INDUSTRIAL RESTRUCTURING
AND
ENTERPRISE DEVELOPMENT
IN THE CITY,
REGION OF KHARKIV,
UKRAINE

OECD
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INDUSTRIAL RESTRUCTURING AND ENTERPRISE DEVELOPMENT

IN THE CITY AND REGION OF KHARKIV, UKRAINE

Report of an international seminar held in Kharkiv in December 2005 within the framework of a joint initiative by the OECD and the European Commission on Improving the Conditions for Enterprise Development and the Investment Climate for Domestic and International Investors in Ukraine
INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

In the context of transition, effective regional/local development policy is crucial to the success of wider reforms. Strong regional disparities and resulting economic and social implications can hamper or delay the implementation of reforms and sectoral policies. Rapid restructuring can exacerbate traditional regional gaps (e.g. between urban and rural regions) and create new disparities. Once prosperous heavily industrialised regions can find themselves in decline, whilst other areas rapidly advance towards “new” prosperity. Designing a regional development policy that can successfully address these challenges is not an easy task. Not only should it try to even out the regional unbalances in the transition, but also define policies and tools that tackle the different structural problems: plant closures and industrial restructuring, economic decline and conversion, rural depression, social exclusion and joblessness. Whilst central governments pull the macro-economic levers, interventions at city or regional level can enhance the beneficial (or remediate the negative) impacts of the macro changes and the higher tier policies. The capacity of cities and regions to develop and implement effective development strategies becomes vital to harnessing indigenous strengths, contributing to national growth and levelling regional disparities.

Within the framework of the OECD-EC initiative on “Improving the Conditions for Enterprise Development and the Investment Climate for Domestic and International Investors in Ukraine”, several activities have been undertaken at regional level in Ukraine in order to analyse current practices and provide policy recommendations to local and regional administrations and central government authorities in the following fields:

- FDI and regional development (the case of Lviv region);
- Industrial restructuring and enterprise development at regional level (the case of Kharkiv region);
- Investment and entrepreneurship development in the tourism sector (the case of the Republic of Crimea).

This document is the report of the international seminar on Industrial Restructuring and Enterprise Development in the city and region of Kharkiv, held in December 2005 in Kharkiv. Industrial restructuring is often associated with its immediate negative effects on employment and high costs for the local or regional economy. Yet, in many cases, restructuring of enterprises is often crucial to their survival and can enhance the competitiveness of the local economy. While national governments determine the legal and institutional framework conditions for restructuring, it is at regional and local levels that industrial restructuring operations are most effectively managed. The central governments are instrumental in facilitating labour mobility; in setting rules and regulations related to entrepreneurship (e.g. easy market entry and exit conditions could facilitate the emergence of new enterprises capable of taking over the “non-core” production lines and absorbing the employees made redundant). At the same time, it is at local level that the restructuring effects are most deeply felt, particularly when large enterprises are concerned, or in the case of single-industry areas. It is the role of regional and local governments to effectively alleviate the negative effects of industrial restructuring.
The objective of the seminar was to analyse Kharkiv’s region industrial restructuring efforts and help identify, in light of international experience, mechanisms for regional and local policy-makers aiming at improving business climate and encouraging the creation of sound jobs in economically viable enterprises. These recommendations can be summarised as follows.

- **Assess region’s strengths and comparative advantages** in order to refine policy measures geared towards the encouragement of private investment initiatives and to determine priorities for public investment in infrastructure and in supporting services.

- **Create an environment for growth by translating research into commerce**: support the process of developing new start-up businesses driven by the wide range of academic specialisations offered by Kharkiv’s universities and technical colleges; provide assistance to the spinning-off of technical subsidiaries from existing manufacturing facilities, as has already been done in some cases such as the Malyshev tank factory.

- **Improve the co-ordination and integration of regional public programmes on skills, training, labour market and regional economic development.** Consider to introduce area-based partnerships as a tool for improved local governance and co-ordination and adaptation of public policies to local conditions, needs and business development priorities.

- **Continue to address real estate issues** and the large deficits in industrial space, modern warehousing of a standard required for up-to-date logistics companies by: undertaking clean-up and reclamation work on redundant industrial sites which would result in the realisation of value in public land that has no value until reclamation work has been completed, and the creation of attractive sites which can either be sold or leased to private investors; or can be used to host industrial parks.

Overall, a co-ordinated effort by national and regional authorities is needed to address the following priority:

_Ukraine regions should develop coherent, integrated development strategies based on an in-depth understanding and knowledge of local assets, competitive advantages and opportunities, which are aligned and co-ordinated with national growth objectives. Regional restructuring, investment promotion and entrepreneurship development efforts must result from and help achieve national and regional economic and social development goals._
KHARKIV CITY AND REGION: BACKGROUND AND KEY ISSUES

Background

Kharkiv region is located in north-eastern Ukraine and accounts for just over 5% of the country’s land area. The region has a population of approximately 2.9 million, of whom 1.47 million live in Kharkiv city, the second largest city in the country after the capital, Kiev. The region contains substantial oil and natural gas reserves and is a big producer of agricultural products, benefiting from highly fertile land in the form of Ukraine’s celebrated “black soil”.

Kharkiv city has three defining characteristics. It is a major industrial centre specialising in the production of heavy machinery, electro-mechanical and electronic control systems, transport equipment, military equipment, pharmaceuticals and food processing equipment. It is also a major centre of university and technical education, with some 280,000 students and a strong scientific research base. The city is also at the centre of a major transport hub in eastern Europe, with an international airport, extensive rail communications and a strategic location in eastern Europe for road connections, including being located on some of the main north-south designated trunk routes linking northern and southern Europe.

Kharkiv was one of the most important manufacturing centres of the former Soviet Union, producing a range of equipment, such as tanks for military purposes, aircraft under the Antonov brand, tractors and a wide range of electro-mechanical equipment including steam turbine electricity generating sets. With the collapse of the Soviet Union, the city was faced with dramatic changes in the structure of demand for these products, many of which were produced on a pan-Soviet basis as part of the command economy of the Soviet system. As an example, the factory producing military tanks used to employ 36,000 people. This workforce by 2005 had declined to 8,000, reflecting a scale of job losses that became typical in many of the city’s key industries.

Industrial restructuring was therefore forced upon the city in much the same way, although for different reasons, as had happened in western Europe during the 1980s and 1990s as demand conditions and the competitive position of industries such as steel and coal changed radically. However, in addition to these changes, Kharkiv, in common with much of the former Soviet economy, was also faced with making the transition from an employment system wherein employees worked within very large productive units which took care of them from both an economic and social perspective throughout their working lives, to a situation requiring people to adapt to the realities of market competition. This required adaptation to new ways of earning a living in which individuals had little experience of self-reliance and often no training or skills outside their previously specialised working environments. While this was also a characteristic shared by many of their industrial sector counterparts in western Europe facing similar adjustment challenges, the process in cities such as Kharkiv was made much more difficult by the fundamental changes that took place in the nature of the economies in which they were required to operate.

Above all, Kharkiv city is Ukraine’s leading industrial centre with a strong legacy of science-based industrial applications serving military and civilian purposes, and including a number of enterprises active in advanced technologies such as those demanded by aviation and space exploration.
The regional economy is dominated by industrial output, accounting for 28% of regional Gross Domestic Product (GDP), and by agriculture, which accounts for 17%. The city has been characterised by a relatively slow recovery from economic transition in the mid-/late-1990s. Russia remains the region’s primary trading partner and the regional economy has suffered from major industrial downsizing and restructuring programmes that are still continuing. The sharp increase in energy costs as a result of Russia having raised the price of gas to Ukraine in early 2006, while in the long-run potentially a positive change in encouraging more competitive businesses, in the short run is likely to have substantial costs for energy-intensive industries. It is likely that further pressure on employment levels in these industries will arise, exacerbating current restructuring pressures.

Despite official statistics showing that the number of registered unemployed is below the national average, it appears that “shadow employment” – apparently employment where marginal productivity is below money wage rates – remains a major challenge. Data on employment suggest that, in 2004, there were some 440,000 persons employed in Kharkiv city out of a total population of 1.47 million, implying a relatively low activity rate of 29.9%. There remains a significant problem of unpaid wage arrears, caused by enterprises in difficulty being unable to meet their wage obligations. Kharkiv City Council initiatives have succeeded in reducing the level of unpaid wage arrears substantially, but despite their actions the aggregate of outstanding arrears is still reported to be very large.

The small business sector in the city accounts for 25% of employment – some 107,000 jobs in some 14,200 enterprises, or an average of 7.5 employees per enterprise – with the sector contributing an estimated 11% of regional economic output.

The value of industrial output in Kharkiv Oblast rose from 10.74 bn hryvnas in 2002 to 14.92 bn in 2004 – an increase of 38.9% (although this should be seen in the context of recovery from a period of weak performance in the late 1990s). The fastest growing industries during this period were woodworking industries, whose output rose by 158%, pulp, paper and printing (124%), and light industry (104%). The key sectors of food industry and agricultural processing (54%) and machine building (47%) also outperformed the average industrial growth rate during this period.

Industrial production in the Kharkiv region is as shown in the following table.

**Table 1: Industrial structure in the Kharkiv Oblast, 2002-2004 (% of current value of industrial output)**

<table>
<thead>
<tr>
<th>Industries</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>7.1</td>
<td>6.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Food industry and agricultural processing</td>
<td>28.8</td>
<td>30.8</td>
<td>31.7</td>
</tr>
<tr>
<td>Light industry</td>
<td>0.6</td>
<td>0.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Woodworking industry</td>
<td>0.2</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Pulp, paper and printing</td>
<td>2.1</td>
<td>2.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Coke production and oil refining</td>
<td>0.8</td>
<td>0.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Chemical and petrochemical industry</td>
<td>6.1</td>
<td>5.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Non-metal mineral manufacturing</td>
<td>3.4</td>
<td>4.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Metallurgy and metalworking</td>
<td>2.0</td>
<td>1.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Machine building</td>
<td>22.8</td>
<td>24.1</td>
<td>24.3</td>
</tr>
<tr>
<td>Electric power, gas and water supply</td>
<td>23.8</td>
<td>21.7</td>
<td>18.4</td>
</tr>
<tr>
<td>Other</td>
<td>2.2</td>
<td>2.3</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
a. Totals do not add due to rounding.

*Source: Kharkov Region Investment, ICC Proconsul 2005.*

Food and agricultural processing and machine building accounted for 56% of total industrial output in 2004, up from 51.6% two years earlier, indicating that Kharkiv region’s industrial economy is tending towards a greater concentration in these two sectors. These are the sectors that appear to represent most effectively the region’s comparative advantages of extensive agricultural production and a legacy of technical engineering expertise allied to Kharkiv city’s scientific, academic and research base.

As an indication of Kharkiv’s importance within the Ukrainian industrial economy, the city produces 100% of the country’s steam turbine generating sets, 37% of its agricultural tractors, 57% of its overhead travelling cranes, 14% of its electric turbines and 10% of Ukraine’s electric motors. Almost 30% of the city’s exports comprise machinery and equipment, and the Antonov aircraft factory is reportedly now winning export business for its new A140 and A148 aircraft.

Kharkiv’s strengths therefore lie in its industrial heritage and much of the current and recent restructuring challenges have arisen as demand and production characteristics in this sector continue to change and evolve in the post-Soviet era.

**Summary of current issues in Kharkiv city and region**

There was a broad degree of consensus among several contributors to the seminar from Kharkiv’s local authorities, academic community and managers of business ventures on some of the main difficulties facing the region and the focus that should be adopted in tackling restructuring issues and the promotion of enterprise.

Imbalances were identified in a number of key areas. There was said to be an imbalance between supply and demand issues in a number of sectors, and several contributors focused on the need to address supply-side issues. (It was noticeable that few contributors made overt references to market demand trends or conditions.)

Referring to Kharkiv’s tradition of science-based activities, it was remarked that insufficient investment was going into science-based business applications. It was stated that, during the Soviet era, the link between science and technological business development was reasonably well established but, since the collapse of the Soviet Union, that link had been weakened. There was a need to invest greater sums in research and development in science-based technologies, and to improve the mechanisms by which innovation was used to create new business processes and incorporate new technologies.

The report entitled *Kharkiv Region Investment* produced by ICC Proconsul in 2005 underlines the problems associated with innovation in Kharkiv region. It states that “…the innovation implementation growth rate for the number of innovation-proactive enterprises mentioned is low”. The report stresses that capital assets and production processes are ageing in the region, and that there is a clear need to upgrade “…the equipment stock and replace obsolete production processes”. A marked decline in the rate of implementing new production processes in 2004 was noted, especially in the key areas of machine building and in the production of electric and electronic equipment – key parts of the city’s underlying industrial strengths.

Imbalances were also identified in the financial and capital markets, where a better flow of development finance was required. The financial sector was stated to be in need of reform in order to improve the rate of new business creation allied to research initiatives.
The legacy of employment in large-scale command economy industrial units and the subsequent reduction – sometimes dramatic – in their size and scale, had highlighted the need for re-training in a wide variety of areas. It was stated that, in 2004, only 5% of the city’s workforce had attained new skills, for example. At the same time there was reported to be a shortage of technically well-qualified staff, especially in the key area of engineering skills, reinforcing concerns that re-training and re-skilling was not proceeding sufficiently rapidly to match new demands for labour skills. Some comments made at the seminar also suggested that management staff were insufficiently adapted to modern market realities and had failed to break fully away from the culture of state-dependency that is an inevitable legacy of Soviet days.

It was acknowledged that the restructuring of industrial enterprises had been a feature of the city’s industrial base since the collapse of the Soviet system, but that the results of restructuring had been mixed. In some cases, re-structured enterprises had succeeded reasonably well, but in many other cases they had not. Over half (54%) of restructured enterprises, according to Academy of Science research, were still unprofitable, and examples were given of some enterprises that had failed to achieve profitability despite several phases of restructuring. There seems to be some sectoral differences in this area, with wood and timber industries, some agricultural enterprises and some machine building plants generally having had more financial success than other sectors.

On a policy level, several needs were identified. There was much criticism of the climate for investment, both national and foreign (although reference was also made to a new presidential decree of December 2005 that may offer the prospects of improving transparency in this area). The mayor of Kharkiv, Mr Vladimir Shumilkin, was quoted in the ICC Proconsul report as saying that at least an additional US$90 mn of investment could have been attracted to the city but for a “moratorium and vagueness in the functioning of the special investment activity regime”. Some contributors to the seminar pointed out that foreign investment could be expected to flow into the city and the region if the right investment conditions were created, and implied that policy initiatives in these areas were required in order for this to happen. The regulations governing finance and banking were identified as an area requiring modernisation, while the links between government and industry in the area of industrial innovation also required improvement.

In export markets, the foreign exchange risk was considerable, and examples were given of export contracts that had been concluded on a profitable basis but had turned into loss-makers as a result of exchange rate changes that had not been allowed for in the contract. A government-backed export loan guarantee system would be helpful in these circumstances, although the banking system was beginning to provide suitable export bank credits in some cases. The point was nevertheless made that the region’s exporters were potentially at a competitive disadvantage vis-à-vis other, western exporters if comparable export assistance was not available.

The 1st Deputy Mayor of Kharkiv city stressed the need to base the city’s future development strategy on a SWOT approach, using the city’s perceived advantages to adopt a cluster approach to enterprise development. He identified the three core characteristics of Kharkiv as its industrial heritage, its role as a transport hub and its academic strengths (the cluster approach was supported by international experts from Germany and Poland – see next section – where the Ruhr and the city of Poznan had, by different routes, adopted just such an approach to the restructuring of employment).

Three broad strands emerged from the debate which were relevant to improving and developing the city’s economy: restructuring, FDI and SME promotion.
Restructuring

Restructuring of existing enterprises was seen as inevitable and necessary, and was the most important source of challenges in the employment field. Whereas much of this restructuring of traditional and established industries was unavoidable, examples were given to the effect that this could not provide the entire answer to re-dynamising the economy, since market failure could also be a factor in the determination of success. Changes in the global environment and in the macro-economic climate affecting the region in some cases required the intervention of the state or the local authorities, and there was a need to examine the ratios between, for example, large and small enterprises, and urban and rural businesses.

Kharkiv’s tank factory, historically one of the largest employers in the city, was cited as an example of the weaknesses in the restructuring approach. This factory had at one time employed 36,000 people, with 8,000 working on nine tank production lines and a further 9,000 on the production of diesel engines. Drastic reductions in scale had taken place, and the plant now produced only 10% of its former output and employed only 20% of its former labour force. A restructuring plan had been designed in 2000 in collaboration with the Ministry of Industry, but only 30% of the plan had been implemented due, apparently, to management failures and to a lack of adequate public investment funds. A further plan had been designed in 2004 under which the plant would be broken up into several separate business units, the product range diversified, embracing expanded diesel engine production and the production of other equipment such as drilling rigs for the oil industry in which Kharkiv was perceived to have a considerable cost advantage over other western European manufacturers. However, investment in the latest production technologies was very expensive and it was implied that the supply of cost-effective finance for such initiatives was too limited.

Restructuring, while necessary in many cases, was seen as only one element in the process of re-focusing the region’s employment base and was far from the perfect answer. Greater care and greater professional expertise was required in assessing the case for industrial restructuring and therefore avoiding inappropriate investments in plant and processes that were inherently unlikely to succeed in the new competitive marketplace.

Foreign direct investment

Foreign direct investment (FDI) was also seen as a key area requiring better government support and a more favourable investment regime. Recent investments by the Philip Morris company and by a Belgian brewing company were cited as examples of how FDI could help in the creation of new employment opportunities. However, the point was also made, both by Ukrainian and foreign contributors to the seminar, that reliance on FDI could only offer a partial solution to the region’s economic ills, since FDI in some circumstances could be economically unstable. There were many examples of where foreign-owned plants had had to leave a chosen location for any one of many reasons, creating in some instances a void in the employment market that was very hard to fill. This was especially seen as a risk where foreign investment had been made in large-scale production units and where, perhaps due to changing global market conditions or a loss of comparative advantage, those units had had to close.

The ICC Proconsul report notes that much of the foreign investment that has taken place has been in the social sector. The report states that “foreign investors have shown no interest in investing in industry because direct foreign investments per hryvna of industrial output declined before 2003, and only during this year...increased slightly to be 12% of domestic investment in fixed assets in the dollar equivalent, and 63.9% in national currency”. While progress since 2003 may have improved, the implication of this finding is that returns to industrial investment may have been too low to attract much external funding.
Promotion of the SME sector

A number of contributors cautioned against looking only to external sources to solve the region’s employment problems. Stress was laid on the need to focus also on self-reliance and to promote the SME sector within the region, arguing that this sector could be seen as inherently more stable than large, externally-generated investment projects. The climate for SME development was seen as crucial.

Kharkiv already has in place a number of initiatives encouraging the creation and support of local SMEs. An “Integrated Programme for Supporting Business Development in Kharkiv for 2005-2006” was approved by the Kharkiv City Council, funds for supporting businesses were allocated in the city’s budget and the Kharkov Business Centre was opened. There also exists a Regional Fund for Supporting Entrepreneurship. Kharkiv City Council reported that over 70 organisations now exist in the city to help with those who seek to establish small businesses and change from being an employee of large, historically protective employers to becoming their own bosses. However, much remains to be done in encouraging clusters appropriate to the region’s skills, knowledge and factor endowments.

A distinction was made between the opportunities for regeneration within Kharkiv city and the situation in the surrounding secondary towns and country areas of Kharkiv Oblast. Outside the city the need for SME development was even more acute, and yet the range of support services was smaller. Investment in a major brewing facility in the city had added to pressures on small breweries in the Oblast and accelerated their rate of closure, for example. The need for support and initiatives for local cluster development was more even acute in the region than in the city itself. While some financial resources and support services had been made available from international sources across the Ukraine for rural business development, only a very small proportion of the funds were available to Kharkiv Oblast which was likely to be disadvantaged compared with Kharkiv city as a result.
INTERNATIONAL COMPARATIVE EXPERIENCE

1. Germany – restructuring and enterprise development in the Ruhr

The Ruhr valley in Germany is the country’s centre of coal and steel production. Both of these industries have faced massive restructuring challenges due to changes in global demand patterns and a loss of competitiveness to lower-cost international producers, but the response of the two industries has been very different. Nonetheless, downsizing in both industries has presented the Ruhr with very major employment challenges not dissimilar to those currently being faced by the Kharkiv region.

In the 1960s, the coal industry in the Ruhr employed 600,000 miners producing 150,000 tonnes of coal a year, but was inherently uncompetitive. In a bid to maintain German coal production, the state imposed a surcharge of 8% (the “kohlpfennig”) on electricity bills in order to subsidise national coal production, but that system ceased in 1996. There is now a contract negotiated between the government, the coal company and the trades unions which has agreed an annual output of 26 million tonnes and an employment level of 36,000 miners. In 2005, the cost of this subsidy was €3 bn – or approximately €115 per tonne of coal mined.

The policy justification for this subsidy reportedly is in order to safeguard the jobs of 2,000 employees engaged in the production of mining equipment. The current contract under which these arrangements exist lasts until 2012. It is possible that this will mark the date at which coal production in the Ruhr finally ceases.

Steel production in the Ruhr in the 1950s employed 300,000 people in a range of steel plants. Today, industry consolidation has reduced employment to some 78,000 (2004) and has led to the closure of plants in Dortmund, Bochum, Rheinhausen and Essen, with production now concentrated on one company – Thyssen Krupp Stahl located in Duisburg. However, this industry remains both competitive and profitable. Against the background of an EU programme to rationalise steel production and eliminate subsidies, the German steel industry has adapted to changes in global demand and production, mainly by means of dramatically raising productivity to 600 tonnes per employee per year, compared with 120 tonnes in the 1960s.

In aggregate, over a period of some 40 years, employment in heavy industry in the Ruhr has fallen from 900,000 to about 120,000, and this process is still continuing. Despite the best efforts of all concerned, unemployment in Gelsenkirchen remains at around 20%, and there are further jobs losses underway currently in industries elsewhere in Nord Rhein Westfalia, such as in automobile production, where Ford has laid off large numbers of workers at its plant in Cologne, and General Motors’ Opel factory in Bochum is also shedding large amounts of labour.

The restructuring of both the coal and steel industries in the Ruhr created major employment challenges. From the start, the main actors in the restructuring process were the companies themselves, political leaders, trades unions and workers’ organisations, and organisations working on urban regeneration issues. The measures discussed and taken to address the creation of such large labour surpluses included early retirement, supported by a “golden handshake” – a lump sum payment to provide a cash incentive to early retirement. In the 1980s “employment and training organisations” were created to assist in the restructuring process and deal with re-skilling issues in the labour force. The focus shifted
from early retirement and other actions aimed at reducing the supply of labour to re-training and placement of workers in new jobs, the involvement of universities and technical colleges in raising regional skill levels, actions designed to help start-up companies and support SMEs, the cleaning up and re-utilisation of industrial sites and derelict land, general environmental improvements and policies aimed at the development of clusters.

Every city in the Ruhr region now has in place a range of services to help with the resettlement of workers. The employment and training organisations were replaced in the 1990s with transfer organisations. These were established either to employ and pay workers directly, re-training them and helping to place them in new jobs, thereby avoiding loss of earnings and any unemployment, or to maintain workers on the payroll of downsizing companies, re-train them *in-situ* and then help them to find new work from there. The coal company in the region, Ruhrkohl AG, itself has formed a training subsidiary to undertake this work with redundant miners.

The development of clusters has been an important facet of the re-development of the Ruhr in the face of its declining traditional industrial activities. Using national and European Union funds, regional development plans were prepared, eventually for all 16 sub-regions in Nord Rhein Westfalia, to develop a clustering approach to the restructuring of the employment base in the region. An important element in these initiatives was the restitution of former industrial sites. For example, over 100 former coal mining sites were converted into a range of business parks and start-up centres for new businesses.

An example of this approach is the major Phoenix Steel Works in Dortmund. The main issue was the restitution of the company’s redundant and derelict site. The site was reclaimed and has been used to create a science centre for start-up companies and SMEs specialising in information technology, micro-systems, technology and logistics. This is an example of where public investment in environmental improvement and land reclamation was combined with re-training and SME support mechanisms to contribute to creating new employment opportunities.

Such initiatives have resulted in a new image, based on the development of new clusters, for some of the better-known, formerly steel- and coal-dominated industrial towns of the region. Dortmund is now known for micro-technology, bio-medicines and e-logistics rather than for steel, coal and beer. Gelsenkirchen has become a centre for solar energy technology, and Duisburg has concentrated on logistics.

Looking ahead, it is predicted that in another ten years coal production will virtually have vanished from the region, steel production will be successful and more specialised and start-up rates will continue to be above the national average. However, it is also pointed out that these changes in the employment base are also leading to a decline in population. In addition to facing continually high levels of unemployment, Gelsenkirchen, a city of 300,000 inhabitants now, is predicted to have only 150,000 people by 2050.

2. **Italy – restructuring the former Falck steel works, Sesto San Giovanni, Milan**

The example of industrial restructuring in North Milan offers many direct parallels with the situation in the Ruhr, albeit on a somewhat smaller scale. North Milan comprises four municipalities, of which one, Sesto San Giovanni, was traditionally a location for steel production and heavy industry. Located in Sesto was the steel plant of Falck, one of Italy’s leading industrial companies, producing at its peak 1.25 mn tonnes of steel a year. Also located in Sesto were the plants of Breda, a specialist in engine manufacturing, the Marelli Group which made magneto and electronic equipment for the automotive industry and Ercole Marelli, a manufacturer of large power generating engines. In the early 1950s in a town of 45,000 inhabitants, there were over 30,000 jobs in these heavy industries.
The same changes in the competitive position of steel production that affected the Ruhr and other major steel producers in western Europe also had an impact on Falck. During the 1980s and 1990s much of the employment base of Sesto San Giovanni eroded to the point where Sesto was officially designated by the Italian state as a zone in decline. Unemployment rose from negligible levels to over 10% of the workforce, steel production at Falck was eventually abandoned in 1995 and the industrial areas and sites of Sesto entered into a period of decline and dereliction as the town faced a major economic crisis.

Partly as a result of initiatives on the part of the OECD, including a consultative process similar to that which took place recently in Kharkiv, a pro-active approach was commenced in 1996 to the resolution of the town’s difficulties. An agency was established – the Agency for the Promotion and Sustainable Development of the North Milan Metropolitan Area or ASNM - specifically to take action on the various challenges posed by industrial crisis. The key element in the ASNM has been the adoption of a pro-active approach through a partnership of all the local actors concerned, turning an atmosphere of defensiveness in the face of crisis into one of opportunity for the regeneration of the local economy.

National and European Union funds were devoted to dealing with the redundant industrial sites, a process that is still continuing to this day. The Italian Ministry of Industry, for example, provided funding of €113 mn for the dismantling of the Falck factory itself. Laws were passed granting tax incentives for new entrepreneurs and to fund research and innovation activities of the SME sector. The regional government, the municipality of Sesto, the trades unions and the main companies in the area signed an agreement for the reindustrialisation of Sesto, while another initiative provided for assistance to companies that were laying off workers to re-enter the jobs market through re-training programmes, assisted by EU and national government funding of €23 mn.

ASNM had a number of key objectives, namely:

− to transform crisis into opportunity;
− to convert and re-use redundant industrial sites;
− to promote a new vision for Sesto in the future with particular reference to information and communication technologies;
− to generate a post-industrial development strategy for the town;
− to support entrepreneurial activity;
− to strengthen co-operation between all the actors involved through the formation of active local partnerships; and
− to promote a new identity for the town.

ASNM was established as a private, not-for-profit company that ensured its freedom from bureaucracy and provided it with the ability to be proactive. A North Milan Development Forum was created to engage all the main actors in a consultative body that helped to steer policy measures, a programme under the title of the Falck Observatory was created, including the participation of the trades unions, Falck and the Lombardy Agency for Employment to help redundant workers find alternative employment. A further initiative was created to support the development of tertiary and non-profit sectors and local initiatives, under the auspices of the ASNM.

A business innovation centre was set up in order to assist with the creation of new, small businesses, while a number of real estate developments took place to create new premises for SMEs. Two new industrial parks now house 47 SMEs in the district.

In the area of clustering, Sesto identified the possibility of creating a centre for technology-driven enterprises based on communications technologies. Two multi-media business incubators were created in former buildings of the Falck and Breda companies, as a result of which some 30,000 people have received
re-training programmes and over 50 new enterprises have been established in the two business incubator centres.

Of particular relevance to the situation in Kharkiv, a link was established with the Milan State University to promote interaction between research institutions and restructuring initiatives. The Faculty of Science Communication at the university was initially provided with classrooms by the ASNM in its multi-media incubator centre and ASNM is now supporting the university in the development of technology transfer systems and the promotion of research-driven start-up businesses spun off from the university’s research programmes.

Foreign direct investment has also played an important part in the restructuring of Sesto’s employment base and the promotion of the town as a centre for high-tech industries. Companies such as Sony, Siemens, ABB, Wind, Oracle, Epson, Apple, Mediaset, Alitalia, Novell, 3Com and Unicredit have all established operations in the town and provided new employment opportunities.

The unemployment rate has fallen from its peak of over 10% to much lower levels, and the town has developed a diversified, modern economy as a result. Although Sesto retains its industrial character, there has been a growth of 20% in service sector jobs, of 70% in informatics and of some 10% in high-tech employment. The cost to the public purse of these initiatives has been calculated at €23 mn, while the quantum of private investment attracted to the town partly as a result of ASNM’s initiatives totals €239 mn.

Social agreements restricted the level of actual staff layoffs and mitigated the effects of unemployment. ASNM, however, states that its most important achievement has been to transform, through the creation of partnerships with all the main actors, a situation of crisis into one of opportunity.

ASNM also states that the process of reclaiming redundant, often polluted industrial land has taken longer than was initially anticipated and that the process has yet to be completed. Nonetheless, the proactive approach adopted has embraced the key elements of attracting private sector investment, promoting entrepreneurship and providing suitable buildings and premises in which SMEs can become established. While this has been successful, the programme needs to continue because industrial and employment restructuring is a long-term and continuous process requiring a sustained effort to adapt to changes in comparative advantages and global market conditions.

3. Poznan – adapting a Polish city to new market realities

The city of Poznan – located in western Poland and with a population of some 570,000 - has also adopted a multi-faceted approach to the creation of new jobs and to the challenges faced by industrial restructuring. Foreign investment has been actively sought, with the result that there are some 130 foreign companies active in the city of which the largest is Volkswagen employing 6,000 in the city. However, the city authorities are also of the view that there are dangers inherent in reliance on foreign companies, which are susceptible to sudden withdrawal if market conditions change. As a consequence, the city has also put much effort into the stimulation and support of local SMEs, of which the city now has 80,000 typically employing between 1 and 49 people each.

Poznan’s city authorities adopted an overt clustering approach to the city’s development identifying eight priority areas of interest. These are:-

− developing new job opportunities;
− investing in knowledge at all levels from elementary to university education;
− making Poznan accessible;
– developing new information and communication techniques;
– developing high quality housing;
– investing in culture and recreation;
– building a new, high-quality city centre; and
– focusing on “civic Poznan”.

The process of supporting economic development initiatives in the city is, as with so many other international examples, based on partnership actions between all the actors. Co-operation in Poznan was required between the educational institutions, the business community and local government. The city authorities identified the fact that three elements are needed by those wishing to start a business – premises, know-how and money. While the public authorities’ freedom to act on premises and finance is strictly limited, they can help with training programmes to enhance the level of know-how and also act to cut red tape and bureaucratic barriers to enterprise. The city also runs a loan guarantee fund to help with the provision of collateral for business start-ups, maintains a network of business information points within the city and runs a number of training seminars.

In the city council there is a small team of five people engaged in the support of enterprise within the city, in addition to a further four who are active in promoting the city to investors. Those engaged in local enterprise support deal separately with large and small enterprises since a different approach is required for each.

One of the recent areas of activity has been to concentrate on simplifying the processes required to set up a new business. Traditionally, obtaining the necessary licences and permissions has often required at least two visits each to a wide range of official bodies representing different offices in the city. Poznan is seeking now to simplify the process by aiming to:

– develop an on-line business registration system;
– provide better training services for actual and potential entrepreneurs;
– centralise points of information;
– promote academic entrepreneurship, based on the city’s university network, and helping graduates to start their own businesses, or at least to consider that option, rather than automatically seeking employment with larger organisations;
– provide a business support centre and a “jobs boutique” in which employers and those seeking work can be brought together, often initially on the basis of securing part-time work, since experience has shown that part-time employment often leads to offers of full-time work;
– providing assistance with financing through the operation of a loan guarantee scheme, and also by contacting banks directly in order to facilitate the supply of credit to small businesses;
– enhancing the SME support network and information exchange system, including the development of suitable web-based services; and
– providing support to chambers of commerce and business.

Poznan, like Kharkiv, is an important centre for students in higher education. Indeed, the proportion of students in the city – 126,000 out of a city population of 570,000 – is higher than in Kharkiv where there are 280,000 students in a city of 1.47 million people. The education sector is Poznan’s second-largest employer. The city of Poznan regards the student population as an important source of revenue, and also states that the education sector in the city is a major owner and developer of real estate, with education seen as an important “business” in its own right.

In summary, Poznan’s city authorities have sought to create a community-based partnership to help with the economic development of the city, while at the same time intervening directly in facilitation services designed to make the processes of enterprise support more effective. Poznan City Council
acknowledges that it has insufficient funds to achieve all that it would like, but that it does receive some financial support from commercial banks and local authorities in the area. Its loan guarantee scheme mirrors those of other countries in concept, and it also receives some state assistance.

4. UK – mechanisms for industrial restructuring and enterprise support

The UK, along with countries such as France in particular, confronted the challenges of industrial downsizing and restructuring earlier than in most other industrialised countries, and has therefore accumulated extensive experience. As early as 1975, major industries such as steel and coal (both then state-owned) foresaw that major reductions in capacity were going to be required in the light of global market conditions and that large-scale losses of employment were inevitable. The geographical location of the UK’s coal and steel production meant that these jobs losses would affect some communities exceptionally severely; in some cases, towns existed with either coal or steel as the only major employer, and thus the prospect of the destruction of the employment base was a real possibility.

In common with one or two private companies (notably in the glass industry) that also faced similar reductions in capacity, the then British Steel Corporation and National Coal Board both created subsidiary companies with the express purpose of promoting entrepreneurship in their respective closure areas and dealing with the re-training and re-settlement of their redundant workers in close co-operation with national training and re-skilling programmes.

In the steel and coal industries, the scale of job losses was similar to that seen in Germany’s Ruhr valley, but was concentrated in a shorter timescale. The sense of economic crisis was therefore heightened and came at a time when the UK economy was depressed and general levels of demand for labour were weak in many sectors.

From a peak in 1920 when there were 1.2 million coal miners employed in the UK, the number of coal miners had shrunk to 50,000 by 1992. In 2005, there were fewer than 9,000, and those jobs remain under threat. As in Germany, British-mined coal is now uncompetitive and much of the country’s residual demand is met by cheaper imports. Similarly, the UK steel industry reduced employment by 150,000 jobs in a six year period between 1977 and 1983.

The approach adopted by the restructuring subsidiaries of the steel and coal industries – respectively known as British Steel (Industry) Limited, known as BSC(I), and British Coal Enterprise – was similar to that adopted by a network of “Local Enterprise Agencies (LEAs)” that were progressively established throughout the country to deal with the dual problems of job losses and the encouragement and support of the SME sector. By the mid-1980s there were almost 200 such LEAs operating throughout the country.

The elements of SME support described in the context of BSC(I)’s actions in the following paragraphs were broadly the same as those applied both by British Coal Enterprise and by the LEAs. For brevity, only the BSC(I) approach is described here.

BSC(I) had an automatically local focus, since its main interest was to act in support of steel industry communities in which jobs had been or were being lost. The company’s approach was to establish operational bases in each area affected by steel closures – i.e. to establish an office with a small team of specialists whose remit was to work in that community to mitigate the effects of job losses and to promote the supply of alternative employment opportunities.

The actions taken by BSC(I) and other similar local teams were as follows (and are relevant to Ukraine today):
− supporting existing small/medium enterprises (SMEs);
− helping to develop new enterprises;
− helping to provide appropriate business premises;
− helping to identify sources of financing for businesses and the facilitate the availability of such funds;
− working with national, regional and local government programmes, with the private sector and with a variety of community groups to promote local partnerships between all local actors involved – in the long-run perhaps the most valuable activity of all, because of its capacity to change mindsets.

Supporting existing businesses

One of the first actions taken by local BSC(I) teams was to carry out a survey of existing local small businesses and make contact to offer help in business management issues. The purpose of this approach was to seek to maximise the employment opportunities that already existed within local economies but which may not have been fully realised, often due to lack of knowledge in areas such as finance, management capacity, buildings and marketing. Each BSC(I) team was able to offer expertise in these areas by means of interactions with other local service providers, actors such as local authorities, the banking community and so on. The BSC(I) teams were also knowledgeable about government support programmes, whether promoted by national or regional government and/or with European Community money. They were able to assist with the development of business and financial plans, and established themselves in the community as a proactive and independent resource – the “businessman’s friend” – and ally themselves firmly with the commercial interests of the small business owners whom they were seeking to help.

Encouraging new businesses

In the same vein, BSC(I) set out to assist those who wanted to start their own businesses. These may or may not have been workers who had been made redundant from one of the closure programmes. In a sense, this distinction was seen as irrelevant, since the overall aim was to strengthen the clusters of small businesses in the areas affected by plant closures with a view to create a more dynamic employment base.

Provision of small workshop/office space

One of the highest profile and innovative interventions of BSC(I) concerned the provision of small workshop or office space in which small businesses could be set up. One of the early findings of BSC(I) was that such premises were usually hard to find, costly to rent and were typically let on relatively long, fixed term leases such that the commitment required for a small business at the outset of its life was often too great and too risky to accept. These conclusions led to the development of the concept of the managed workshop (now more often known as business incubators). Originally these were often former industrial buildings converted into small office and workshop units, managed centrally with shared facilities such as reception, meeting rooms, secretarial services and telephone answering services. Crucially, units within the buildings were made available on the basis of a simple user licence, often carrying as little as one month’s notice to quit. Thus a new small business, whose future was necessarily uncertain, could lease one or more units within the building, almost always at full commercial rates (i.e. these units were not subsidised), safe in the knowledge that there would be no substantial liability incurred if the business wanted to leave its unit, either through business failure or due to expansion.

The approach was replicated widely throughout Western Europe and also in North America. At the present time, UK Steel Enterprise (UKSE), the successor to BSC(I) now part of the privatised steel industry in the UK, is building innovation centres – hi-tech buildings designed specifically for high growth,
hi-tech industries. UKSE uses its own funds for these investments as well as European regional funds where these are available in steel restructuring areas of the UK.

Access to finance

This is perhaps the most difficult area for any small business. The key issue is how to obtain development capital, either in the form of loans which by their nature often offer no acceptable collateral, or in the form of equity without forcing the business owner to cede ownership and/or control of the business. Nonetheless, local SME support teams sought solutions to these two areas. In the context of loan finance, representations were made to banks in order to encourage local managers to understand small businesses’ financing needs and to adopt a more flexible approach to the granting of credits. The UK government also introduced a small business loan guarantee scheme where up to 80% of the loan was backed by state guarantees.

In the area of equity financing, success was often even more difficult to achieve. Action tended to be on a local basis. In some cases, local individuals (sometimes referred to as “business angels”) were identified who were able and willing to take financial risks by putting up equity funding, often for a limited period of time – say 5 years – and with the express intention of recovering their money and taking their profits at the end of that period. In others, family investments were sometimes used in cases where families had the resources, but these occasions were relatively uncommon. In general, the financing of small businesses was always and remains both a key issue and the most difficult to resolve. UK Steel Enterprise now invests directly in small businesses, to the tune of approximately €3.0-3.5 mn a year, either in the form of loans or as an equity provider – the latter with no timescale for realising the investment.

Local partnerships

The forging of local partnerships has always been an important element in small business support mechanisms. Local enterprise support teams including those set up by the steel and coal industries forged links with other community action groups such as co-operatives or church groups that were already active in community, enterprise and employment support programmes. National re-training programmes, delivered through local offices of national organisations, also played their part in helping to re-train redundant industrial workers and assist them in the process of finding new jobs. Perhaps the most important aspect of these local action programmes was that they made a contribution to changing the mindset of communities from one where unemployment and redundancy often created a stigma and an attitude of hopelessness, to one of broader community support for new initiatives. Communities came to recognise that a strong local employment base was in everyone’s interests, and hence efforts to improve local economies by supporting entrepreneurship and self-employment became an objective that everyone wanted to support. The experience of ASNM in Sesto San Giovanni shows how this aspect remains central to the process of regeneration, some 20 years after the first such initiatives were taken in the UK.
KEY ISSUES FOR KHARKIV IN RESTRUCTURING

International experience demonstrates a high degree of commonality in the approaches adopted to employment crises born of industrial restructuring. Approaches adopted in one country provide valuable experience to other countries with similar challenges to meet.

Among the many generalised lessons learned during this process was that the need to restructure local labour markets is an on-going process. Although many of the initiatives developed and described above were triggered by dramatic changes in traditional industries – notably in steel and coal industries and in many associated fields of manufacturing, notably in heavy engineering – in fact labour markets are constantly changing. The need to adapt to these changes is continuous and continues to the present day.

One of the major causes of such change derives from the constantly-shifting pattern of comparative advantage in manufacturing. Lower-cost economies such as those in South East Asia and South America, coupled with progressively freer international trade regimes, meant that major manufacturers evolved a system of relatively mobile production plants. Where it proved cheaper to make international goods, such as cars for example, in other parts of the world, production capacity was moved. Hence cars for sale in Europe are now made in South Africa, or Brazil, or indeed in eastern Europe in the post-Soviet era. Companies such as Volkswagen purchased manufacturing capacity in eastern Europe or established new plants in lower-cost producers internationally and supplied their traditional western European markets from these plants. The announcement made in January 2006 that Volkswagen is to establish an assembly plant in Russia with a capacity of 250,000 vehicles a year testifies to the continuation of this policy.

This trend can be expected to continue. Where formerly low-cost producers in Asia, for example, have become higher-cost producers due to the growth in real wages, production is transferred to lower-cost alternatives, such as those emerging in China. Coupled with established industrial capacities, such as in ship-building in Asian countries, manufacturing capacity in Europe continues to be eroded, with jobs being created in newer industries, such as information and communications technologies, and in the tertiary sector which has been the source of most employment growth in western Europe in the past 20 years or so.

The inherent mobility of manufacturing and hence the inherent instability of labour demand in the manufacturing sector is an element that, in the medium-term can be expected to favour Ukraine, where wage costs are low by western European standards, but can also be expected to pose longer-term threats to Ukraine as its level of real wages rises with growing prosperity.

It is for these reasons that external investment in a region such as Kharkiv, as well as the further development of the region’s manufacturing base, may offer only a partial solution to employment crisis. It is also the reason why, as several contributors to the seminar stated, local employment initiatives and the encouragement and support of the local SME sector is an important element in any counter-redundancy response to industrial crisis.

Thus a key conclusion for Kharkiv from international experience is that it is necessary to act on all fronts simultaneously – the promotion of inward investment, the attraction of foreign multi-national companies, the development of existing industrial capacities, the support and encouragement of the local SME sector, the creation of clusters, the development of newer, hi-tech products and of a new image for
the Kharkiv region, and the attention that needs to be paid to the policy environment and public investment required to make all of these elements contribute to the re-definition of the employment base of the region.

A second conclusion to be drawn from international experience is that the restructuring process should be seen as a long-term and continuous one. In Germany, for example, restructuring programmes in the Ruhr valley have been in place for 40 years. Despite all the efforts that have been made, unemployment blackspots remain, and changes in the demand for labour and in the ability of a given location to sustain employment levels are resulting in changes to the population over the long term. The sum total of all the restructuring programmes that have been undertaken and are still active has been insufficient to solve all the employment challenges. There is, it seems, no perfect or comprehensive solution available for every case.

In Ukraine and in the Kharkiv region, there are both opportunities and difficulties. The policy environment, the lack of sophistication of financial services and the further developments required to create a culture of self-reliance and enterprise are such that it will be very difficult in the short-run to achieve success along the lines of that which as been achieved in western European countries. Ukraine remains an economy in transition, and it is to be expected that the policy environment and the sophistication of the legislative and regulatory environments will take time to change. It will not be possible in all cases simply to apply a western European approach to employment creation and industrial restructuring. Success in this area will partly depend on the longer-term evolution of the national economy and the change in mindsets of many of those engaged in policy and business management.

On the other hand, Kharkiv region also has many opportunities. Some of the most important of these are as follows.

Assessing the region’s strengths

Contributors to the seminar illustrated that there is an understanding that Kharkiv city and Kharkiv region should concentrate and build on its strengths. Leaving aside the region’s agricultural strengths (since these fall outside the subject of the seminar), Kharkiv offers a highly-skilled, science-based manufacturing sector. Notwithstanding the previous comments regarding the inherent long-term instability of manufacturing, Kharkiv offers a relatively low-wage environment in which sophisticated manufacturing technologies and processes can succeed. Markets are changing of course, and in some of Kharkiv’s largest manufacturing plants these will continue to place downward pressures on labour demand, but there also exists a strong scientific and research-based body of skills which offers the opportunity to create greater commercial activity based on the marriage of academic research and commercial acumen.

It was made clear in the seminar that these attributes demand a clearer focus on the process by which commercial enterprises can be created and sustained on the basis of academic expertise, and also a clearer focus on the development of activity clusters in these areas. It was also acknowledged that Kharkiv has a long way to go to achieve its full potential in these areas. It was remarked that more needs to be done to promote technology transfer and that Russia has a better recent record in this area than Ukraine.

The pursuit of the SWOT approach to assessing what activities the Kharkiv region is capable of sustaining is to be encouraged. A detailed analysis of the region’s strengths and comparative advantages will help the public authorities to refine policy measures geared towards the encouragement of private investment initiatives. It will also help in determining priorities for public investment in infrastructure and in supporting services.

However, it would be a mistake to assume that the entire responsibility for the re-dynamisation of the regional economy lies with the public sector. The role of the local authorities might better be seen as one
where the creation of an encouraging environment for private investment is a key element. Comments at the seminar made clear the inadequate policy environment in this area. This partly derives from national policies and practices that will require action at a national level, but falls also partly within the remit of the local authorities to take action on a local level.

**Creating an environment for growth**

Again, international experience suggests that there are a number of areas where action by the public authorities can make a real difference to the evolution of the employment base and to the creation of a climate suitable for the encouragement of enterprise. Many of these actions have already been at least partially addressed by the Kharkiv region, but it is also clear that more needs to be done. Some of the key areas demanding further public action are as follows.

**Translating research into commerce**

While the agreement between Kharkiv Technical University and local entrepreneurs to create a technology transfer centre is very positive, there appears to be a need for much more to be done in order to harness research skills and create businesses opportunities. It was remarked that both Russia and a number of western European countries such as the UK and Germany are more advanced in this area than Kharkiv.

The creation of physical facilities, such as science parks, can help in this regard and may be an area where public action is required through, for example, making suitable sites available and perhaps constructing advance factory, workshop and office buildings.

The creation of an encouraging policy environment, developmental work with the financial community and the provision of direct advice, perhaps via publicly-assisted private consultancy services, can all help in the process of developing new start-up businesses driven in part by the wide range of academic specialisations offered by Kharkiv’s universities and technical colleges. Providing assistance to the spinning-off of technical subsidiaries from existing manufacturing facilities, as has already been done in some cases such as the tank factory, can also be valuable.

**Human resource development**

The seminar’s contributors pointed out a need for much more vigorous re-training and skills development within the city. In particular, it was remarked that Kharkiv lacks the trained people required to pursue innovation. The public sector in most countries has primary responsibility for education and training, and there appears to be an *a priori* case for increasing the level of training and support for individuals who may either be seeking to develop new careers or in some cases to become entrepreneurs themselves.

Courses in entrepreneurship introduced at university level may well open up an alternative route to earning a living among some of Kharkiv’s young people. The development of an entrepreneurial culture in part depends on presenting younger people with the option of self-employment and equipping them through training to run their own small businesses. This route, although only a partial solution to employment issues in the region, has the merit of creating an SME base that may be more stable in the long run than major investments by national or foreign companies.

It should be remembered that the Kharkiv region and indeed Ukraine as a whole is both populous and has great scope for achieving rising living standards. This offers the prospect of long run growth in consumption levels that can provide a sound market for the development of SMEs in a wide range of secondary and tertiary activities. The role of the public education authorities can be crucial in creating the conditions where this type of self-reliance can be successfully developed.
**Encouraging the SME sector**

Kharkiv city is already doing a lot to help the SME sector, with the city council reporting the existence of some 70 organisations active in this area, in addition to the funds and other initiatives already mentioned.

It may well be that the establishment of a public/private partnership body akin to the UK’s local enterprise agencies or to North Milan’s ASNM described earlier in this report could be of major benefit to the city and region. Such a body, using private-sector expertise as well as public sector skills, could provide a “one stop shop” for those either wishing to set up their own business or to expand an existing small operation. If the city or regional authorities decided that this is a desirable direction in which to go, there is plenty of international expertise available to assist with the creation and constitution of such a body, which could incorporate some of the services already being provided on a more fragmented, less centralised basis.

Such an organisation might also facilitate access to development finance, either from national or international sources. It would also provide substantial scale economies in the provision of specialised business development advice and of advice specific to particular techniques in areas such as hi-tech industries, information and communication technologies, market assessment, business planning and management skills and so on.

**Real estate issues**

The public sector in many countries, faced with industrial decline, closures and the need to stimulate new areas of economic activity including the SME sector, has often undertaken major investments in real estate. These can fall into several different categories.

The first, as with the example of the former steel works of the Falck company in Sesto San Giovanni, is to undertake clean-up and reclamation work on redundant industrial sites. This can have a number of benefits, including the presentation of a more modern image for the city’s industrial landscape, the realisation of value in public land that has no value until reclamation work has been completed, and the creation of attractive sites which can either be sold or leased to private investors for the creation of new industrial or office space in which new ventures can succeed.

Second, the state or local authorities can act as intermediaries in the creation of new commercial real estate, in collaboration with enterprises that may have downsized and released building space that can be modernised or refurbished, or sites that offer parallel development opportunities.

Third, the public sector in some countries has actively invested in commercial and industrial buildings for sale or lease to private investors. The concept of industrial parks, industrial estates and the construction of advanced factory or workshop buildings has been successfully used across western Europe as part of employment and industrial area regeneration projects.

Kharkiv’s ICC Proconsul company gave estimates of the large deficits in industrial space (383,000 square metres), modern warehousing of a standard required for up-to-date logistics companies – especially important in the context of Kharkiv’s strategic location as a transport hub - (90,000 square metres) and housing (30 million square metres). While the investment required to deal with these deficits will come partly from private investors, the public authorities also have a role to play, and there is no reason why they cannot also engage in property investment in parallel to private investors in order to help to stimulate this sector and generate revenues for further employment-related programmes. The partnership approach adopted by ASNM in Sesto San Giovanni is a good example of how a public body can stimulate regeneration in this area of activity.
Development of partnerships

Regeneration programmes throughout Europe have demonstrated the value of public/private partnerships operating at a local level. The initiative for creating such partnerships usually lies with public sector. In Kharkiv the private sector is arguably still weaker than is typical in many western European economies, but it nonetheless exists and offers an opportunity for greater co-operation with the public authorities.

If Kharkiv were to decide to create an enterprise support organisation along the lines of ASNM, then the initiative would come from the local authorities – probably from Kharkiv City Council and from the regional government. Given the transitional nature of the local economy it is to be expected that such a partnership would take longer to become effective than has been the case in more mixed economies, but the approach remains a valid one and could make a substantial contribution to the regeneration effort.

A new city image

The International Department of Kharkiv City Council is well aware of the need to raise the city’s international profile and to create a more modern image. The experience of cities such as Poznan illustrates the value of such an approach. In this area of potential for public action, there are a number of possible courses of action that could be taken.

For example, the city council is currently considering the production of a city guide for visitors to the city. While an industrial and academic centre such as Kharkiv may be unlikely to develop into a leisure tourism destination as such, there is every reason to expect demand for visits to the city for business and conference purposes to expand in future. The image of the city portrayed to visitors either from elsewhere in Ukraine or from abroad is an important element in raising the city’s profile and in communicating its intentions to develop and modernise.

Its promotional stance is also likely to be part of a wider programme to promote the city’s interests as a location for new commercial and industrial investment, and the process of establishing Kharkiv as a centre for science- and research-based commercial opportunities. This latter element is also relevant in considering the role of Kharkiv’s academic institutions in driving innovation and in creating new commercial and employment opportunities. The city’s image and its promotional activities are therefore more than just public relations. They can make a direct contribution to raising the chances of a successful regeneration process and can be directly allied with investment promotion activities.
CONCLUSIONS

The impression given at the seminar is that Kharkiv is already taking action in most of the areas that other countries have used in circumstances of labour market adjustments, but that more needs to be done.

The city and region are, to a degree, dependent on national economic policy and on the evolution of the economy in general for the policy issues that have been identified. The point has already been made that adjustments of this nature may well take time given the transitional nature of Ukraine’s economy.

On the other hand, the seminar also confirmed that there are many areas where the regional administration and the city authorities can act to make a difference. It may well be that consideration should be given to revising and expanding the economic and investment promotional role at a regional level, and to the creation of an ASNM-type of organisation with a specific remit to address SME support, real estate issues and the general promotion of Kharkiv region. The approach adopted by the city of Poznan provides several pointers to the assessment of the main priorities for action which, together with further development of the SWOT concept for Kharkiv could assist in improving the climate for entrepreneurship and focusing on the most prominent areas for further action.

Kharkiv shows evidence of many positive developments currently underway, such as the boom in construction and the recent development of the retail and restaurant sectors which point to substantial economic progress. However, the seminar also made several references to the need to continue to work to change the attitudes of managers and policy-makers in the direction of a more open and welcoming environment for private sector development, whether local in the form of SMEs, national, or international in the sphere of attracting inward investment.

In these areas the further collaboration of the OECD could prove helpful in supporting the development of new activities aimed at promoting a vigorous local economy in which all routes to job and enterprise creation continue to be explored.