

Support to the SME Sector in Serbia

German Serbian Project of Technical Assistance, implemented by the GTZ

Report on Local Economic Development

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1. Summary

Local Economic Development was introduced into the project as a concept to achieve the 6th result. So far, most activities were centred around the implementation of an approach called PACA (Participatory Appraisal of Competitive Advantage). In October 2002 the project organized a training course in PACA for five municipalities. As a result of this all municipalities involved started with PACA. By June 2003, four municipalities have completed the diagnosis (Novi Knezevac, Mali Idjos, Nova Crnja and Subotica).

The major achievements are so far:

- In four municipalities medium and short-term action plans are available.
- All four municipalities have learnt to adopt a bottom-up approach and understand themselves as facilitators.
- All municipalities have realised the need to provide services for the local economy.
- In all municipalities most of the economic actors welcome the initiatives of authorities and the PACA teams.
- PACA teams in the municipalities exchange information between themselves and started networking.

In order to carry out PACA successfully, the following issues should be taken into consideration:

- For PACA activities staff of the administration must be exempted from their day-to-day activities. Lobbying for PACA within the respective administration and Executive Board is necessary in order to obtain political support.
- Most of the businesses invited to participate in PACA expect from the municipality to tell them what they should do in their business. They don't consider the process of local economic development as a stimulation of their self-help potential. PACA contributes to overcome this common pattern of expectations.

It is recommended to start with the implementation phase as soon as possible. Close coaching is necessary, especially after having carried out the *Way Forward Workshops*. Coaching activities by the project should be combined with additional training for the PACA teams, such as moderation and presentation courses and/ or courses on project management. In exceptional cases small financial incentives could speed up the process (such as paying fees for trainings or local consultants). Exchange meetings could be useful enhancing networking

among the municipalities and to start a process of learning from each other and with each other (group coaching). Support beyond PACA (in issues not yet subject of PACA, e.g. how to set up a business zone) should additionally be provided in information workshops. In order to mainstream local economic development and PACA as well as to improve the sustainability, the level of intervention has to be upgraded. Activities should be carried out through local institutions and organizations, such as the Standing Conference of Cities, universities, ministries or SME agencies.

PACA can be replicated with the support of other international organizations and projects.

2. Project Background

According to the project proposal to the German Ministry for Economic Promotion and Development the project should have achieved the following results until August 2003:

- R 1: Institutions for regional economic promotion are set up and work efficiently, professional location marketing exists (in the region of Vojvodina).
- R 2: Chambers and business associations in Vojvodina provide services to the SME sector.
- R 3: Services (information and promotion) for the most important sub-sectors are provided.
- R 4: Consultancy services for specific target groups are introduced to the market.
- R 5: SME specific training courses at selected schools and universities in the region are established
- R 6: A concept for an economic recovery of villages is elaborated and its implementation is tested.

Local Economic Development was introduced into the project as a concept to achieve the 6th result. Additionally, it contributes to the 1st result.

The municipal level was preferred to the village level as a village unit is too small to be treated as a viable economic unit. Besides, village administrations or village development committees (as e.g. established by the USAID/ADF project) might lack political support, and it is doubtful, whether activities would be sustainable.

3. Project Activities

Activities on local economic development started in July and August 2002 with the visit of a number of municipalities.¹ Most municipalities were either seeking investors and did not want to get involved in a more comprehensive local economic development or felt the need of an integrated local economic development, but were unable to start and manage the process. The latter municipalities were mainly rural, facing the problems of high unemployment rates and a decreasing number of inhabitants.

The project took the decision to co-operate with municipalities interested in a comprehensive approach to local economic development.

In order to inform every municipality in Vojvodina about a possible co-operation with the GTZ, a presentation was held together with the Provincial Government of Vojvodina and the department of local self-government: Ms. Ulrike Sautter, in charge of municipal economic promotion (kommunale Wirtschaftfoerderung) in the city of Ulm, and Mr. Uwe Krappitz, in charge of local development of the "Landkreis Neumark, introduced municipalities to the topic of local economic development". More than 70 people from 30 municipalities attended the workshop. However, only those municipalities visited earlier were interested in co-operation with the GTZ. In October 2002 the project organized a training course on the methodology of PACA (Participatory Appraisal of Competitive Advantage)² for participants of 5 municipalities that had expressed the need for integrated local economic development. Trainers were Joerg Meyer-Stamer and Christian Schoen. The project translated the PACA manual into Serbian and supported the course participants in lobbying for PACA within their municipality, mainly within their executive boards. All 5 municipalities have started PACA with the beginning of 2003. (The delay was caused by the additional workload of the municipalities due to the repeated presidential elections last autumn.) First preparatory work was done and kick-off workshops for PACA were held in February and March 2003 followed by intensive fieldwork (interviews and small workshops carried out by the PACA teams of the municipalities). Ute Dannenmann provided coaching during the fieldwork and structuring of information. Christian Schoen facilitated some of the kick-off workshops and the finding workshops (initial diagnosis and elaboration of proposals) Zarko Maletin, local GTZ co-ordinator, participated in the initial PACA training and supported Christian Schoen in the kick-off workshops as well as in the finding workshops. Victoria Bojovic participated in the coaching carried out by Ute Dannenmann.

¹ An extra report covers these visits.

By May 15th, three of the municipalities have completed the diagnosis (Novi Knezevac, Mali Idjos and Nova Crnja), Subotica plans to complete it by the end of May. The 5th municipality, Kula, stopped carrying out PACA due to high expectations towards PACA, that could not be fulfilled and due to a lack of time (see lessons learnt). A further municipality, Zitiste, will start PACA by the end of May. (Here, the InWent workshop on farmers' associations had taken place with the support of the GTZ.) The municipalities, which have completed the diagnosis, will continue now with the implementation phase (see recommendations).

4. Major Achievements

The major achievements after only 6 months of PACA are:

- In three municipalities comprising more than 10 villages, medium and short-term action plans are available. (It turned out that long-term plans are not necessary, since people know how their municipality should look like in 5-10 years.)
- All three municipalities have learnt to adopt a bottom-up approach (see lessons learnt) and understand themselves as facilitators. Mali Idjos is even expecting this bottom-up attitude from the national ministry in charge of urban planning now. The municipality asked to be heard in the process of elaboration of their spatial plan, because they aim at setting up a business zone next to the highway and would require an additional highway exit for this zone. Authorities in Mali Idjos stated, that the municipality will be a pilot case for more participation in urban planning, even leading to a change of the spatial law towards more participation.
- All municipalities have realised the need to provide services for the local economy, so they created ownership for a local economic development process. Novi Knezevac has set up a unit for local economic development. Authorities in Mali Idjos allow the members of the PACA team to be engaged in the tasks of local economic development instead of dealing with daily administrative work. Nova Crnja clearly sees the need for establishing a unit for local economic development, but has budget problems to employ sufficient staff for this task (see recommendations).
- In all municipalities most of the economic actors welcome the initiatives of authorities and the PACA teams. Nobody expected the local government to undertake such measures.

² For a detailed description on PACA please see the manual of Joerg Meyer-Stamer.

Communication between businesses and local government has started or improved. The business climate has already seen improvements after the short time of PACA fieldwork.

- PACA teams in the municipalities exchange information between themselves and started networking.

5. Lessons Learnt

This chapter will focus on the major obstacles towards PACA in general and those encountered during the process of PACA. It is also noteworthy however, that the achievements mentioned under 3. are in a way also lessons learnt.

In order to carry out PACA successfully, the following issues should be taken into consideration:

- Political Support:

Due to the experiences made with the project supporting SME agencies, we emphasized the ownership of government for local economic development and addressed only local authorities to conduct PACA. However, PACA is an additional activity and time-consuming. Administrative staff has to fulfill daily tasks and is unable to dedicate a lot of time to PACA. Hence, members of the PACA teams must be exempted from their day-to-day activities. Especially in the early phase of PACA, when the benefits were not clear, the people trained in PACA had to lobby for PACA within their administration and Executive Board. Therefore, in November 2002, the project organized a meeting with the Vice-President of the Provincial Government, Mr. Pasztor, to lobby for PACA and support the local teams. This need to lobby for PACA was one reason for the delayed start of PACA in 3 municipalities (The elections caused an additional work load for the municipalities, so there was simply not enough time available to prepare and start PACA). One municipality therefore subcontracted a local advisor for carrying out PACA. An ideal example for political support of PACA is Mali Idjos, where the PACA team consists of 5 young people, who carry out the fieldwork and 4 local authorities, who make up the development committee of the municipality.

- Understanding of local economic development

Most of the businesses invited to participate in PACA, welcomed this activity. However, they do not understand PACA as a tool to increase their self-help potential yet. They rather see it as an instrument of the municipality to tell them what they should do. In the

former socialist economy businesses and especially farmers experienced that the state regulated almost everything, even the purchase of input goods or the marketing of products, not to mention the regulation of prices. They now expect from the local government to fulfill this former role of the state and local authorities try to fulfill the ascribed role, stating that they want to develop their economy. PACA contributes to overcome this common pattern of expectations. PACA team members are learning that businesses can only develop themselves and municipalities should “only” facilitate the development of businesses. By the way the above-mentioned pattern can also be found in the relationship with international organizations and their local and/ or international advisors. Stakeholders expect international organizations to tell them what they should do and to make decisions for them. Especially inexperienced local advisors try to fulfill the ascribed roles and might find themselves in situations being discredited.

This pattern described here also leads to the expectation of “big projects” and “big results” of stakeholders and members from the executive boards, who are not fully familiar with the PACA philosophy. Provision of information is not considered as a sufficient result of PACA, but success is frequently measured in the amount of money obtained. (This might be one of the reasons why Kula gave up PACA.) Permanent thorough and transparent information about PACA within the municipality might foster a learning process making participants recognize that many small steps have to be taken before the big project can be realized. Proposals elaborated in the process of PACA have to be implemented soon to contribute to this learning process. Most probably their implementation will have positive effects in lobbying for the PACA (see *political support* in this chapter). Due to this experience close coaching from the projects side is necessary. PACA must be handled flexibly to steer people carefully towards a different understanding of local economic development.

- PACA has shown that a lot can be done on local level. However, some things cannot be changed like high interest rates on loans or business inspections. Anyhow, there is room for lobbying at National Government level (see the example of Mali Idjos). This could be supported in the next phase via the Standing Conference (see recommendations).
- Metaplan techniques proved to be very successful. However, if not handled with significant moderation skills, the techniques may make workshop participants feel examined like in school. Therefore, further presentation and moderation training should be given to the members of the PACA teams (see recommendations).

6. Recommendations

- Support of Implementation Phase:

The motivation of stakeholders and thus the success of PACA depends on quick implementation of the proposals. It is therefore recommended to start with the implementation phase as soon as possible. It is expected, that close coaching is necessary, especially after having carried out the *Way Forward Workshops*. Very well elaborated guidelines are available for the steps until the completion of the *Way Forward Workshops*. After these workshops the PACA teams will have to become “process managers” of an open LED-process. Coaching in this context means permanent support. This includes linking the PACA teams with persons and institutions that can provide necessary information or further support, such as banks, international organizations, SME agencies etc.³ In exceptional cases small financial incentives could speed up the process (such as paying fees for trainings or local experts). It is recommended that coaching activities by the project are combined with additional training for the PACA teams, such as moderation and presentation courses and/ or courses on project management. For these training needs co-operation with InWent is possible and can lead to synergy effects.

Additionally, exchange meetings could be useful enhancing networking among the municipalities and to start a process of learning from each other and with each other (group coaching). Training activities and group meetings should be channeled through local institutions, such as the Standing Conference of Cities (see next topic).

- Level of Intervention:

In order to mainstream local economic development and PACA as well as to improve the sustainability, the level of intervention has to be upgraded. Activities should be carried out through local institutions and organizations, such as the Standing Conference of Cities, universities, ministries or SME agencies.

Staff and members from the Standing Conference participated in an InWent training course on local economic development last year. As a result of this training they decided to establish a new committee on local economic development within the Standing Conference. The process of constitution building will be completed by the end of May 2003. A first regular meeting is scheduled for July, where PACA could be presented. In

³ Experience shows, that people hesitate in contacting persons, they do not know. The project could broaden the network of the PACA team by helping them in approaching people they do not know.

general, the Standing Conference understands itself as a service provider for municipalities mainly in the field of political lobbying or dissemination of information. They are planning to establish a training center with the support of UNDP, through which further training courses in the field of local economic development could be channeled. The Standing Conference is very interested in GTZ's experiences with PACA and in co-operation in general. For the next phase of the project it is recommendable to support the committee of local economic development and to provide municipalities with services through this committee.

Universities can also be involved in the monitoring of PACA activities. However, the economic faculty has not shown any interest yet. But the sociological faculty is very interested in the topic of participation.

Ministries at all levels have to be informed. The ministry for local self-government at Vojvodina level has been informed about PACA, but not yet about the outcome. It is recommendable to involve them in ongoing activities. Possibly, PACA activities can be linked with existing development funds available at Provincial Government of Vojvodina.

- PACA can be replicated with the support of other international organizations and projects. ACDI/VOCA, subcontracted by USAID for the community development program in South Serbia, is very interested in carrying out PACA in pilot municipalities (contact person Marc Pommerville). Besides, the EU plans a municipal support program.

- Support beyond PACA

In the course of the PACA processes co-operation with municipalities became very close and members of municipalities asked for support in various issues, such as industrial zone, location marketing or promotion of start-ups. Since PACA proposals focus on quick results and were so far mainly elaborated with existing businesses, the above mentioned issues were not (yet) subject of the PACA processes in our municipalities. An outcome of PACA is the improvement of the business climate for existing companies (what we call in German "Bestandspflege") – this already is a big achievement-, but there is additional need for supporting municipalities in the field of start-up promotion or location marketing (including support concerning the relocation of new firms). It would be advisable to inform municipalities about the different possibilities to support their local economy (e.g. in the form of workshops and in co-operation with local partners such as the Standing Conference or the trainers recently trained in an InWent course). With the help of PACA they learn to identify the needs of their location and avoid simply copying instruments, that are successful in Germany or elsewhere.

7. Annex: PACA diagnosis in the municipalities Novi Knezevac, Nova Crnja, Mali Idjos

Mali Idjos:

Agriculture and processing industry were identified as the main sectors of Mali Idjos

Strong and weak points of processing industry:

Strong points	Weak points:
<ul style="list-style-type: none"> • Production expansion and need for capacity expansion (7 points) • Employment (3 points) • Quality raw materials (2 points) • Standardization of processes – HASAP • Quality labour force • Good quality products • Great competition in meat industry • There is a market 	<ul style="list-style-type: none"> • Processing industry is not developed enough and processors can not keep up with competitors • Processing industry has not engaged all sectors of food processing • Lack of favorable loans • Lack of money for expanding capacities • Great competition in meat industry • Lack of qualified labour force.

Proposals for agriculture sector:

- Finding a market for grapes
- Education in vine growing
- Setting up a Farmers association

Proposals for food industry:

- Development of healthy food
- Training in HACAP
- Improve co-operation with farmers
- Education in the sphere of management

Agriculture, food processing, the SME sector and local government were identified as the most important fields.

Agriculture:

Strong Points	Weak Points
<ul style="list-style-type: none"> - Fertile soil (3 points) - Farmers are willing to change (1 point) - Hard working farmers (1 point) - People see chance in agriculture (1 point) - Thermal water - Experience in agro business 	<ul style="list-style-type: none"> - Absence of organization (1 point) - Lack of information (3 points) - Irrigation system (1 point) - Price of agriculture products (1 point) - Suppliers - Farmers usually don't have contracts before seeding

Proposals for Agriculture

- Founding Associations
- Information Boards
- Organize workshop on
- Workshop “prices in EU and raw material”
- Find out what local farmers want to hear on workshop or trainings

Food Processing:

Strong Points	Weak Points
<ul style="list-style-type: none"> - Healthy food (3 points) - Possibilities for finalization of products for small production (1 point) - Plans for future (1 point) - Enough raw material on local level (1 point) - Some of them have finished process of privatization - Diversification of existing capacity 	<ul style="list-style-type: none"> - Not enough support for start-ups (2 points) - They need favourable loans for new businesses (1 point) - Technology (2 points) - Underdeveloped local market (1 point) - Lack of entrepreneurial spirit - Companies are not yet privatized - Inexperienced in finalizing production

Proposals for Food Processing Industry

- Organisation of a meeting with farmers and food processing industry
- Workshop with women producing home made food

SME Sector

Strong Points	Weak Points
<ul style="list-style-type: none">- Big potential- Good potential in processing industry- Cheap labour force- Cheap building land- Row materials- Technology	<ul style="list-style-type: none">- Investments- Market- Organization- Information- Unloyal competition- Not enough SME in processing sector

Proposals for the SME Sector

- To present possibilities of market
- To make contacts with banks

Local Government

Strong Points	Weak Points
<ul style="list-style-type: none">- Good will- First time LG supported something like PACA- They don't interfere in everything like before- Most of authorities want to open development agency- LG want to be a good service to locals	<ul style="list-style-type: none">- Lack of supporting institution for LED- "not in charge" for majority of problems

Proposals for Local Government:

- Elaboration of web side
- Elaboration of new high school profiles
- Organizing dissemination of information on local level
- To motivate other banks open their offices in municipality

