

English edition

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NEWS

Participatory
Appraisal of
Competitive
Advantage

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Editorial: Different Types of Locations Require Different Types of LED Approaches

We tend to assume that local economic development (LED) is more or less the same across countries and locations. Sure, there are some differences with respect to levels of development, and the approach to LED will reflect that in one way or another. Fundamentally, though, some people would argue that every place needs a strategic plan, and other people would argue that every place needs a nice pragmatic participatory process.

I want to suggest that we should consider a more systematic typology of locations, and employ substantially different approaches for different types of locations. Regarding a typology, I want to suggest that it can be organised around two key factors: Growth vs stagnation or decline, and strong structures vs weak structures.

	Strong structures		
Stagnating or declining	[4]	[1]	Growing
	[3]	[2]	
	Weak structures		

[1] A growing economy with strong structures has a long tradition of successful economic development. The local economy is dynamic, driven by competitive companies and perhaps a cluster. Also, the capital cities and major metropolitan areas in developing and transformation countries typically fit into this quadrant. Businesses can rely on a solid infrastructure and good factor conditions.

[2] A growing economy with weak structures is still in the early phase of its growth process. It may, for instance, be driven by an emerging cluster which is the result of innovative entrepreneurship and localised imitation. Yet the infrastructure is not yet developed, and factor conditions are deficient.

[3] A stagnating economy with weak structures is a phenomenon that we often find in rural and peripheral regions. There are only limited local production activities, including subsistence agriculture, and the main sources of income are remittances and government transfers.

[4] A stagnating or declining economy with strong structures is suffering from the structural decline of the main local industry, be it because a resource such as a mineral deposit is running out, be it because the main local cluster has lost its competitive edge vis-à-vis domestic or foreign competitors (or maybe it never had one and is now falling apart after the borders have been opened to foreign competition).

Our intervention approaches need to take the local structure into account. While we need to address all of them on the basis of change management concepts, the approach in type 1 and type 2 economies needs to be different from the approach in type 3 and type 4 economies, as a very different type of change is needed.

	Strong structures		
Stagnating or declining	Change of direction	Acceleration and upgrading	Growing
	Weak structures		

→ Type 1 and 2 economies are fundamentally doing well. The focus of a territorial development intervention is at upgrading, i.e. strengthening the existing competitive advantage. In this type of location, change management is about facilitating incremental change. A typical focus would address factor conditions, for instance trying to reduce fragmentation among meso-level institutions in a type 1 economy or actually identifying and addressing the most pressing bottlenecks regarding factor conditions in a type 2 economy. In these types of locations, one might actually run PACA or RALIS Exercises or use PACA tools to identify specific opportunities or bottlenecks and address them. The Compass of Local Competitiveness would be the ideal method to manage the process. Strategic interventions initiated through Genesis are an option, but not a necessity.

→ Type 3 and 4 economies are fundamentally unwell. Here, the objective cannot be to grease a machine so that it can run at a quicker pace. Rather, the challenge is to initiate a process that leads to a change of direction in the territorial economy. In other words, these are the places where we need to design and implement a territorial change management processes that aims at

radical change. A tool like PACA is useful to initiate the process. In a type 3 location, one would try to identify whatever is available in terms of an endogenous potential. In a type 4 location, one would look for talents that have been generated by the old development model and which bear the seeds of a new growth pattern. In both types of locations, we need to make sure that we immediately encourage a conversation on strategy and move to strategic interventions in a relatively short period of time. For this purpose, we can use tools like GENESIS which highlight the fact that there is more than one possible future – a fact that may come as a surprise to local stakeholders who are used to see only one future, namely the bleak one.

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Indonesia: PACA Network for Economic Competitiveness

“The training was based on a participatory approach. We had equal chances for discussion and the exchange of experiences. I am really keen to share my new knowledge with my friends and colleagues and initiate a PACA exercise back home,” Stepanus Makambombu from the island of Sumba in East Indonesia wrapped up his impressions from the 5-days PACA training in Semarang, Central Java in June 2006. Stepanus was one of 15 trainees: 13 came from Central Java, one from West Java and only him from



Stepanus Makambombu (Sumba) at the PACA training in Semarang

Eastern Indonesia. Some participants work with regional planning authorities, others are university lecturers or work for NGOs or BDS providers.

The training had been organized by the GTZ program “Local and Regional Economic Development in Central Java” (red) and the “Forum for Economic Development and Human Resources” (FPESD) affiliated with the Provincial Government of Central Java. GTZ-red is a technical assistance program that was launched in 2000 and is implemented in coordination with the National Development Planning Agency (BAPPENAS) of Indonesia. The program aims at enhancing economic competitiveness of a defined sub-national territory by supporting competent key stakeholders and organizations from the public and private sector as well as from civil society. The program location is Solo Raya in Central Java consisting of the City of Solo and six districts. The region hosts about 6.5 million inhabitants. Results and experiences gained in this pilot region are to be disseminated to other parts of the country. PACA as a very important method to identify local economic potentials was applied in two program districts: in Boyolali in 2003 and in Klaten in 2005. The district Government of Boyolali in cooperation with GTZ-red is still supporting the cow milk cluster which had been identified as one of the main economic potentials during the previous PACA process in 2003. At the slopes of the Merapi volcano in Klaten, the local farmers benefit from integrated development activities in the agricultural sector.



The mat production cluster in Semarang



Bening Dwiyono, BDS-Provider and head of FEDEP in the district of Demak

The dissemination of the *red* program requires skilled managers and also more qualified PACA facilitators. Therefore, Christian Schoen from meso-partner had been contracted to facilitate the PACA Training in Semarang. During the training mini-workshop with 15 local stakeholders – one of the highlights of the training – the trainees got a deep insight in a mat production cluster. Here, the competitive position of mats produced from textile scraps has been discussed along Porter’s 5-Forces model. By applying this model in a workshop setting, priority measures can be derived to submit proposals to the local government for immediate implementation.

At the end of the training, most of the participants expressed their eagerness to facilitate a PACA exercise. One of them is Bening Dwiyono, BDS-Provider and head of the local stakeholder forum (FEDEP) in the district of Demak at the north coast of Java. “By using PACA we want to get clearer ideas on how to strengthen the local economy of the population – especially the fishermen – in the coastal sub-districts of Demak. We still need to collect more data of successful PACA exercises to convince the district Government to support a PACA process.” If the government agrees, Bening Dwiyono hopes to initiate activities to strengthen various sub-sectors in Demak. Meanwhile, Stepanus from Sumba is also negotiating with BAPPEDA, the local planning authority. And he has already some money in his purse: A local NGO network contributed 600 US-\$ to generate a clearer picture of sectors showing economic potentials on the

island of Sumba, such as seaweed, cattle and cashew nuts production.

The GTZ-red program will take up these initiatives trying to ensure that the trainees having participated in Semarang will get more practice in handling PACA exercises and support each other, e.g. by involving Bening Dwiyonono from Western Indonesia as co-facilitator in Sumba, Eastern Indonesia. A “Training of Trainers” (ToT) is intended to follow in the future to create an independent facilitator network in Indonesia. Besides, GTZ will also ensure that territories selected for PACA exercises are having the potential for further Local Economic Development initiatives.

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Variations of PACA

PACA is a flexible and adaptable methodology. With the following article, we continue a series of reports by practitioners who have successfully tested variations of PACA.

Compass as a strategic entry point into a PACA process

The Compass of Local Competitiveness is a tool that assists local stakeholders in strategising, monitoring and continuously assessing and adjusting their Local Economic Development (LED) process. It is a flexible tool that can be applied in different contexts and institutional settings, such as municipal LED departments, an LED agency or a private or public-private LED initiative. In South Africa, the Compass has been used so far within a strategising process for a parastatal LED agency and for the participatory development process of a municipal LED strategy. Recently, we have used the Compass for the first time in the context of a PACA process.

In a joint effort the ‘Decentralised Rural Development Programme (DRDP) of GTZ Lesotho with the support from the ‘Local Economic Development Project’ of GTZ South Africa and the German Development Service in Lesotho started

LED in Mohale’s Hoek District in the southern region of Lesotho. The process was kicked off in November 2005 by a Red Tape Reduction initiative supported by the local private sector and local government, which was followed by a LOCATI Basic LED Training Programme. After these preparatory activities the LED process was then steered towards a PACA intervention. With the support of professional facilitators from a Maseru-based NGO the PACA intervention started in June 2006. As there is no dominant economic sector and no outstanding economic activities in the region, the PACA focussed on the geographical area and the local economy of the town Mohale’s Hoek.

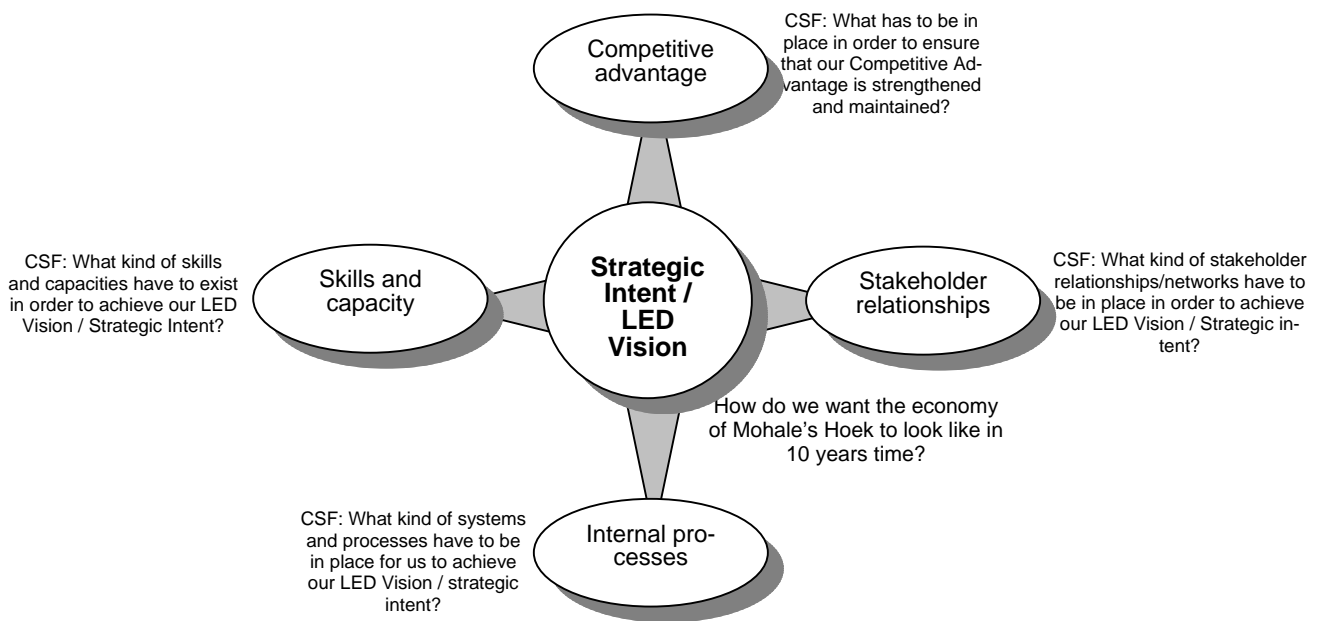
Due to the diversity of economic activities in the Mohale’s Hoek area (retail, services, agriculture, construction, small scale manufacturing, etc.) the PACA team decided that it was important to clarify the vision and objectives that the local stakeholders have regarding their locality. We decided to use an abridged version of the Compass of Local Competitiveness as a tool for the Kick-off Workshop to create a strategic orientation for the further LED process.



Participants at the workshop

How does the Compass work? The conceptual starting point of the Compass was the Balanced Scorecard; a performance management tool developed in the corporate environment that provides a balanced view on different perspectives beyond financial indicators. The Compass is organised around four different perspectives which aim at taking the stakeholders’ thinking beyond a one-dimensional view on LED: ‘Economic

Compass of PACA Kick-off Workshop in Mohale's Hoek



Indicators' (growth, start-ups, employments etc.), 'Relationship with external players', 'the local process perspective' and 'learning perspective'.

For each of the perspectives 'Critical Success Factors' (CSF) are identified which are prerequisite to the Strategic Intent. This strategic intent is the answer to the question "What impact do we want to achieve with our LED efforts?" and aims at creating a strategic alignment of all actions towards on common goal. The CSFs are the answer to the question "What has to be in place in order to achieve the Strategic Intent?"

In Mohale's Hoek about 80-100 community members, business people and representatives from central and local government joined the Kick-off Workshop. As the group was very heterogeneous in terms of education level, experience and understanding of entrepreneurship we decided to simplify the Compass in order to harvest as much relevant input as possible. The different perspectives were modified in order to cater for the needs of the diverse group (see picture). The perspective on economic factors was converted into 'Competitive Advantage' in order to direct the stakeholders to identify their local strategy for the Mohale's Hoek area.

In a brainstorming exercise the participants were invited to formulate the 'Strategic Intent' for LED in Mohale's Hoek. We asked the simple

question "How do we want the local economy of Mohale's Hoek to look like in 10 years?" The Strategic Intent was then phrased as follows: "Adequate social infrastructure and services, appropriate general infrastructures, with a range of business opportunities using local resources, with local ownership in a cooperative and conducive environment".

We then divided the participants into 4 groups. With the support of a facilitator from the PACA team each of the groups focussed on one perspective of the Compass and identified CSFs. Due to the large size of the groups a Pareto exercise was used after the collection of inputs to prioritise the most important and relevant CSF.

The use of a Compass in the context of a PACA process has several benefits. In the case of Mohale's Hoek with its diverse economy and a heterogeneous group of participants in the Kick-off Workshop, the Compass is a useful tool to create a shared vision of the local economy and get clarified objectives about the desired impact of LED. The formulation of the Strategic Intent brings the participants of the Kick-off Workshop together at the same level, stimulates communication between the different stakeholder groups and raises the awareness that public sector, private sector and civil society eventually strive for the same goals. The identified CSFs already give direction for the development of PACA propos-

Region aiming at integrating the three bordering regions into one Euro-Region. In the last 6 years efforts to establish it failed due to political conflicts especially between the former Yugoslav Republic of Macedonia and Greece.

Instead of trying to solve the conflict through political negotiations only, the study had the objective to identify potentials and concrete opportunities for cross border economic relations and support to leading sectors in the Ohrid-Prespa-Region. Within the three countries around 80 interviews with businesses, support institutions and government representatives were conducted and the final results were presented at a Conference in Greece on 18th and 19th of December 2006.

While ongoing economic cooperation and especially further opportunities in tourism, agribusiness, and for labour-intensive sectors were identified through the study, the outcomes demonstrated several interesting aspects for LED and value chain promotion:

→ Although the political conflict is hindering investments in the region, businesses see the main problem in the bureaucratic and intransparent investment procedures and the insufficient institutional support structure, especially in the former Yugoslav Republic of Macedonia and Albania.

→ Improving local and regional economic development in a business-oriented manner is one main challenge for further economic cooperation in each of the three cross-border regions (including the EU country Greece). Especially the economic promotion role and the use of innova-

tive support mechanisms are common challenges where joint initiatives and learning processes could start.

→ Providing market information and transparency about existing activities, encouraging learning potentials regarding standards, value-added production and organisation of businesses in the sectors, and a stronger integration of the private sector into economic policy making are

challenges that all three cross-border countries are facing.

The Conference with mainly local governmental stakeholders from the three countries and the workshop moderated by the study team pointed out several aspects for further action:

→ the need to integrate the private sector more intensively in such Conferences and economic discussions,

→ disseminate the information in the study to all key stakeholders in the Region to create awareness about the existing cross-border potentials,

→ the initiation of more sector oriented workshops and approaches

with businesses followed by concrete strategically oriented activities (either based on sectors or cross-cutting aspects),

→ increasing the organisational and facilitation knowledge of local governments, associations and support institutions so that they can act more strategically,

→ encouraging a joint understanding of the challenges and critical success factors for the development of the cross-border region through the elaboration of future scenarios with key stakeholders.



A typical picture in Macedonia



The authors

The results of the study and the Conference demonstrate that there is much common learning potential for businesses and institutions in the cross-border region. It was also observed that dynamic LED and value chain approaches can help to decrease political conflicts. One of the main challenges for this will be the increase of knowledge about how to do LED in a dynamic way within each of the regions and with each other.

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The Study “Cross-Border Business Cooperation and Supporting Leading Sectors in the Prespa/Ohrid Region” will soon be available for download at EWI’s website (www.ewi.info).

Impressions from TCI’s International Cluster Conference in Lyon

“How not to scare business people from cluster initiatives” was the title of the session **mesopartner** and the Slovenian consultancy company Anteja organised at this year’s 9th and so far largest TCI Cluster Conference, held in Lyon in October 2006. 400 cluster practitioners discussed topics such as governance, business involvement, and evaluation methodologies. Apart from organising a whole session, **mesopartner** was invited to present in two additional sessions about the evaluation of cluster and LED initiatives (presenting the Compass methodology) and about how to keep the momentum in LED initiatives in the short and longer term (introducing the RALIS and GENESIS methodologies).

The Conference highlighted several trends in Cluster promotion in industrial countries and at the same time mutual learning potentials with developing countries:

- The issue of evaluation gets more importance in EU cluster initiatives.

Whereas in the past monitoring and evaluation was mainly based on documentation procedures and general indicators, impact evaluation becomes more important. Experiences from developing countries and from participatory monitoring approaches were seen as relevant also for cluster initiatives in industrialized countries.

- Parallel to the attention the measurement of the “enabling environment” gets in developing countries, the business environment again receives increasing attention in developed countries. Yet important differences can be observed. The discussion in developing countries mainly focuses on macro-political issues like bureaucratic obstacles for businesses, labour legislation and law enforcement in general. Instead the cluster discussion focuses more specifically on the question how the business environment can be improved to promote innovation. There is no distinction between macro- and meso-level activities. It is the efficiency of network relations and the innovative outcome that is evaluated and promoted under the term “business environment for innovation” (see e.g. new practical evaluation tools for the business environment from “Scottish Enterprise”).
- The importance of short-term activities to keep the private sector involved in cluster initiatives is getting increasing attention. In the past, most of the mainly government-driven cluster initiatives in the EU created



Participants at the conference

high expectations and took much time for planning and data analysis before moving into action. The cost in terms of time and money, and the fact that businesses don't respond well to these approaches, are increasingly recognized. But most of the cluster initiatives refer to the short-term activities as "low hanging fruits" and take their main attention towards the "high hanging fruits". Short term activities are more used as a tactical device to keep the business sector happy, instead of systematically leveraging the learning processes generates with these activities and integrating them in the further development of the process.

- The presence of cluster initiatives from developing countries (especially from East Africa and Ethiopia) and from donors has increased. Whereas their presentations mainly focused on new emerging cluster initiatives, the conference would provide also a good stage for more experienced LED initiatives and projects in developing countries to present the lessons that they have learnt.
- Some interesting experiences from Eastern Europe (e.g. in the Czech Republic) were presented that stressed the importance of not focusing only and mainly on high-technology clusters but also on less modern but highly employment intensive sectors.
- "How to make economic promotion agencies more effective and business-oriented?", was another issue of interest. Different incentive systems and criteria for the well-functioning of such agencies were demonstrated. For example in the German region Baden-Württemberg agency employees have a minimum number of companies they have to visit per week. At the same time they provide a specific information service during their visits (in this case concrete information on ISO 9001) to not just take the time from the company owner but to directly provide some service and to demonstrate their client orientation.

All in all the conference provided much information where cluster initiatives in the EU can also learn from tools and approaches used in de-

veloping countries. This was also confirmed by the high attention mesopartner's inputs received from colleagues in the EU.

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For further information see
<http://www.competitiveness.org/lyon/>

Local and Regional Economic Development: The Way Ahead

Summary of keynote given at the BMZ / GTZ / SDC / IFAD / ILO / InWEnt Conference "Local and Regional Economic Development to Overcome Poverty in Asia", Vientiane, 22 – 24 November 2006

Local and regional economic development (LRED) is driven both by necessity and opportunity.

Necessity: The working of market forces necessarily creates regional imbalances. Some regions grow and prosper, while others stagnate. Regional imbalances create an incentive for migration, which deepens social segmentation in regions where economic data indicate prosperity yet social data highlight the existence of pockets of poverty which typically have a strong territorial dimension (e.g. shantytowns). LRED tries to respond to this phenomenon, both by making growth in prosperous regions more inclusive and by stimulating growth in stagnating regions.

Opportunity: Research on regional development has highlighted a paradigm change. In the past, regional development policy used to be organised in a top-down way. It tried to stimulate growth in lagging regions through investment in infrastructure, attracting external investors through incentives, and other measures. This approach was not particularly effective. It has been replaced by an approach that emphasised the endogenous potential, i.e. an effort to use local resources, entrepreneurship and collective action to create growth. There are numerous examples of locations and regions all over the world that have thus managed to pull themselves out of misery, and their success is an inspiration for LRED practitioners elsewhere.

The increasing interest in LRED is also due to the fact that many countries have gone through decentralisation processes in recent times. In some cases, promoting economic development is now a statutory task of local government. In many other cases, local and regional governments try to fill a gap. This gap that has been created by the discontinuation of industrial policy and other sector policies that used to be implemented by central government and then fell victim to the implementation of the "Washington Consensus". It stipulated that central government should concentrate on creating an enabling environment for private investment but not engage in selective interventions that distort markets. Since this approach has not created the growth dynamic that had been hoped for, problems such as unemployment persist and create a pressure on lower levels of government to address it.

LRED has evolved as an approach that is addressing one of the main problems of modern societies, which is fragmentation. As societies and economies get more complex, they generate more diverse problems, and an increasingly complex pattern of organisations and agencies is created to address them. Trying to coordinate all these organisations and agencies is virtually impossible, not the least because they respond to different and often conflictive policy priorities. For instance, the priorities of a Ministry of Economy will rarely be the same as those of the Ministry of Labour. The local and regional level is suffering the impact of all those uncoordinated interventions. Competent territorial development actors are capable of making the best out of them, i.e. understanding the various offers of support from higher level government and tapping into them in a flexible way that maximises resources available for local initiatives. Moreover, at the local level there is some chance to overcome fragmentation in a project-driven way, i.e. involve various agencies in initiatives with a specific objective and thus achieve some degree of coordination.

LRED needs to be conceptualised as an iterative rather than sequential process. An LRED project has a starting point and a final point. LRED as a process has not. A successful LRED process generates a variety of learning processes: on the

location, on stakeholders in the location and their resources and interests, on project identification and implementation, on management of communication and change processes, etc. Each learning step generates new opportunities for action. Each successfully implemented action builds relationships and social capital, and thus improves the likelihood of success for further activities. That is the main reason why, at an early stage of LRED, experienced practitioners tend to aim for quick wins. The quick wins lay the groundwork for more ambitious and significant interventions.

LRED as a significant potential to contribute to territorial upgrading and growth processes. Yet it also has its limitations:

- ➔ In countries with adverse macroeconomic framework conditions, the amount of growth that can be generated through territorial development approaches is limited. If the Central Bank is determined not to let the economy "overheat", it will respond to successful developmental efforts by raising the interest rate.
- ➔ Territorial development only rarely achieves the kind of leap in development that Newly Industrialising Countries have achieved with strategic industrial policy. Korea wouldn't have a car industry, Brazil wouldn't export planes, and Chile wouldn't be a major salmon exporter if they had relied on market forces plus bottom-up territorial development only.
- ➔ It is difficult to get the sustained buy-in of big business into LRED. Large, multinational corporations are active in hundreds of locations, moving in or out of some of them all the time, and they battle to build a strong relationship with local stakeholders. Corporations prefer to get involved in LRED through their corporate social responsibility activities, e.g. as sponsors for cultural events.
- ➔ The world economy is increasingly organised around global value chains. For local and regional stakeholders it is difficult to interact with other actors in the same value chain yet at far away locations.

Despite these limitations, it is highly unlikely that LRED will wither anytime soon. The pres-

sure on elected office holders at the local and regional level to deliver jobs and economic opportunities to their constituency is just too strong. What are then the challenges that LRED needs to address?

The role of national, regional and local government in LRED:

The fact that national government decentralises responsibilities does not necessarily mean that it lets go. We often observe that national, regional and local government agencies are active in the same field, without necessarily coordinating their activities. It is important to get a clearer understanding of who would ideally do what, and how the three levels should interact.

Monitoring and evaluation: There are only few evaluations on LRED available. One of the reasons may be that evaluating territorial development is intrinsically complicated; it is one of the areas where the attribution gap poses a huge challenge. In this light, it may be worth considering the use of participatory M+E techniques, and to complement this with independently conducted impact assessments that generate convincing LRED "stories".

Market failure, government failure, network failure: The three ideal types of coordinating transactions in an economy are market, network and hierarchy. Each of them has an intrinsic tendency to fail. In the donor community, the emphasis has recently been on government failure which is the object of the "enabling environment" approach. Moreover, some donor agencies



LRED needs lateral thinking to make something out of nothing: An unused railway engine cemetery in Queenstown, South Africa

are experimenting with the "making market systems work for the poor" (M4P) approach. The latter approach looks at the three modes of coordination and how they interact. It is important to understand that, for instance, in the case of government failure the solution is not more government but more market and/or more network. The same applies to the other three modes. What is

lacking at this stage is a set of straightforward tools to analyse the three types of failure and to take an informed decision on how to respond.

LRED as Change Management: It is useful to conceptualise LRED as Change Management (CM). LRED involves change in the way territorial stakeholders act and interact, in the way the benefits from economic development are distributed, and with respect to the strategic intent of the location or region. CM tools can contribute to the toolkits used in LRED. There are two fundamentally different constellations with respect to change in regions. Some regions are basically on a growth trajectory. Here, the challenge for LRED is to speed up growth and to make it more inclusive. Other regions are stagnating or declining. Here, the direction of development is wrong, and LRED needs to facilitate fundamental change in the way the region operates.

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More information on the conference is available at www.lred.info

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