the administration, business, and civil society. GTZ supported these teams in implementing the PACA process (coaching).

The project for economic development and employment promotion in Bosnia and Herzegovina selected a different approach due to the project concept that was based on business development services (BDS) and specific experience of the project partners with international organizations. At the outset of the project, project measures in selected municipalities in the classic areas of business start-up and improving the business climate for existing companies (start-up and sector specific consulting) created trust between the local administration and the program. This motivated the stakeholders to begin a more comprehensive economic development process. The measures that had already been initiated then flowed into a more comprehensive PACA process which was implemented in the municipalities on a sector-by-sector basis (determining the competitive advantages and disadvantages in the municipality’s business-related sectors).

Concurrently, local advisors were trained in PACA application in collaboration with InWEnt. As multipliers, they then held courses for municipality representatives on municipal economic development and PACA as an instrument for municipal economic development. The local advisors continue to be available to the municipalities for supporting the PACA process and subsequent implementation of economic development measures.

Impact

The project introduced PACA along with instruments for promoting the local/regional economy. Municipal teams use this benefit by initiating and supporting the economic
development process. The direct benefit is that relevant business stakeholders implement measures for economic development together. Increasing income and creating jobs are an indirect benefit.

Examples for direct and indirect benefits – Serbia:
• Setting up a tourist information center in Subotica
• Origin protection (according to Serbian standards) of a local variety of cherry in Mali Idjos
• Creation of income opportunities in farming for refugees in cooperation with the Food and Agriculture Organization (FAO)
• Application of the PACA method in other municipalities with the support of other projects and donor organizations (American Development Fund – ADF/United States Agency for International Development – USAID)

Examples for direct and indirect benefits – BiH:
• Implementation of a business plan competition in combination with a CEFE course (Competency-based Economies through Formation of Enterprise) in Prijedor
• Networking firms that are jointly planning, producing, selling, and installing solar systems in Doboj Istok
• Change in the restaurant and bar opening hours in Doboj Istok by the municipal council after the restaurant and bar owners had agreed on the details as part of a workshop
• Introducing advisory services for new business founders at the municipal office in Usora

Lessons learned
Partner organizations/contact persons:
At the beginning of a PACA process, the question arises as to who has been mandated and has the time to steer the process as members of a municipal team.

Mesopartner emphasizes that PACA does not necessarily have to be initiated by the municipality. The experience with organizations that are independent of the municipality, such as promotional agencies for small and medium-sized enterprises (SMEs) in Serbia has shown, however, that they are unable to support PACA processes on a fee-free basis, because they need to take in revenue from their services. The project in Doboj (BiH) had a similar experience. Here also, setting up a PACA team consisting of representatives of the local regional chamber, an active non-governmental organization, and the municipal administration failed because the administration was unable to provide suitable personnel and to create a business enabling environment due to budgetary constraints. Without the participation of the municipality, however, the other partners were not prepared to commit to activities other than those that had already been planned at the beginning. The reason for this, they explained, was that they did not have the political weight or the resources for a comprehensive economic development process.

In larger municipalities in BiH local economic development agencies that are financed by the municipal budget are increasingly being created that can combine the management of a development process with the conventional responsibilities of municipal economic development. These units employ neutral experts, funding is guaranteed, and their mandate is economic development. Thus they are ideal for implementing PACA. Still it does not make a great deal of sense to make a standard practice of setting up this type of economic development agency at the beginning of any and every activity associated with economic development. On the one hand, developing institutional structures takes too long, and on the other hand, smaller municipalities have neither the budget nor the business foundation to do so.

In small municipalities, the business experts were the responsible contact persons for the PACA process. While they know the relevant local business stakeholders, they sometimes lack the initiative and understanding for economic development. In addition, they often do not have extra time at their disposal, and are not given the two-week leave that a PACA team needs. For municipal government workers, PACA means additional work on top of all their other responsibilities. Implementing PACA as it is outlined in the manual in two weeks is unrealistic under such conditions.

It goes without saying that PACA can only be implemented with people who are committed to their jobs. This is often a limiting factor. In addition, there is the danger that business experts in the municipality may be replaced after the next election, which can negatively impact sustainability.

Public relations work:
PACA requires intensive PR work. Mayors, municipal council members, and the private sector all need to understand what PACA can manage and what it cannot. For instance, the head of an economic development agency in Serbia complained that the municipal council expected him to create several hundred jobs in one year. He was aware of the fact that the municipal council members had limited knowledge about economic development, but was not able to meet their expectations with PACA.

Change management:
An additional obstacle to introducing PACA is often the fact that a participatory approach generally requires the municipal administration to have a new view of its role. In the economies that were formerly organized on the basis of a planned economy, government stakeholders need to
rethink their attitudes, since they need to withdraw from the active role of planner, implementer, and controller. These tasks should and can be carried out by the private sector more competently and more efficiently. The government stakeholders need to learn to identify with their new role and find their original responsibility in shaping an enabling environment and supporting the process of municipal economic development.

Yet many business owners need to revise their thinking as well. For example, they expect the government (on the local level, represented by the municipality) to enforce protectionist measures for protecting the national economy from international competition, to provide loans or subsidies, and to provide services that could be offered better on a private-sector basis for money. Thus, implementing PACA is a learning process for all the participants. Representatives of municipalities need to learn to surrender responsibility to business and support firms in their business with appropriate instruments for economic development. Businesses need to revise their expectations and become active in the sense of self-help.

PACA process:
PACA is an outstanding methodology for initiating negotiating processes among business stakeholders. Hence the methodology tended to be used as an instrument for improving dialogue rather than for diagnosis, particularly because many stakeholders claimed they were already familiar with the diagnosis. Contrary to the strict approach, in many cases it seemed appropriate to combine the analysis with the definition of the next steps in the same workshop. According to the PACA Manual, this should not take place until the diagnosis has been made in so-called Way Forward Workshops.

After business owners were often not prepared to participate in the large number of workshops, individual discussions proved to be an important motivating element. For instance, cooperation among the solar system firms in Doboj Istok only worked when a local expert visited the firms in the company of a municipal representative and clarified the interests of each party in individual discussions.

PACA requires coaching on the part of the project. Many PACA teams are overwhelmed, especially when it comes to the moderation processes that are the key to success. Moderation courses for the team members should be offered in addition to the PACA course. Through coaching on the part of the project, guiding a lengthy economic process can be practiced.

Recommendations
Be careful not to give even the slightest impression that a two-week PACA process will trigger a local economic upswing. PACA’s primary interest is to produce successes that are visible in the short term but are generally limited in their large-scale impact. This is supposed to motivate the local economic stakeholders to also cooperate in the long term in the interest of municipal economic development. Since the potential of the municipalities is often too low for the PACA processes to yield a visible economic upturn in the short term, you should encourage the municipalities to cooperate on a regional level.

Combine PACA with concrete measures for training and upgrading (capacity building) or with advisory services. The project’s support of a development process alone is not enough to achieve significant results and motivate the participants.

Only work with active and interested people. PACA requires a great deal of time and commitment on the part of the teams. Use your energy to motivate and support the team. Make sure that the PACA team provides information to the municipal council and the public.

Don’t do PACA “by the book”, rather adapt the methodology to the situation. It may be appropriate to begin in just one sector and to extend the activities to other sectors later.

You can also use elements of PACA in sector-promoting approaches. For example, holding a PACA mini-workshop at an automotive cluster in BiH proved to be very useful for the annual operational planning of services.

Recommended reading
Becker, Sabine; Gomm, Anja (no date): What works in LRED? (Lern-)Expériences aus den Vorhaben der lokalen und regionalen Wirtschaftsförderung der GTZ. Publication of the sector project WIRAM.
Meyer-Stamer, Jörg (no date): The how to conduct a PACA Manual.
www.mesopartner.com
Meyer-Stamer, Jörg (no date): The PACA Book of Checklists.
www.mesopartner.com
www.mesopartner.com
www.paca-online.de

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Project background
In the opinion of the EU, the Bulgarian economy will only become competitive in the medium term. The basic reasons for the low level of competitiveness lie in the difficulty of financing necessary investments and in the lack of economic-development structures, particularly for small and medium-sized enterprises. Bulgaria's accession to the EU will further intensify the competitive situation of the Bulgarian economy.

The Economic Development and Employment Promotion Program Bulgaria, implemented by GTZ on behalf of BMZ, was charged with setting up economic development agencies in at least three municipalities through its component Development of Regional and Cross-sectoral Economic Development Instruments. The task of the agencies is to support business start-ups, offer advice and assistance to existing firms, and speed up investment by marketing of the location.

Approach
Upon application by the oblast (district) administrations of Haskovo, Kardjeli, and Lovetch, contracts were concluded between each of these oblasts and GTZ for the establishment of an economic development center. While there were already organizational units in Haskovo und Kardjali (non-governmental organizations) concerned primarily with regional questions, in Lovetch everything had to be built from the ground up – also with respect to the availability of potential staff members.

In the contracts between GTZ and each sponsoring institution in the oblast, a three-year financing plan was laid down, in which local inputs and GTZ inputs are individually listed. Together with GTZ, offices were selected, the costs of which, as well as heating, electricity, and telephone costs, were assumed by the respective sponsoring institutions. GTZ financed the required renovation and equipping of the offices with furniture and necessary infrastructure (server, PCs, printer, laptops, etc.). The contracts also stipulated that a declining percentage of personnel costs would be assumed in the first three years (1st year – 100%, 2nd year – 50%, 3rd year – 25%).

Training measures were carried out in all three locations in order to establish the provision of competent economic development services. Staff members were intensively trained in advisory services for business start-ups and SMEs. Thus, various checklists were developed to give staff members something to guide them in advisory situations. The checklists are also useful as guidelines to help training new staff members.

Additional training measures included balance sheets and profit and loss analysis, comparison of credit conditions, investment planning, and cash-flow analysis. Corresponding Excel programs were developed, which assisted agency staff members with the work. The advisors also prepared two brochures (guidelines for business start-ups and preparation of business plans), which were available when the centers officially opened.

In all three municipalities, training was given on creation of an internet presentation. A structure was developed for this purpose, along the lines normally expected by foreign investors.

Impact
In all three institutions, the staff members actively and intensively collaborated and made full use of the existing opportunities. It proved to be particularly advantageous that all translations (from English, except in Lovetch, where it was from German) into Bulgarian – brochures as well as checklists – were done by center staff members themselves. This resulted in a fruitful dialogue between the advisor and the staff members, which helped close the gaps in understanding that remained after the training.

The development of the center in Kardjeli is particularly gratifying; seven staff members are now working there, although GTZ support has been completed. This agency is not only ISO 9001 certified; it now also offers advisory services on quality management and certification to firms in the region. By way of a quarterly newsletter, the agency maintains contact with firms and associations in the region.

Despite the advisory services, it has proven difficult in all three regions to set up a business-related Internet presence, because GTZ was not able to provide the required financing and the funds were not made available by the municipal and regional administrations.

Lessons learned
As already emphasized at the beginning, SME policy in Bulgaria continues to be uncoordinated and of poor quality, in comparison to the practice in long-time EU countries. Even though this task is emphasized in a number of official government documents, in practice, one detects little support either at the national or regional level.
Although a series of economic development institutions have been set up across Bulgaria with the support of international donor organizations, they are – as experience in other Central and Eastern European countries has also shown – not financially viable, because the diminishing or already exhausted donor funds cannot be (sufficiently) replaced by the largely private sponsoring structures.

Perhaps the regional and municipal administrations are of the opinion that such agencies must finance themselves through the sale of their services. This means that these agencies attempt to acquire new donor commissions, thereby necessarily neglecting the original task, that of promoting business start-ups and small and medium-sized firms.

**Recommendations for similar projects:**

The main task of the economic development centers should be the support of business start-ups and existing companies in the region. More attention should be paid to strengthening the competitiveness and export capability especially of medium-sized firms. This also includes familiarizing these firms with EU standards.

The agencies should see themselves as service providers or intermediaries between firms and the administration.

The economic development centers can only continue to exist and achieve their objectives if the public sponsors of these centers are willing to financially support them (out of the public budget).

In order to achieve synergy effects, attempts should be made to build a network of economic development centers. There should be an evaluation to determine whether support can be concentrated on such federations. If this succeeds, there must be guarantees that the transferred knowledge is made available to the municipal and regional economic development agencies through flanking training measures. This would increase the multiplier effect of the consulting.

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5.4 Municipal Partnerships – Networks at the Local and Regional Levels

Axel Mayer, Elke Breckner

Background
As the efficient organization of the national relationship between politics and administration is a necessary element of a stable, democratic state governed by the rule of law, responsible municipal policy and efficient municipal administrations are part of a viable state. City partnerships, municipal development partnerships, and project partnerships between municipalities as well as corresponding networks at the local and regional levels are approaches to a new kind of municipal development. The project “Caucasus City Network” has undertaken to set up a learning network on municipal self-administration.

Short description of the approach
Reform policies in the three South Caucasian countries of Armenia, Georgia, and Azerbaijan have created enormous challenges for the municipalities. The objective of the project is to initiate municipal development processes in the participating cities and to help the municipalities provide basic services and infrastructure measures, with broad participation of the population. The project aims to establish a network between the participating actors that will be viable even after the project term. This network should allow its members to exchange information on similar municipal policy challenges, to mutually benefit from problem-solving approaches that have been developed, and to put into practice a culture of cross-country dialogue. In Georgia and Azerbaijan, the project builds directly on the work of previous partnerships between Caucasian and German cities (see the diagram on the following page).

The approach is based on three propositions:

Proposition 1 – Municipalities can learn from each other: Although the problems of cities and municipalities in different countries have socio-political differences, in terms of municipal policy, they are similar. Direct exchange between cities and municipalities facilitates reciprocal learning processes.

Proposition 2 – Networks as institutionalized learning processes: Knowledge is generated through experience and exchange. It is perfected through direct communication and is based on intensive interaction between people. Networks can institutionalize learning processes – in such networks, practical contextual knowledge can be continually renewed and retranslated into context-related practice.

Proposition 3 – Municipalities and GTZ are strong partners: Municipal policy and administration in Germany have their own specific knowledge and experience, which can be employed for development policy and can usefully supplement government Development Cooperation. Long-term reform processes of the state and society can be supported by municipal knowledge transfer and learning dialogue.

Project implementation
In February 2002, a kick-off workshop was held at GTZ with the participating German cities. In addition to a discussion of the project concept, available promotion instruments, financing modalities (subsidy agreements with German cities, local subsidy contracts for small measures), and different roles and tasks of the partners in the network, the emphasis was on organization of the preparatory phase and project planning.

In April 2002, representatives of the German cities and GTZ traveled together to Azerbaijan and Georgia. In the countries, concrete cooperation approaches were jointly identified by the Caucasian partners and the representatives of the German cities and GTZ. During this trip, local project coordinators, responsible for coordination of the agreed measures, were appointed in each partner city.

In summer 2002, work plans for implementation – based on the identified cooperation approaches – were drawn up. The various German and Caucasian local experts were in contact, developed concrete activities, and agreed on common objectives. Then on this basis, subsidy agreements for the German cities were drafted by GTZ in July 2002. These subsidy agreements are for the financing of small-scale measures and travel expenditures of municipal experts to implement advisory measures.

Implementation of individual advisory measures and small projects is the responsibility of the city partners, who provide their personnel to the project at their own cost. A project coordinator offers support with respect to the development policy orientation of the planning and implementation of bilateral cooperation and organizes the intermunicipal and interregional exchange of experiences and knowledge transfer.

Project progress monitoring was carried out in fall 2003; it evaluated the viability of this new approach, extracted lessons learned, and fed them back into the project. On this basis, the pilot phase of the project (2002–2004) flowed into a new project phase (2004–2006).
The following list provides an overview of the various thematic areas of cooperation in the Caucasus City Network:

- Saarbrücken–Tbilisi: youth and social services, environment, waste disposal, gender, administrative reform
- Biberach–Telawi: youth and social services, waste disposal
- Ludwigshafen–Sumgait: youth and social services, environment, waste disposal
- Supraregional: youth and social services, environment, waste disposal

Given that a description of all activities and measures is beyond the scope of this article, an example from the thematic area of the environment will be presented for each partner city.

Environmental and urban planning in Tbilisi: In Georgia, there are national environmental protection laws that have not yet been passed on to the municipal level. The project supports the preparation of the legal foundations for city planning, in order to integrate environmental aspects into urban planning procedures. The existing land register is being supplemented with environmentally relevant data. This requires staff to be trained in inter-office cooperation and the preparation of the ecological cadastres.
An organizational chart and job profiles were drawn up for the environmental agency and discussed with the municipal representatives. At the same time, an informational brochure on the structure and tasks of the environmental agency was drawn up and made available to interested citizens.

Waste management and environmental education in Telawi: In Telawi there is no regulated waste disposal. The project supported the preparation of a waste management concept (e.g., implementation of a household waste analysis, preparation of a fee system). The legal framework conditions were created through passage of waste disposal regulations and a fee scale by the Sakrebulo (assembly). This advisory measure was linked to a complementary small-scale measure: the call for bids for the purchase of waste disposal vehicles was completed, and the first three vehicles have been purchased. The city of Telawi has placed funds for systematic waste disposal in the budget (purchase of garbage containers). Presently, the focus lies on environmental education in the thematic areas of waste prevention and disposal. An environmental action day is planned for fall 2005.

Registry of contaminated sites and environmental education in Sumgait: The city of Sumgait must deal with many highly contaminated industrial sites and a great deal of toxic waste. In order to prevent further danger to people and the environment from these contaminated areas, advisory missions from Ludwigshafen will create a simple registry of contaminated sites, which is useful for further urban development. A city working group was set up; it organized the survey of all suspicious sites and made agreements about their future use. Groundwork was laid for the improvement of waste disposal and waste treatment (e.g., analysis of household waste) and, in conjunction with the waste disposal firm commissioned by the city, a municipal waste management concept was drawn up. A roundtable with environmental agencies, schools, and non-governmental organizations was established, and a multiplier seminar on environmental education methods was carried out. Together with local organizations, an Azerbaijani-German environmental journal was published to inform citizens about current activities. In fall 2005, there will be a workshop with the partners from all participating cities. The previous environmental activities are to be evaluated and starting points for knowledge transfer identified.

Trip to gather information on environmental education: In summer 2005, there will be a trip with the participating Caucasian partners to Saarbrücken and Ludwigshafen in order to gather information on environmental education.

**Impact**
The above-mentioned project objective is based on a results chain, the full description of which, however, would be too comprehensive. Thus, only a part of the results chain will be presented here; the idea is simply to illustrate the links in the chain through examples.

The activities and outputs of the project consist of advising the various city partnerships on ways to organize traditional cooperation in a development-oriented manner. The project supports the deployment of German municipal experts to the respective partner cities. Subsidy agreements are concluded with the different city partnerships so that small-scale measures can be undertaken in support of the advisory services. Furthermore, the project organizes information-gathering trips and workshops for exchange of experiences between the individual city partnerships.

The use of project outputs consists of improvement of services for citizens by the participating South-Caucasian partner cities (example: establishment of a citizen’s office in Tbilissi), strengthening of cooperation between the individual offices and other municipal development actors (example: implementation of environmental roundtables in Sumgait), and measures to concretize the self-help potential of the cities and their citizens (example: establishment of a youth center and reconstruction of a music school in Telawi). Ideas from information-gathering trips and supraregional workshops to exchange experiences between the individual city partnerships are collected by the participating cities and integrated into their daily work (example: creation of roundtables in Sumgait motivated Tbilissi to found a cross-agency working group on the environment, which also includes various non-governmental organizations).

The impact of the project consists of improved access by citizens to the city hall (example Tbilissi: citizens know what their city is doing and who they can contact), increased environmental awareness of various actors and routine inclusion of environmental concerns in all urban-development questions (example Tbilissi and Sumgait), and active participation in the improvement of quality of life in their city by a critical mass of citizens (example Telawi). The participating cities maintain contact to each other, which allows them to obtain advice from each other on concrete questions and to support each other.

**Lessons learned**
During the pilot phase, it became clear that creation of intermunicipal cooperation in the region would require a great deal of time and would also have to be limited to a few work areas. Thus, for example, a meeting of local politicians from the participating cities in the region only makes sense if concrete project results are visible, presentable, and comparable (as briefly presented in the example...
of the thematic area of the environment). Regional knowledge transfer and joint learning between partners from Georgia and Azerbaijan through concrete small-scale projects is possible. A change is also occurring among German municipal experts: from the original idea of a one-sided transfer of knowledge to a joint learning process through strengthened regional networking and greater orientation to development policy objectives.

The project has shown that the development policy orientation of city partnerships and the achievement of concrete results within the networks require certain preconditions. The following factors for success were identified and can be used to orient similar projects:

- The more similar the municipal profiles of the cities that wish to work together and the more trusting the relationship between the cities, the easier it is to introduce a new element (development policy orientation) into the partnership.
- The stronger the political and administrative support for the partnership, the easier it is to implement the corresponding project.
- The development of joint visions, objectives, and strategies for implementation of the project is essential to keeping the many different network participants on the path.
- A network must be professionally managed, otherwise it loses its focus on objectives and results and the participants feel disoriented.
- A network lives from the involvement of the participants; motivated municipal experts must be continually incorporated into planning and operation of the project.
- This kind of project must be placed on a broad personnel and financial basis: if the resources of various actors (German municipalities, local firms, citizen involvement, German Development Cooperation) are bundled and focused on a common objective, greater impact can be achieved together.
- The actors of the network are formed by different administrative and organizational cultures, as well as the values and norms of social interaction. These differences must be made transparent by the project management, and appropriate strategies for dealing with this must be collaboratively developed.

Transfer of the approach to the thematic area of local/regional economic development

The approach of the “Caucasus City Network” can be transferred to other actors besides municipalities and to other themes than those treated here. The proximity of the participating actors in the network and the degree to which cooperation is institutionalized can differ, depending on the tasks to be completed and the interests of the participants.

In Germany, there are a variety of networks – particularly in the thematic area of the economy – which, in a dynamic environment, are often more innovative and faster problem solvers than the government administration or the private sector. Examples range from the Emser-Lippe region (www.ela-online.de) and the Bergisch city triangle (www.bergisches-staedtedreieck.de), both focused on the activity area of the economy and both in Germany, to Cities of Tomorrow, an international city network supported by the Bertelsmann Foundation (www.bertelsmann-stiftung.de/cps/rde/xchg/SID-0A000FoA-216CF3CB/stiftung/hs.xsl/4068_4070.html).

The idea of a strategic partnership and a network can be implemented in many ways within a project context. For example, a network can function as a learning relationship, a forum for the exchange of experiences, an efficient and effective service provider, a producer of new and innovative products, or a strong lobbyist. A network always means that various resources are mobilized and bundled and that there is cooperation with different partners without any hierarchical interventions or purely market exchanges. Networks are built on a longer time horizon, reciprocity, and trust.

The following types of networks in the thematic area of the economy are examples that can be considered: networks to promote business start-ups; training networks; business networks; municipal economic development networks; or innovation networks.

For networks to function and develop their potential, a number of conditions must be met, above all, the competency of the participating network members. If these conditions are not met, an envisioned network can easily get tangled in cliques, corruption, and old-boy networks. The instrument introduced here, municipal city partnerships – local and regional networks – offers many deployment and organizational options or paraphrasing Aristotle, “The whole is more than the sum of its parts” (Original quotation: “Since that which is compounded out of something so that the whole is one, not like a heap but like a syllable – now the syllable is not its elements.” Aristotle, Metaphysics 1041 b 10 Book VII).

A selection of additional reading and ideas on initiating or steering a network or the competencies required of network participants can be found in the following bibliography.

Recommended reading


Links
www.eine-welt-bw.de
Baden-Württemberg: good examples of one-world work; international municipal contacts
www.kommunalpartnerschaften-bw.de
Baden-Württemberg Association of Municipalities for Municipal Partnerships
www.rgre.de
German Section of the Council of European Municipalities and Regions
wwwpartnerschaftsinitiative.de
Partnership Initiative South-East Asia
www.service-eine-welt.de
Publications on municipal development cooperation
www.twinnings.org
Point of contact for European/non-European municipalities
www.urbanet.de
Network of municipal and city development projects assisted by the GTZ

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5.5 Urban Development and Green Area Management in Albania’s Capital City Tirana
Sokol Celò, Martina Craemer-Möller, Lucie Gumbrecht

Introduction
Tirana is one of Europe’s fastest growing cities. It is therefore not surprising that the living conditions for the population are continually worsening: high traffic volume with long traffic jams, emission of pollutants and noise pollution, an overloaded sewage system whenever there is heavy precipitation, burning of household wastes, uncontrolled building in many open spaces, deterioration and disappearance of threatened inner-city green areas – the city is in danger of sinking into chaos.

The turnaround came with the election of the present mayor: From the beginning, he demonstrated the political will to put an end to this development. Obvious examples include the removal of many small stands of street vendors, kiosks, and wildly proliferating restaurants, more barracks than building; the rehabilitation of the river, which was still an open sewer two years ago, and of the neighboring city area. At present, the mayor is energetically implementing the planning concept for the city center, with the support of the German side. As part of this, he is concerned to preserve the existing green areas, which, in part because of illegal land grabs and lack of maintenance, constitute a special city development problem; he wants to turn them into local recreational areas for the population and to renovate them in order to improve the cityscape and the urban climate.

Project implementation
In 2003, the city of Tirana, with the support of GTZ, which offered advisory services on urban development in Tirana on behalf of the German Government, held an international competition for preparing an urban development plan of the city center. With the help of expertise from the urban planning office of Frankfurt, which has experience in the organization of urban development competitions, the city of Tirana was able to professionally prepare and implement the competition. Organizational and technical advice was offered to the urban planners by a GTZ-commissioned architect, who helped draw up the terms of reference and ensured that internationally accepted procedures and rules for such competitions were applied.

The competition attracted a great deal of national and international attention. As a follow-up measure, the city administration of Tirana, in conjunction with the international Berlage Institute for Architecture and Urban Planning and Albanian students, and with the support of GTZ, held a summer school in 2004. The tasks set were derived from the urban development plan and contained, at the expressed wish of the city administration of Tirana, the development of a concept for the two most important parks and local recreational areas of Tirana.

The summer school achieved good results and attracted a great deal of public attention, so that the lord mayor and the city administration decided to institutionalize it as an annual event. They intended to thereby facilitate regular international exchange of expertise between the city administration, Albanian and foreign students, and international experts, at the same time, guiding and pushing urban planning, implementation, and development in the right direction. Every May, the results are made available to the public in a richly illustrated document.

Several of the Albanian students who participated in the first summer school in 2004 are now employed in the city administration. With their active support in a working group, a five-week summer school was again implemented in 2005.

The concept for the Tirana Central Park, prepared in 2004, has already been implemented. With the participation of the Berlage Institute and with GTZ support, a planning concept for Tirana’s largest local recreational area, the Great Lake Park, was to be developed and the details for implementation worked out in the 2005 summer school. In the framework of pilot measures, several areas of the park have already been replanted. With the introduction of a “green tax” (1 Euro per person per year), the city committed itself to continue to care for and maintain the parks. Corresponding guidelines for park management are now being worked out by the project.

Measures to raise environmental awareness among the population or ecological education must then be instituted in further steps (brochures, sponsorships, planting initiatives on certain days such as Children’s Day, incorporation of the private sector, garden shows, etc.).

Objective and impact
With implementation of the results of the international urban development competition in Tirana, new – transparent and legal – standards were set for urban development planning and binding decisions were made for Tirana. Both are important for the image of the capital city, also with respect to the sought accession to the EU.

The results of the subsequent summer schools – focused on the area of inner-city parks – are set out in a Park Regulatory Plan (legal definition of boundaries/potential land
use of the Great Lake Park and the Central Park). The Park Regulatory Plan serves as a frame of reference for all future activities and as the legal foundation for the prevention of further illegal construction and inappropriate use of the green areas. It is also intended to offer planning and investment security to future investors.

The center of a capital city like Tirana is, to a certain extent, the most important calling card for foreigners. An attractive center will also contribute to the cultural integration of Europe. Furthermore, for the population of Tirana and Albania, it is important to have a center with which they can identify themselves. The selected inner city parks will play a part in this. They fulfill their function as local recreational areas for the population of Tirana and its surrounding areas (project objective).

The indirect benefits of such a development process lie in strengthened environmental protection, sustainable urban development, and improvement of planning/investment security and the city’s image.

Lessons learned and key recommendations for similar projects
The international tender for the urban development competition, won by a French planning team, attracted a great deal of attention from the population; it also aroused much international interest. The effective publicity of the competition made it possible to attract internationally renowned architects to guide the summer school in Tirana. This facilitated the international exchange of expertise and the training of Albanian students for later work in the city administration, and helps to develop and implement urban development planning in sub sectors (e.g. city parks). The success of this summer school motivated the lord mayor and the city administration to continue the summer school as an annual highlight for current themes relevant to city development. The response from the public is positive as well.

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5.6 Restoration of the Historical City Center and Location Development – Maintaining Building Structure and Promoting Craftsmen as a Municipal Policy Theme in Sibiu, Romania

Steffen Mildner

Context

Sibiu, founded by German colonists in the 12th century (then called Hermannstadt), is still today the economic and cultural center of the region, famous beyond the borders of Romania for its historically important city center with its numerous monuments. The old town, with over 100 hectares and around 16,000 residents, its winding streets and picturesque plazas, forms an enclosed assemblage of buildings from the Middle Ages.

Nevertheless, only a few of the total of 1,200 old buildings in the inner city are in good condition. The structure of many buildings has been severely damaged and numerous houses are in imminent danger of collapse. The loss of these buildings would hurt this historic city center more than just materially. Although the historic inner city is internationally recognized as a cultural monument, concrete support to maintain the medieval cityscape has long been limited to individual measures. The increasing deterioration of the structures, inept renovation attempts, high population density, and poor, inhumane living conditions are the clearest signals of a massive threat to the old city.

In addition to the endangered structures, the decades of socialist rule also diminished the centuries-old function of the center: instead of the thriving trade center that it once was, retail trade is in a sorry state – even 10 years after the Romanian revolution; only a few hotels offer accommodations for guests and the once efficient craftsmen and women are now reduced to a few small businesses, most of which have found a niche in which to survive.

Two chief causes were repeatedly given for this complex array of problems: lack of capital and time-consuming permit procedures. It was obvious that the population alone was not able to sustainably improve its living conditions and that the capacities of the local administration for sustainable, economically viable urban development were inadequate. However, it very quickly became clear that the real bottlenecks lie in the area of know-how, the lack of feasible renovation concepts, and the gap between supply and demand:

- Architects, craftsmen, and banks did not recognize city-center renovation as an interesting market.
- Attempts at restoration usually were directed at the unfeasible and complex renovation of individual buildings.
- The restoration concepts would have required the relocation of all house residents and were therefore unaffordable for the residents.

Thus, a market for renovation work could not develop: Supply and demand did not meet. Modest, gradual, and, for the owners, affordable renovation steps were not taken. A few highly simplified figures: Architects, craftsmen, and banks expected orders of between EUR 100,000 and 500,000 per building; the owners could (even with the help of external subsidies) finance only partial renovations in amounts between EUR 3,000 and 50,000. Instead of seizing the opportunity of many small projects, the business sector waited in vain for large projects.

The cooperation project begun in 2000 after an orientation phase aimed to dissolve this blockade; it was charged with creating a self-sustaining market for renovation services. It is pursuing the objective of building capacity for historic city center rehabilitation and creating the framework conditions for broadly effective implementation of renovation measures.

Project implementation

Because the above-described situation was characterized by stagnation and obstruction, the project began with an attempt to mobilize market participants and develop visible concepts. The planning and rapid implementation of a series of small-scale demonstration measures shortly after initiation of the project showcased the alternatives to prohibitively expensive total renovation. Training courses for artisans and architects went hand in hand with active public relations work, which also helped to alleviate widespread fears among the population that they would be resettled.

Since then, the project has developed and promoted participatory restoration approaches in which residents, authorities, the local business sector, and other civil-society organizations work closely together. It is the only project in the region with a methodology that centers on an integrated approach to preservation and restoration of the historic city center, linking economic, social, and legal aspects of restoration with preservation of the structures in the inner city.

Two of the work areas presented here require brief explanation:

Free renovation advice: A group of local architects and structural engineers was brought together and trained to advise all interested owners and renters (up to a maximum of 40 hours) for free of charge. This advice is intended to provide an orientation and to help avoid mistakes. The result
is a short evaluation that describes the renovation concept, possible approaches, and the expected costs. Thus, the advisory services assume the function of facilitating market entry.

**Demonstration measures for residential buildings:** Because of very low income levels in the historic city center, an assistance program was created to support construction measures that preserve residential buildings and improve the living conditions in so-called sub-standard apartments (above all through the installation of bathrooms and kitchens) by way of subsidies (first from GTZ, later from the Kreditanstalt für Wiederaufbau – KfW).

**Impact**
- The architects trained by the project advise housing owners on planning gradual renovation work, which then employs the artisans trained by the project.
- A growing number of companies providing trade services have recognized the new market opportunities and are employing workers and beginning to specialize in renovation work. Initial demonstration projects and broad publicity are creating an atmosphere of new possibilities that is motivating other owners to commission renovation work. Economic multiplier effects are arising. The traditional skilled trades are reviving.
- Renovation of the historic city center is becoming a municipal policy theme. The city administration is intensifying its efforts on behalf of the old town (rehabilitating public spaces and infrastructure and reducing traffic); it has increased the corresponding budget and, at the same time, is improving framework conditions for the private sector.

- The attractiveness and degree of popularity of the historic city center are rising: Sibiu was chosen as the European Cultural Capital for 2007 and is applying for acceptance in the UNESCO list of World Culture Heritage Sites. Cultural tourism is growing, new hotels and restaurants are opening. More national and international firms are becoming aware of Sibiu and its favorable locational factors, moving there, and creating additional jobs.

Within only five years, the unemployment rate for the entire city sank from around 20% to 4%. Other Romanian cities have now also recognized the benefits of an integrated restoration approach and are beginning to make use of it.

**Lessons learned**
From the broad spectrum of experiences made, three should be mentioned as good practices:

- **Management Plan:** The documents drawn up for the period 2000 to 2004 under the title “Municipal Action Program” and for the period 2005 to 2009 as “Management Plan” awakened a great deal of interest among various actors because of the clear structure and the illustrations. The plan fulfills several functions at once: it serves the administration as a steering and monitoring instrument, makes municipal projects more transparent and comprehensible for citizens, and is used to apply for assistance funds from national and international organizations.
Advisor architects: the above-mentioned creation of a group of architects and structural engineers for free initial advising of owners and renters, who have absolutely no experience as builders, has developed into an important instrument for cost-effective and yet monument-preserving renovation. Without the “renovation in steps” that they encourage, it would not have been possible to create a market for renovation services.

Public relations: the combination of creating materials (from informational brochures about work aids to monument manuals) and holding events (monument day, monument prize, competition for school children), and actively reporting in the media in conjunction with campaigns of several weeks has proven to be particularly effective.

**Recommendations from the perspective of the project**

Even if the lack of financing is not the central, decisive bottleneck, as is usually asserted, still it is advisable, right at the beginning of the project, to use at least local subsidies in order to send a visible signal. Particularly in situations characterized by stagnation and depression, construction measures are important for mobilization of the population.

Within the German Technical Cooperation, strengthening municipal administration has traditionally played an important, often central, role. However, for historic city center rehabilitation projects, it is advisable to focus, even more than in other contexts, on the essential government tasks. These are authorization and monitoring tasks and design of the public space. Advisory services and promotion of private housing can be organized more efficiently and in a more citizen-friendly manner outside the administration, but still linked to it (like the Sanierungsträger – restoration companies – in Germany). Usually, such a unit can more easily coordinate the various market participants and promote the creation of a functioning market.

Often, a Technical Cooperation project (even if it works locally) is expected to first evaluate and document the national framework conditions. The detailed clarification of institutional responsibilities, legal instruments, and national budget for the broad range of urban renewal tasks is time consuming, it often offers few conclusions concerning the local scope for action, and also tends to diminish willingness to innovate. Here, a shorter approach is recommended: new restoration concepts have greater chances of success if they are developed out of the local situation – even if this entails the risk that they do not correspond to national standards or directives. The national level will gladly take up and disseminate successful approaches at a later date.

To stimulate local economic processes, it is crucial to simultaneously advise and train the supply and demand sides. This often demands very detailed work and a variety of consultations, in which the local architects assume an important intermediary role.

**Recommended reading**

- Charter for restoration of the historic city center of Sibiu/Hermannstadt
- Design manual for the historic city center
- Guiding principles of the city of Sibiu
- Europa-Fokus 2/2005, Europ. Informationszentrum Niedersachsen

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5.7 The Business Incubator as an Employment Promotion Instrument in Kosovo

Peter Welling

Context
Kosovo, a post-war region with an unresolved status under international law, suffers from an unemployment rate of up to 60%. At the same time, Kosovo has been shaped by decades of socialist economic structures. A special feature is the so-called socially owned enterprises, the structure and ownership of which is different than the government or collectively owned firms familiar from other transition countries. Privatization of these firms, the status of which is also partially unresolved, is the responsibility of the United Nations, as Kosovo is a UN protectorate. The pace of privatization has been slowed by the considerable political and legal disagreement among the participants.

In addition, the unsettled international legal status and the – related – delays in creating new government structures are hindering the development of banks and a financial economy. This produces credit conditions that hamper, or make impossible, the founding and growth of small manufacturing firms in particular. The widespread standstill of domestic production has yielded a domestic market supplied to almost 80% by imports and a balance-of-payments deficit with almost total dependence on international donations and the remittances of Kosovans living abroad.

In combination with the ethnic tensions in the region, this leads to a unique, multi-dimensional problem, which negatively impacts all economic development and employment promotion measures. Thus, cluster approaches suffer from the fact that larger firms that could serve as the hub have usually not yet been privatized and are therefore largely paralyzed. With the loss of production by the few larger industrial firms, there is also no market for suppliers.

Approach
Against this backdrop, economic development measures are forced to also pay attention to the micro level, in addition to the macro and meso levels. Initiating a business incubator is an appropriate instrument for this purpose. The institution of an incubator permits the creation of sustainable structures that go beyond a one-time impact on individual firms. Incubators are well known in many countries and appear in many forms: from service-oriented office buildings and scientific technology centers to workshops for skilled tradesmen and women and agricultural training institutes with business start-up components. What they all have in common is the fact that, in addition to inexpensive offices, more or less the entire range of services, business advisory services, and training is made available to business start-ups.

Implementation
For the stakeholders, the question immediately arises as to what kind of incubator they should seek. In various stakeholder workshops and informational discussions organized by GTZ, it soon became clear that, given the lack of demand from the shut-down of industrial-goods firms, an orientation to consumption production appeared to make more sense.

The production of furniture and wood products came into focus. Based on the preliminary work of the vocational training project being assisted by German Technical Cooperation to develop a local vocational training center, work was begun on developing the school into a competence center for furniture production. A CIM expert took over the upgrading of vocational training teachers responsible for the area of wood processing and drew up the first textbook for wood processing in the Albanian language. A short-term expert for wood and metal processing deployed by GTZ developed an upgrading curriculum on the basis of an analysis of the potential of small national firms. The Economic Development and Employment Promotion Project, implemented by GTZ on behalf of the German Government, disseminated basic business skills through a CEFE Program (Competency based Economies through Formation of Enterprise), which entails the education of business start-up trainers.

Given the unresolved ownership issues, acquisition of an appropriate building for the incubator proved to be extremely difficult. In cooperation with the local Regional Economical Development Agency (REA), the municipality, the Business School of Peja, the United Nations Interim Administration Mission in Kosovo (UNMIK), and the NATO Kosovo Force (KFOR), it was possible to rent a former military building of the Yugoslav army. Nevertheless, this building still requires costly renovations before it can be used. On this basis, the municipality then participated in a tender of the European Agency for Reconstruction, which has offered Kosovar municipalities support for the establishment of two incubators in Kosovo. Basic knowledge about the operation of incubators was acquired by the participants through a GTZ-organized trip to a similar establishment in Bulgaria and by the advising of a staff member of the Kosovan Labor Ministry.

For sustainable operation of an incubator, it must be understood that ongoing activities also create long-term fi-
nancing needs. This is the result, on the one hand, of the costs of the required advisory services for business start-ups and also of the necessity of offering ongoing advising and back-office services at a price that is affordable for business start-ups and thus requires no subsidies.

**Impact/results chain**

**Results hypotheses:**
A functioning incubator facilitates the founding of new, usually small firms. Potential business owners who had previously lacked the courage to begin their own businesses thus received the encouragement they needed to start a business. This first creates income for the founder and usually also for other workers within a short period.

The back-office services provided by the incubator lower business costs in the initial phase and increase the effectiveness of the firm. The advisory and training services offered by the incubator reduce the risks to the business owner and lower the number of failures. After a period of one to five years, the firms leave the incubator and make room for new start-ups.

**Activities and outputs:**
The project began by propagating the idea of an incubator in the Provisional Self-Government Institutions and the international donor community and to concretize it through stakeholder workshops and discussions. At the micro level, the project trained and upgraded the actors who took on conceptualization and business planning for the incubators at the municipal level. Project staff members served as trainers, advisors, and coaches. Information-gathering trips to existing incubators in various European countries rounded out the concept and created a common basis for discussion among the stakeholders. The project commissioned a cost estimate for the structural rehabilitation of an old building and a reasonableness check of the operating concept developed by the counterpart.

**Use of outputs:**
The formulation of needs within the local municipality led to the approach of a project from the European Agency for Reconstruction (EAR), which also supports investment in building infrastructure for municipally operated incubators. After locating the most suitable building and location, EAR awarded the first grant for a municipal incubator in Decan, as a pilot project.

Naturally, the results hypotheses can not yet be verified in the present project phase. However, given that incubators are proven instruments of economic development, it can be assumed that the hypotheses are valid.

**Lessons learned and recommendations**
Given the kind of institution it is, an incubator must be viewed as a business firm – even if it requires subsidies.

This means that site location, equipment, services offered, and floor space design must be oriented to the needs of business start-ups and their customers, not to the plans and objectives of the initiators. If the initiators make compromises because they are pursuing other economic or social-policy goals besides the success of the newly founded businesses, the chances of success for the firms and, thus, the incubator are reduced.

Particularly public institutions are in danger of pursuing such secondary objectives, either because they wish to promote their own municipality or because they wish to create jobs to replace those of a failed large company.

This situation is exacerbated by the fact that those who start new businesses, as new entrepreneurs, are usually not yet able to clearly formulate their needs. They do not understand the market and customer demand as well as firms that have long-term customer relationships and experienced managers.

In addition, advising business start-ups, which includes a market evaluation, is often offered by the same institution that initiated the incubator. There is thus the danger that economic and socio-political objectives will find their way in and a conflict of interest that hurts business start-ups emerges. Setting up and operating the incubator should therefore be strictly separated, both institutionally and in terms of content, from advisory services for business start-ups and also from business-start-up financing.

The incubator can make it easier to start a business; however, it is no replacement for other necessary preconditions for start-ups. These include not only technical and personal qualifications of the founder, but also the entire economic environment, competitiveness vis-à-vis imports, the quality of the macro location, and market demand. Although an incubator reduces the capital required for the start-up, it cannot replace initial capital.

Thus, an incubator is not a cure-all, but requires many flanking measures in the framework of a program for economic development and employment promotion.

**Recommended reading**
CEFE International
www.cefe.net

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5.8 Yesterday Electrification, Today Information Technology – University Business Incubator Timisoara (UBIT) in Romania

Daniel Cosnita

Approach
In 1884, Timisoara was the first European city with electric street lamps; today, this city of 360,000 people in western Romania wants to make a name for itself as a leading European region in the area of information technology (IT).

The most important local and regional actors (city and district administrations, regional development agency, district development agency, the Polytechnical University) have joined together and developed a coherent development strategy. The first results are clearly visible: Timisoara is the region of Romania with the most foreign direct investment. Alcatel, Continental, Siemens, Solectron, and ABB – to name just the most well known – have set up operations in Timisoara.

Economic development based only on contributions from outside is not sustainable, given that the key comparative advantage of Timisoara – highly educated human capital – is gradually becoming a bottleneck factor. Today, wages in Timisoara are already above the national average and the caravan of foreign investors is moving further east. It is obvious that there must be more reliance, already today, on existing (endogenous) potential for continued success of the transformation process and for economic development.

The idea of creating a business incubator in Timisoara arose against this backdrop. The first suggestions were formulated already during the Open Forum for Technology Transfer in April 2002, which was supported by GTZ through the EDEP Program. Two objectives were at the center of the discussion at that time: the prevention or at least reduction of brain drain, and the attempt to transfer at least part of the informal economy to the formal sector. According to a study of the local administration, there were previously around 200 so-called apartment firms working, more or less legally, in software development for the large companies in Timisoara. The idea was that a business incubator could move business potential from the underground economy into the official economy. At the same time, a “protected” area could be created to give university graduates the opportunity to implement their own business concepts. In the medium term, independent business activity will also help to mitigate migration trends.

Implementation
The idea of a business incubator was positively evaluated by the EDEP Program (“IBD”), which is implemented on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ); it was then incorporated into the portfolio of activities, making it possible for the Program to accompany and support the entire process of planning, realization, and implementation.

GTZ helped the partners prepare and implement the incubator concept, the heart of which was a participatory approach based on incorporation of municipal and regional actors. Local partners and GTZ participate equally in conceptualization, financing, and the ongoing implementation.

In the preparatory and planning phase, the German contribution consisted, on the one hand, of providing an expert on setting up and operating business incubators. Examination of various models for start-up centers, recommendation of a small “incubator,” and presentation of a draft concept were among the key inputs. On the other hand, there was moderation of the cooperation between the three partners in Timisoara (the Polytechnical University, city and district administrations), an input that should not be underestimated. Different interests seriously threatened the progress of the project on more than one occasion. Direct assistance was supplemented by participation of the actors in the Open Technology Forum in Bucharest and by a study trip to Germany, where different technology and start-up centers were visited.

Then, in May 2004, the University Business Incubator Timisoara (UBIT) was officially inaugurated and began operations. A renovated floor in a university building provides about 360 square meters of space for up to 16 firms. Today, nine young start-up teams have already moved in. By the end of 2005, 12 companies plan to locate in the center. The business ideas of the start-up firms range from internet-based technical services to smaller production units. The center offers young entrepreneurs inexpensive rent, high-speed internet access, receptionist and secretarial services, and educational and training measures.

In the near future, there are plans to expand the center’s capacity. The UBIT is also to be accredited as a national technology transfer center on the basis of the national law.

Impact
Today – a good 15 months after the inauguration of the center – it is still too early to see all the results. In any case, the center is successful, and results can be demonstrated at the micro, meso, and, in part, the macro levels. However,
also apparent are the remaining deficits, which must be addressed in the coming months.

The weaknesses evident today are, above all, the still unsuccessful integration of the center into the local/regional economy. This horizontal networking would be important to ensure the sustainability of the activities. The focus in the current final phase of advisory services being provided by GTZ is on creating solid links between UBIT and the industrial firms in Timisoara (particularly international firms).

There are regular expressions of interest in the concept and services of the UBIT from other regions within the country and from neighboring countries. The Landesbank Baden Württemberg is also interested in concrete cooperation. The center is considering renovating an additional floor in the UBIT building and then offering it to German small and medium-sized enterprises that wish to establish a branch in Romania.

Impact at the microlevel:
In a rather difficult environment (high demand for IT specialists by industry), it was possible to present independent business activity as an alternative career option for young software engineers. The training done with students in their final semester will also have effects down the road and further mobilize (legal) start-up activity. The business-administration and legal support of incubated firms has clearly led to professionalization of the firms (avoidance of a garage image, top firm locations, professional bookkeeping and billing).

Impact on the mesolevel:
The most important result is the successful cooperation and sustainable networking between the actors. Not only was it possible to bring together the municipal administration, district administration, and the local university for the project, but it was clear to everyone that this collaboration was viable and solid. It resulted in an exemplary structure for a regional innovation system. This network will be even more effective if the desired cooperation with the business sector functions more effectively. Then politics and the administration, science and industry will be systematically linked at the local/regional level. The foundation for future joint learning and improved innovation is thus laid.

The first timid steps in the direction of technology transfer are already visible. A lively exchange between the incubated firms, the UBIT operating company, and the university has been established. For example, the UBIT had its homepage developed through a Master’s thesis. The tenants in the center employ students as staff members and thereby also disseminate knowledge about independent businesses to students.

Impact on the macrolevel:
In the area of information technology, UBIT is currently the only functioning incubator in Romania. This fact alone garnered a lot of attention from the Ministry of Science in Bucharest. To what extent this will lead to behavioral changes or changed framework conditions and/or incentive instruments remains to be seen.

Lessons learned
Also in this case, small is beautiful. It is not large (in some case over-sized) technology and business incubators that are needed; rather, specific instruments adapted to the local situation have proven to be effective.

External support is helpful and can – as was shown here – be a determinant of success for business incubators. Nevertheless, the point is not to export successful German approaches. Independent local conceptualization, which is often connected to mistakes and problems, is important, perhaps even essential. When different groups of actors must be motivated to work together on a sustainable basis, the experience of reaching agreement and joint success is decisive for future collaboration.

Recommendations
The UBIT is a specific instrument tailored to the situation and framework conditions in Timisoara. In our view, duplication of the model in other regions is not appropriate. However, two essential aspects are transferable:
• Business incubators can – if the framework conditions are right – make an important contribution within a regional/local innovation strategy in the context of transformation. The experience of the pilot project in Timisoara is now being processed and disseminated in Romania (particularly by way of the Technology Forum).
• Innovation-oriented structures cannot be simply adopted. The integration of the actors in a process is important, for example, through joint preparation and implementation of a concept for a business incubator.

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5.9 Technology-Oriented Business Incubator in Novi Sad/Vojvodina, Serbia – Budgeted and Implemented in the Framework of the Regional Development Plan

Wolfgang Limbert, Zarko Maletin, Regina Kallmayer

Introduction

The integrated regional development plan of the Province of Vojvodina places the highest priority on (further) development of SMEs, in addition to tourism development and support of agriculture/food production. Of the 14 development measures foreseen in the plan, one is especially dedicated to the creation of incubators in the cities of Novi Sad, Zrenjanin, and Subotica. Thus, 4.3% (or EUR 1.3 million) of the entire budget is earmarked for this purpose. Given that Novi Sad is a university town, it has the potential to make use of the knowledge of the professors, graduates, and students for a technology-oriented business incubator as a special advantage in competition among locations.

Short description of the approach

Incubators offer new businesses with innovative ideas ideal start-up conditions with respect to their financial and spatial needs and possibilities as well as with respect to their demand for technical advice and lobbying for improved framework conditions. Attracting business start-ups in similar sectors to an incubator promotes competition among the start-ups and supports the exchange of knowledge. This leads to the affiliation of corresponding service firms, and the infrastructure improves. In this protected environment, young firms can build up their businesses over a set period (depending on the statutes, usually up to five years) or until they have reached a certain size.

Project implementation

Originally, the incubator was to be founded as a spin-off of the University of Novi Sad. An initial 24 business start-ups in the information technology (IT)/software sector were to be supported, some located in the incubator, some “virtually” connected to it. If the corresponding knowledge is found at the location, the software sector offers the advantage that relatively little capital is required to start a business. The outsourcing of work from German/European firms is a chance for many software firms and experts in South-Eastern Europe – like contract production in the clothing sector – to enter and expand in the business.

The provincial government of Vojvodina, the city administration, and the University of Novi Sad were willing to work together. A new building and financing for the incubator in the amount of EUR 100,000 a year were planned by the city. However, then the new government that emerged in Novi Sad after municipal elections in September 2004 withdrew its support. Alternative financing and sponsorship had to be sought.

At the same time the Economic Development and Employment Promotion Program (EDEP), implemented by GTZ on behalf of BMZ, advised the provincial government’s efforts to build up the Vojvodina Investment Promotion Fund (VIP Fund). This Investment Promotion Fund, financed by the province and supported by the Program, was commissioned by the provincial government, in line with the integrated regional development plan, to create incubators in Novi Sad and Zrenjanin. The first step was the signing of a letter of intent with the University of Novi Sad and the Free Trade Zone Novi Sad/the city administration of Zrenjanin.

The cost of the incubators will probably run between EUR 230,000 and 280,000. In order to guarantee financing, the provincial government has promised to provide EUR 25,000 a year for each of the incubators for a period of four years. As in all development measures in the integrated regional development plan, the remaining 75% must be financed by the international donor community.

The VIP Fund will apply for support from the European Agency for Reconstruction (EAR), as well as other sources. A project proposal for Novi Sad was already drawn up, together with the University of Novi Sad, the business development company VVK (Keckemet, Hungary), and the regional development agency (DARFT) in Szeged, Hungary, and forwarded to the INTERREG IIIA Office.

The following distribution of costs is foreseen: 43% EU CARDS (Serbia), 43% EU ERDF (Hungary), 11% provincial government of Vojvodina, and 3% VVK. The project proposal in Zrenjanin was drawn up together with the city administration of Zrenjanin and the Mihajlo Pupin Science and Technology Policy Research Center and will probably also be submitted to the EU.

Objective and impact

The objective of the project is: Firms will be assisted in starting up small and medium-sized enterprises in the area of software development.

Through the technical, legal, organizational, and financial support provided by the project, the framework conditions for creation of incubators are improved. VIP Fund and its partners use these inputs to provide office space, corresponding services, and a legally protected area for software development (protection against pirated editions, illegal supply to other firms, etc.). These cost-effective measures stimulate the founding of new, innovative SMEs in the IT area. This, in turn, creates an incentive for the establishment of corresponding service firms. The en-
tire infrastructure is improving. Through competition and exchange of experiences, innovation is promoted, competitiveness is increasing, the economic structure is improving, and foreign direct investment can be attracted. Income and employment possibilities are emerging.

Lessons learned/recommendations for similar project
There is great potential and interest among young people for starting new businesses in the IT/software sector. The interest of German firms to cooperate with Serbian firms is also apparent. Unfortunately, regional and/or municipal policy projects such as the creation of business incubators are dependent on political developments. A change of authorities and different party affiliation of the participants can lead to delays. In this case, projects with a sufficiently long term can and must begin again and again – with such good technical preconditions for success.

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6 Sector-Specific Approaches
Short description of the approach

The central concern of a cluster-oriented assistance strategy is to increase the competitiveness of firms and business sectors in order to strengthen regional economic capacity. Thus, the initiation of business networks and clusters has become more important in recent years as a regional economic-development instrument. Regional actors from the business sector, chambers and associations, the banking sector, education, research and development, and administration and politics need to be so networked that dynamic regional development emerges from the strategic bundling of competencies and potentials.

In addition to other promotion instruments, cluster-oriented assistance strategies are also very important with respect to the Copenhagen criteria for EU accession (existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the EU).

Because cluster formation is a relatively new private sector assistance instrument, GTZ decided in 2002 to finance and publish a manual and guidelines for cluster-oriented assistance strategies (see recommended reading). The objective of the study was to test and recommend instruments that were suitable for the analysis of sectors to determine if cluster approaches could be applied. In addition, the guidelines offered tips on developing adapted cluster-oriented assistance strategies that had been drawn up in dialogue between regional actors from the business sector, civil society, administration, and government.

The study and the guidelines were the result of the initiative of a working group on EU accession of the SELLER Sector Network for Central and East Europe, the Caucasus and Central Asia. Discussions in the working group with colleagues from the Departments of Rural Development and Economic Development and Employment Promotion provided important impetus for addressing this topic.

Implementation

Competitiveness means that individual firms, the firms in a sector, or the firms of a region or a country can successfully compete in the domestic market and the world market. However, economic development does not arise simply through the workings of invisible market forces or the permanent competition between dynamic firms. Rather, targeted joint action and cooperation of all economic actors, appropriate structural policy and suitable infrastructure, functioning competition policy, high-quality financial and non-financial services, efficient competing and complementary companies, demanding customers and suppliers, and capable business managers willing to change are all crucially important.

The reflections underlying the guidelines begin with this interaction and interdependence of the actors and their respective roles for competitiveness. An iterative procedure is recommended (see the diagram on the following page):

- Assessment of the current macroeconomic framework conditions, the competitive situation, and cluster potential
- Development of the assistance strategy from raised awareness of regional actors through cluster formation in dialogue to participatory strategy development and action planning
- Implementation, monitoring, and plan adjustment

In addition to the presentation of EU strategies to promote competitiveness in the accession and association countries and the conceptual foundations of cluster-oriented policies for economic development, the results of three case studies are also summarized in the study.

The study and the guidelines drawn from it provide checklists for the analysis and planning phase and also a collection of possible strategy elements, which facilitate the selection of sectors that merit assistance and of adequate instruments and starting points for a cluster-oriented assistance strategy.

Impact

The study and the guidelines offer economic policy-makers and advisors concrete aids for the development of cluster-oriented assistance strategies for individual economic sectors in EU association and accession countries. This makes a contribution to innovative regional economic development.

Lessons learned

Project experience has shown that, in addition to the recommendations offered in the guidelines, the following criteria are important for successful and sustainable cluster promotion:

- Access to innovative businesspersons or politicians (change agents), who are able to initiate structural changes and incorporate and motivate stakeholders
- Existence of lead firms as the motor of cluster development and/or a critical mass of small and medium-
size firms nearby with complementary production and services

- Ability and willingness of businesspersons to make financial and personnel contributions to development of the cluster, to trust and cooperate with other firms, to exchange information and experiences, and to relinquish some of their management tasks

- Ability and willingness of private sector and/or government service providers to cooperate with cluster firms and to build up sustainable cluster and innovation-oriented business services

- Sensitivity, skill, and willingness of government economic-development authorities at the national, regional, and local levels to create a favorable business environment and a culture of promoting private sector initiatives for innovation and cluster formation

**Recommendations**

The following important principles for results-oriented planning and implementation of cluster-oriented assistance strategies and measures can be derived from recent project experience:

- **Bottom-up, top-down approach**: support for the initiatives of innovative businesspersons (bottom-up) while incorporating change agents in public and private sponsoring and implementing organizations (top-down)

- **Systemic competitiveness approach**: integration of measures at the micro (cluster actors), meso (service providers), and macro (framework conditions) levels, as well as the metalevel (cooperation mentality and trust)

- **Change management and dissemination of innovation approaches**: support of change processes within the cluster and in service organizations by incorporating innovative actors (change agents)

- **Linking quick-win with long-term institution building**: motivation of the stakeholders (cluster actors, service providers) to work on long-term structure building through realization of concrete benefits in the short term (e.g., income effects)

**Recommended reading**


WIRAM – The Local/Regional Economic Development Toolkit

**Contact**

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Context
In the transition countries, traditional government-planned industrial policy is obsolete. In addition, subsidizing capacity expansion and utilization is simply no longer financially viable. Although permanent subsidies of jobs in otherwise unprofitable firms preserve the existing structures, this apparent stabilization is a waste of economic resources that even highly developed macro-economies cannot permanently afford. In the medium and long term, jobs can only be preserved or created in competitive industrial branches and firms. Economic-policy advisory services thus also entail the introduction of new economic-development instruments and the demonstration of their effectiveness. Cluster promotion can be an important instrument with which to increase industrial competitiveness.

The official launch of the automotive cluster of Bosnia and Herzegovina was less than a year ago and already this cluster has become an important factor in local economic life. In addition to a rapidly growing number of dues-paying member firms, even the government Investment-Promotion Agency and the public University of Sarajevo have joined as paying members. Local and international institutions are represented in the board. Only the ministries have limited themselves up to now to a friendly observer position.

Approach
In the earlier economic literature and economic-policy approaches, competitiveness was viewed either from a microeconomic or macroeconomic point of view. Microeconomics presented the competitiveness of a firm as a function of its individual production conditions, its research achievements, and its marketing strategies. The competitiveness of a branch or a country was therefore defined as the sum of individual firm results. Macroeconomic policy argued from the perspective of comparative cost advantages resulting from natural factor endowment or government planning interventions into economic processes.

However, neither point of view could explain successes or failures of national economies facing competition. Therefore, since the beginning of the 1990s, more complex models have been developed, models which more clearly derive national competitive advantages from a number of determinants. Industrial competitiveness is seen primarily as the result of the quality of an industrial location. It is not only a microeconomic phenomenon; one must also look at the related and supporting supplier and service firms.

In addition to supplier relationships with customers in a value chain, links and strategic alliances to universities, research institutions, providers of business development services, and customers, as well as lateral connections (e.g. to firms from other sectors that have similar needs or technologies) can also influence competitiveness. While the traditional sector approach concentrates on horizontal linkages and competitive interdependencies, the cluster approach also includes in the analysis vertical linkages between different firms and the existence of symbiotic interdependencies, from which synergies result.

In the cluster approach, competitive advantages are seen in the system of interrelationships within which a firm is embedded. According to Porter, the forefather and still most cited proponent of the cluster approach, the elements of this system are:

- Firm strategy, structure, and rivalry
- Demand conditions
- Factor conditions, and
- Related and supporting supply and service firms

The cluster approach is a practical alternative to the top-down approach of traditional government economic planning.

In Bosnia and Herzegovina, cluster promotion is building on the industrial core of the automotive supply industry and incorporates a business environment that is also interesting for other industrial branches.

A cluster is a suitable instrument for supporting small and medium-sized enterprises (SMEs). SMEs can work together in such a way that they are able to make use of the advantages of a large firm (e.g. market presence, research, training and upgrading) without having to finance large-scale infrastructure and idle capacity. Likewise, cooperation in a cluster promotes innovative capacity, since innovations can be more quickly implemented in smaller firms.

Furthermore, a cluster approach can make it easier for the government to introduce concrete measures for certain industrial branches, as direct feedback from all cluster elements is possible.
Activities

Although Bosnia and Herzegovina after the war had to handle reconstruction and transformation despite little experience of the administration in economic development and despite a very limited budget, the preconditions for creating a cluster in the automotive suppliers industry were good. In BiH, this industrial branch went back to 1950 and had been, before the war, one of the most important branches of the metal industry with a substantial share of exports. Around 35,000 vehicles were produced in 1991 and over 40,000 tons of parts for motors and automobiles were manufactured. There was a broad range of products for the automotive industry, such as, for example, batteries, oil, air, and fuel filters, brake systems, complete rear axles, windshields, auto electrical, oil, and water pumps, diesel motors, transmissions for commercial and special vehicles, and clutches.

In the past, many firms worked under license to German companies. The employees are therefore very familiar with strict quality and time requirements. Very quickly after the war, Volkswagen again invested in Bosnia and Herzegovina, and today employs around 300 people; since it imports all necessary components, it initially had no interest in participating in a cluster.

The market potential of the Bosnian firms lies in manufacturing products that, for capacity and cost reasons, have a comparative advantage. For this strategy, it is essential to improve competitiveness compared with other producers in Central and South-Eastern Europe, as well as those in more distant countries. Businesspersons in the automotive supply industry have recognized this and are willing to redouble their efforts.

The first steps required to increase competitiveness are at the individual firm level. Thus, GTZ advisory services in the metal sector, machine construction, and electrical engineering, carried out on behalf of BMZ and the Swiss Agency for Development and Cooperation (SDC), were focused on automotive supply firms.

However, the international competitiveness of firms cannot be explained solely on the operational level of an individual firm. The firms have realized that international competitive pressures force them to continuously improve their products and production efficiency. Integration into networks, in which multiple external effects, services, and institutions support the efforts of an individual firm to improve its products and productivity, can be very helpful in this process. The GTZ initiative was therefore welcomed.

The Foreign Trade Chamber was particularly interested in this industrial branch. However, their experts recognized that the traditional set of instruments could not adequately meet the special needs of automotive suppliers. The Chamber requested assistance from GTZ. The EDEP Program took up the proposal of the Foreign Trade Chamber to organize a joint stand at an automotive suppliers trade fair in the neighboring country of Serbia and Montenegro. The stand was very successful, as Bosnian products again gained a presence in this market and the participants could renew old contacts and make new ones. Those who exhibited in this joint stand, to whom the outlines of a cluster approach had already been explained during the preparatory stage, today form the core group of the automotive cluster in Bosnia and Herzegovina.

Beginning as early as 1998, GTZ, on behalf of BMZ, supported firms and institutions in the metal industry in the framework of a sector assistance approach. It was then determined that the automotive supply industry had sufficient potential – with the appropriate support – to become competitive and thus to make a significant contribution to improvement of the employment situation.

In 2001–2002 GTZ, in the framework of a sector study, analyzed the potential of the Bosnian automotive supply and service firms in the metal, electrical, and electronics areas. Supply and service firms were scrutinized to determine which of them had the potential to withstand worldwide competition and qualify as suppliers in the automotive sector. After the study, it was clear that the cluster approach could be usefully employed to promote this industry branch: appropriate sites, a critical mass of firms, active promoters, and revived networks offered essential preconditions for cluster development.

To prepare the cluster, a specialized consulting firm was retained, one that had already successfully collaborated in the establishment of automotive clusters and thus had the methodological and sectoral competence. A cluster team was formed, which initially consisted of an expert consultant, a local GTZ staff member, and an employee of the Foreign Trade Chamber. Subsequently, a business representative also joined the team. A study identified the problem areas and prospects of the industrial branch. The results were presented to all participants by way of various events.

Three categories of firms were included in the studies: firms that were already totally or partially privatized and had found a (usually foreign) partner; firms that had already been partially privatized, but still had problems, for example, with marketing or the degree to which their products were known; firms that remained in government hands. These latter firms usually still lacked external contacts; their machines and products were, to some extent, obsolete; there were no resources for modernization; marketing was rarely undertaken; and capacity utilization was under 20%.
The analysis of potential was followed by creating a network among the interested firms. For firm-internal problems such as the lack of marketing and outdated products, as well as branch-internal deficits, such as the lack of a joint market presence under the slogan “Automotive Suppliers in Bosnia and Herzegovina” and the low level of networking among firms, the cluster approach offered a clear opportunity for improvement. Together with the interested firms, “an association of different partners with the same objective, using the strengths of each partner,” the following objectives were set: create an information and communication platform, coordinate individual studies and consultancies of individual firms, find and set up economic areas of activity, and build up personal contacts with potential clients.

GTZ recommended setting up an automotive cluster nationwide, because only by incorporating firms in the entire country could an adequate number of firms—a critical mass—be brought together. From the beginning, it was clear that the point of a cluster was to sustainably strengthen the economic sector. Because the state can no longer play the role of an active supporter, a new coordinating body for these branch-specific services must be provided.

The cluster was formally registered as an association. Its most important body is the general assembly of members; the others are the board of directors and the cluster manager. The five-member board is independent. Four board members are businesspersons. In the consolidation phase, GTZ, which is recognized and accepted as a non-partisan intermediary, is also represented in the board.

The general assembly selected a qualified national GTZ staff member—who is familiar with the branch and its issues and is a good moderator and organizer—as cluster manager. One of his primary tasks is the provision of information.

Both members and non-members can discuss the economic and technical trends of the automotive supply industry in an advisory board. The advisory council is the forum in which the Bosnian Foreign Trade Chamber, the Association of German Chambers of Industry and Commerce (DIHK), universities, and representatives of other international projects are given a voice.

By giving the cluster a fixed organizational form as a legal entity with members, continuity of services can be achieved. Only firms and institutions that are oriented to automobiles can become members; however, they do not necessarily have to be automotive parts producers. The firms are in a cluster network, but are, for the most part, not in competition with each other, since in Bosnia and Herzegovina most firms operate in different market segments. The firms recognize the benefits of cooperation in a cluster and were therefore willing, from the start, to pay membership dues. The firms also make efforts to recruit new members, even advertising for companies to locate in their area. Over 5,000 people are employed in the member firms.

In addition to 24 firms, the cluster now also has two paying institutional members: the state investment promotion agency and the technical faculty of the University of Sarajevo. The mechanical engineering faculty of the University of Tuzla has submitted an application for membership. A certifying institution will also become a member this year.

Even before formal establishment, there were efforts to internationalize. Contacts were made with automotive clusters in Slovenia and Germany. A large stand at the 2004 Automechanika Trade Fair in Frankfurt showed the firms the advantages of actively marketing abroad as a group. At the same trade fair, the opportunity was taken to introduce the automotive cluster to the international public at a multi-country conference organized by the EDEP Project in Serbia and Montenegro. Bosnian businesspersons used the subsequent delegation trip to make extensive contacts with other firms. Then, at the request of the firms, the follow-up was carried out in cooperation with the cluster manager.

The automotive cluster in Bosnia and Herzegovina has also assumed the function of training its members. This occurs through individual consulting by foreign and local experts and through seminars. Several seminars were organized in cooperation with SEED (South East Europe Enterprise Development, www.ifc.org), SEED, also a member of the advisory board, provided financial support for the first six issues of the monthly newsletter.

The newsletter is distributed in the national language to firms, universities, institutions, and public agencies; the electronic version is also published in German and English on the website. The newsletter and website are now independent and self-supporting; the board decided to appoint a staff member for this purpose. A publishing company that issues an automotive journal has undertaken efforts to become the media partner.

Impact

The establishment and activities of the automotive cluster have awakened great interest far beyond the actual target group. Firms from other industrial branches and international organizations see the auto cluster in Bosnia and Herzegovina as a model for promotional activities. There have been requests from neighboring countries for expert assistance. There was even a firm in Croatia that wanted to become a member.
The smaller firms are now more confident in their foreign dealings. In those countries where acquiring customers would be very complicated due to language or visa problems or travel costs, they ask other cluster members or the manager to represent them.

A large Bosnian member firm started a product-development initiative within the cluster, in order to be able to use the network to increase national value added. The firms gained confidence in the cluster because of the concrete advantages for member firms and the neutral management.

Joint problems, such as the payment difficulties of an industrial forge that filled key orders for various cluster members, were jointly addressed. At first a payment moratorium was negotiated with the energy supplier. Because no definitive solution could be found and because it was determined that other firms were in great need of this service, a firm now plans to take over the forge.

The companies are now actively networking. They invite other members to training events that they have organized and even plan leisure activities for people from all parts of the country who they had never met.

Increased productivity was reported by the firms after participating in workshops and after individual consulting. The momentum is also reflected in investment. When a new firm started up, there were public comments on the increasing dynamism in this industrial branch since a cluster had been set up.

Through the cooperation between universities, research institutes, and industry, a competence network for the future is being put in place. Thus, intense involvement of the universities is particularly important. The University of Tuzla has designed a Master’s program around the needs of the automotive supply industry and presented it to the firms in the newsletter. The next step will be targeted research and development.

The high degree of competence, the active partners, and positive results have also led to acceptance in the country and the region.

Lessons learned
Experience to date in Bosnia and Herzegovina has shown that the cluster approach can result in effective promotion, particularly of small and medium-sized firms. However, the choice of industrial core is crucial, as examples in other industrial branches and of other international projects in the country have shown. The following criteria must be met for a cluster to be successfully created:

• In an innovative economic sector, there must be a critical mass of firms and economic activity.
• People who are willing to be personally involved (promoters) must be active in firms, associations, supporting institutions, and management.
• Joint development of realistic ideas about international competitiveness and about vision, strategy, and policy guidelines
• Implementation of joint projects as a visible declaration of specific cluster competence (joint marketing appearance at trade fairs, internet, higher value-added project)
• Supportive policy environment as well as permanent and committed public support (at least there should be no impediments)
• Building on existing networks and initiatives as the organizational nucleus for cluster formation
• Continual evaluation, reflection, and improvement of strategy/program
• Professional staff members
• Moderator function

**Recommendations for similar projects**
Every cluster is different. In the automotive supply area, the external conditions and the commitment of the firms and participating institutions led to a success story, even without significant government support. However, in different industries in the same country, things look completely different.

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6.3 Cluster Formation in Serbia – Adjusting to Changed Framework Conditions in the International Automotive Industry

Tomislav Knezevic

Short description of the approach
The ex-Yugoslav countries can build not only upon a long tradition of producing their own brand of cars, but also on decades of experience as suppliers to the large Western European carmakers. In Serbia alone, around 30,000 people are employed in 130 firms of the automotive sector.

The structure of the sector is still characterized by a high share of public companies; however, the majority of firms are in the process of being privatized. Even into the 1990s, these firms maintained high market shares, which however were lost in the wake of political upheaval. Today, most firms are dependent on government subsidies. Take the example of Zastava: in 1990, the firm produced around 225,000 vehicles; today, the number is only around 15,000.

Given the importance of the sector for the economy and employment, the Serbian government is highly interested in seeing that the automotive sector adjusts to the changed conditions of the international automotive industry and is enabled to withstand the pressures of international competition. The Serbian government sees cluster development as an important instrument on this path.

After the successful participation of Serbian automotive supply firms in the Automechanika Trade Fair in Frankfurt and a subsequent delegation trip to several German car manufacturers in September 2004, the working group Automotive Cluster was formed. It has representatives from all institutions that are key to the formation of a cluster: the Ministry of Economy, the Ministry of Foreign Affairs, the Ministry of Education and Science, the Chamber of Commerce and Industry, the regional chamber of Kragujevac, various supply firms, and GTZ.

The objective of the program is to incorporate the Serbian automotive supply industry into the international supplier environment.

Project implementation
The first activities were defined in a discussion on November 4, 2004. There was agreement on the trans-regional expansion of the project and the inclusion of smaller firms. GTZ, which is implementing a Program to Promote Economic Development and Employment (EDEP) in Serbia on behalf of BMZ, was commissioned to moderate and offer advisory services.

At the end of 2004, a working group was formed by staff members of the Ministry for Foreign Affairs, the Serbian Chamber of Commerce and Industry, the Serbia Investment & Export Promotion Agency (SIEPA), and local and international short-term experts of the EDEP Program to lay the groundwork for cluster formation. The Serbian side carried out visits to already existing automotive clusters in Slovenia, Bosnia and Herzegovina (contact through the EDEP program in Bosnia and Herzegovina) and Upper Austria (contact through the EDEP Program in Romania).

Together with the Chamber of Commerce and Industry and SIEPA, GTZ carried out a sector analysis in November 2004, which included a survey of 25 firms as the empirical part. A SWOT analysis for the sector was developed from this company analysis and was presented to the public at the beginning of 2005, together with the results of the secondary statistical analysis and the benchmarking done by SIEPA. The next steps were strategy workshops that were intended to lead to cluster formation. These workshops dealt with the following themes:

- Raising awareness of automotive supply firms with respect to the objectives and opportunities of cluster formation, presentation of the analysis of the Serbian supply industry and of the international automotive market/supply industry (first workshop)
- Preparation of the approach and coordination of activities to set up a cluster with the likely members (second workshop)
- Final version of the cluster statutes and cooperation contract, as well as establishment of four working groups to prepare the founders’ meeting (third workshop)
- Founders’ meeting with 14 founding members from 11 firms and 3 scientific institutions (fourth workshop)

It was agreed that GTZ would be represented in the advisory board yet to be nominated in order to ensure continuity of its advisory services during launch of the cluster. It was also agreed that in the first phase a cluster manager would be hired, an internet portal for the cluster would be set up, promotional material would be created, advertising measures would be started nationally and internationally, and contact to clusters in Europe would be initiated.

Impact
- The government launched initiatives intended to improve legal framework conditions for development of the cluster.
- Cooperation between public and quasi-public agencies was strengthened.
Foreign clusters signaled interest in cooperation with the Serbian cluster.
Because of the positive experiences in the supplier sector, the first steps towards developing a software cluster have already been undertaken.
Additional working groups have been formed at both the local and regional levels.
For domestic firms, these developments represent a step in the right direction, which is, in turn, a motivating factor for the future.
Both firms and the media evaluated the cluster founding as a success.
Zastava Holding, after initial skepticism, is now also actively participating in formation of the cluster.

Lessons learned

- It is important to define tasks and responsibilities in order to achieve and expedite success.
- The best practices of and lessons learned in existing clusters have crucial influence on the cluster formation process (approach, avoidance of mistakes, etc.).
- Incorporating organizations such as line ministries, chambers, economic development agencies, donor organizations, and university institutes is crucial for success.
- An improvement of the legal framework can be initiated through good, consistent, and unhesitating cooperation with ministries and institutions.
- Legal advice (with respect to country-specific laws) is essential for the first founding of a cluster.
- Good personal working relationships within the working group and a personal, trusting relationship to the firms and institutions leads to success – even in a short period.

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6.4 Cluster Management as a Precondition for Sustainable Cluster Structures – Innovative Training Concept for Cluster Managers in Croatia
Margret Will

Short description of the approach
Promoting clusters as an instrument of regional and municipal economic development is a new approach, not only in the transition countries of South-Eastern Europe. The search for innovative approaches and further development of existing methods and instruments of economic development is also in full swing in industrialized countries. The following quotation from 2003 illuminates the current nature of the discussion on the importance and design of cluster management, even in North Rhine-Westphalia, where cluster development is very advanced: “Cluster management develops in very different ways. This is certainly related to the fact that … no consistent idea has yet emerged about what can be expected from cluster management.” (www.ruhrpakt.de/downloads/veranstaltungsdoku/clusterentwicklung.pdf)

This assessment applies not only to cluster development in Germany, but equally – although on a different developmental level – to clusters in countries like Croatia. The Program to Promote Small and Medium-Size Enterprises (SMEs) in Croatia helps private sector and government economic development structures to identify country-appropriate, innovative promotional concepts and instruments, adapt them to the economic and socio-cultural reality, and incorporate them into viable structures to promote SMEs. Since 2004, the Croatian Ministry of the Economy has had funds available to promote the development of clusters.

A program component of the program implemented by GTZ on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) is contributing to the creation of sustainable, efficient, and innovative cluster structures in Croatia. In its cross-sector function, the program supports public and private sector actors: the Ministry of Economy, Labor, and Entrepreneurship of the Republic of Croatia, regional and municipal economic development institutions, service providers oriented to the private sector, such as chambers and associations, and firms that are networked in the clusters.

Through a brief analysis of the need for support and possible synergy effects with the programs of other donor organizations in spring 2005, it was determined that GTZ could make a significant contribution to cluster development in Croatia. Cluster management was identified as the core element required to:
• Competently carry out the organizational and functional tasks of cluster formation
• Continuously encourage the cohesion between stakeholders required for sustainable cluster development
• Maintain the dynamism and innovativeness of a cluster essential for international competitiveness

Project implementation
Even if the term cluster is now familiar in regional and municipal economic development in Croatia, it is still a real challenge for all stakeholders to turn theory into practice. The objective of the assistance measures is to strengthen cluster management in order to:
• Strengthen the competitiveness of existing cluster approaches (micro level)
• Strengthen cluster-oriented advisory and training structures and their capacities (meso level)
• Ensure efficient, effective, and sustainable use of government promotional funds (macro level)

The project implementation begins with these pillars and integrates the various advisory measures into a holistic implementation approach with the following three core areas:
• Practice-oriented training of cluster managers as the basis for the establishment of sustainable organizational and management structures for clusters
• Training of staff members of chambers, associations, regional development agencies etc., and advisors as the basis for campaigns to raise awareness; identification and analysis of cluster potential and advisory support for cluster development
• Introducing staff members of the Ministry of Economy, Labor, and Entrepreneurship to the cluster concept as the basis for the campaign to raise awareness; competent design, monitoring, and evaluation of assistance programs and assessment of applications for assistance

The task of efficiently coordinating firms used to acting on their own through increasing networking of previously independent production and labor processes is crucially important – especially in a business environment and management culture that is only beginning to grow into a market economy. The same applies to the organization of practice-oriented assistance programs and the establishment of competent, demand and cluster-oriented service provision. Thus, change management is one of the key challenges for all stakeholders, whether at the company, institutional, or government level.

Sustainable structures must be built and management principles and responsibilities adjusted to the respective
cluster must be worked out and adopted. This is a learning process not only for cluster managers, but also for cluster firms. In line with these demands, the training concept for cluster managers incorporates both knowledge transfer in business administration, market economy and production- and process-oriented areas (hard skills) and development of communication and moderation abilities (soft skills). These include:

- Strategic (business) management and organizational development

• Communication, coordination, and moderation methods
• Production and procedural processes for the coordination of joint projects

Advisors and staff members of economic development institutions participate in the training and some are included in on-the-job coaching of cluster managers.

Impact

Direct benefits:
- Cluster managers have the competencies to steer the process of cluster formation and for cluster management
- Staff members of service providers have the competencies for customer and cluster-oriented services
- Staff members of the Ministry of Economy have the competencies for efficient steering of government promotion instruments

Indirect benefits:
- The competitiveness of small and medium-sized enterprises (SMEs) in selected sectors and regions has been improved

Use:
Recommendations in the guidelines find their way into cluster management and the provision of business services, adapted cluster assistance guidelines have been ratified.

Outputs:
Training concept/guidelines for cluster management are available, cluster promotion guidelines have been revised.

Activities:
Awareness-raising events, training, advising, coaching, information-gathering trips.

The initial results of the training program implemented by the SME Program in Croatia are to be analyzed at the end of 2005 and, based on that analysis, a training plan for 2006 is to be prepared. The assessment of the pilot phase (first training cycle 2005/2006) and the accompanying results analysis are to flow into the preparation of a reproducible training concept for cluster managers.

Lessons learned
The three clusters that have been registered to date in Croatia now find themselves in the critical transition phase between initiation and consolidation of cluster structures. Thus, the moment chosen for the training program is optimal.

Given the technical and time demands on cluster managers, the training courses must meet the following quality criteria:

• Maximize practice orientation:
  Coaching as a training program adapted to the needs of the cluster managers
• Avoid overemphasis on theory:
  Training units must be limited to what is necessary,
  the time spent must yield concrete benefits,

• Use of qualified experts:
  Advisors and trainers must demonstrate management
  experience that allows them to competently advise
  the participants in the training program both on daily
  management problems and on building up an organi-
  zational structure and management system.
  Otherwise, there is the danger that the cluster manag-
  ers will drop out of the training program because the
  benefits do not compensate for the cost of their time.

Recommendations for similar projects
The choice of experts is crucial for the success and thus
the results of the entire training program. Sufficient time
and attention must be allocated for the careful selection
of advisors and trainers.

Particularly in the organizational phase, clusters require
both management and organizational advising, as well as
sector-oriented advising on areas ranging from produc-
tion to the market. The selection of experts must take this
need into account.

Given the need for intensive coaching in the organiza-
tional phase of both the cluster structures (transition from
cluster beginnings to cluster organizations) and cluster
management, it is advisable to use a team comprised of an
international short-term expert and a local advisor/trainer.
This core team will be supplemented by additional local
advisors/trainers, as needed.

Recommended reading
Automotive Cluster Vienna Region
Lehrgang „Projektmanngeb”
www.acvr.at/index.php?id=795

Federal Ministry of Education and Research (2004): Kompetenz
mobilisieren – Ein Leitfaden für Initiatoren und Manager von
Kompetenznetzen
www.bmbf.de/pub/kompetenz_mobilisieren.pdf

Clusterland Upper Austria
www.clusterland.at/

The Competitiveness Institute
– the cluster practitioners network
www.competitiveness.org/article/archive/28/

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Short description of the approach
In spring 2004, the Economic Development and Employment Promotion Program in Bosnia and Herzegovina, implemented on behalf of BMZ and the Swiss Agency for Development and Cooperation (SDC – www.deza.ch), took on the component Promotion of Tourism as part of the BMZ commission. It had been preceded by a potential analysis, which identified the region in southern Bosnia and Herzegovina bordering Croatia as the region with the greatest tourism development opportunities in the short and medium term.

The Canton Herzegovina-Neretva has a Mediterranean climate and landscape. The most important economic sectors are agriculture and food production, as well as the production of aluminum.

Already during the time of Yugoslavia, the region was a destination for national and international tourists. Mostar, its bridges destroyed during the war in 1993 and now rebuilt, and its historic city center, which are UNESCO World Heritage Sites, are the most important tourist destinations in the region, above all for day trips from the
Dalmatian coast vacation areas in Croatia. The city of Neum lies on the approx. 20-kilometer strip of Adriatic coastline that offers Bosnia and Herzegovina access to the Mediterranean Sea and currently serves above all nationals and guests from Eastern Europe as an inexpensive summer destination. In 1981, an appearance of Mary turned the small village of Medjugorje into a popular pilgrimage site with hundreds of thousands of pilgrims from all over the world each year.

Most accommodations are also found at the locations mentioned above. However, there is still a lack of capacities and products that would allow the rural population to create income from increased tourism. Despite positive developments in recent years, the deficits in the tourism sector are still apparent:

• Poor quality of the accommodations and services
• Poorly equipped tourism institutions (associations)
• Lack of competency (tourism training in ex-Yugoslavia is concentrated above all on the Croatian coast)

The advisory measures of the EDEP Program aim to support tourism development in the region, beginning with a few hot spots and moving toward the development of Herzegovina as a destination. The partner is the Tourism Association of the Canton of Herzegovina-Neretva with its branches in the region.

Project implementation

According to the definition of Michael Porter, a cluster is a regionally concentrated group of firms focused on certain sectors, branches, and products, with a high density of inter-firm interactions. For the tourism sector, such a cluster is called a destination. Destinations, like other economic sectors, face cutthroat global competition; guests must be won over and over again, new destinations are crowding into the market, capacities are being expanded around the world. The destinations therefore face the need to continually increase their marketing.

In order to be able to survive in this environment, destinations require professional management, which must be provided by structures (tourism associations, destination management companies – DMC) legitimized by various actors (hoteliers, incoming agencies, municipal/regional administrations, etc.).

A potential analysis in 2003 identified various regions that had the potential to become a destination. Besides the city of Sarajevo, this was above all the region around Mostar, which

• already gained some experience with tourism before the war,
• is now again a favorite excursion destination of tourists on the Croatian Adriatic coast,
• is internationally famous for the bridges of Mostar, which are UNESCO Heritage Sites and attract a corresponding clientele (study trips),
• has a central tourism association with six branches in the region (hot spots).

Because there are no other regional tourism institutions and organizations besides the regional tourism association (e.g. branch associations of service providers such as hotels and restaurants), one of the central issues of the project was to strengthen cantonal tourism. The association has a structure similar to that of the chambers, in which the firms that profit from tourism, in the broadest sense of the word, are obliged to be members and must pay corresponding dues. There is also an additional contribution that is dependent on the respective number of guests. The founding principles of this model correspond to the Austrian approach to financing tourism development and marketing. The legal framework conditions thus largely guarantee financing for the association and its tasks; however, the members’ willingness to pay is still not very great, and the government tax inspection system does not have the capacity to ensure correct payment by members.

The policy of the association is therefore to use professional services to convince members of the necessity of paying their dues. Thus, in the course of the advisory services, the three activity areas of internal organization/administration, marketing, and product development were identified as the key areas of intervention with the following needs:

• Building methodological competency (workshop moderation, strategy development, project management, etc.)
• Building technical competency (skills in the areas of marketing, public relations, product development, service quality, languages, etc.)
• Improvement of internal communication (head office – branches) and team-building processes (topic-related working groups)

The following overview illustrates the desired organizational structure of the association and clearly shows the important function of the branch offices, which will be responsible, above all in their respective environments, for communication with the important tourism-development partners (municipalities, firms, associations, projects) and the launching of local initiatives to develop tourism products. However, the branches should not act in isolation, but should address topics of common concern in working groups (e.g. topic of water sports/rafting in the canton: Which international standards apply today? Which infrastructure must be created?). The central association in Mostar will assume a mainly coordinating role and will offer support by providing the required know-how).
The central association will build up its competency above all in the area of marketing and will be responsible for identifying the relevant markets in Bosnia and Herzegovina and abroad and to design and implement corresponding measures (brochures, trade fair participation, press and public relations work, journalist trips).

The branches support the marketing activities through research and provision of important information from the regions for the creation of brochures, websites, event calendars, etc. Furthermore, the branches should carry out regular market-research surveys of guests, because these surveys provide important information about motivation for travel, satisfaction, and spending behavior of guests.

This model creates structures that can stimulate initiatives for market-oriented, sustainable tourism development in structurally weak areas, incorporate these into the destination management concept for the region, and market them accordingly.

The development of a concept for the creation of a Herzegovinan wine road, which is to be organized both cross-sectorally (above all, agriculture, tourism) and cross-regionally (the Region of Herzegovina, which extends beyond the Canton of Herzegovina-Neretva) is presented here by way of example. The following objectives are being pursued:

- Preserving autochthonous grape vines through additional marketing opportunities and a greater presence in the market (cooperation with restaurants, wine stores, direct marketing)
- Raising the income of agricultural firms through increased sale of wine and other agricultural products (fruit, vegetables, honey, herbs, etc.)
- Alternative sources of income for farmers or other small landlords in the villages through provision of tourist accommodations along the wine road
- Creation of an interesting tourist product, that links the over 2000-year-old tradition of wine growing in the region with experiences of nature, historical sites, and culinary arts
- Integration of various municipalities in a joint development concept

The concept was submitted as a joint proposal by the winegrowers association and the tourism associations to the Regional Economic Development Program of the European Union (EU-RED); support in the amount of EUR 200,000 was approved.
Impact
Corresponding to the three areas of activity in which the cantonal tourism association will be active (administration/internal organization, marketing, and product development), the tourism component of the EDEP Program supported by GTZ is producing the following outputs and expects the following results:

Lessons learned
The problems of the region of Mostar lie in the difficult economic situation, the lack of jobs (firms that processed agricultural products and the textile industry were no longer viable after the dissolution of Yugoslavia), and the ethnic conflicts, which have opened deep rifts in the population.

The development of the tourism sector in the region creates new sources of income, jobs, and additional tax income for municipalities and the canton. As a rule, the job effect in the small and medium-sized tourism sector (Germany) consists of the creation of around seven jobs in the hotel and restaurant industry and another four to seven in the area of supply, commerce, and services per 15,000 overnight stays. The effect is likely still greater in Bosnia and Herzegovina because of the low labor costs. Furthermore, it is clear that the development of tourism infrastructure also benefits the local population.

In order to achieve these effects, regional actors (in this case, management and staff of the tourism association) must be made aware of the concept of destination management and related integrated tourism development (incorporation of municipal and regional planning authorities, firms, and non-government organizations). Through discussions and workshops, as well as various pilot measures (implementation and evaluation of a guest survey, participation in the Internationale Tourismus Börse trade fair in Berlin, submission of a proposal for and implementation of a project on tourism signposting of the region, publication of a manual for small landlords), the association was able to become the central contact agency for tourism development in the region (also vis-à-vis representatives of the international donor community, who are also involved in tourism development in the region, e.g. USAID, JICA).

Now, after a good year of project work, it is still difficult to present concrete results. The objective of the additional activities is closer networking with municipalities, the regional administration, and firms, in order to stimulate lo-
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<th><strong>Organization</strong></th>
<th><strong>Marketing</strong></th>
<th><strong>Product development</strong></th>
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<tr>
<td><strong>Project outputs</strong></td>
<td>• Advisory services for management on organizational structures, staff training, service portfolio, project conception and management</td>
<td>• Advisory services and support for staff in marketing the Herzegovina-Neretva Canton as a tourist destination through the design of brochures, preparation of journalist trips, participation in trade fairs (e.g. ITB)</td>
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<td><strong>Use by intermediaries</strong></td>
<td>• Discussion and approval of changed organizational structures in the committees, provision of additional services (newsletter), proposals for and implementation of assistance projects</td>
<td>• Use of the experiences gained by participating in other regional and international tourism fairs, support for additional journalists, revision of the website</td>
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<td><strong>Direct benefits for the intermediaries</strong></td>
<td>• Expansion of technical and methodological competency of personnel resources</td>
<td>• Experts for marketing and public relations establish themselves as contact persons for national and international inquiries on tourism in the region and are able to implement targeted marketing measures as part of an overall concept</td>
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<td><strong>Use by the target groups</strong></td>
<td>• Firms in the tourism sector rely on the expertise and know-how (market knowledge, statistics, etc.) of the association in developing new services for tourists, they make use of the services of the association in order to market their services</td>
<td>• Municipalities and the cantonal government view the tourism association as a partner in municipal/regional economic development and include it in the development of concepts and strategies, or commission it with the implementation of tourism development concepts and the corresponding marketing of tourist attractions/services</td>
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<td><strong>Direct benefits for the target groups</strong></td>
<td>• Firms and municipalities/regions are able to offer market-appropriate products and services</td>
<td>• A close-knit network arises in the region through the moderator function of the association</td>
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<td>• Through the association and its bundling of resources (joint internet portal, joint brochures, joint trade fair appearance, etc.), the regions and firms are able to gain market access that was impossible for individual regions and firms</td>
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<td><strong>Indirect benefits</strong></td>
<td>• Increasing competitiveness against other destinations</td>
<td>• Improvement of tourism infrastructure also improves the infrastructure for the local population (shopping opportunities, transportation and leisure infrastructure, etc.)</td>
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<td>• Improvement of tourism infrastructure also improves the infrastructure for the local population (shopping opportunities, transportation and leisure infrastructure, etc.)</td>
<td>• Increasing attractiveness to investors in the tourism sector, but also beyond it (tourism marketing as part of location marketing)</td>
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<tr>
<td><strong>Highly aggregated benefits</strong></td>
<td>• Target-group-appropriate services and a professional market presence draw additional tourists who spend their vacation in the region and purchase services from providers (hotels, restaurants, transportation, etc.), leading to: • Income/employment effects through business expansion or start-ups</td>
<td>• Income effects for the public budget though direct revenue (tourism taxes) or indirect income (increased tax receipts from prosperous firms)</td>
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cal initiatives for tourism development, but also to prepare a joint strategy (vision, guiding principles for tourism development) for the destination of Herzegovina. It will be important to break the strategy down into concrete plans for measures that take into account the available resources of the actors (infrastructure development, marketing plan, etc.).

However, national and international travel groups are already demonstrating greater interest in the destination, as shown by the rising numbers of visitors, both day visitors and those who stay overnight. Tourism is gaining increasing recognition as an area of economic activity. This can be seen in the fact that firms are investing in small boarding houses, restaurants, and other tourism services (bus companies, rafting services, etc.). In addition, firms are becoming more willing to pay membership dues to the tourism association so that the association has more scope for its activities.

These positive developments allow the association to achieve faster results in the pilot region of Mostar and to see the results of certain measures in a shorter period. Thus, the region is a model for other regions. Associations of these regions can benefit from the experiences in Mostar.

Recommendations for similar projects
The title of this article poses the question of whether tourism can be the solution for structurally weak regions.

For the region of Mostar the answer is yes, if one takes into account that tourism can only be a supplement to other measures that improve infrastructure. For this to occur, the following conditions must be met:

- Existing tourism potential (e.g. nature, landscape, cultural and historical sites) and a minimum degree of tourism infrastructure (independent of the planned product and the target group)
- Willingness of the local population to welcome tourists and cater to them, as well as to make the required investments
- Organizational structures that are able to assist in the development of tourism products (building networks) and also to create the necessary linkages to the market

The idea of network building in the region is central, probably more so than in other economic sectors, because an attractive tourist destination is comprised of many individual services (transportation, accommodations, catering, cultural events, sport activities, etc., often provided by small and micro enterprises. Individual firms alone have little chance of coping with international competition.

Offering technical and methodological training to staff members of the tourism associations and organizations, drawing up concepts for sustainable financing of association structures, developing a service portfolio, and supporting the formulation of market-oriented strategies are therefore central elements of a promotional concept for tourism development in structurally weak regions.

Recommended reading
Analyse der touristischen Potenziale in Bosnien und Herzegowina, WBF Bosnien und Herzegowina, GTZ 2004 (unpublished paper)

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6.6 Producer Organizations and Marketing Structures for Fruit and Vegetables – Making Better Use of Market Potentials after Trade Liberalization in Bulgaria

Dr. Detlev Böttcher, Dr. Wilhelm Elfring

**Brief description of the approach**

Ever since the political changes in early 1990s, the agricultural sector of Bulgaria has been in the process of restructuring toward a market-oriented economy that conforms to the EU economic system. Major structural measures to improve the Bulgarian agricultural sector must be introduced and to a great extent completed by 2007, its prospective entry year into the EU. This includes conformity to EU market infrastructure. Although it must be said that the far-reaching liberalization of economic procedures has led to the easing of state marketing and processing monopolies for agricultural products, therefore offering development opportunities to private trade, these opportunities have enjoyed only limited utilization due to insufficient physical market infrastructures.

Experience and practical knowledge in market-oriented and EU-conforming quality production is lacking at the producer level. This is also true for the fruit and vegetable sector, which contributes over 20% to agricultural added value. Within the framework of EU integration, the Bulgarian Government is building on this sector as a development engine for rural areas. Fruit and vegetables are traditionally important components in the diet of the Bulgarian people. Bulgaria’s potential for production and sale of fruit and vegetables, however, is not being sufficiently exploited because professional marketing structures are only in a development stage in many parts of the country, and often a marketable supply is lacking. The producers are trying to organize their sales primarily via direct sales and street trading. Commerce is hardly in the position of buying up the necessary quantity of goods in sufficient quality for domestic and export marketing.

**Project implementation**

The project, conducted on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), supports the improvement of marketing structures for fruit and vegetables through the establishment or renovation of wholesale markets not only in large cities but also in areas of cultivation.

This infrastructure is available to producers and wholesalers. Analogous to the principle of industrial parks, wholesale markets enable dealers and producers to transact business without needing to bear the burden of the investment themselves. This is particularly relevant, as the high EU standards for hygiene and food safety, soon to be obligatory in Bulgaria, will also necessitate a capital-intensive infrastructure.

In addition to the Bulgarian Government and the municipalities, the European Bank for Reconstruction and Development (EBRD), the Kreditanstalt für Wiederaufbau (KfW), and the EU’s SAPARD program are participating financially in the establishment of marketing institutions. The wholesale markets and producer markets in Sofia, Sliven, Ogjanovo and Haskovo have already been completed. In Ogjanovo, for example, investments amounting to around EUR 1.3 million were placed in an initial development stage (not yet up to EU standards). The producers are not yet participating financially in the markets in Ogjanovo and Haskovo. They are minority partners in Gorni Dubnik.

A further decrease in fruit and vegetable production coupled with the acknowledgement that market infrastructure alone is insufficient in order to make Bulgarian horticulture competitive, led to a re-orientation of assistance priority areas.

Since the existing agricultural, trade and processing businesses are barely able to survive as individual economic units under competitive EU conditions, cross-business cooperation between and with the affected producer, trade, and processor groups became an assistance priority area of the Technical Cooperation. Due to experiences with forced collectivization, however, there are major reservations toward any form of cross-business cooperatives. After all, they have only just become acquainted with and come to appreciate their newly-acquired business freedoms. But how else can small truck farmers supply international chains such as “Metro” and “Billa,” if not through joint marketing efforts? Initial producer cooperatives that are using the new market institutions as sales channels for their products have therefore formed within the last three years in the project regions.

In the last three cultivation periods, therefore, the project promoted producer groups located in different parts of the country that were in the immediate vicinity of the new markets. In cooperation with already established credit cooperatives and business enterprises, exemplary seasonal cultivation financing and planning are being organized. In addition to promoting cross-business cooperation and advising the market companies, the project is also helping in the political dialogue of all participants for mid and long-term development of the fruit and vegetable sector.

**Impact**

Agricultural operations are not only the beneficiaries of improved market access, but because of such program
initiatives this enables them to adapt fruit and vegetable production better and more competitively to the market requirements of the EU. The Ogjanovo producer market has already been able to establish itself successfully with more than 2,000 vegetable producers and dealers. Over 5,000 tons of fruit and vegetables were exported via the producer market in Haskovo in 2004. The producer cooperative in Gorni Dubnik also participated in exports, supplying the processing industry with approximately 4,000 tons of produce.

Through the utilization of improved marketing institutions, fruit and vegetable producers are clearly achieving a higher quality standard (improved hygiene, less waste). In cross-business cooperation, vegetable producers coordinate their cultivation planning and the delivery season within the framework of local producer cooperatives. The horticultural association, founded specifically for this purpose, exerts influence on the new national agricultural policy (e.g. demanding old orchards be cleared) and also coordinates professional consulting. The new producer markets are creating income on a broad basis especially on the Thracian Plain, making necessary reinvestments in fruit and vegetable production possible.

Here is an example from the project work: In the farming village of Ogjanovo (not far from the large Bulgarian city of Pazardshik located in the center of Bulgaria), area farmers have been meeting for a market event on a daily basis during the planting season from April to November for the past ten years or so already. By 2000, the number of producers delivering principally fruit and vegetables grew to almost 1,000 per market day. Prior to this, the market took place in the muddied river meadow of the Maritsa. During the rainy season and the hot summer months and also due to the lack of a fresh water supply, the hygienic conditions were appalling. A market corporation, founded specifically for this purpose, invested the market fees already accumulated into the development of a new market venue not far from the old location. The Kreditanstalt für Wiederaufbau (KfW) endorsed this project and arranged a loan of around EUR 0.5 million to finance further needed infrastructural improvements, such as roads, parking spaces, sales stalls, and lighting. This measure was completed in May of 2003. The market stalls are already being fully utilized. The market association will begin work on roofing over the market stalls as a further investment in 2007 at the latest, once the initial loan is repaid. In the meantime, the market corporation will concentrate on, among other things, introducing resource-saving packaging schemes, acquainting the vegetable farmers with the world of EU ordinances through informational events, and arranging contacts with Western European markets. It is estimated that this year the market will sell more than 100,000 tons of fruit and vegetables, of which a few batches will also be exported for the first time.

Lessons learned
As in all transition countries, the development of a wholesale infrastructure for fruit, vegetables and other fresh products was begun soon after the political and economic changes in the early 1990s. However, already during the developmental phase it has become clear that the original market production of fruit and vegetables had been steadily declining over the years. Restitution of the land, the advancing age of the orchards, a lack of new investment at the producer level and the resulting lack of competitiveness were only a few of the reasons that led to a drastic drop in Bulgarian fruit and vegetable production through 2000.

In light of Bulgaria's future EU integration, it was made clear that – in addition to milk products – Bulgaria would need to establish itself as a competitive supplier of fresh and processed fruit and vegetables for an expanded joint market. Consequently, the downward trend on the production side had to be halted and turned around. The market locations already in existence should thus be seen as catalysts for such a development. In addition to the original purpose of providing an adequate market infrastructure, they are now being included more and more in the expansion of fruit and vegetable production. Today, cultivation advice, cultivation experiments, training, market contacts, small loan programs and the development of producer cooperatives are being successfully organized via these new markets. However, strong personalities in market management are required to initiate and implement such tasks. Success at the different locations will vary accordingly.

On the producer level, Bulgaria traditionally has abundant experience in the production of fruit and vegetables, wine and milk products. At the beginning of this promotion, this was a deciding factor for the setting of priorities for investments. The agronomic experiences of the producers, however, no longer coincide with today's market requirements (for example, the variety of types in the fruit range). Although EU quality standards are implemented into national regulations in Bulgaria, they are not sufficiently monitored and converted into value at the market level through corresponding price differentiations. Moreover, despite intensive investments into the market infrastructure and a few noticeable sales successes, the link between the producer level and marketing is still a prominent obstacle to development of the agricultural sector and the subsequent development of rural areas.

In most Western European countries, the links between production and trade are made through producer organizations that are in a position to supply large grocery chains or processing companies with the necessary quality and quantity and time management. Today, the market requirements fully apply more or less to Bulgaria too. Small
businesses are unlikely to be in a position to steadily offer marketable quantities of fruit and vegetables in order to supply a range of goods for trade in Bulgaria or in Western Europe. Bulgarian wholesalers do not typically possess sufficient capacities to consolidate small pieces of production into marketable units.

Clear progress was achieved in the development of the physical market infrastructure. More producer markets will be opened in the next three years that will lead to a further improvement of the situation. With its development of producer organizations and their integration into a market structure conforming to the EU, Bulgaria is just beginning its development. A clear increase has been seen to be emerging for two years now in the willingness for founding producer cooperatives. This change is certainly linked to the provision of assistance funds by the EU’s SAPARD program. Some of these producer organizations are already achieving over 8,000 tons of vegetables for market production and are, therefore, being noticed by the international trade as a potential supplier.

The future, however, will be determined by competition within the EU. In addition to other aspects, the challenge for the producer organizations in the coming years rests with product expansion (range breadth and depth, seasonality), with the implementation and utilization of quality standards (corresponding to an improved price differentiation), as well as with the development and expansion of services for international trade. Such a development will continue to require major support in coming years so that Bulgarian fruit and vegetable producers can achieve de facto accession to the EU.

**Recommendations for similar projects**

Development of fruit and vegetable production that is EU competitive is, to a great extent, capital intensive and requires major persuasive efforts so that even small producers will organize themselves, enabling them to be able to serve national and international trade with quality goods. Financial support of cooperatives must be included in the promotion of such an approach, at least in the development phase. Up to now, many development banks have hesitated to grant loans to fruit and vegetable producers or provide current liabilities for producer cooperatives. The current low interest rates on the international capital market should help in the search for new financing opportunities.

**Recommended reading**

- Ministry of Agriculture, Bulgaria
  - [www.mzgar.government.bg/mz_eng/default.asp](http://www.mzgar.government.bg/mz_eng/default.asp)
- SAPARD program, Bulgaria
  - [www.mzgar.government.bg/MZ_eng/Sapard/News.htm](http://www.mzgar.government.bg/MZ_eng/Sapard/News.htm)
- Wholesale market, Sofia
  - [www.slatina-bulgarplod.com](http://www.slatina-bulgarplod.com)

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6.7 SME Promotion in the Fruit and Vegetable Sector in Bosnia and Herzegovina – GTZ International Services on Behalf of SCA

Peter Bonin

Brief description of approach
Since the conclusion of the Dayton Peace Agreement in 1995, Bosnia and Herzegovina (BiH) have worked at designing the transition from a centralist economic system to a free-market economy. At the same time, major efforts are being undertaken to reunite the entities created, the Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH). Due to the geographic circumstances and the country’s insufficient resources, the priority for economic development work lies in the area of agriculture.

In 2000, a project was initiated to improve market-oriented fruit and vegetable production in the region of Banja Luka and Tuzla within the framework of Bosnian-Swiss bilateral cooperation. The background for this was the situation in Bosnia and Herzegovina, whose fruit and vegetable production was not in line with market requirements for high-grade goods despite favorable climatic conditions. Limited opportunities for the development of small and micro enterprises, insufficient knowledge of efficient production methods, and an incomplete network of primary production with upstream and downstream markets resulted in overall low productivity. In line with this, the current range of goods in BiH is dominated by imported goods.

The goal of the project, conducted by GTZ International Services (GTZ IS) on behalf of the Swiss Agency for Development and Cooperation (SDC) is a quantitative increase and qualitative improvement of fruit and vegetable production, conforming to the demands of the local and international markets. The introduction of modern, environmentally-friendly cultivation techniques, the development of participative marketing systems and efficient marketing structures are intended to contribute to an improvement in the income of agricultural producer businesses. An area in the northeast of Bosnia was chosen as the project region. This region around Banja Luka and Tuzla is a mirror image of Bosnia’s agricultural structure, characterized by specialized fruit and vegetable farming businesses with small plots of land under cultivation.

Since the summer of 2004, the project is being flanked by a youth component in which the income-promoting measures of the project are being expanded to young fruit and vegetable producers. At the same time, social activities are supposed to contribute to a revival of village life.

In light of the good results from the project now already in its third phase, in May of 2005 GTZ IS was charged with expanding the Project implementation to the Mostar region. The target group here includes civil war refugees who returned and the population that stayed, who together are developing self-help organizations (SHO).

Project implementation
Project activities that began in Northeast Bosnia in September of 2000 first concentrated on merging small businesses in order to achieve more efficient production and marketing. All cultivation groups and producer cooperatives received the opportunity to pre-finance improved seeds and seedlings via self-administered funds. Integrated production procedures (IP) were introduced and an advising concept was prepared such that in the 2001 season producers were already able to display positive income results.

In the second project phase, institutionalization of the advisory service and a joint, coordinated processing and marketing of the goods stood in the foreground. In Gradačac, the development of the Producer Marketing Group (PMG) was supported with the objective of collaborative marketing. Independent of the project, in 2003 the development of a second PMG in Republika Srpska was begun that is also now being supported through advisory measures.

Major objectives of the first and second project phases were able to be achieved. The acceptance of the project and interest in the activities are very high. Despite success, however, it is apparent that the development of the PMG in Gradačac is not yet complete. In the current project phase, major elements of business management, such as organization, management and marketing, but also areas of production and product development are being further improved, all with the goal of achieving economic sustainability. Although the advisory service regarding available expert knowledge has progressed far, institutional development in the form of a privately organized, independently functional, non-profit advisory ring (association) has not yet been completed.

Since successful marketing of the products is the crucial prerequisite for the economic sustainability of the structures created, the idea of closely linking project activities with those in the Mostar region presented itself particularly in this area. The flexible regional network of cooperatives or SHOs currently in development makes it possible to use the climatic compatibility of the two regions to be able to market a broader range of seasonally complementary goods.
Impact

The projects are working across entities. Producers from FBiH as well as from RS are making use of the services of PMGs. Products are — to some extent — being marketed under a uniform label. The exchange of goods and thus a socio-economic exchange is being promoted between the entities through the expansion of the approach into the Mostar region. The results of the project work rest on:

- Further training measures with far-reaching effects
- Consistent work with members of the cultivation groups and businesses advised
- Direct knowledge transfer, for which members are already functioning as multipliers
- Making official partners aware of the project approach and its results and also
- Concrete added value that directly results in increased production
- Increased employment of paid staff in horticultural businesses and in PMG (creation of about 1,500–1,600 new jobs, or basis of income for about 6,000–7,000 people)

The living situation of these families is improved through the provision of paid and secure jobs. The pressure to migrate is curbed.

The technical and economic know-how disseminated multiplies itself far beyond the direct beneficiaries and leads to an adaptation of existing production procedures to more efficient and more strongly market-oriented procedures even outside the direct influence of the project. The change in agricultural production and its integration into the markets is being supported. This change becomes visible through:

- The clearly higher number and higher quality in the local offering of goods in supermarkets and smaller grocery stores compared to 2000
- The differentiation in product prices according to qualities
- The conversion of existing orchards to newer varieties and modern cultivating systems
- The expansion of vegetable-growing under plastic
- Dealing with or using pesticides in a sensitive manner
- The high demand for project brochures, advising and checking of pest control devices

Varied contacts to local institutions and donor organizations make it possible to exert influence on political decisions. In this way, the project gives stimuli in the designing of other projects and has an effect at a broader level. This development can be observed in the development of PMG Krajina, for example, which was initiated independently from the project. It is structured and developed according to the same model as that used in Gradačac. It has been proven that decision-makers not involved in the project are seeing the PMG model as attractive and full of promise for the future, and it is being copied.

In the end, the growing economic exchange between the entities together with the social activities in the youth work are also contributing to reconciliation and securing the peace in BiH.

Lessons learned

Approaches promoted by the project are still relatively new for BiH, however they are increasingly finding consideration in the strategies of agricultural ministries and international donors. Acceptance and positive assessment of approaches with regard to group organization and joint production and marketing is rising and is also discernible outside the direct influence area of the project. A brisk exchange of experiences is being fostered, and to some extent cooperation is occurring with projects in countries such as Macedonia, Kosovo, Bulgaria and Romania, where similar approaches are being promoted. It turns out that the problems are very similar in all the countries:

- The need to improve business structures via business mergers, producer cooperatives and other forms of cooperation is fundamentally acknowledged and is also being supported by the ministries.
- Individual businesses, however, are often still captive to production-oriented thinking without considering market dynamics. Adapting business management to market requirements is difficult for many producers and has not yet been completed in any country.
- It’s true the advantages of professional intermediate structures (commerce) are acknowledged and accepted as the link between producer and sales-side market participants, at least theoretically. However, practical implementation is being hindered by distrust on the part of producers, insufficient loyalty to the terms of a contract and less than ideal acceptance of market guidelines.

Recommendations for similar projects

Against the backdrop described above, the problems occurring in the development of PMGs are not to be seen as only the problems of BiH, but rather are to be viewed within the context of the centralist and production-oriented economic system, long anchored in Eastern Europe. It is similarly true for advisory programs. The advice is definitely being absorbed by businesses. However, an independently financed advisory system independent of state offices or companies is almost non-existent.

As in all transition countries, entrepreneurial thinking in many businesses and even for many academically educated people in BiH is only developed to a limited extent. At the same time, the importance of entrepreneurial thinking and acting continues to increase since markets and consumer demands are adapting much more quickly.
to the new political and social conditions. Short-term sales successes are considered to be more important than the development of long-term reliable relationships. The cultural change, that under the best of circumstances occurs much more slowly in rural areas, and the halting handover of production responsibility – from the older generation to a younger, better educated generation that grew up in a market-oriented system – gives rise to a very slow adaptation of farming business systems to the challenges of modern horticulture in a competition-oriented market economy.

It must certainly be taken into consideration that not every academic specialist is capable of taking over business responsibility and management, and in the same way training programs cannot always achieve the desired results. Independent of this, the aptitude of management personnel for their tasks and their learning abilities should be checked on a continuous basis since personality, motivation and professional commitment, in addition to an appropriate basic training, make a crucial contribution to the future success of the structures created.

The projects implemented in Bosnia in the fruit and vegetable sector are being conducted in very close consultation and cooperation with the financing agency SDC. We are convinced that this close cooperation has led to several contract extensions and a regional expansion of the approach, thus facilitating a sustainable impact.

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Thanks to its very limited development of farm culture, Albania enjoys a rich deposit of medicinal plants and spices. As one of the most important European source regions for these natural products, Albania today is one of Europe’s main exporters. Both controlled cultivation in mostly small farming operations and collection in the wild are very labor intensive and are concentrated predominantly in marginal locations. And so although medicinal and spice herbs represent a niche product, they can make major contributions in the fight against poverty and to the development of the regional economy.

The plants are extracted mainly in the poor regions in the north of the country, in particular in the areas of Shkodra, Korca, Elbasan and Gramsh. Collecting and processing medicinal and spice plants has a long tradition here. Large parts of the population are reliant on the riches of nature to earn their living.

Of the approximately 3,500 types and varieties, about 200 are exported. The main buyers, in addition to Germany, are the United States, Italy, Turkey and France. The income from the export of medicinal and spice plants in 2004 amounted to about EUR 12 million.

The entire delivery chain – including the Albanian collectors and producers, the processors, and the exporters – is faced with the big challenge of meeting the steadily increasing requirements of foodstuffs legislation and trade in the import countries. This is where the support from the company KRÄUTER MIX GmbH, Abtswind, Germany, comes in. Within the context of a Public-Private Partnership (PPP) project conducted with GTZ, standards are being announced and disseminated for controlled cultivation and qualified collection in Albania. The guidelines put out by the World Health Organization (WHO) for Good Agricultural and Collection Practices (GACP) are forming the foundation.

The goal of the PPP project is to promote controlled collection, controlled cultivation, and the production of select medicinal herbs at a pharmaceutical quality level. Parallel to the technical care of propagating and cultivating activities, all individuals participating in production are trained.

Project implementation
Training and upgrading: In training courses set up to meet a wide range of needs, Albanian partners are being shown how to implement the GACP guidelines consistently not only in their own business but also for the corresponding raw commodities suppliers. The training courses teach:
- Propagating and cultivating methods of medicinal and spice plants in open ground
- Ecological linkages in the harvesting of medicinal plants
- Legal conditions in Albania and in sales markets

By the end of the project, 10 to 15 intermediate buyers and 20 to 50 professional collectors will be trained.

Raising awareness and exchange of expert information: The development potential of collecting medicinal and spice plants and the correlating job and income opportunities for collector initiatives are being presented at information events. Informational material in Albania is being made available.

The exchange of expert information among professional collectors, producers, agricultural experts, and natural scientists is a major element of the project. The goal on the one hand is to improve communication and coordination along the value chain (from collection or cultivation to the end buyer or exporter) and on the other hand to improve the transfer of knowledge from advising and science to production and trade.

Conservation of genetic resources and experimental cultivation: Within the context of the PPP project, high-grade medicinal plants are being cultivated in a heatable thermo/double-film greenhouse to conserve genetic resources. Furthermore, cultivation experiments to cultivate types of Gentiana lutea (gentian) and Primula veris (cowslip) are being undertaken. At the end of the project, the greenhouse will be handed over to a local partner for further use.

Traceability and quality assurance: In the interest of food security and of consumer protection, lawmakers, the processing industry and retail trade in the EU are requiring the traceability of products through the use of complete origin documentation. Within the context of the project, KRÄUTER MIX GmbH supports not only the introduction of such systems for origin documentation but also other measures for quality assurance starting from collection or cultivation all the way to the consumer. In this connection, KRÄUTER MIX GmbH is also developing a supplier evaluation system.
Impact and benefits for the partner country

The measures to promote the cultivation and collection of medicinal and spice plants in accordance with international standards will contribute to securing and creating jobs and income opportunities in marginal regions through the sustainable use of natural resources.

The knowledge transfer taking place in the implementation of the GACP guidelines guarantees that allowances will be made for environmental, social and economic aspects. The introduction of controlled collection and the cultivation of wild plants according to Good Agricultural Practices (GAP) will relieve the pressure on endangered plant stocks. These are the major prerequisites for Albania to retain its position in the long term as the main European export country.

The measures for qualifying and thus professionalizing local workers, for promoting partnership in collector and cultivator initiatives as well as the incentives for longer term investments will lead to the stabilization of the professional group of collectors and agricultural workers. The creation of income opportunities and jobs is a major prerequisite for a sustainable improvement of the social situation of the people in North Albania.

The improvement of the cultivation systems and production technologies will lead to rising productivity and quality and thus in the end to rising profits. Reducing production fluctuations caused by bad weather through better cultivation planning and methods will make it possible to supply buyers worldwide on a steady basis. Greater delivery reliability, better product quality and rising delivery quantities will make it possible in the long term for Albanian suppliers to exert stronger influence on delivery conditions and pricing in the export business. Speculative market conditions can thus be largely reduced.

The following can already be noted as successes worth mentioning:
- The independent modernization of the warehouses through the local partners
- The installation of changing rooms, toilets and shower stalls for the personnel in accordance with international hygiene and safety standards
- The step-by-step introduction of documentation and quality assurance systems
- The signing of the statement “Production of high-grade medicinal plants in Albania at a pharmaceutical quality level” by all the participants in the training events

Lessons learned

The Albanian suppliers initially had reservations about the PPP project. After all, a German firm’s interests as a buyer are important. However, it was possible to dispel the misgivings by signing an agreement in which the rights and duties of all contractual partners were laid down.

Albanian circles with related expertise noted the cooperation with KRÄUTER MIX GmbH with interest.

The hands-on teaching of necessary and usable skills gives the participants the opportunity to prove their competence and reliability and thus to qualify for the partnership with KRÄUTER MIX GmbH and its local partner. This qualification creates the basis for the further development and modernization of their own businesses and thus for additional, more lucrative orders.

In the interest of long-term supplier relations, the company KRÄUTER MIX GmbH has made unmistakably clear that reliability is a prerequisite for lasting cooperation. In this connection, the participants in the trainings were shown how they themselves are members of a production chain that stretches from the raw materials (including upstream markets) to the end consumer. In such a value chain, each individual is responsible for having his/her contribution to the production of the end product correspond to the statutory standards and to those agreed to with the buyers.

Recommended reading

www.wiram.com

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7 Transnational Approaches
7.1 Transnational Regional Management – the Albania, Greece, Macedonia Triangle

Anica Palazzo

Background
In border regions, growth, employment, security, and prosperity depend on joint development approaches through cooperation across borders. The concept of cross-border cooperation/Euroregions builds upon the vision that regional and economic development as well as social welfare and stabilization of South-Eastern Europe (SEE) can only be achieved by a strong commitment at local level. Local authorities, the civil society, non-governmental organizations and entrepreneurs at local level have to take over ownership, agree on a joint strategy for sustainable local/regional economic development, which at the same time assures improved livelihood and social cohesion. In border regions, the model of Euroregions has proven to be a successful tool for enhancing cross-border economic development and mutual understanding between different nationals. The reason for their success is that they are not imposed top-down, but result from a bottom-up process, mostly initiated and carried out by local governments and local social partners.

Given the development potential but also the historically founded conflict potential in the border region of Albania, Greece and Macedonia, the German Government decided to promote cross-border, regional cooperation. Regional cooperation in this triangle, which can build on the rich tourism potential of the Prespa and Ohrid Lakes, its historical sites and nature faces major challenges:
- Ethnic and inherited conflicts, which prevent people from becoming reconciled and coming to trust each other
- Environmental damage in the lake district caused by water pollution and extensive water use, resulting in mutual blame but also the need for coordinated activities
- The aspiration of both Albania and Macedonia to join the EU, which requires a change of policies as well as efforts from both governments to ensure a good neighboring relationship with each other and with Greece

Project implementation

The project strategy is based on
- Existing cross-border activities, initiated by the trilateral Agreement on Cross-Border Cooperation signed between the Prime Ministers of the three countries in the year 2000
- The Declaration of the Trans-Border Prespa Park Area and the establishment of Prespa Park Coordination Committee (PPCC)
- The joint Strategic Action Plan (SAP), setting the common measures for environmental protection and sustainable development
- Measures initiated by the European Union to support the development of a Euroregion in the wider area

All project activities were coordinated either with the Prespa Park Coordination Committee or various local partners working towards the establishment of the Euroregion.

The activities within the project can be grouped in several components:
- Microproject financing, which aimed at establishing confidence among partners in the three neighboring countries and creating permanent networks in various sectors and at institutional levels
- Economic cooperation with emphasis on tourism as the most promising economic sub sector in the cross-border region
- Support to the Local Self-Governments (LSGs) in the development of Euroregion concepts and cooperation with PPCC, as first official trilateral body, setting examples for joint efforts for regional cooperation

Project implementation

Indirect support to trans-border cooperation: Within the micro project program, Non-Governmental Organizations (NGOs), LSGs and governmental institutions were invited to submit proposals for projects. The primary selection criteria were that the project proposal be jointly submitted from partners and provided benefits to the communities in all three countries thus supporting the development of the Euroregion concept. The Prespa Park Coordination Committee (PPCC) participated in the evaluation and selection of projects in order to strengthen their capacities and to ensure that the measures fit into the guidelines of the SAP. Representatives of the EDEP project participated as observers in each meeting of the PPCC and the implementation of activities was co-financed from the EDEP micro project fund.
Direct support to cross-border cooperation: In cooperation with local stakeholders, tourism development was supported with small infrastructure measures and promotional activities. These included renovation of houses for tourist accommodation in selected villages around the Prespa Lake, training of local women in the customer-oriented provision of tourist services, development of tourism brochures, leaflets, posters and a website, facilitation of the participation in regional and international tourism fairs, as well as organization of foreign journalists’ and tour operators’ visits.

In addition to these activities, the Euroregion (EUREGIO) concept was promoted by organizing an orientation visit for representatives of the LSGs and the civil society in two successfully operating Euroregions in Central Europe.

Impact
Micro projects: Successful implementation of joint activities resulted in immediate benefits for the target groups, leading to increased self-confidence and commitment of all parties involved. This motivated the stakeholders to engage in the management of further projects. The willingness of the partners from the neighboring countries to establish permanent cooperation has been enhanced. Consequently, this led to affirmation of the Euroregion concept and puts pressure on the governments to politically support the development of the Euroregion.

Tourism activities: The measures in the tourism sector led to raised awareness on income generation potential through tourism activities, improved financial situation of participating families, establishment of associations of participants aimed at jointly pursuing matters of common interest, and strengthening of the role of women as core providers of tourism services in rural areas. The participation in tourism fairs not only attracted tourists into the region but also raised the awareness among local tour operators that they can access various segments of the international tourism market, provided that they act together and provide structures for target market-oriented services at the local level.

Support by PPCC: Involving PPCC in the selection of micro projects strengthened the committee’s decision-making abilities, which is necessary for applying for and administering future funds aimed at the trilateral region, such as the Global Environment Facility (GEF) Small Grants Program (SGP).

Euroregion delegation: The participants learned from successes and challenges experienced by other Euroregions. The representatives from Albania, Greece, and Macedonia gained insight into structures and activities in operational Euroregions. Reporting about their impressions in their home municipalities, contributed to affirming the Euroregion idea and in turn influenced governmental bodies to facilitate the process of establishment of the Euroregion.

The activities under the EDEP EUREGIO project resulted in many tangible benefits of cross-border regional economic development. They also supplemented efforts towards the establishment of Euroregion legal structures, which are supported by the European Union.

Lessons learned
Standardization of administration, monitoring procedures and support processes suffered and were time consuming due to largely varying abilities of different implementing organizations and institutions in project implementation. Lack of experience and reference examples led to delays in implementation and thus concrete benefits at community levels.

Furthermore, the different development levels of the three countries has been one of the more obvious obstacles in bringing partners together for joint activities.

Recommendations for similar projects
There have been several projects of a similar nature in the area before, on which the Euroregion project could build, especially with regard to trust between local partners and project representatives. Despite the fact that these projects either focused on environmental protection or only involved two neighboring countries, local authorities already had some experience in Technical Cooperation.

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7.2 The Danube as an Engine of Growth for Structurally Weak Regions – Focus on Cross-Border Tourism Development

Stefan Krell

Introduction
The Danube, along its 2,857 kilometers, links Western Europe with South-Eastern Europe and thus unites various cultures and economic zones. For the neighboring South-Eastern European countries of Croatia, Serbia, Bulgaria, and Romania, the Danube is a development axis with enormous potential. In addition to other economic sectors, the development of tourism along the Danube offers the opportunity to stimulate the largely economically weak regions, create jobs and income, and improve living conditions in the region.

In Croatia, 137 kilometers of the Danube form the border to Serbia. The region is economically depressed and has been identified by the government as a high-priority area for assistance. In Serbia, the Danube (588 km) flows, in part, inside the country and, at other times, forms the boundary to Croatia, Romania, and Bulgaria. The economic centers of Belgrade and Novi Sad lie on the Danube, as do economically weak regions. In Bulgaria, 472 kilometers of the Danube form the border to Romania. This region is one of the economically weakest in the country, and the very successful tourism development of recent years has not reached it. In 2004, the Bulgarian Ministry for Culture and Tourism began a campaign to develop the tourism sector of the region. The river flows through Romania for 1,075 kilometers. The Danube region is generally very underdeveloped; only in the delta are there signs of tourism development.

The countries and regions along the Danube have numerous attractive and varied kinds of tourism potential in the areas of culture and nature. Thus, the basic condition for the development of marketable tourist products and thus for successful tourist development is met, and many tourist products can be developed trans-regionally and trans-nationally. A tourist expects to find similar products all along the Danube regardless of political borders, similar standards, a clean and safe environment, few problems when crossing borders, bridges across rivers, and comprehensive information.

Short description of the approach
The approach of the Economic Development and Employment Promotion (EDEP) Program, implemented on behalf of BMZ is to support the cross-border development of marketable and sustainable tourism product in the area of tourism development in the Danube regions. A big advantage thereby is the fact that GTZ-assisted EDEP programs have a tourism component in all of the countries. The partners are the responsible ministries, national and regional associations, regions and municipalities, the private sector, and active people.

Given the size of the Danube region and the multiplicity of tourism products, it is necessary to concentrate project activities on selected products and regions. In coordination with the local partners, primary emphasis was laid on further development of the very successful Danube Cycling Path from Budapest to the Danube Delta. Additional focal points are, for example, wine tourism and sport boating tourism. Positive effects in other sectors such as handicrafts, construction, and agriculture (regional specialties, direct marketing, etc.) will be achieved through the development of tourism.

The objective of the cross-project and cross-border assistance measures is to help increase income and quality of life in the regions along the Danube in South-Eastern Europe through the development of the tourism sector. A contribution will be made to poverty reduction and implementation of the market economy.

The project produces harmonized and complementary outputs at several levels. Beginning with the needs of the target groups, the project supports the partners through advisory services, local subsides, studies, seminars, product development, promotional activities, trade fair participation, and training in the introduction of modern regional management. The idea is to improve the investment climate and stimulate private investment. This development also supports closer relations between the countries and regions, and the EU (stabilization and association process), as well as the measures of the Stability Pact for South-Eastern Europe (economy).

Project implementation
In late March 2004 the first international workshop on further development of the Danube Cycling Path from Budapest to the Delta was held, initiated by the EDEP program in Serbia, coordinated with the EDEP programs in Bulgaria, Croatia, and Romania. Over 100 representatives of the public and private sectors of all participating countries attended the event in Belgrade.

All ministries and organizations (e.g. the ARGE Donau working group, www.argedonau.at) agreed to work together in the future to push forward tourism development of the Danube region. As a result, further workshops were carried out at the invitation of the respective tourism ministries in Romania, Croatia, and Bulgaria. Hungary will host the workshop planned for September 2005. The ob-
jective of the workshops is to coordinate and lay down the key working areas, responsibilities, and clear parameters for the work, with schedules. To date, work has been done in the following key areas:

**Analysis** of the existing tourism potential, demand (chiefly from the region), and supply along the Danube, as well as analysis of the strengths, weaknesses, opportunities, and threats (SWOT) and, derived from these, identification of the main work areas:

- Continuation of the Danube Cycling Path, well-known in Germany, Austria, and Hungary, from Budapest to the Danube Delta:
  - Identification and GPS recording of the route, production of a special cycling map for the Danube Cycling Path in conjunction with Huber Kartographie in Munich (PPP), stipulation of standards (signposting, route quality, and tourist services)
- Support for marketing, including advertising activities for tourism along the Danube in South-Eastern Europe:
- Preparation of a project proposal for INTERREG IIIB CARDS: “Strengthening the Danube Region through Sustainable Tourism focusing on the Danube Cycle Track” (http://europa.eu.int/scadplus)

Support for various tourism development measures for the region in the different countries:

- Advisory services for preparation of a Danube tourism strategy in Bulgaria
- Advisory services for the creation of regional tourism associations
- Promoting cooperation between all actors in the municipalities and regions
- Capacity building, e.g. PACA and CEFE training, seminars on marketing, product development, association management
- Evaluation of a model ecological campground

The advisory services and measures of the project incorporate all levels (macro, meso, and micro levels). The complex task of developing harmonized, marketable tourist products demands cooperation from private suppliers, the municipalities, regions, and across national borders.

**Socio-economic results**

Development of the tourism sector will primarily strengthen the economic capacity of the regions along the Danube. This refers above all to the creation of income and jobs. The tourism sector can make an important contribution to strengthening economic activities in the municipalities.

Many small and medium-sized tourism companies of various sizes are arising in the areas of accommodations, gastronomy, leisure and sports. The project’s measures are improving the economic viability of the firms. The firms are thus better able to compete in the market, increase their profitability, and thus safeguard or create jobs and income. Business start-ups make their investments with better preparation and in the framework of a coordinated product policy, thus running less of a risk of making bad investments. Local handicraft and local manufacturing (e.g. the food sector and wood processing) benefit from increasing demand from the tourism sector and tourists. The incorporated local advisory and training institutions are also expected to increase their income.

A big advantage of the tourism sector is the fact that firms and sources of income that require very little investment also arise, often as a second job that can improve the income situation. It is also possible and sensible to gradually build up a business, thus reducing dependence on credit.

**Socio-cultural results**

The creation of efficient, institutionally anchored regional management, cooperation between actors to develop the region as a marketable tourism product, and the resulting interactions with local authorities make essential contributions to an improved partnership between the state, organizations, and civil society. The need for cooperation in the development and marketing of tourism products facilitates communication and cooperation between the numerous stakeholders: tourism businesses, government and non-governmental organizations at the municipal, regional, and national levels.

An important part of the project work is the promotion of interest representation (associations) and clarification of the roles of the state, civil society, and the private sector. The project activities strengthen market-oriented initiatives and responsibility by independent service providers and government administration. Joint preparation of tourism products promotes identification with the region, its culture, and the need to preserve the environment as the basis for the development of tourism.

Women play a relatively important role in the tourism sector throughout the world. Likewise in the project region, women are more active in the tourism sector than in other sectors; many businesses are run by women.

**Environmental results**

The project is raising awareness of the need to preserve the environment. Almost every tourism product in the region
requires an intact environment as the prerequisite for its sustainable use. Nature along the Danube is one of greatest potentials of the region. There are numerous national parks and nature reserves. Arguments for greater environmental protection become more powerful as the economic value of tourism is realized. Inclusion of larger segments of the population in the tourist economy creates greater identification with and responsibility for the natural resources of the Danube Valley. Project measures to increase ecological and energy efficiency, as well as introduction of renewable energy, make a direct contribution to improvement of the environmental situation in the region.

Other results
The transnational activities to develop the tourism sector can contribute to normalization of relations between previous enemies, for example, in the border region between Serbia and Croatia. The demand for and the resulting necessity to develop transnational tourist products forces cooperation at the national, regional, and private levels.

At the international level, cooperation between the numerous institutions and organizations is being strengthened. Cooperation and coordination between a multiplicity of areas (tourism development, marketing, culture, water management, transportation, the environment, etc.) is required for development of the tourism sector. Establishing contacts and coordinating with all involved institutions and organizations is an important, but also time-consuming task.

Lessons learned
For projects of this size, intensive coordination and close cooperation between the programs/projects implemented by GTZ in the participating countries is essential. One project should assume overall coordination.

The volume of technical and financial support by the program/project in the different countries should be comparable. The partners in the various countries will not understand if the level of support in a neighboring country is significantly higher than at home. This has clear impacts on the motivation to contribute its own inputs.

Transnational and inter-institutional cooperation has positive effects on the different national and regional organizations. The responsible authorities at the national level and in the regions and municipalities do not want to lag behind the activities and efforts of their neighbors.

The acquisition of external financial assistance can have a very positive effect on the willingness of partner organizations to contribute. The analysis of possible sources of support and preparation of a joint proposal to EU-INTERREG IIIB CARDS (third call October 2005) has been viewed as very valuable support in all participating countries.

Also in this case, cooperation between countries (including Hungary) was promoted and the highest government levels were incorporated into the project.

Special attention should be paid to cooperation with established organizations – such as, for example, with ARGE Donau in Vienna. Intensive communication, regular offers of cooperation, and invitations to all events must be applied to maintain a healthy climate of cooperation, in order to prevent counterproductive duplication of activities, prepare complementary concepts, and promote synergies in implementation. Ultimately, a certain level of "competitive pressure" may also motivate cooperation that arises from the implementation of numerous smaller quick-win activities.

Recommendations for similar projects
All EDEP programs/projects in the participating countries must already be included in the planning phase. Project funds must be reserved early. The extent of assistance measures and funds, as a share of the overall project, should be fairly similar.

For projects of this complexity, there is a great need for coordination, beginning with analyses and concept development and extending all the way to implementation of activities. Absolute care must be taken that concrete, tangible, and quickly visible results are part of the project work, in order to motivate participation and own contributions by the stakeholders and to create trust. This can be concrete tourism products that are developed to the stage of marketability, marketing activities of all kinds, seminars, and training, or, for example, the creation of the Danube Cycling Map.

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7.3 Agricultural Diversification – Cross-Border Promotion of Organic Farming

Boban Illik

**Introduction**
Because organic farming was not yet well developed in the transition countries, in 2002 the idea arose to organize regional workshops for promoting organic agriculture in the Balkans. The farmers in most South-Eastern European countries, who were now private entrepreneurs, did not have the necessary expertise. Traditional practices and methods for sustainable management of small farms under the given climate and soil conditions from the period of large collective farms, which were managed by a whole array of specialists, were lost. Thus, the previous agricultural skilled workers and the farmers, who were now – after privatization – independent entrepreneurs, had to learn how to manage small but integrated operating systems and had to introduce modern, capable and competitive cultivation methods.

Against this backdrop, national and international aid programs aimed at supporting small farmers in modernizing their operating systems. In order to ensure sufficient food supply, conventional cultivation methods were introduced that took into account principles of sustainable agricultural production (e.g. integrated plant cultivation, integrated plant protection). But modernization also had its dark side where the principles of integrated cultivation methods were not understood. Quantity came before quality; farmers took from nature without giving anything back and pollutants damaged the environment unchecked.

Innovative farmers realized that consumers were increasingly concerned about the negative impacts on foodstuffs and the environment. They recognized the slow but continuously growing market opportunities for products from organic farming and remembered traditional practices and production methods, some of which were very similar to the procedures and principles of organic farming. However, additional awareness and continued training are necessary to target and use market opportunities. In so doing, it must be noted that the market for organic products is not a mass market and that the higher prices for organic products are slowly but surely approaching prices of conventionally produced agricultural products.

**Approach**
In 2002, the project for modernizing agriculture in Macedonia introduced a regional collaboration process for promoting organic farming with the following goals:

- Improving regional cooperation between young proponents of organic farming from the region
- Improving collaboration between specialists in South-Eastern Europe
- Designing the first steps for intraregional cooperation in organic farming
- Promoting the peaceful and active relationships between young farmers from different ethnic groups

At that time, the topic of cross-border collaboration was not yet widespread. The idea of organizing a workshop as a trigger for regional collaboration met with great approval at BMZ and GTZ, at the German embassy in Skopje, and with the Macedonian government and its Ministry of Agriculture, Forestry and Water Supply and the Ministry of Environment and Physical Planning. They also all made a financial contribution by joining in the agricultural projects carried out by GTZ in South-Eastern Europe on behalf of the German Government and supporting the logistical part of the workshop organization, in that they assumed the costs for the participants and specialists from their respective countries.

Since the first meeting in 2002 in Struga, Macedonia, such workshops have been taking place annually: 2003 in Ribaritsa (Bulgaria), 2004 in Golem (Albania), and a workshop is planned for October 2005 in Becici (Montenegro). In each case the host country project is responsible for organizing these events; support is provided by various national and international organizations (ministries in the partner countries, the German Government, other bilateral and multilateral projects, specialized institutions, non-governmental organizations etc.).

The workshop on creating a normative framework for organic farming in Macedonia is mentioned here as representative of the many examples of the exchange of experience and the presentation of models from the real world for the real world (best practices) at such events. In 2002, Macedonia introduced a public awareness process and began creating corresponding normative frameworks. This process comprises the following steps:

- Preparing appropriate legislation (i.e. draft of laws and provisions by the responsible ministries)
- Developing a long-term strategy for organic farming in Macedonia
- Creating awareness among organic farming associations by presenting models from the real world for the real world (best practices)
- Creating awareness of organic farming among the Macedonian people
Impact
The idea for promoting organic agriculture beyond national borders met with great approval and lively interest in all participating countries. The series of events significantly improved cross-border cooperation, which up to then was still in its infancy. In the meantime, several of projects promoted by GTZ in the region are conducting joint activities, which benefit all participants thanks to better networking and understanding between the projects.

The working relationships between the projects were not only expanded, but networks were established for specialists and their institutions as well. For some participants, the events were a starting point for developing new initiatives for promoting organic farming and for collaborating in regional networks in particular. For example, a number of cross-border activities followed the first workshop:
- In September 2003, members of various apiary associations from Macedonia had the opportunity to exchange experiences with their colleagues from Bulgaria and to learn about successful organic apiculture.
- During the period from December 2003 to April 2004, an advanced training program was organized jointly with an organization from Greece, in the course of which eight inspectors received special training for monitoring organic farming.

Lessons learned
The regional workshops for promoting organic farming in the Balkans have proven to be an ideal forum for an exchange of experience on important subjects such as:
- The techniques underlying organic farming
- The norms of the International Federation of Organic Agriculture Movements (IFOAM)
- Organic agriculture in the EU and EU legislation
- The requirements for the conversion phase from conventional to organic farming
- Ecological certification for the European and domestic markets
- Market opportunities for transition and developing countries
- Marketing of green products on the local tourist market in the organic agriculture environment as a tool for developing the domestic market

Field trips were also rated as the most interesting elements in the series of events because they gave the participants the opportunity to compare practices in the various regions and to develop new ideas to implement back home.

Recommendations
The workshops in 2002 to 2004 essentially concentrated on general subjects, which met the interest of young supporters of organic farming from South-Eastern Europe (high school pupils, university students, young farmers).

The next workshop, which is to take place in October 2005 in Becici (Montenegro), will be tailored to the interests of private companies, public enterprises, and other regional actors who are active in the field of organic farming and ecological certification. It is intended to offer an opportunity to begin discussions and initiate an exchange of ideas on the regional level, whereby the economic components – as important drivers for successful regional cooperation – should be given special attention.

In addition, we recommend a specific theme be selected for each future workshop in order to better orient the event toward the needs of the target groups and thus to attract interest to them, above all from the business world.

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7.4 Transnational Exchange of Political and Scientific Experience – Best Practices in the Wine Industry

Hermann Recknagel

Short description of the approach
With around 700,000 hectares, the wine-growing countries of South-Eastern Europe have approximately 10% of the world’s viticultural area. In South-Eastern Europe, the cradle of European viticulture, wine has been made along a narrow geographical band with suitable temperature ranges along the Black Sea and the Mediterranean. Culturally, viticulture and enjoying wine are deeply anchored in the societies of South-Eastern Europe. A large number of the holidays related to viticulture are important social events in the rural regions, such as the start of the pruning, the flowering of the vines, the beginning of the harvest, and the end of the grape harvest.

In addition to these “soft” factors, viticulture offers substantial economic benefits in the rural wine-growing regions by opening up additional options for income. Depending on the geographical situation, beyond the self-supply to the family, the proceeds from viticulture average around 10 to 25% of the total income from agricultural activity. Grapes are a relatively scarce commodity and can therefore normally generate a significantly higher economic value added in the open market than is possible by marketing basic foodstuffs. Cultivating wine grapes thus contributes directly to reducing poverty in the rural regions and increases the attractiveness of the rural life for the younger generation.

The organization of the value chain from cultivating vines up to marketing of the finished product in the bottle exhibits a wide range of possibilities depending on the wine-growing region and country. Here, the economic attractiveness of viticulture is a significant driver for the basic trend toward continued development of the value chain on to cluster-like structures.

The approach to developmental consulting in the wine-growing countries of South-Eastern Europe is characterized by two significant aspects. Although the countries have grown apart in recent decades with regard to the existing know-how, a 2004 survey of 73 South-Eastern European experts showed that the problem areas underlying the wine industry are of a similar nature in all countries in the region.

Prominent participants from the political, business, and scientific communities confirmed the problem yielded by the survey at a conference of South-Eastern Europe’s wine-growing countries held in Plovdiv, Bulgaria in spring 2005 and 2006 by GTZ on behalf of BMZ. The political decision-makers understand the constraints and formulated corresponding promotional needs:

- Technical Cooperation (in order of its importance according to the 2004 survey of experts): vine cultivating and propagation, training and education, legal framework, vine register, export and other promotional measures, quality control
- Financial collaboration: vine plantings, wine cellar technology, viticulture technology, quality wine system, other

Project implementation
The exchange of experience lacking in the wine industry between the wine-growing countries in South-Eastern Europe also led GTZ to take the initiative in 2003. It was agreed the cooperation should have two thrusts in order to improve the mutual exchange of information, to support political decision-making, as well as to develop joint projects.

It was agreed the agricultural ministers and state secretaries would meet annually in connection with the regional viticultural trade fair in Plovdiv, Bulgaria. This meeting would be a platform for the exchanging experiences and political decision-making between the countries. These meetings took place for the first time in 2004 under the motto “Global trends in the wine sector – consequences for the countries of South-Eastern Europe”. In 2005, the topic was “Wine sector financing in South-Eastern Europe”. At both events the national delegations were responsible for their own contributions and arrived at joint resolutions, which have now significantly facilitated the exchange of experience between the countries. The conferences are supplemented by a workshop by experts on the same topics that also takes place annually. Starting in 2005, these workshops have been taking place in a different country in South-Eastern Europe each year (2004 in Bulgaria, 2005 in Romania, 2006 in Serbia).

The second platform for intensifying the scientific exchange of experience has taken place since 2003 as an annual conference of viticultural experts.

One important partial result of this cooperation is the decision of the agricultural ministers in 2005 to expand the collaboration to include joint promotion and marketing. Bulgaria was given overall coordination for arriving at a common development strategy for this. In the next step for the regional collaboration, the plan is to set key points of a joint strategy, which are also intended to be incorpo-
rated in the respective national development programs for the wine industry.

Impact
Already in 2001 it was apparent that none of the countries had sufficient information about viticulture in the neighboring countries. Not only had the scientific exchange of information practically succumbed to the political and economic upheaval fifteen years ago, but also the contact between the responsible ministries. Even the newly founded professional organizations barely communicated and cooperated with one another. Awareness of the mostly identical challenges to the wine industry continues to be lacking, especially of the problems with long-term effects that are of strategic importance for the development of viticulture in South-Eastern Europe:

- The region’s future shares in the world’s viticultural area.
- The future shares in global wine production.
- The market share of domestic wines in domestic and international markets.

As viticulture constitutes an important economic sector in many countries in South-Eastern Europe, long-term national and transnational strategies for developing this industry are gaining major significance also in connection with local/regional economic development in the sense of economically and socially balanced development and reducing poverty in rural areas.

Within the context of the projects carried out in Bulgaria and Macedonia on behalf of BMZ, GTZ has been supporting local implementing partners since 2003 in the establishment of the two platforms for exchanging experience mentioned above. In this connection GTZ provides the following services:

- Support for the exchange of experience between ministries
- Exchange of information and knowledge transfer to ministries
- Support for governmental and private actors during the preparation of national developmental programs
- Support for governmental and private actors during the preparation of a regional development strategy for South-Eastern Europe

The local implementing partners (ministries and/or their agencies, associations and scientific institutions) use these services in the following manner:

- Ministries improve communication with the ministries of neighboring countries.
- Ministries improve their internal data pool and thus enable the improvement of the developmental concepts based on this data
- Ministries and private organizations create developmental programs.

- Ministries and representatives of the private sector create a regional development strategy.

The direct benefits make clear at the same time the high esteem in which the local partners hold the services of German TC (BMZ/GTZ):

- Information on the wine industries in the neighboring countries is improved.
- Developmental concepts are more realistic and more practice-related
- Cooperation between governmental and non-governmental organizations is strengthened
- Cooperation between the countries in the region is intensified.

The partners also obtain an indirect benefit, which can only partially or indirectly be considered to be a result of the services. This indirect benefit is already subject to a relatively high aggregation and hence is difficult to measure or classify at this level:

- The representation of regional interests is improved.
- Public resources are deployed efficiently.
- Cooperation with the private sector is improved.
- The region improves its image and increases its recognition factor.

As a high aggregate benefit, the contribution by the governmental programs of the countries in the region and the region as a whole to social and economic development increases.

Lessons learned
At the beginning, the existing level of knowledge and experience varied greatly among the more than 100 participating experts from six South-Eastern European countries. Some were trained in the natural sciences and thus lacked the theoretical background in business subjects; some trained in business, but without international market experience, the first order was to introduce the participants to some critical points in global market development. That meant in particular: viewing production from a market and marketing perspective and hence also re-evaluating macroeconomic turning points by governmental bodies from the market’s perspective.

Among the lessons learned were:

- The insight already existing prior to the launch of the project among some opinion makers into the importance of cooperation and realignment of the wine industry provided important stimuli.
- The demarcation between the countries in the region is less important to the cross-border exchange of experience and cooperation than many assumed.
- The “generation gap” among local actors and experts with regard to motivation, willingness to cooperate,
and flexibility is of lesser importance than generally assumed.

- The private sector, which is only slowly establishing itself in a market economy characterized by strong competition, is not always more flexible and dynamic than governmental organizations.
- The private enterprises (micro level) are sometimes better catalysts for a sector-specific change process than the professional organizations (meso level).

Recommendations for similar projects
This project enters the next phase in 2005–2006, which could be called “Regional development strategy for the wine industry”.

Based on the project’s success to date, for comparable operations we recommend that careful analyses of the starting position and a concept and strategy-based approach are preferable to the alleged pragmatic tendency toward early activities and measures. The local partner organizations, which are also powerful and willing to implement ideas in later phases of the project, which are not just driven by the self-interest of individuals, show a willingness to learn and understanding for this approach.

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7.5 **B2B (Business to Business) – Meetings between South-Eastern European Agricultural and Agro-Processing Enterprises**

Boban Ilik

**Context**
The small population in most countries in South-Eastern Europe opens only very limited sales opportunities in domestic markets for companies. In contrast, the network of bilateral free-trade agreements now completed between all of the countries in the region opens a market with approximately 55 million consumers. In addition, most of the countries in the region have increasingly free access to additional markets through their membership in the World Trade Organization (WTO) as well as in the framework of trade agreements with the European Union (EU) and the European Free Trade Association (EFTA).

On behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), GTZ is increasingly supporting regional trade relations, because to date, the opportunities in regional trade are not being fully exploited by far. The resumption of traditional trade relations between the successor states to Yugoslavia, which were lost during the course of the political upheaval, as well as the establishment of new trade relations with potential business partners in other countries in South-Eastern Europe offer potential that can be developed by many companies. Growing sales quantities in South-Eastern Europe allow companies to realize cost savings by producing larger series (returns to scale), which in turn allows them to better persist in global competition.

In Macedonia, the “Promotion of agriculture” project is taking up the request by agricultural and foodstuff processing companies for support in penetrating these markets.

**Approach**
In coordination with the Macedonian project partners, the Ministry of Agriculture, Forestry and Water Supply, the Ministry of Economy, and the Chamber of Commerce of the Republic of Macedonia, the project designed a B2B program for initiating business relationships between South-Eastern European companies (business to business).

The goal was not only to promote dialogue between companies in the South-Eastern European countries, but at the same time to promote the professional exchange between the chambers of commerce and governmental representatives regarding options for better utilizing the free-trade agreements.

In order to take into account the complementary interests of potential partners, the first meeting was organized for Macedonian lamb exporters and Greek suppliers of production factors for meat processing. Representatives from companies (slaughter houses, dealers, and processors), the administration (customs, veterinary department), and the economic development institutions (chambers of commerce) had two opportunities to discuss problems relevant to the sector and possible solutions for business relationships in these sectors between the two countries.

As a result, the project organized further B2B meetings with partner projects in Montenegro, UNMIK Kosovo (United Nations Interim Administration Mission in Kosovo) and Albania. However, these events were now opened to all agricultural industries (wine, confectioneries, fresh and processed fruit and vegetables, as well as meat and dairy products).

The “Promotion of agriculture” project normally took responsibility for the overall organization and logistics. Corporate profiles, presentations, and media materials were prepared in cooperation with the Macedonian project partners, the partner projects in South-Eastern Europe conducted by GTZ and their partner organizations, as well as the diplomatic and consular missions in the host countries.

Again and again, the preeminent theme of these events was the concrete results of the free trade agreements, above all however, the problems in their implementation. Closely related to this, interest was focused on non-tariff related trade barriers, especially the different national laws and regulations in the area of food safety. Additional discussions involved questions of market access, preparations for business with supermarket chains and options for facilitating trade (above all in customs) and promoting trade by governmental and private sector organizations.

**Impact**
The two Macedonian-Greek B2B meetings in Bitola, Macedonia and Thessaloniki, Greece contributed to a significant increase in the export of Macedonian lamb to Greece (increase of 20,000 carcasses from 2002 to 2003). Greece thereby displaced Italy as the most important customer country for Macedonian lamb.

New business contacts also resulted from the additional B2B meetings. In the meantime, there have been gradual increases in both quantity and revenues in trade between the countries.
Lessons learned

- Detailed and careful preparation of such meetings for initiating business is decisive for their success, in particular the selection of suitable companies with complementary interests and a timely exchange of corporate profiles.
- Continual accompanying public relations work to increase awareness among the entrepreneurs and to inform the broader public increases attention and facilitates the selection of companies with real development potential from a large number of candidates.
- An in-depth preparation of information material (catalogues, company directories [preferably as CD]) on the general economic conditions and banking, as well as on the respective business sector including investment options is recommended.
- Comprehensive knowledge of the general conditions for bilateral trade is indispensable as a basis for a concrete discussion of the possibilities for and limits on developing trade relations (e.g. visa requirements, communication and transport methods, customs formalities and processing times, corruption).

For example, the project already determined in the run up that currently there is no realistic basis for promoting business relationships – at least in the foodstuffs sector – between Macedonian and Bulgarian companies due to the high customs tariffs. In the case of Albania and UNMIK Kosovo, the countries’ image as well as the shortcomings in the banking and guarantee system are long-term impediments to foreign trade relations.

In summary, it may still be stated that promoting trade between the countries of South-Eastern Europe by way of such B2B meetings is meaningful.

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7.6 Municipal (Local) and Regional Economic Promotion in South-Eastern Europe – Training Offerings

Velislava Vatova, Branimir Mirtschev, Boban Illik, Dr. Reinhard Hanke, Dr. Hans Rudat

Context
The training program on municipal and regional economic development in South-Eastern Europe is implemented by GTZ on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ). The following two projects are involved in implementing the program:

• Promotion of the Lovetch region as well as of the Bulgarian fruit and viticultural production, Bulgaria
• Promotion of EU association and regional cooperation in the agricultural and food industry in South-Eastern Europe (SEE), Macedonia

Both projects, which are linked to the country’s respective agriculture ministry, support governmental and non-governmental offices in the EU convergence process as well as in regional economic cooperation. Regional economic cooperation often plays a super-ordinate role in SEE as the old economic relations between the countries still exist or are being revitalized. Further expanding these relationships – with concomitant preparation of these countries for the EU – and not just from an economic point of view, are the driving forces for development in the region and therefore an integral part of the projects.

The goal of German support in both projects is to further the development of a market economy in the agricultural and food sector that is oriented toward the needs of the SEE countries and the EU.

In spite of manifold potentials and diversification options existing in the farming sector, the countries undergoing the transition process are unable to use them for economic development. This also includes the upstream and downstream segments of the agricultural sector. The situation is characterized by low primary production (raw commodities), insufficient processing and storage capacities, a low level of technology, trade barriers (quantities, standards, quality), and legal provisions and regulations that are absent or have not been adapted to the context of cross-border commerce. Also, both countries are not sufficiently using the possibilities of a cross-border collaboration and the corresponding economic and social development potentials.

The relatively poor living conditions of the people allude to the generally difficult economic, social, and hence political relationships between the two countries. Compared to other countries, the governmental framework conditions hinder reform processes, as they are hardly conducive to reform and are only partially in line with the requirements of the SEE economic area. Economic segments such as consulting, banking, technology transfer, market information systems, marketing and distribution structures, are affected thereby and today are not being sufficiently recognized and promoted as factors of production that are relevant to competitiveness. In addition, the interaction of the various economic factors is not balanced, and people are not appropriately integrated in their economic and social functions.

Approach
Substantively, both projects cover project components that are clearly distinguishable from one another:

• Promotion of the Lovetch Oblast region (Bulgaria)
• Promotion of the national fruit and viticultural production (Bulgaria)
• Support of the EU association process and the accompanying reforms in the agricultural and food industry at the macro, meso, and micro level (both countries)
• Support for the expansion of relations with regional and European markets (both countries)

In addition to advising governmental and private service providers, the German contribution also comprises training measures as well as local subsidies for executing pilot measures. The latter are a significant element for creating visible examples of implementing theory into practice. This is essential for motivating the target group. Furthermore, there is close regional networking of the projects, both in and outside the two countries and with projects of other donors in the region, which has been systematized. The target groups and intermediaries of the measure are agricultural and skilled trade producers, associations, producer groups, as well as representatives of the governmental administration and consulting institutions.

Training measures
Bulgaria’s entry into the EU (2007) and Macedonia’s candidate status (horizon for entry 6–8 years) as well as a strengthened regional and European economic cooperation assign the highest priority to preparing the target groups, service institutions, as well as the municipal/local administrations. In addition, it is necessary to implement the specific promotion instruments already in existence and the affiliated requirements in connection with the EU's Common Agricultural Policy (CAP).

The required training and upgrading offerings required for this place considerable demands on the projects and partners. Demand-based upgrading and training concepts are developed based on surveys of the target group and co-
ordinated with important mediators and multipliers such as representatives of governmental and private consulting services, producer groups, and associations. National and international experts are brought in if required.

Upgrading measures/training concepts are normally implemented in modules. A module comprises a training phase for selected trainers (service providers/intermediaries) and a multiplication phase for agricultural producers and/or their associations and processors. The results and experiences from training and educational measures already conducted are taken into account when preparing the content and logistics for subsequent measures.

Training measures
The training and upgrading measures emphasize the topics “The Common Agricultural Policy (CAP) of the EU” and “Production and use of certified planting stock”, which are currently of special importance to the region and to Bulgaria and Macedonia in view of EU association. The illustrations on the following pages present examples of how two training complexes (administrative/technical) are implemented.

Impact
The projects aim for the following results:

- Qualifying service providers and improving the range of services
- Eliminating information deficits and risks
- Introducing specific measures to prepare producers for the special requirements and obligations within the context of CAP
- Preparing for the efficient utilization of promotion instruments of the EU’s CAP for agriculture and rural areas
- Increasing the income and competitiveness of agricultural producers through optimal utilization of available subsidies within the context of the CAP
- Supporting production of high-quality planting stock in fruit and viticulture production in accordance with the legal basis in Bulgaria and the EU
- Propagating high-quality planting material produced in Bulgaria
- Promoting utilization of high-quality planting stock in fruit and viticulture production
- Increasing the income and competitiveness of agricultural producers through efficient planting and utilization of permanent crops in the fruit and wine sector
Implementation status, experiences, and results

The training and educational measures are being implemented. The preliminary findings, results, and outputs may be summarized as follows:

- There are significant information deficits with regard to both issues among the trainers (service providers/multipliers) as well as agricultural producers.
- There are significant risks for the producers associated with the information deficits with regard to competitiveness in connection with the upcoming EU accession.
- By qualifying potential service providers in the “Train the trainers” seminars, the range of information and services for the farming sector and the rural area was improved.
- The following results became clear in the seminars for agricultural producers (16 seminars on the EU’s CAP, 1 seminar on planting stock certification): Removal of information deficits, cognizance of the necessity for concrete preparation for entry into the EU, introduction of the first specific measures for preparing SMEs for the EU’s CAP requirements (registration as agricultural producer, documentation of leased and owned agricultural properties, optimization of agricultural operating documentation, operational adjustments to cross compliance).

Constant updating and specifying other requirements of the farming sector are expected in both training complexes due to the dynamic in the preparations for EU entry, in particular in the development and implementation of specific national legislation with regard to CAP. For this reason, a continuous substantive adjustment of both training complexes to current legislation is necessary and planned.

Recommendations

Working from the premise that governmental and non-governmental service providers normally “lag behind” the very flexible and dynamic private sector in a country’s development process – this primarily concerns the framework conditions, laws, and regulations to be set – bilateral and multilateral operations increasingly strive to support partner organizations in the removal of weak points in organization, management, physical infrastructure, and the capability of professionals. In the South-Eastern European context, some recommendations can therefore be given:

- Intensified regional cooperation between the countries of the former Yugoslavia; this cooperation concerns bilateral, trilateral, and multilateral collaboration covering the economic, social, and political arenas. However, regional cooperation should reach

TRAINING CONCEPT
“Production and use of certified planting stock – Basis for efficient fruit and viticultural production under European Union conditions”

TARGET GROUP
- Agricultural consulting service (ACS)
- National agency for variety control (NAVC)
- National agency for plant protection (NAPP)

OPERATIONAL PLAN

MODULE 1
04/2005 to 09/2005

1st training phase
Train the trainers (ACS experts)

1st multiplication phase
Training of agricultural producers (about 20 seminars nationwide)

Priority areas of 1st module
Certified planting stock – efficient fruit/wine plantations

MODULE 2
10/2005 to 03/2006

2nd training phase
Train the trainers (NAVC experts)

2nd multiplication phase
Training of agricultural producers

Priority areas of 2nd module
Certified planting stock – agency for variety control’s role

MODULE 3
04/2006 to 07/2006

3rd training phase
Train the trainers (NASP experts)

3rd multiplication phase
Training of agricultural producers

Priority areas of 3rd module
Certified planting stock – agency for plant protection’s role

RESULTS

Improved offering of qualified services and consultancy services

Use of certified planting stock for planting more efficient permanent crops

Mid-term increase in income and competitiveness
further and bring in other SEE countries such as Albania, Bulgaria, Romania and Turkey.

- Increased cooperation within SEE and with the EU, as part of economic cooperation efforts and technology transfer. As a consequence, the business environment has improved (e.g. easing visa restrictions, easier border crossing).
- Improving collaboration of German projects in one country and throughout the SEE countries in the sense of utilizing potentials for synergies, just as with other bilateral and multilateral donor organizations in the region (activity and cost sharing)
- Increased promoting of the cooperation of government offices on common topics and national/regional development through projects working at the macro level
- Utilizing the upgrading options from InWEnt (Capacity Building International, Germany) by joint development of needs-based upgrading offerings
- Relocating important forums to SEE, such as e.g. the Agricultural Policy Forum (APF), SELLER events and including regional representatives

**Recommended reading**

Presentations, guidelines, and brochures on the EU’s CAP issues and certified planting stock in Bulgarian and some in German are available from the contacts below.

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South-Eastern Europe’s new associations face major challenges
Historically developed behavioral patterns still impede trusting cooperation between companies in an industry, between companies and associated organizations, as well as between the private sector and governmental actors in the transition countries of South-Eastern Europe. At the same time, South-Eastern European companies face considerable competitive pressure requiring change. The predominantly small and medium-sized enterprises (SMEs) could better counter this pressure using strategic operations in areas such as information and knowledge management, training and upgrading, technology transfer, input-supply marketing, and/or opening markets.

Thus, in view of its partially large delivery potential and the very limited absorptive capacity of the domestic market, the Macedonian fruit and vegetable-processing industry depends on securing or developing new export markets for up to 80% of its annual production. The nascent South-Eastern European free trade zone represents both a major challenge and an opportunity that must be used. This lends growing importance to the exchange of experience as well as better coordination and collaboration at the national and regional level.

Members’ expectations of the associations are thus not just growing with respect to efficient lobbying and classic needs-based services. Rather, the essential task consists of supporting enterprises in the industry in maintaining their ground in the market and increasing their competitiveness under the continually changing local, national, and global framework. The opportunities resulting from liberalization of regional (and global) trade must be better utilized and the attendant challenges must be mastered.

Context – four examples of the development of associations in South-Eastern Europe
The Macedonian Association of Processors (MAP) was founded in March 2002 with the goal of further developing the fruit and vegetable processing industry, contributing to the general economic development of the country, and creating jobs. Within a short period the association recognized the opportunities that could result from cooperating with relevant domestic, regional, and international institutions. This applied in particular in view of the improving prospects for developing the South-Eastern European market that opened with the regional free-trade agreements. Compared to the South-Eastern European associations in the fruit and vegetable processing industry, the Macedonian Association of Processors has the most experience — in spite of being just three years old. With 24 members now, MAP represents almost the entire domestic industry.

While the Bulgarian association has been in existence substantially longer, it was less capable of taking action in recent years due to management problems. This problem now appears to have been resolved with the election of a new board in 2005. There are therefore good prospects for greater involvement of the Bulgarians in cross-border cooperation among associations.

In Serbia, the association is a relic from the former Yugoslav period and does not correspond to the structure of a modern private entrepreneurs association. Here — as in Macedonia — a series of consultations starting from intensive consulting at companies could contribute to reforming the association or possibly the founding of a new association. However, — as in Macedonia and Bulgaria — the members must take the initiative. Only a “bottom-up” change process will ensure sustainability.

Following the example of MAP, the Albanian entrepreneurs recently founded an association with five members, which is working very diligently and cooperating intensively with the Macedonian association.

Approach
GTZ has been supporting private sector development in Macedonia on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) since 1995. The fruit and vegetable processing industry was among the targeted industries from the beginning. Until 1999, consulting concentrated on the development of export marketing strategies and promoting participation in trade fairs at the company level. As part of the “Private Sector Promotion” (PSP) project conducted from 2000 until 2005, the promotion also added the meso and macro levels in an integrated approach.

The increased trust among the entrepreneurs in the first years of the export promotion — due in particular to joint participation in trade fairs — as well as the requirements of EU import companies with regard to quantity, supplier continuity, and quality caused an initial six companies to consider founding an industry association (independent of the Chamber of Commerce). In 1999, this initiative failed due to a lack of experience and knowledge (good practices) in South-Eastern Europe in developing an association. Nor was there any organization in Macedonia
that could have provided advice on establishing the association.

With the expansion of the PSP approach in 2000 to include organizational development for establishing business development services, the project supported the formation of a working group, from which the Macedonian Association of Processors (MAP) then developed in 2002. Already as a working group members organized joint procurement of packaging materials and were able to negotiate substantially more favorable delivery terms. As representative of the private sector, the working group contributed to the sector development strategy.

The PSP project subsequently channeled all industry-related development measures through MAP. Thus strengthened, financially capable structures arose that ensure the association’s long-term existence. The association was supported in the following areas:

- Association development (development of an association strategy, from financing and service plans, drawing up of measures for acquiring members and lobbying etc.)
- Export promotion (consulting on export marketing, organization and financial support of participation in trade fairs in South-Eastern Europe and Germany etc.)
- Corporate consulting emphasizing quality management/food safety as a fundamental requirement for further developing exports, above all in the European Union

The Macedonian companies dependent on the export of their goods soon recognized that realizing the market opportunities in the global market and in regional trade required cooperation with companies from the South-Eastern European region and the development of common strategies. MAP thus requested support from the PSP project in establishing a cross-border cooperation. In a first step, since 2002 MAP members had a joint exhibition at South-Eastern Europe’s leading agricultural/foodstuffs trade fair in Novi Sad in Serbia.

In 2003, in cooperation with the Macedonian technology transfer project and partner projects in South-Eastern Europe, the PSP project promoted the organization of the first supraregional conference for South-Eastern European industry associations, working groups, and companies. The event met with great interest and 120 participants from 14 countries – primarily private sector representatives – came to the conference in Ohrid in southern Macedonia. The mixture of expert presentations and the intensive roundtable discussions after each presentation (the seating arrangement was consciously transnational) promoted communication among the participants. Conducting the annual conference in different host countries should become a fixed feature: In 2004 it took place in Serbia in 2005 in Albania, in 2006 it is hosted by Bosnia and Herzegovina. At the express wish of the associations, the marked interactive style was retained, which smoothed the way to specific partnering agreements.

The association presidents and company representatives also rated the joint visit to ANUGA FoodTec and the subsequent plant tour at one of the leading German processing companies in spring 2004 as particularly positive. In addition to more technical questions – new technologies and examples of good hygiene practices (GHP) in German plants – the particular interest in building trust and the exchange of experience between company and association partners stood as a basis for future cross-border cooperation.

**Impact**

The first South-Eastern European regional conference organized by the Macedonian association in December 2003 was an inducement for thinking about a transnational cooperation of the national industry associations. This suggestion came from the Greek association. This initiative was supported from the beginning by the German Association of the Fruit, Vegetable, and Potato Processing Industry (BOGK) and the European umbrella organization (Organization of European Industries Transforming Fruit and Vegetables – OEITFL). MAP has been an OEITFL member since 2004 and was thus the first member association that is not from an EU (accession) country.

During the course of the year between the 2003 and 2004 regional conferences, MAP and the Greek association approached colleagues in the neighboring countries with the concept of a “virtual administrative office” for the South-Eastern European fruit and vegetable processing industry. At the second conference in Serbia, the association presidents from Greece, Macedonia, Serbia and Montenegro, Bosnia and Herzegovina, as well as the representative of the Albanian delegation (the Albanian association was founded only later) signed an appropriate letter of understanding containing the following goals:

- Strengthening of the common interests and the image of the fruit and vegetable processing industry in the region
- Representation of the members interests at national, European, and international institutions
- Harmonization of the national product-related regulations (possibly development of common standards)
- Promotion of fair trade practices and fair competition
- Promotion of collaboration and solidarity among the member firms
- Improvement of business contacts and trading possibilities
- Exchange of information regarding production, import-export, and legal directives
The association representatives meet every three months in different countries. The administrative office has been functioning since its launch without support from GTZ. The internal momentum of the associations and companies is the greatest success of GTZ’s multi-year projects in the countries, in particular in Macedonia: MAP is not only an example of best practice for the South-Eastern European associations worthy of emulation, but together with the Greek association, undoubtedly assumed the leading role for establishing the “virtual administrative office”.

Impact of the association’s regional collaboration after just one year:

- The industry’s provision of raw materials has significantly improved. The associations exchange information on the harvest situation in their countries and the members support each other in procuring raw materials.
- The administrative office is developing a project recommendation for a regional project which is to be presented to the EU Commission.
- The themes for the 2005 conference in Albania were jointly coordinated.
- Contacts to the Bulgarian association were intensified and Bulgaria is expected to join the administrative office.
- The member firms have realized numerous individual business transactions with one another.
- Development of an initial joint supra-regional offering for the Russian market was implemented.

In summary it can be stated that the companies have gained self-awareness and open-mindedness: The meetings with colleagues and competitors, from Macedonia and from neighboring countries, have convinced them that it makes sense to cooperate – in spite of competition for input-supply and sales markets. Even if it is too early for implementation, the opportunities that can grow from a regionally coordinated production and sales strategy are recognized, both for the individual company as well as for the entire sector in the region. Even if the expectations of the “virtual administrative office” should be better assessed realistically rather than euphorically, the willingness for an open exchange of information, the joint association activities already successfully conducted (for example a joint visit to the leading foodstuffs trade fair in Moscow), and the first co-operations among companies must be rated as extraordinarily positive.

Lessons learned
Looking back at approximately ten years of project work, among them almost five years of promoting associations, it may still be stated: A sufficient horizon and sufficiently intensive process-monitoring consulting that is oriented toward the target group is required for change management that must develop on attitudes and handed down behavior as well as strives to form long-term structures.

Ulrike Gantzer-Sommer writes in her article "GTZ as a Partner for Local/Regional Economic Development – Our Range of Services: Regional and Sector Expertise from a Single Source" (Section 1.1):

“An outstanding characteristic of bilateral (German) TC is its continuity. Consulting services are provided over a longer period, since their success is often less a question of allocated resources but rather a question of the time frame of resource allocation.”

It is this very continuity of the promotion over a long period which has contributed very substantially to the widespread results achieved here: Instead of overtaxing partners with short-term intensive use of resources, phases of more intensive support alternated with consolidation phases. The entrepreneurs – initially as members of the working group, later of the association, now of the “virtual administrative office” – had sufficient opportunity to deal with company concerns, and while doing so to reflect on developments and thus to arrive at self-sustaining change management.

Continuous competence building and process monitoring lead to insights and changes in behavior by mediators and target groups is a major requirement for significant results and broad effectiveness (documented here by the increase in membership at MAP, the founding of the Albanian association and of the “virtual administrative office”).

Recommendations
The experiences have also shown that it makes sense to proceed in consulting sequences: Starting from the specific problem for the industry and individual companies, stepping from corporate consulting and establishing business-related services allowed an exchange of experience in work groups/existing associations. Building on this, common steps for founding associations or strengthening existing associations came next.

Possible additional measures for promoting cross-border cooperation such as organizing regional conferences and specialized seminars should in future be coordinated with the administrative office. There may also be interest in a joint participation in a trade fair. For example, the members of the “virtual administrative office” could present the greater competitive power resulting from the coalescence of the South-Eastern European fruit and vegetable processing industry at ANUGA 2007 – with individual country profiles at a common exhibition space.
Recommended reading

MAP – Macedonian Association of Processors
www.map.com.mk

Private Sector Promotion (PSP) Project Macedonia (Project end 2005)

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With its capacity building on “municipal and regional economic promotion and regional management in South-Eastern Europe” InWEnt does significantly contribute to:

- Creating competence for long-term and cross-sector development of rural and structurally weak areas
- Strengthening capacities in the fields of economic development and public private partnership (PPP)
- Establishing pools of trainers and consultants
- Promoting competence centers (business service centers – BSC)
- Promoting transnational cooperation in South-Eastern Europe

InWEnt programs employ a multitude of capacity building (CB) tools, such as international conferences, workshops, seminars, long-term stays (industrialized country training – ICT), as well as internships and study trips in Germany, coaching, training and organizational consulting, and also network building and management.

The InWEnt portfolio on “municipal and regional economic promotion and regional management in South-Eastern Europe” comprises three programs, which are presented below:

- InWEnt program (1): “EU Integration of Rural Economic Areas in South-Eastern Europe”
- InWEnt program (2): “Regional Economic Promotion in Central and Eastern Europe”
- InWEnt program (3): “Regional Development through Competency and Cooperation – Establishing Competence Centers for Promoting Regional Economic Cooperation in South-Eastern Europe”

### Background

After a phase of socialist industrialization, the current economic development of many Stability Pact countries in South-Eastern Europe is once again very strongly characterized by the agricultural and food sector. Agriculture, with its upstream and downstream sectors, is the primary driving force for economic and social development in rural economic areas.

On the other hand, rural areas are often underdeveloped. Liberalization of the markets, the political decentralization process with denationalization and privatization, as well as a new regional structural policy in preparing for EU integration have to some extent drastically aggravated this situation. The collapse of the former Republic of Yugoslavia into new independent states has had a significant affect on the previously functioning trade relations and business cycles and thus, on the economic and political stability of the entire region.

In addition, the goal of EU accession requires further adjustments; first of all establishing a functional regional administrative level and promoting initiatives of local business and social partners. Administrative authorities and institutions, which are often characterized by centralist decision-making structures, impede the necessary transformation process. Thus, there is a lack of organizations and institutions in rural areas for efficiently representing the economic, political, and social interests of the active rural population.

In order to successfully and sustainably develop the potentials of the rural areas of these countries, it is indispensable to set-up a countervailing power in the society by democratizing, decentralizing (political counter current) and self-organizing the private sector.

### Program Concept and Content

Through this several year supra-regional program InWEnt promotes new cross-sector approaches and concepts for a sustainable growth of rural areas. A central element of all measures is mobilizing endogenous development potentials by involving all relevant groups of stakeholders. Linking regional promotion policies with participative regional planning, municipal and regional economic promotion as well as new vocational training systems based on market
and employment demands is the focus of this innovative conceptual approach.

For implementing this integration concept an extensive set of tools is used ranging from international conferences of political dialogue, to subject-matter seminars up to intensive training workshops both in Germany and in the partner countries. Special importance is attached to the sustainability of the individual dialogue and training measures is. Therefore, the follow-up of dedicated and active partner organizations is intensively supervised and supported. Besides, cross-border cooperation (e.g. in the context of PHARE Cross-border Cooperation – CBC, INTERREG, EUREGIO) enjoys high priority. Networking gives rise to new partnerships as an important contribution to political stabilization in the region.

Thus, partners are supported beyond narrow sector boundaries in establishing decentralized self-administration and management structures, improving the capability and competitiveness of rural governmental authorities, organizations and companies, as well as in network building and cross-border cooperation.

The program is divided into three components:
- Regional development policies and promotion programs for rural areas
- Promotion of decentralized structures and set-up of an innovative regional management system
- Networks for regional and cross-border cooperation

These components comprise the following subject matters conveyed annually in approximately 20 individual measures:
- Formulation and implementation of policies and promotion programs for developing rural areas in compliance with EU standards
- Formulation and implementation of regional development concepts fully based on the needs of the rural population and regional potentials (bottom-up)
- Methods and tools for an efficient participation of all important business and social partners (local and regional partnerships)
- Strengthening of the management as well as the professional competence of public and private organizations in rural areas (organizational and human resources development, member participation and service orientation)
- New concepts, methods and tools for municipal/regional economic development and promotion of rural areas
- Vocational training concepts oriented towards the job market and modern teaching and learning methods for modular professional qualification
- Network building for regional as well as cross-border cooperation and for the exchange of experiences between institutions and organizations

Goals
The goal of this InWEnt program is to qualify selected supporting organizations to actively participate in regional development in the rural economic areas, thus, contributing to the partner countries’ development goal “… the promotion of structural changes and sustainable development of rural areas in preparing for EU integration …”

This can be achieved by empowering the respective national, regional and municipal institutions to:
- draft and implement policies and promotion programs for developing rural areas in compliance with EU standards,
- link innovative regional management with modern approaches of regional and municipal economic promotion and new tailor-made vocational training systems and
- establish networks for regional and cross-border cooperation, with all levels of stakeholders being actively involved.

The supra-regional and multi-sector program approach and the resulting exchange of experiences fosters the participants’ understanding of democratic structures and decision-making processes thus, contributing to achieving the primary goal of the Stability Pact: the consolidation of sustainable peace, stability, and security in the entire South-East European region.

Impact
The expected outcome is:
- Regional and international dialogue fora (already established) efficiently contribute to developing and implementing policies and regulations for rural regions and for sustainably ensuring the living and working conditions for the rural population in compliance with EU standards.
- Development and promotion programs of the organizations involved are based on regional development concepts and the needs of the rural population.
- Decentralized structures, management and professional competence of public and private organizations in the rural areas are strengthened. Development processes in the context of organizational and human resources development, member participation, and service orientation have been tested and introduced.
- Methods and tools for a greater public participation are developed and applied by the organizations involved.
- New concepts, methods, and tools for regional economic development and promotion of rural areas are developed and applied by the organizations involved.
Vocational training strategies and concepts based on market and employment demands are established for the rural area.

Networks for regional and cross-border cooperation as well as for the exchange of experiences between institutions and organizations are initiated and structured.

The program is part of the InWEnt-GTZ “Innovative Regional Management in Structurally Weak Regions of the CEEC-NIS” (Central and Eastern European countries – New Independent States) cooperation project and complements other German and international Development Cooperation (DC) organizations.

Lessons Learned and Recommendations for Similar Projects

As this program is a new one, which was only launched in 2005, and as there are no comparable projects run earlier in other regions, it is not possible at the moment to document any conclusive lessons learned and recommendations. Therefore just some experiences from the program’s progress are recalled in key words:

The close cooperation, primarily with GTZ, but also with other international DC organizations in the respective countries is extremely helpful for achieving the program’s target: In terms of Integrated Development Cooperation, the projects can facilitate the participants applying the acquired know-how and implementing it in practice, report back on current training needs and support the selection of appropriate participants for the program.

The program requires an extreme flexibility in order to adjust the individual measures, changing rapidly in the course of EU integration, to current training needs of the partner organizations.

Clearly defined contributions and responsibilities of the partner organizations support a successful program management and target achievement.

A mix of tools adapted to the respective target groups (combination of conferences, workshops, training seminars and courses, as well as long-term programs), a participant-centered, action-oriented teaching methodology, and international learning associations promote successful learning and are therefore essential for the program achieving its goal.

The holistic multilevel approach of the program that actively integrates all relevant planning and action levels and that considers all social, economic, ecological and institutional-political interactions is a new approach for South-Eastern Europe. Partly resulting difficulties in understanding must be considered in timing and content planning of the program.
InWEnt program (2): “Regional economic promotion in Central and Eastern Europe” (ICT – Industrialized Country Training)

Short description of the approach
In numerous countries in Central and Eastern Europe, mandataries of the Federal Ministry for Economic Cooperation and Development (BMZ) are implementing projects focused on “economic reform and establishment of the market economy” (the German acronym is WiRAM). The goal of the measures for regional economic development in Central and Eastern Europe is to galvanize the intensification of economic growth in less developed parts of the countries. Therefore these approaches often also entail promoting decentralized policies. The private and public sector are included when analyzing strengths and weaknesses, after which priorities are set, projects developed, and compiled in regional development concepts.

Integrating German (European) experiences into the cooperative economic promotion, adjusting them to the conditions in transition countries, is a promising approach for realizing developmental concepts. Fundamental to this is that the private and public sector cooperate closely, jointly develop a strategy for economic promotion, and implement it with clearly structured work orders to various actors.

Problems often exist in the individual measures’ lack of internal cohesion in the sense of an overall design as well as in the monitoring of the implementation of the individual projects. Intensive monitoring, coordination, and moderation is required to face these challenges, for which qualified specialists are currently lacking in most cases. The growing demand for experts having knowledge beyond individual action and project areas and qualifications in implementing regional developmental concepts has turned out to be an increasingly decisive success factor in recent years – not least in the WiRAM projects implemented by GTZ.

In Germany, regional development concepts have already been prepared since the mid-1980s and the qualification of the expert staff for implementing these economic development concepts has turned out to be decisive here as well. Therefore, targeted upgrading measures, as well as university courses emphasizing “regional management” were conducted since the mid-1990s. The experiences gained from this – adjusted to the specific conditions in the partner countries of Central and Eastern Europe – form the basis for the InWEnt program.

Project implementation
The formal structure of the training offering is based on InWEnt’s new industrialized country training concept (ICT).

The participants are selected in close coordination with GTZ and other institutions that implement corresponding economic development projects in the target countries. Intensive preparation of the participants in their country of origin precedes the ICT in Germany. They are obliged to prepare themselves both linguistically (German) as well as substantively (“Global Campus”, InWEnt’s worldwide e-learning platform). Participation in the online course offerings is one criterion for the final selection of participants, which is supplemented by interviews with the participation of or conducted by the projects locally.

After arriving in Germany the participants complete a four-month German language course. This is followed by the first subject block, in which concepts, strategies, and tools for regional economic development are taught in practical terms. The focus here is on visits to economic development institutions and trade fairs, group work for analyzing examples of success stories (best practices), but also failures of German economic promotion projects. This is intended to convey a broad but at the same time sound knowledge on options for influencing regional economic development. Particular emphasis is on a cooperative approach followed in many regions in Germany, i.e. the incorporation of all participating institutions including the private sector. Preparing regional developmental concepts and the question of managing the regional development processes concludes this module.

A central component of the training is the subsequent three-month internship in a German economic development institution, which should correspond as much as possible to the range of tasks of the participants’ national institution. Here, the content developed in the previous model is applied in practice, which makes mastery of the German language necessary at this point.

This is followed by a two-month implementation phase, in which project recommendations are developed by all participants and then discussed and improved together. The aim of this section of the program is the transfer of the acquired knowledge to the specific situation in the home countries and the respective institutions. A trainer component (train the trainer) is integrated during which the participants learn how they can later systematically pass on their knowledge in their regions. Also in this period there is a one-week study trip to Germany for supervisors and employees of the deploying partner institutions (exposure tour). This is intended to improve the understanding and commitment of the supervisors and partners, and the later
support of the participants in the concrete application of what they learned in their home environment.

The ICT concludes with a two-weeks training course in “Competence in International Interaction”. Implementation monitoring then begins in the home countries – again in close coordination with the deploying partner institutions, GTZ, and other partners – the implementation workshops are being carried out with colleagues and supervisors, dialogue forums, as well as during the subsequent project implementation and execution of supplemental training. A follow-up workshop is held about six months after the participants return. In addition, contact with and among the participants is supported by appropriate offerings in the “Global Campus”.

Impact
The program was created in response to the shortage of trained experts for economic development, which has been described again and again as a bottleneck for implementing WiRAM projects. The training program also contributes to the ability to monitor, moderate, and coordinate ongoing and new economic development projects implemented by qualified specialists within a regional development concept. This in turn makes a significant contribution to the ability to sustainably and effectively implement a policy of decentralization and regionally uniform distribution of economic development. Supporting economic development projects in turn improves the insurance of the survival of existing companies, increases the number of start-ups, and also attracts new investors from outside the region. This improves the income and employment situation of hitherto disadvantaged population segments in the affected regions over the long-term.

Lessons learned
The first group for this new training offering will travel to Germany in December 2005. Therefore, no lessons learned can be conveyed yet. However, the program builds on InWEnt’s successful TRIP ASIA program, in which more than 100 participants from Asian countries had participated since 1996. An independent evaluation in 2004 showed that the learning objectives have been attained very well, and the program was very successful in its real world design and orientation toward the conditions prevailing in the partner countries.

InWEnt program (3):
“Regional development through competence and Cooperation – Establishing competence centers to promote regional economic cooperation in South Eastern Europe”

Short description of the approach
The strengthening of regional cooperation as well as precession to the European Union – as guarantor for political and economic development – are at the heart of the Stability Pact for South-Eastern Europe.

Against this backdrop, InWEnt, as a mandatory of the German Foreign Office and program manager together with German and local partners such as chambers, associations, and private companies, is conducting this program for promoting regional economic cooperation. It consists of long-term measures designed for sustainability, in which the capacity building, business development services, and cross-border cooperation approaches are linked with one another.

In 2001 and 2002, the priority area was initially establishing local training and consulting capacities (train the trainer and consultant programs). Participants in the program could later be used as multipliers by the partner organizations. Establishing a pool of professional trainers and consultants, which place the partner institutions in a position to provide market-driven, self-reliant, and sustainable services for small and medium-sized enterprises.

In 2003 and 2004, the “Process-performance change program” followed this. The goal of this program component is to improve the local companies’ national and international competitiveness. This is also intended to promote economic cooperation by Southeastern European companies with companies from the region, the EU, or Germany.

In 2005, InWEnt initiated the “Regional development through competence and cooperation” program on behalf of the German Federal Foreign Office. The project’s goals were also derived from the Stability Pact. Its focus is to promote regional cooperation among the actors. This initiated a paradigm shift: The role of the local partners switched from a recipient of technical assistance to the principle of clear identification and individual responsibility (ownership), in which the partners assume the responsible role. The German side concentrates on advising the partner, it moderates the process, and is available to the partner as an advisor/mentor (coach). The partner is responsible for the content and services as well as the business model and success.

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**Specific approach**

Together with a powerful partner, a business service center (BSC) is established in each country for promoting regional cooperation. This business service center (BSC) supports companies in establishing cooperation and trade relations in the countries in the region, as well as in EU countries, primarily in Germany. To do this they develop customer-oriented services. These range from gathering information on countries and markets, and initiating cooperation agreements, on to consulting and qualifying companies desiring to enter new markets.

All BSCs work together in a supra-regional Southeastern European networks under the name “SEE Network” (South Eastern Europe Network). In doing so, they develop, market, and place their services over a common Web platform as well as in direct customer contact. The core of the project is a consistent market oriented approach, in which the partners are commercially oriented as service providers and face competition in the market. The services offered correspond to the requirements and wishes of the local companies. The partner’s work is profit based and they offer their services on the market over a long period.

The substantive and sustainable result is achieved if and when a BSC has attained full financial independence (after a three-year startup phase).

**Project implementation**

The general objective and the framework for the procedure were coordinated with the regional partners in Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro. The following items crystallized as the focal point for joint consulting and coordination:

- The absolute necessity for specific cross-border cooperation
- The requirement for a clear economic approach, and
- The focus on offering that sustains their value for the companies in the countries

**Phase 1: Task clarification with partners and establishment of organizational structures:**

- Integration of the project goals into the local partners’ strategic goals
- Development of a business plan for the BSC

**Phase 2: Establishment of the BSC:**

- Selection and hiring of the BSC manager based on a job description defined together with the partners
- Clarification of roles and task, competence, responsibility

**Phase 3: Development of services:**

- Establishment of core competencies at the partner institution
- Services (service module): market needs analysis, selection and definition of consulting and service modules, development of the modules in the form of guidelines and applicable tools
- Establishment of the joint service platform
  www.see-network.com

**Phase 4: Implementation of services:**

- Positioning the services on the market
- Positioning the services with change agents and media (change agents are individuals who are important promoters due to their key positions and who can decisively influence the success of the project)

**Phase 5: Sales and market-based activities:**

- Development of the bases for public relations
- Development of a media plan
- Strengthening of the partner’s sales competency

**Accompanying activities:**

- Continuous public relations
- Continuous communication with promoters and potential additional cooperating partners (institutions that play a key role in economic development)

**Measures:**

- Regular, transnational measures: workshops, in which the BSC services are developed and the project’s progress is measured
- Bilateral measures: monitoring and workshops on individual support of the partner and processes in each region

This procedure of acceptance, participation, and commitment by the partner is secured in the specific implementation. In the first step, a detailed business plan is developed, which precisely defines all fields of the future business service center, from the customers, to the strategic added-value, and on to the expected financial return flows. In doing so, each BSC developed its own central topic, for which it develops service modules (information, training, and consulting) for companies. The regional partners jointly access this service portfolio and may offer it individually on their market.
Lessons learned
The following lessons learned are derived from the current project, which only began in 2005 and is following a new approach within the framework of the Stability Pact:

The local partners are willing to handle economic development themselves. They do not wish to have any more projects “thrust on” them, but rather expect concrete and pragmatic assistance for their plans. The ownership principle was systematically followed in this project and shows perceivable results – the partners are offering the project as a business, InWEnt accompanies the process as a moderator and coach, and as a driving force if required.

Cultural differences between Germany and South Eastern Europe must be taken into account: Germans work in a more goal and fact-oriented manner than South Eastern Europeans do. The latter consider networks and personal contacts very important. This means that in addition to clarifying the monetary goals, the personal or individual goals of the partner organizations must also be considered.

Actions that build trust are as important as our intensive personal contacts with the partner.

Too much harmony at the beginning is not advantageous: The local partners goals and motivational structure should be clarified at the beginning, discussed openly, and led to a consensus, even if it is strenuous and more time and energy-consuming in the beginning phase of the project. This ensures a smoother implementation of the project and prevents conflicts from arising at a later time.

Build in public relations and marketing from the beginning: Establishing contacts early on to key institutions, the media, and promoters increase publicity and supports marketing of the services. At the beginning, a common mission statement (Who are we? Why are we here? What position are we taking on the market? What services are we providing? How?) is worked out and a media plan for continually maintaining valuable contacts is developed.
Development of skills and standard tools for project management: These are important elements for managing the processes and for measuring progress, e.g. masterplan.

Central role of the responsible project manager: Success depends to a considerable extent on his/her skills. Great emphasis was placed on the selection of the BSC manager based on a jointly developed profile.

Positive acceptance of the program at partner organizations in Germany: Chambers, financial institutions, and other organizations confirm that the South Eastern European region is of interest to German companies, although the appropriate local points of contact have been lacking so far.

Recommendations for similar projects
Recommendations for similar projects may be derived from the lessons learned:
• Ownership by the partner is the pivotal and central issue.
• By producing acceptance, participation, and commitment, the project goals can be attained at the right time, on budget, and with the expected quality.
• Long-term commitment by the donor pays for itself because the full effect of the measures is often not seen until in the mid-term. Without a well-qualified and high-performance partner structure, economic development can only be driven under substantially higher expenses.

Recommended reading
See www.see-network.com

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