



Implementing Regional Development Policies: What are the key factors for success?

Chisinau, Moldova, 21-22 May, 2014

Workgroup 3: How can regional development policies and RDAs best support the economic dimension of growth and job creation?

BACKGROUND PAPER
(Executive Summary)

Authors: **Zdravko Miovcic and Frank Waeltring**

1. Introduction

Guiding questions:

- *How can intervention priorities be selected with the highest impact and sustainability with regard to economic development in the location/region?*
- *What are the most successful approaches for analysing the local and regional economic reality, integrating a strong understanding of the competitiveness of local businesses and their market strategies?*
- *What is the role of regional institutions within a place-based approach in coordinating economic development activities with national and municipal entities?*
- *How do we ensure the integration of the business sector and coordination and cooperation with other important SME support organisations in the territory?*

The following short paper is an input for working group 3 of the 4th International Conference on Overcoming Regional Disparities. It is an extract (chapter III.2.) of the conference background paper on “how regional development policies and RDAs can best support the economic dimension of growth and job creation”. It provides background information to encourage discussion in working group 3. It includes insights on the working group questions, key identified challenges, lessons learned from RDAs in selected countries, as well as some further questions for discussion. The extract

focusses on experiences in 4 countries, including Serbia, Bosnia and Herzegovina (BiH), Poland and Croatia. The paper is based on interviews with regional development agencies (RDAs) in the 4 countries¹ as well as a literature review (see background paper for further details).

2. How can intervention priorities be selected with the highest impact and sustainability with regard to economic development in the location/region?

Key identified challenges

All the countries in the region, the EU integrated countries Poland and Croatia, as well as BiH and Serbia, face the challenge of moving from generic strategies and local/regional priorities to more specific but systemic intervention priorities that can better address the competitiveness of local/regional businesses and attract new investors to support economic transformation of the region. One interview partner from Poland expressed it in this way: “Often we act like in a forest addressing every tree but not the forest as a whole”.

A systemic approach would involve businesses more in the analysis of the main competitiveness challenges within the respective business sectors and value chains. It especially interprets intervention initiatives as change initiatives, addressing synergies and motivated stakeholders. Another, more pragmatic challenge is the need for RDAs to compromise between intervention priorities defined in local/regional strategies and funding opportunities offered by the EU, IPA or other donors. In Serbia and in BiH, the selection of the intervention priorities is very sensitive to political influence and changes.

Lessons learned

The best practical response in Serbia is the implementation of the *Vojvodina standard*, a flexible package of interventions defined at the regional level and being implemented in each location with financial support from the regional government and technical support from the regional development agencies. In BiH there is an innovative and evolving practice in the implementation of the *CREDO² project*, where managers from the most competitive economic sectors have a key role in selecting intervention priorities using a specific kind of private-public dialogue. In Poland, the focus during recent years has been on increasing the efficiency and effectiveness of interventions. Promoting smaller interventions with a strong impact instead of a few large interventions is the strategy in some agencies. This also involved shifting away from large infrastructure programmes towards the objective of changing mind-sets,

¹ The interview partners were the following RDAs: in Poland Malopolska Regional Development Agency (MARR) and Rzeszow Regional Development Agency (RARR); in Croatia the Regional Development Agency Međimurje (REDEA) and the Istrian Development Agency (IDA); in BiH the Development Association NERDA and the Regional Development Agency for Central BiH (REZ); and, in Serbia the Regional Agency for Socio-Economic Development Banat (RDA Banat) and the Regional Economic Development Agency for Sumadija and Pomoravlje.

² Competitive Regional Development Project, funded by Sida and implemented in three regions.

promoting network relations, and approaching development from a more integrative approach. In Croatia, agencies see it as one important criterion for successful interventions to assure close contact with municipalities and business associations. They see the need to get into closer direct contact with businesses but, at the same time, prefer, at present, strong networking with the associations and the city administration to increase their buy-in and to implement the initiatives jointly.

Questions to debate at the workshop:

- *Which stakeholders need to be included in the identification of intervention priorities?*
- *How do we assure the identification of most relevant intervention priorities?*
- *What tools can be used to identify more specific catalytic initiatives for economic transformation and growth in specific regions?*

3. What are the most successful approaches for analysing the local and regional economic reality, integrating a strong understanding of the competitiveness of local businesses and their market strategies?

Key identified challenges

In BiH and Serbia, the key challenge is to move from an extensive desktop analysis-based approach, overloaded with data collection but lacking key information, focus and insights towards a more intensive dialogue with the private sector. The latter would focus on specific issues regarding the competitiveness of local businesses, their market strategies and market failures, i.e. real gaps and bottlenecks. The current approach is still dominated by quantitative data and expert interpretation. In Poland and Croatia, a lot of trust with respect to understanding real competitiveness challenges of the business sector is placed in close cooperation with the municipalities and business associations, as well as in quantitative business needs assessments. Nonetheless, there is a rising awareness that these business institutions also often lack a real understanding of the sector and value chain challenges. Particularly in Poland, increasing importance is given to the direct promotion of business networks and clusters. Agencies hope that this will lead to more direct contact with businesses and will enable the identification of key areas of competitiveness.

Lessons learned

In BiH, a more qualitative, business-oriented approach has been promoted in two projects (CREDO and ProLocal³), combining private-public dialogue mechanisms, workshops and interviews based on tools assessing competitiveness (e.g. Porter's

³ The ProLocal project has been implemented by GIZ in three sub-regions of B&H.

Diamond and Five Forces; Value Chain Analysis; Systemic Competitiveness) that led to viable options for targeted interventions. Key inputs are gathered from the perspective of real market players and the experts' task is related to the appropriate facilitation of discussions and the promotion of communication focused on real key competitiveness issues. Interviews with Polish RDAs revealed their interest in promoting clusters of life science, wood and renewable energy. They started to set up round tables with businesses and research institutions to identify key business as well as technology challenges. It is seen as a first step to getting into closer direct contact with businesses focusing on the promotion of network solutions between businesses themselves, as well as between businesses and science. In Croatia interview partners argued that closer contact to sectors would overburden their role. Nonetheless, through the promotion of innovation and technology development platforms that are also financed in the new Horizon EU fund schemes (2014-2020), they hope to understand better the key innovation challenges facing the business sector.

Questions to debate at the workshop:

- *How is it possible to promote a stronger business-oriented and systemic approach in certain sectors at the regional level and to also challenge the existing local supporting institutions in their roles and service provision?*
- *How can RDAs increase their competitiveness understanding including insights into value chain and cluster challenges and opportunities to overcome market, government and institutional failures?*

4. What is the role of regional institutions within a place-based approach in coordinating economic development activities with national and municipal entities?

Key identified challenges

A key challenge in all the reviewed countries and RDAs is the way coordination is balanced between a bottom-up and a top-down approach. In Poland and Croatia, the main coordination efforts emerged from a bottom-up approach in close cooperation with the regional policy level. However, the proactive integration of RDAs in the coordination process at the national level is lacking. In Serbia, the set-up of RDAs was very much a decision at the national level (top-down) which also guides the coordination process. Regional development coordination structures and policies could be characterised as "work in progress". The basic role of established RDAs is the coordination and enforcement of regional development policies and projects in their respective territories but with strong support from key national institutions. In most regions, cooperation with regional bodies is still somewhat vague because regional development councils are very much in an emerging state. Real decisions are being

made at national and local level and RDAs are facing challenges in promoting regional development priorities to both sides. The RDAs in BiH face the most difficult situation at present. They are trying to survive in an "empty" institutional space with regard to regional development. Here the implementation procedure of RDAs was very much promoted by an EU project with some bottom-up support but completely missing top-down structures. After initial enthusiasm of stakeholders in their regions with participatory preparation of regional development strategies, a lack of real funds for implementation and growing politicisation of regional development policies introduced by the EU projects caused a change of the RDAs' focus from a strategic to a more project and donor-oriented perspective.

Lessons learned

In Croatia, and especially through a strong decentralisation process in Poland, the role of RDAs is very strong in coordination tasks with municipalities as well as with the county or regional government levels. In both country cases, the regional government is the main supporter of the RDAs (and often also a shareholder in the organisation) and the coordination of strategy interventions mainly takes place between the RDAs and the regional policy representatives. While the relationship with the regional government entities is important, RDAs receive their knowledge on development priorities very much from cooperation with the municipalities and towns. Coordination with the local level is an important way of understanding the different local demands with regard to economic development. The RDAs in Serbia see in the future the EU as key promoter and driving force in fostering regional (economic) development. They are very active in making use of IPA transnational and cross-border funds and hope to expand their regional coordination role through their involvement with these instruments. However, in BiH strategic coordination is non-existent. Despite a lack of national support to regional development initiatives within the country, and very reduced support from the EU funds, valuable projects have been promoted that are oriented towards increasing coordination efforts.⁴ Moreover, although there have been system constraints, most of the existing agencies have increased their capacity and are now recognised by local governments and donors as the main partners in the promotion of economic development activities in their respective regions.

Questions to debate at the workshop:

- *How can we coordinate regional economic development activities with national and municipal entities without appropriate regional structures? Are such structures really necessary?*
- *How can coordination be increased between regional and national institutions? Is this form of coordination really an important success factor?*

⁴ GIZ ProLocal, USAID & SIDA GOLD, USAID & SIDA CREDO)

5. How do we ensure the integration of the business sector and coordination and cooperation with other important SME support organisations in the territory?

Key identified challenges

A key challenge in BiH and Serbia is the ability to move from a public sector behaviour dominated approach towards closer cooperation with the business sector, including learning from emerging practices. This requires a process approach that moves from planning to business orientation, getting the buy-in of businesses through the initiation of constant and mutual learning initiatives. Such an approach needs to, in particular, involve businesses and supporting institutions. In Poland and Croatia, the involvement of businesses in the design of implementation strategies is organised through the cooperation with chambers and business associations. Nonetheless, these organisations often lack appropriate information about the real sub-sector challenges. In Poland, more proactive contact-making activities directly with businesses mainly focus on the extension of services that are provided to SMEs and investors.

Lessons learned

In BiH and Serbia, some emerging practices are related to the establishment of sectoral boards in the most competitive economic sectors with a carefully moderated dialogue between the private sector and supporting institutions (NERDA in Bosnia) and a cluster approach (REDAH in Herzegovina). In Serbia, some of the RDAs continue to keep close relationships with the businesses from their past role as SME agencies (they often started as regional SME agencies). They are now developing and offering a broader range of business development services (business training, consulting, information services, business promotion, networking, mentoring, etc.).

In Croatia and Poland, support is provided very much through loan schemes, guarantee funds and the setting up of incubators, entrepreneurship education and training provision, counselling of businesses, the promotion of business zones and one-stop shops, as well as investment promotion. In Poland, the promotion of the cluster approach has also forced the RDAs to become more business-integrative. In both countries, good practices from development agencies in EU countries that promote fewer infrastructure projects and more change-oriented smaller interventions are being increasingly adopted.

Questions to debate at the workshop:

- *Do SME-supporting institutions, as well as RDAs, really understand their mission and the necessity of working much closer with the business sector?*
- *Do they monitor and evaluate their own performance against indicators that are*

really linked towards improving the competitiveness of SMEs and the growth of the local/regional economy?

“We are looking forward for further discussion of the workshop questions with you! Also have a look at the complete background paper.”

Zdravko Miovcic and Frank Waeltring

This background paper was produced in the framework of the 4th International Conference on “Overcoming Regional Disparities - Implementing Regional Development Policies: What are the key factors for success?”. The views expressed herein can in no way be taken to reflect the official opinion of the Governments, donors and partners.