

PART II

KEY POLICY ISSUES IN ENTREPRENEURSHIP AND SME DEVELOPMENT

Part II of this report is structured in six thematic chapters. Each chapter starts with a summary of main findings from the local case study areas by the OECD. In the following paper, both theoretical and practical aspects of policy action are discussed in light of new policy approaches and options. References are made to good practice initiatives in East Germany and other regions in OECD member countries. A chapter concludes with the OECD policy recommendations presented as a 'Checklist'. Along with a selection of international learning models and good practice examples in East Germany, this final section of each thematic chapter aims to inspire policy innovation and the development of local approaches to strengthen entrepreneurship.

CHAPTER 6

ENTREPRENEURSHIP POLICY DESIGN AND DELIVERY FRAMEWORK

POLICY DELIVERY: CHALLENGES AND OPPORTUNITIES FOR ENTREPRENEURSHIP AND SME DEVELOPMENT

Frederike Welter, Germany

Introduction

Entrepreneurship, and start-ups in particular, have become a general focus of German governments at federal, state and municipal level since the mid-1990s, seen both as a means to alleviate unemployment and to rejuvenate the economy. In that regard, numerous programmes and policies at all levels aim at supporting new ventures. In this context, the chapter will briefly review the current entrepreneurship development in East Germany, before turning to discuss the policy and institutional environment as well as trends in fostering entrepreneurship. Furthermore, the chapter discusses current socio-economic challenges taking into account adjustments that could be made to the existing policy environment, especially at the municipal level. The local case studies are used to illustrate the policy environment, current challenges and potential policy responses.

Entrepreneurship development in East Germany

With the introduction of legal regulations changing property rights and allowing for private entrepreneurship in 1990, entrepreneurship started to boom in the early 1990s. From 1988 until 1991, the number of East German entrepreneurs more than doubled.¹ In 2005, entrepreneurship amounted to 689,000 (Table 1). However, the rapid growth rate which could be observed during the first years of re-unification has slowed down considerably. In that, entrepreneurship development in East Germany follows the general pattern for former socialist countries, i.e., after an initial upsurge where many opportunities are present and many new ventures are set up, entrepreneurship development slows down as soon as market niches are filled and competition is increasing. The upsurge happened from 1991-1995 while growth rates have been decelerating since the mid-1990s. Overall, the level of entrepreneurship remains only slightly lower compared to West Germany. In 2005, the share of entrepreneurs in the labour force amounted to 10.8% in East Germany and to 11.2% in West Germany. Despite the lower growth rates since the mid-1990s, there has been considerable progress made since the beginning of the transformation process and re-unification.

However, even after more than a decade of re-unification, the nature of entrepreneurship differs between East and West Germany. For example, more East German entrepreneurs compared to the West work full-time in entrepreneurship, which might reflect differing labour market situations (Table 1). In 2005 (1991), the respective shares amounted to 90.1% (94.8%) in East and to 83% (88%) in West Germany. Moreover, East Germany still has a higher share of women entrepreneurs²: In 2005, nearly

¹ For 1988 see Schrupf (1990). Data in Table 1 come from the micro census, which is a yearly 1% representative survey of the Federal Statistical Office. It collects data for employment status, distinguishing between paid employment, helping family, and self-employment. The latter can be used as an indicator for entrepreneurship. The category “self-employment” includes persons who (co-)own and manage an enterprise with employees or who work on their own. It also includes home-based entrepreneurs.

² See Welter (2006) for a detailed review of women’s entrepreneurship in Germany.

one third of all entrepreneurs were women, compared to 29.6% in the West. The 1991 shares amounted to 28.2% in East and 25.6% in West Germany. Both parts of Germany however see a trend towards micro enterprises. While in 1991, 45.9% and 44.7% of the registered businesses in East and West Germany respectively were run as sole proprietorships, these shares have increased to 58% and 55.8% in 2005.

Table 1. Extent and nature of entrepreneurship in East Germany, 1991-2005

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total number of entrepreneurs, in 1.000	348	394	431	463	486	487	512	542	544	553	562	552	583	621	689
Without employees, in %	45.9	43.4	42.9	43.6	43.2	45.5	48.9	46.5	44.9	47.9	48.8	48.7	51.6	54.6	58.1
Full-time entrepreneurship, in %	94.8	94.9	95.8	95.2	94.9	94.0	93.8	94.1	93.8	92.4	92.3	92.2	91.6	92.3	90.1
Women's entrepreneurship, in %	28.2	28.7	30.4	29.8	29.4	29.8	30.7	29.7	30.1	30.6	30.2	31.9	31.6	31.7	32.2

Source: Statistisches Bundesamt (2006) and author's own calculations.

Regionally, the NUI-regional ranking compares entrepreneurship development across all German cities and districts.³ The NUI indicator illustrates how many enterprises per 10 000 inhabitants in working age have been registered within a year. Data are available for five of the six local case studies (with the exception of Marzahn-Hellersdorf where data for Berlin would be misleading). Table 2 shows that entrepreneurship development, measured by changes in the indicator, remains weak in four of the case study regions, namely the Uckermark (Brandenburg), the Altenburger Land (Saxony), Parchim (Mecklenburg-Western Pomerania) and Halle (Saxony-Anhalt).

Table 2. Entrepreneurship development in the local case study regions

	1998	1999	2000	2001	2002	2003	2004	2005
Mittweida, district	140.9	138.7	130.2	120.8	112.9	138.7	128.8	155.2
Halle (Saale), district free city	150.5	133.9	124.7	125.2	116.3	125.9	148.7	134.0
Parchim, district	137.8	133.4	122.7	110.6	109.8	136.7	174.3	133.0
Altenburger Land, district	127.7	114.9	111.9	109.0	99.5	110.3	143.0	123.4
Uckermark, district	100.2	84.6	83.2	78.2	74.6	78.7	115.8	105.0

Source: IfM Bonn (2007).

In terms of regional ranking, the Uckermark also consistently holds one of the last positions of all German districts and cities, namely 435 out of 439 in 2005 and 434 in 1998. In the Altenburger Land the ranking decreased from 347 in 1998 to 419 in 2005. A similar trend is to be observed in Parchim

³ The indicator measures the relation between the number of new ventures and moving in of enterprises in one year and the employable population of the preceding year. See IfM Bonn (2007).

(264 in 1998, 390 in 2005) and Halle (385 in 2005; 197 in 1998). Only Mittweida in Thuringia shows a relatively consistent ranking, holding position 265 in 2005, compared to 250 in 1998.

The policy framework for entrepreneurship

The promotion of small and medium-sized businesses is a long tradition in Germany, while entrepreneurship policies are comparatively new, only gaining ground since the 1990s. One of the strongest points in favour of the German system is the broad range of support measures. German SMEs and new entrepreneurs as a rule easily can find a programme to solve problems they might experience in different stages of enterprise development. Another advantage concerns the dense support network involving public and private partners at regional and sub-regional level.

Entrepreneurship support at federal, state and local level

The policy environment for entrepreneurship development in East Germany is characterised by a decentralised approach towards supporting SMEs and new firms, based on the subsidiary principle, which determines the division of tasks between the federal government and the *Länder* as set out in the German constitution. Because of its decentralised and oftentimes complementary nature, it is important to briefly review delivery mechanisms and support areas at federal, state and local level.

Support areas and policy delivery at federal level

The federal government started implementing a new SME initiative in 2006, in order to foster the competitiveness of small enterprises. The eight policy areas include creating adequate framework conditions for SMEs and entrepreneurship, decreasing bureaucratic hurdles, establishing an entrepreneurship initiative, modernising vocational training, improving financing conditions, in particular also venture capital, and promoting internationalisation. This is supported at a regional level by the so-called Joint Tasks of federal and state governments. This refers to the Joint Task 'Improvement of the regional economic structure' (*Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur*) and the Joint Task 'Improvement of agrarian structure and coast security' (*Gemeinschaftsaufgabe zur Verbesserung der Agrarstruktur und des Küstenschutzes*) for integrated rural development. The Joint Tasks are an instrument by which the German federal and state governments strategically co-ordinate and integrate their regional policies and decide on joint funding. Federal and state governments jointly determine those regions which are to be supported within the policy as well as areas of support.

In order to select support projects, federal ministries have increasingly turned to competitions with an emphasis on public-private partnerships across policy levels and networks as well as using public-private juries to select innovative concepts for funding. One such example is the initiative 'Entrepreneurial Regions', which includes programmes such as InnoRegio, Innovative Regional Growth Cores, Centres for Innovation Competence, Innovation Forums and InnoProfile. This initiative specifically focuses on fostering innovative SME in East Germany's regions, thus contributing to regional entrepreneurship development. The current distribution of projects within these different programmes shows the familiar picture of a North – South and an urban – rural divide, with projects clustering around larger cities and in the South of East Germany.⁴ Another example for all of Germany is the programme 'Learning Regions', which concentrates on fostering learning initiatives within or between regions.

⁴ <http://www.unternehmen-region.de/en/67.php>.

These and similar policies are a decentralised, regional approach albeit initiated at federal level. They do not follow the strategy of supporting less-developed regions by building up their infrastructure and subsidising business activities in those regions. Instead, these programmes strongly focus on establishing regional centres of excellence, independent of their location. Some of the local case studies, namely Parchim, Uckermark, Mittweida, have been able to make use of such programmes in order to support local entrepreneurship development, presenting good practice examples of how to engage non-state actors in fostering entrepreneurship.

Entrepreneurship support delivery at state level

At state level, there are different models to institutionalise entrepreneurship and SME policies. These models range from an uncoordinated approach where a number of ministries and departments are involved and co-ordination often is problematic, to more recently the establishment of special state banks or investment agencies, which are responsible for administering (sometimes also for implementing) all state programmes. The idea here is to provide a one-stop-agency which should ideally result in simple procedures and transparent structures for small enterprises. Most East German states have had an advantage in that they could (and had to) build up their promotion structures from scratch after 1989, which allowed them to quickly turn to integrated and comprehensive support approaches and delivery models. This becomes visible in the state initiatives created for supporting entrepreneurship, involving a broad range of public and private actors, bundling entrepreneurship policies and support measures and spanning different levels of government.

Although these approaches have been created top-down, they nevertheless appear to have succeeded in bringing together state and local governments and reaching out beyond administrative level. Examples include ‘*agil – Aufbruch: Gründen im Land*’ in Brandenburg, which was initiated by the State Ministry of Economics in 2000 in order to co-ordinate departments from different ministries and widened to include chambers, local development agencies, financing institutions, universities and others in 2002/03; TIP (transparent – innovative – passgenau), which will replace the campaign ‘*Einfach Anfangen*’ in Mecklenburg-Western Pomerania, shifting its focus on how to improve the survival perspectives of entrepreneurship, or the *ego* in Saxony-Anhalt.

Entrepreneurship support delivery at local level

Local governments, i.e., municipalities and districts, are primarily interested in fostering local economic development through investments in their regions. This might include some support for new and existing small firms, but it is not restricted to this group of businesses. Main actors at the local level are business associations, chambers, economic development departments of administrations and business development agencies, which are often (partly) owned by municipalities⁵. They offer a variety of services such as company-related information and consulting services, advice regarding public support programmes or establishing new ventures, generally acting as an intermediary between local administration and investors. However, although many business development corporations now offer orientation services for new businesses, their main focus remains established firms.⁶

⁵ Business development agencies (Wirtschaftsfördergesellschaften) also exist on state level, aiming at attracting foreign investors to the respective state and in opening up foreign markets for local enterprises.

⁶ According to a verdict of the district court Trier (25.5. 2000, cf. DST et al. [2001]), business development corporations are not allowed to offer individual consultancy for nascent and young entrepreneurs, assistance in developing a business plan and in finding risk and venture capital.

New target groups and areas for entrepreneurship support

The late 1990s saw a general concentration on supporting start-ups in an attempt to push new businesses and create new employment possibilities. But, several of these initiatives on state level simply bundle already existing instruments and programmes without developing a coherent or radically new strategy. Most German policies for start-ups concentrate on extending and stabilising the financial base of new ventures whilst consultancy plays a less important role, although more recently there has been a tendency to offer integrated packages combining financial support with consultancy or mentoring. The 1990s also saw the development of new support instruments for entrepreneurship development, in an attempt to reach out to different target groups in order to raise the overall level of entrepreneurship. The following new trends can be distinguished: fostering graduate entrepreneurship and entrepreneurship education in universities and schools, supporting disadvantaged target groups such as unemployed and young persons, women's entrepreneurship and micro financing.

Educating students and pupils for entrepreneurship

Since the mid-1990s, most German governments have started targeting students in order to raise their awareness of entrepreneurship as one employment possibility. At the federal level, the 'EXIST' initiative, launched in December 1997, comprises a number of different projects, all attempting to enhance entrepreneurship among university and universities of applied sciences (*Fachhochschulen*) graduates, and initiate regional support networks. In this context, an evaluation report concluded that many proposed projects were realised despite refused funding.⁷ Thus, the mere organising of such an initiative as a competition might have had a significant 'indirect' effect on fostering entrepreneurship in Germany through triggering regional partnerships. At the state level, in 2001 a review identified 13 state programmes in all of Germany, which exclusively focused on students, mainly through supporting a part-time job at the university while realising a business idea.⁸ Other programmes concentrate on entrepreneurship education in schools, often by initiating mini-firms. Programmes at the federal level include JUNIOR⁹ or *Schüler unternehmen was*. This is complemented by initiatives at state levels, as for example in Mecklenburg-Western Pomerania with separate programmes reaching out to schools or in Saxony-Anhalt within the initiative ego.

Such policies are a good example of institutional and private partnerships across different government levels: Programmes have been designed at the federal or state level, but they are carried out at the local level; frequently foundations and private actors play an important role in starting such initiatives; in terms of funding they are often co-funded by public and private actors. For example, entrepreneurship education in Halle (Salle) benefits from the services and support offered by Univations, which is an innovation and entrepreneurship network for universities in Southern Saxony-Anhalt, linking universities and local economic actors. In Mittweida, the local university of applied sciences is a member of SAXEED, a network of South Saxonian universities involving several local and state partners and supported by the state government. Overall, such networks demonstrate considerable commitment of local private and public actors, thus fostering entrepreneurship beyond the aim of supporting entrepreneurship education at universities through contributing to an entrepreneurial culture within the region. Since the mid-1990s, the federal and state governments increasingly have supported network creation, acknowledging the effects such an approach could have in boosting entrepreneurship development. Programmes to foster regional networks are to be found at

⁷ Cf. Stahlecker (2001).

⁸ Cf. Papenheim and Görisch (2001).

⁹ Saxony and Saxony-Anhalt joined in 1995/96 and 1994/95 respectively, Brandenburg in 2000/01 and Mecklenburg-Western Pomerania and Thuringia in 2004/05.

federal level where EXIST has supported 15 regional networks created around universities since 1998¹⁰, and within most of the state initiatives to support new ventures.

Fostering entrepreneurship of unemployed persons

Since the mid-1990s, federal and state governments started offering entrepreneurship support for disadvantaged groups who have difficulties in accessing mainstream support and mainstream financing, both because existing services are not tailored for their specific needs and the potential entrepreneurs lack information, qualification and/or resources to set up their ventures. Measures include subsidies for starting a business, often coupled with counselling and qualification courses. At the federal level, support includes the *Gründungszuschuss* and the *Gründungsgeld*, subsidies for unemployed who are entitled to unemployment benefits (ALG and ALG II). Initially, most policies were aimed at unemployed entrepreneurs; later the approach at state level often was specifically targeted at the younger unemployed. For example, all East German *Länder* participate in the *Enterprise* project. Enterprise was created in 1999 as a pilot project in Brandenburg, today it spans all East German states with Thuringia the last to join in 2006. This programme is specifically aimed at young unemployed persons, between 18 and 27 years old, who are not able to access other support and bank credits. It offers profiling and coaching, qualification and micro credits up to 6.000 EUR, also aiming at integrating the target group into existing support structures. Some states restrict the programme to particular disadvantaged districts and cities, as for example in Thuringia or Saxony-Anhalt.

The outreach so far appears to be rather small. For example, in Mecklenburg-Western Pomerania since 2001 the programme managers registered 1.150 expressions of interest, 700 youths received some basic consultancy, but only 78 went through the whole process and set up a business, plus another 130 who were consulted but started entrepreneurship without drawing on support from *Enterprise*.¹¹ However, in light of the persistent call for an entrepreneurial culture in Germany¹², the direct results of such a programme are not the best indicators for measuring its success, as indirect and longer-term effects such as establishing entrepreneurial role models in regions where (youth) unemployment prevails, presumably are much larger. In this regard, supportive policies to foster entrepreneurial attitudes at local level would be of particular importance for the local case regions, in particular the Altenburger Land, Mittweida, Parchim and the Uckermark as well as Marzahn-Hellersdorf, because of an apparently weak entrepreneurial culture.

Women's entrepreneurship

In the late 1990s, the German government also started paying attention to the topic of female entrepreneurship as an important means to raise the overall level of entrepreneurship, although in all of the local case studies women's entrepreneurship does not appear to play an important role, neither in terms of local development strategy nor in terms of targeted support. Selected support measures,

¹⁰ <http://www.exist.de>

¹¹ http://www.enterprise-mv.de/_index.php?wo=galerie

¹² The overall call for a new 'culture of entrepreneurship' can be traced back to 1991, to the symposia held by one of Germany's most well-known entrepreneurs and company-owners, Reinhard Mohn of Bertelsmann. The public discourse suggested that this perceived lack of an entrepreneurial culture – or entrepreneurial spirit – in Germany could only be remedied by political actions, however, without specifying the general concept. Analysing this particular discussion in its wider context, Lageman and Welter (1999) illustrated that there was no agreement as to what might constitute a new 'culture of entrepreneurship', what would be 'new' about this culture, or whether there really existed a lack of entrepreneurial spirit in Germany.

which are exclusively directed at female entrepreneurs, are mainly to be found at state level. These include, for example, a programme for career planning in entrepreneurship for female students in Saxony-Anhalt (*FrauenMachtUnternehmen*), running from 2005 to 2007, or small credit lines such as the one operating in Mecklenburg-Western Pomerania from 1996 to 2002. However, such programmes only support a small number of female entrepreneurs. For example, in Mecklenburg-Western Pomerania the *Land* handed out 11 million EUR, supporting 397 enterprises and creating 663 employment possibilities.

State governments sometimes also introduce specific regulations into mass loan programs, especially where these programs are jointly financed by federal and state governments. One such example was to be found in Mecklenburg-Western Pomerania, where the state investment bank handed out loans directly to female entrepreneurs, provided they previously were rejected by banks.¹³ Such regulations aim at levelling out the possibly negative effects of the German ‘house bank system’, where commercial banks take on a gatekeeper function, because all applications for financial support programmes are channelled through them. In general, most German support programmes for women entrepreneurs address their (supposed) support needs in terms of financial or human capital, neglecting the impact of the overall legal and institutional framework.

There also is an ongoing subtle shift in support policies for women entrepreneurs, especially at federal level.¹⁴ Traditionally, support approaches to foster women’s entrepreneurship were focused on removing problems at individual level by setting up separate credit lines or training programmes, neglecting the general environment women entrepreneurs operate in and their access to mainstream support. Today, support increasingly concentrates on an organisation-based approach. This is aimed at integrating gender-specific support topics not only into support agencies, but also into organisations such as chambers of commerce and business associations, thus widening access of women entrepreneurs to mainstream support programmes. This approach is seen as the best solution to the debate on whether to introduce specific programmes focused solely on female entrepreneurs, *i.e.*, do female entrepreneurs justify special, targeted support or simply similar access to support and treatment as men. At the local level, this requires administrations to work closely with business organisations and support agencies in order to develop a local strategy of how best to foster women’s entrepreneurship.

Micro financing

Micro lending reflects a shift in financial support, acknowledging the fact that specific groups of entrepreneurs need smaller amounts of credit, and, as in the case of many women or unemployed entrepreneurs, who frequently start part-time ventures. In Germany, micro lending is a recent element in entrepreneurship support. Following an initiative of the International Labour Organisation¹⁵, the German government introduced this type of micro credit programme on a broad, nationwide level during the late 1990s. These include the *Startgeld* which offers credits amounting up to 50.000 Euro, and the *Mikrokredit* which offers 25.000 Euro credits for start-ups and new entrepreneurs in up to the first three years of business. Both programmes allow for applications of full-time and (at least initially) part-time start-ups, thus recognising the diverse paths into entrepreneurship.

As of 2003, there existed 24 micro lending programmes in Germany, either on the federal, state or local level, three of which were operating at state level in East Germany, namely in Mecklenburg-

¹³ Cf. Kehlbeck and Schneider (1999), p. 29.

¹⁴ Cf. Welter and Lageman (2003).

¹⁵ Namely the ‘Action Research Programme on Micro Credit and Business Creation of Unemployed’.

Western Pomerania, Saxony and Brandenburg.¹⁶ State programmes often are co-financed by state and European funds, for example in Mecklenburg-Western Pomerania, where new entrepreneurs can apply for a micro credit loan of up to EUR 10 000 in order to finance operating expenses, or the micro credits offered by all East German *Länder* within the Enterprise Programme. However, contrary to the federal programmes, most state programmes do not appear to allow for initial part-time entrepreneurship. Full-time entrepreneurship is commonly recognised as contributing to employment and growth in the long run, while part-time entrepreneurship is equated with necessity-based entrepreneurship, low growth ambitions and low survival rates, although research has demonstrated that for example in North Rhine-Westphalia nearly one quarter of initially part-time entrepreneurs had made the transition to being full-time entrepreneurs.¹⁷ Initial part-time entrepreneurship helps potential entrepreneurs to facilitate their entry into entrepreneurship, as they accumulate resources and know-how.

Local municipalities have been trendsetters for Germany as the first microcredit programmes have been established at local level, often with support from municipalities.¹⁸ For example, GÖBI is one of the earliest examples of a public-private partnership on local level, where banking institutions are involved.¹⁹ This fund was set up in 1997 by the local city administration in Göttingen together with savings banks and the rural district Göttingen, targeting young and previously unemployed business founders. Since its start, GÖBI has financed around 60 business ventures. The savings banks provide the capital, whilst the authorities involved bear 50 percent of the default risk and subsidise the interest rate.

Local programmes often address only one specific target group and frequently restrict their programmes to the unemployed. However, all respective initiatives have to take into account the German banking regulation (*Kreditwesengesetz*), which prevents non-banking institutions from handing out credits, whilst allowing for some participation of non-banking organisations in the microfinance market.²⁰ This mainly impedes creating special microfinance institutions, but it can also act as a constraint for local programmes: Banking institutions frequently participate in state initiatives, and participate less in local ones. For example, in 2002 they were involved in only three out of eight local initiatives, but in eight out of eleven state programmes.²¹ Local initiatives, which do not involve local banks, have often worked around this constraint by registering themselves as societies and providing microfinance as a benefit for their members.

Challenges to entrepreneurship in East Germany

Challenges to entrepreneurship arise from the overall socio-economic landscape in which entrepreneurship in East Germany takes place. This applies to changes in the social context for entrepreneurship or structural changes in, for example, the banking system threatening the financing of new and small ventures. Additionally, high unemployment often forces individuals into entrepreneurship who lack the relevant skills and know-how, thus questioning 'traditional' approaches to entrepreneurship support at the local level which often have been concentrated on providing

¹⁶ Cf. Habschick, Evers and Jung (2004), pp. 43-67.

¹⁷ Cf. Kay et al. (2001).

¹⁸ Cf. Jung (2002).

¹⁹ Cf. Jung (2002), also <http://wrg-goettingen.de/index.php?id=323>.

²⁰ Cf. Evers and Habschick (2001).

²¹ Cf. Jung (2002).

infrastructure in order to improve the general business environment. Moreover, challenges arise out of different contexts for entrepreneurship, which refers to the role entrepreneurship plays in urban vs. rural; old industrialised vs. knowledge-based and high technology-driven regions; peripheral regions vs. central regions. This has an impact on the availability of resources such as finances, information and support. In East Germany all this goes hand in hand with massive de-industrialisation as a result of the privatisation process, accompanied by enormous social problems, and demographic changes. The following sections will briefly outline the major challenges arising from the environment for entrepreneurship and the policy context, in order to situate the local case studies.

The local context for entrepreneurship

Entrepreneurship is a local event. The local availability of customers and tradable goods, finance and space as well as the local institutional environment influence the decision to start a business. After start-up, local bonds are essential for firm survival; and for many smaller enterprises, most business contacts tend to be local. Understanding local entrepreneurship processes helps foster local economic development. Thus, local contexts have a major impact on the extent and nature of entrepreneurship development. In East Germany, the main challenges in this regard arise out of industrial, structural and demographic changes as well as different spatial contexts and the need for entrepreneurial attitudes at local level.

De-industrialisation and entrepreneurship

All East German states have had to undergo a tremendous socio-economic transition process since the early 1990s, characterised by a thorough restructuring of the industrial and, as in the case of Mecklenburg-Western Pomerania, agrarian base. Although entrepreneurship rates increased in all *Länder*, new businesses could not make up for the significant job losses in former state-owned companies. Today, one can observe a North-South divide with the Southern *Länder* such as Thuringia and Saxony having achieved better results in restructuring their economies. This is partly due to economic policies; Thuringia, for example, concentrated on sustaining core industrial centres. Where the *Länder* built their transformation strategies around traditional strengths such as strong innovation knowledge and skills, they frequently managed to create a favourable environment for the emergence of growth-oriented ventures, often initiating a successful transformation towards high-tech fields as becomes apparent in the case of Halle (Saale).

However, intra-regional disparities are still large, partly due to the *Länder* focusing on restructuring former growth cores. This points to a common dilemma regional policies face, namely whether to focus on strengths or whether to tackle weaknesses hindering regional development. Due to budget constraints, both federal and state governments prioritise a policy of ‘strengthening selected strengths’, often regionally concentrating on urban areas.²² This has consequences for entrepreneurship development in structurally weak regions, as such regions often lack the physical and support infrastructure needed for new firms to emerge. Business opportunities also tend to go hand in hand with favourable economic development. For example, Thuringia concentrated its economic policy on strengthening structurally strong regions instead of developing disadvantaged regions, thus managing to (re-)develop a sound industrial basis, albeit mainly consisting of small and medium-sized enterprises. While such a strategy is understandable in light of tight budgets and the need for rebuilding the industrial base, this resulted in large regional distortions, which for example is reflected in the large scale of de-industrialisation in Altenburger Land and its current economic situation. Similarly, in Mecklenburg-Western Pomerania, ten thousand employees were released from the

²² Cf. OECD (2007).

shipbuilding industry, food industries, large agricultural cooperatives, the military, and even the tourism sector, thus posing problems for a strategy of entrepreneurship development. In June 2007, the state still has the highest unemployment rate in Germany.

All East German states, albeit to different extents, experienced similar developments, which in turn have a large impact on the potential for entrepreneurship. De-industrialisation goes hand in hand with an increase in unemployment. It contributes in the long run to reducing individual skills and qualifications, lowering self-confidence and also results in out-migration of qualified persons who are searching for jobs outside the region and state. In this regard, most of the local cases are illustrative examples of such an adverse economic transformation process. On the other hand, where the transformation process proceeded well and regions could build on their traditional industrial basis and strengths, one might find clusters of often technology-based (small) enterprises which could serve as starting point of a vibrant economic development. In this regard, Halle (Saale) and to some extent also Parchim serve as good examples.

Entrepreneurship in urban and rural neighbourhoods

Urban and rural neighbourhoods pose different socio-economic challenges for entrepreneurship development and support structures. Some inner-city areas are especially adversely affected by economic and social transformation as becomes apparent in the case of Marzahn-Hellersdorf. Economic deterioration in the form of long-term unemployment, declining income and purchasing power, out-migration, and related demographic and socioeconomic changes are among the negative effects of current urban and rural dynamics; they may result in continuous deterioration of location factors in districts, thus further contributing to possible negative dynamics outlined in the previous section. Moreover, rural areas in East Germany face severe demographic problems. In all of East Germany, the demographical structure has changed drastically due to the ongoing emigration of young and well-qualified persons who are in search of job opportunities. This holds especially true for rural and peripheral areas which lose those groups capable of setting up growth-oriented businesses, leaving behind disadvantaged groups, mainly young and unemployed males, as a recent study of the Berlin Institute for Population and Development demonstrates: Since the Berlin wall came down, more than 1.5 million East Germans left; in rural and peripheral areas there exists a surplus of men aged 18-29 years, amounting to 25 percent and more.²³

The regional case studies conducted in peripheral and rural areas demonstrate that entrepreneurial activities in such regions often are of low value. Moreover, in such a context, local municipalities frequently understand entrepreneurship development as the main solution to unemployment. But, an environment where people might have lost confidence in their own capabilities and lack opportunities to set up businesses requires a different support approach, focusing on both direct individual- or firm-level support and a strategy to foster the overall emergence of a local entrepreneurial culture.

While in both disadvantaged urban and rural areas, supporting local entrepreneurship gains importance, economic renewal through fostering entrepreneurship faces several obstacles. This includes a lack of financing, which needs to be addressed through specific measures, the overall low and declining purchasing power of local consumers which forces enterprises to broaden their search for markets and customers; in the case of urban areas a lack of appropriate working space and an often distant location from the city centre and an unattractive image of the area; an overall strong tendency of small business formation in business fields, where low entry thresholds and low opportunities for growth, but high competition go hand in hand, resulting in less sustainable business models (e.g.

²³ Cf. Kröhnert and Klingholz (2007).

household services, retail trade, catering), and finally a lack of willingness and resources to engage beyond one's own business in local development networks as is apparent in the urban area of Marzahn-Hellersdorf. Rural and/or peripheral areas additionally face the problem of small markets and a lack of opportunities for setting up and growing local businesses as illustrated by the examples of Uckermark, Parchim or the Altenburger Land.

The local entrepreneurial culture

Increasingly, local governments have come to realise that 'soft' and societal factors play an important role for entrepreneurship development at local level, thus reflecting the ongoing public discussion regarding a (perceived) lack of entrepreneurial spirit in Germany. Results from the Regional Entrepreneurship Monitor (REM) shed some light on the frequently criticised 'negative' attitude of East Germans towards entrepreneurship by demonstrating a link between entrepreneurial attitudes, the propensity to enter entrepreneurship and overall regional economic development: More individuals in economically prospering regions, which have a higher share of entrepreneurship already, perceive opportunities for setting up a venture compared to those in depressed regions or regions with a deficient business support infrastructure.²⁴ This is reflected in lower rates of nascent entrepreneurship in regions with slow or stagnant economic development. For example, in 2001, the share of nascent entrepreneurs, i.e., those in the process of starting a business, in the German population amounted to 6.1% in Cologne and 4.2% in Munich, compared to 2.8% in Leipzig and 2.0% in Rostock.²⁵ Moreover, the fear of failure is higher in regions with a low share of nascent entrepreneurs, which includes both East German regions surveyed in this particular study, pointing to a lack of entrepreneurial role models. With regard to regional entrepreneurship development, a vicious cycle might develop, starting with de-industrialisation and massive unemployment, resulting in worsening economic conditions and ending in individuals losing confidence and finally refuting entrepreneurship as a viable option for themselves. This in turn influences individual attitudes towards entrepreneurship, because there are no local role models of (successful) entrepreneurs. Such attitudinal barriers to entrepreneurship development are apparent in most of the local case study regions reviewed by the OECD.

In this context, the media can play an important role in influencing individual attitudes by presenting role models. However, while the official, political discussion understands entrepreneurship as a major solution for economic problems, this is not necessarily reflected in the public media discussion. Results from an ongoing research study on the representation of entrepreneurship in German national newspapers demonstrate that an increasing coverage of entrepreneurship topics in most newspapers does not go hand in hand with a more positive valuation: For example, in the German '*Tageszeitung*' (TAZ) the valuation of entrepreneurship changes from a rather positive tone to a rather negative and even cynic tone over the decade under investigation (1996-2006).²⁶ As media discourses influence the activities taken, a predominantly negative discourse stressing the lack of entrepreneurial spirit might set the 'wrong' signals to potential entrepreneurs. Here, local governments face the challenge of not only initiating and supporting economic development, but also of finding

²⁴ Cf. Bergmann (2005).

²⁵ Cf. Wagner and Sternberg (2004), p. 227.

²⁶ Cf. Achtenhagen and Welter (2006). This particular research project also analyses the representation of women's entrepreneurship in German newspapers. Findings show that the representation of female entrepreneurs in media largely lacks potential as a source of identification and can thereby limit the willingness of women to become entrepreneurs as well as hamper their overall contribution to economic development, cf. for example, Achtenhagen and Welter (2005), Welter and Achtenhagen (2006).

ways to motivate individuals and rebuild their confidence, especially if municipalities want to foster entrepreneurship development within their region.

Creating a business-friendly environment at the local Level

Business support by municipalities traditionally focused on providing a business-friendly environment, mainly through decreasing bureaucracy and/or through setting up start-up and technology centres. Today, local municipalities in East Germany face major challenges because they increasingly have to cope with a broad range of support needs at the local level, ranging from the information and training needs of potential entrepreneurs, frequently unemployed persons, to existing small businesses-owners which might require loans to grow or realise innovations. This challenges 'traditional' infrastructural and targeted approaches in creating and sustaining an entrepreneurial environment. While local business development agencies attempt to compete for large and successful investments in their regions, the economic situation might force more and more unemployed persons to consider starting a business. Such necessity entrepreneurs require a different approach to entrepreneurship development. In this context, challenges in creating a business-friendly environment at the local level arise out of diverse financing needs and the overall need for improvements in the local business environment.

Financing a business: between microcredit and venture capital

The adaptation of Basle II regulations has resulted in financing restrictions if enterprises do not fulfil rating criteria – a problem often encountered by new entrepreneurs because they lack legitimacy with the bank; or, in the case of high-technology entrepreneurs, the banker lacks the knowledge to assess the business idea and model. Moreover, re-organisation within the German banking system led to large commercial banks closing branch offices and centralising banking tasks, thus impeding the new entrepreneurs' access to financing, especially in rural and peripheral areas or smaller towns. This surfaced as a problem in most of the local case studies, requiring a more decentralised approach to entrepreneurship financing. In the light of the ongoing re-organisation in the German banking system, such a local approach to financing apparently requires new ways of public-private partnerships. One possible model refers to a recent initiative in micro lending, which can address the need for small credit volumes. Here, the German Microfinance institute has started to accredit regional and local institutions for micro financing.²⁷ The local microfinance organisation assesses credit applications for local banks, which hand out the credits, while a fund is set up in order to bear the risk of default. Currently, there are eight accredited microfinance organisations, four of them working in Brandenburg, Berlin, Saxony and Thuringia. Moreover, micro financing in all case study regions can be accessed through federal and state programmes, which mainly however depends on banks 'allowing' access to such programmes which are solely channelled through the 'house banks'. In this regard, access sometimes has been reported to be difficult for entrepreneurs as banks have appeared to be more interested in 'selling' their own financial support programmes instead of federal/state programmes. This has been taken into account by the federal programmes such as *Mikrokredit* and *Startgeld* (as well as most state programmes) offering an 80% limitation of liabilities for the bank.

Aside from a lack of offers for microcredits, banks also might lack knowledge and funds to finance innovative enterprises. It is here that especially throughout the 1990s, federal and state governments supported the development of venture capital; for example through a programme focused on supporting venture capital investments in technology-oriented businesses in East Germany. The business angel segment still appears to be relatively weakly developed. The national network of

²⁷ <http://www.mikrofinanz.net/index.php?page=kreditvergabe&sub=dmi-mikrofinanzierer>

business angels (BAND) currently has 40 network members, coming from all over Germany with one network each in all East German states, the exception being Saxony with two business angel networks. Additionally, in 2005 a total of 80 private business angels were listed in BAND. However, as the financing culture in Germany is traditionally focused on self-financing and bank credits, especially new and small business-owners often are strongly opposed towards any form of equity and venture capital. Entrepreneurs in Germany tend to rely on self-financing and bank credits as their main financing sources, with venture capital ranking last, which also reflects the slow development of the German venture capital market. For 2005, a large-scale study shows that small business owners attribute a high importance to self-financing (2 on a scale of 0=very high importance of financing source to 6=very low importance of financing source), followed by short-term and longer-term bank credits with 3.5 and 3.6 respectively, while venture capital (5.5) achieved relatively low importance for current business financing.²⁸

Catering for 'traditional' support needs

Empirical evidence shows that entrepreneurs highly value factors such as qualified and rapid administration services, and implicitly also less bureaucracy at the local level; this has a relatively significant impact as a 'soft' location consideration, and is also often cited as a major problem. For example, when asked for their main problems in doing business, 20 percent of business founders in a 1995 survey of local business environments, and particularly those, whose venture creation was delayed because of time-consuming procedures to obtain permits, mentioned a lack of understanding on behalf of (local) administrations.²⁹ However, although this indicates scope for actions, the same study also shows that critical assessment of the business environment also partly results from lack of preparation by business founders, who do not have information which was readily available at local level. In concordance with the European Employment Strategy, German federal and most state governments initiated several projects in order to improve the overall environment for entrepreneurship. Besides the entrepreneurship initiatives at state level outlined above, measures also include reducing red tape for business start-ups, simplifying laws and regulations, introducing tax relief for small enterprises, setting up one-stop-agencies such as the guidance services in Brandenburg (*Lotsendienste*) and creating an internet portal to facilitate succession in established ventures.

Similar good practices are to be found at local level. Here, bureaucratic hurdles for new or expanding entrepreneurs mainly refer to planning and building permissions and permits for industrial plants, both of which involve a multitude of actors, thus often resulting in a lengthy process. In order to improve the business environment, the local approach to be observed in all case studies is one of trying to integrate services and facilitate business entry. This is done by setting up 'virtual' or 'real' one-stop agencies where potential and new entrepreneurs can obtain general information and are redirected to more specific organisations. Examples include the e-government mechanisms used in Marzahn-Hellersdorf, Parchim and Uckermark; the 'Haus der Wirtschaft' as a one-stop location for business services in Uckermark; or the regional managements installed in Altenburger Land or Marzahn-Hellersdorf, although in the case of the latter two such agencies exist indicating a lack of coherence in the strategy for supporting entrepreneurship.

²⁸ Cf. Zimmermann and Schumacher (2005).

²⁹ For example, in 1995, entrepreneurs in Germany ranked an entrepreneur-friendly local administration seventh out of 22 factors (DST et al., 2001). In 2004, 75% of entrepreneurs surveyed across 25 cities assessed an 'entrepreneur-friendly' administration as very important or important, whilst only 22% claimed their town administration to classify as entrepreneur friendly (Bertelsmann Stiftung et al., 2004). Similarly, 64% and 62% were looking for good advisory and information services in deciding where to set up a business, although only 24% and 16% judged this to be the case in their town.

Building a coherent policy and support system at the local level

This section turns to issues of policy delivery and governance and their role in fostering entrepreneurship development at the local level. Local municipalities often tend to solely focus on (infra-) structural and business-support needs as important elements in creating an entrepreneurial environment, neglecting the institutional challenges in building a coherent support system. These consist of developing a local strategy, building networks and targeting support for diverse groups of (potential) entrepreneurs.

Designing a local entrepreneurship development strategy

Growing unemployment and ever-increasing budget constraints increasingly force local, state and the federal government to identify new possibilities for financing their SME and entrepreneurship policies, e.g., through public-private or federal-state partnerships. Whilst this is more apparent on the state and federal level, municipalities have also reoriented and restructured their business support policies in recent years. Budget constraints on local levels are but one explanation. Another reason is the mixed results from previous measures for supporting businesses such as the capital-intensive trend in establishing technology and start-up centres, which were the main focus of business-support policies in many municipalities until the early 1990s.³⁰ In response to budget constraints, mixed experiences with support, and new demands by entrepreneurs, local governments changed their support philosophies during the late 1990s. Supporting physical infrastructure is no longer perceived as the single best way to foster local development. Instead, as shown in the previous section, this has shifted towards a more subtle approach, focusing on improving the general local business environment and business climate, but also attempting to address diverse support needs. In that, entrepreneurship development measures at local levels seldom reflect genuine ‘new’ approaches of local government, but they are embedded in federal and state programmes and policy approaches. Often, measures at the local level are initiated or triggered by federal and/or state schemes as becomes apparent in most of the local case studies.

Although such ‘project-oriented’ strategies contribute to entrepreneurship development at the local level, they also could indicate the lack of a clear policy strategy and vision which will hamper the emergence of an entrepreneurial local culture in the long run. However, awareness is but one important requirement for an entrepreneurial culture at local level; individual promoters, commitment and a joint vision are also required. In this regard, problems are visible in several of the local case studies. For example, in the Altenburger Land, Mittweida and in Marzahn-Hellersdorf municipalities are aware of the difficulties in fostering entrepreneurship development locally, but they seem to lack a collective understanding and a common direction.

The challenge here is to link different initiatives aimed at fostering local entrepreneurship into a coherent policy approach at the local level – without spreading out financial resources too thinly or relying to a large extent on external subsidies. For example, in depressed urban areas such as Marzahn-Hellersdorf, measures to foster local small-scale entrepreneurs or community entrepreneurship could play an important role as a means of regenerating neighbourhoods, constituting a first step both towards creating an entrepreneurial area and towards building a basis for more substantial activities in knowledge-based and innovative entrepreneurship.

The lack of a local development strategy instead results in a less-than-comprehensive approach as illustrated by apparently contradictory institutional arrangements such as two regional managements

³⁰ Cf. Behrendt (1996), Sternberg et al. (1997); Tamasy (1995) specifically for an evaluation of technology and start-up centres in East Germany.

operating in the same economic region. Apparently, the borough also faces difficulties in developing a coherent approach because of a lack of commitment on both municipal and business side as well as a lack of administrative competencies for drafting local policy strategies. This often is aggravated by an absence of regional identity³¹ and low images or self-perceptions of regions, as is apparent in many of the local case studies. In such a context, models from other countries or *Länder* such as codes of conduct, SME charters and the like can serve as good practice examples of how to develop a coherent policy approach through facilitating co-operation between different actors.

Working together: building networks and public-private partnerships

At the institutional level, an important starting point for building a coherent approach refers to collaborative network initiatives, which incorporate local authorities, the existing local business community and residents. Such policies can boost local identity, thereby also contributing to an entrepreneurial local culture.³² In the local context, networks serve as a platform where different actors involved in regional enterprise support can exchange information and pool know-how on good practices in fostering local entrepreneurship development. This further stimulates learning processes, which generate region-specific tacit knowledge, thus creating competitive advantages in supra-regional competition. A broad range of actors is needed to establish an institutional network. This includes government on different levels, universities and other (higher) educational institutions, chambers of commerce and business associations, (local) banks, incubators, and private actors.

In this context, more and more municipalities, towns and/or rural districts have started co-operating over the past years, both to mitigate the effects of ever-tightening budgets and to increase their attractiveness for new investors. This also includes joint initiatives and programmes to foster new-business creation. In Germany, one can distinguish between two typical models with differing degrees of commitment and formalisation, either aiming at initiating and facilitating institutional co-operation across municipalities, at supporting joint services and infrastructure or creating institutionalised networks, all with the ultimate goal of creating an 'entrepreneurial' and attractive region: (i) pooling resources through offering joint services and infrastructure within and across districts and municipalities, and (ii) establishing regional networks.

The first model is one where *rural municipalities and districts pool resources and collaborate in establishing either joint infrastructure or offering joint services*. The underlying idea is to operate infrastructural facilities on a cost-efficient basis and to pool marketing efforts, all in order to attract new businesses and/or retain potential entrepreneurs within the region. Another major trend in smaller (less resourceful) municipalities and districts is offering joint services to entrepreneurs. Not surprisingly, this model works best in smaller communities without long physical distances and strong common interests. It also is a model required in remote, less urbanised areas, where systematic long-term support by regional development agencies is often needed. Some of the local case studies might consider such a model in broadening their support approach. One such example is the Altenburger Land, where no technology centre and no higher education institution exist, and where co-operation with other regions might offer possibilities in creating 'low-cost' solutions in this regard. Another case could be Marzahn-Hellersdorf, where a well-developed infrastructure is available but which lacks potential entrepreneurs. In both cases, co-operating with adjacent municipalities or boroughs might foster local entrepreneurship development.

³¹ Wigren (2003) illustrates for an industrial district in Sweden the important role of identity in creating an entrepreneurial culture. In Gnosjö, business and social spheres are heavily intertwined, fostering the development of a particular identity, often referred to as the 'spirit of Gnosjö'.

³² Cf. Forrest and Kearns (2005).

Co-operation with the aim of *creating a formalised regional institutional network* is the most difficult model of local co-operation, because it involves a major effort in bringing relevant local partners together as well as a long-standing commitment from all participants. Underlying objectives are often influenced by a need to restructure a region's economic base. Co-operation models range from informal to more institutionalised forms and include public-private partnerships such as networks led by science, industry and/or policy makers.³³ In science-led regional networks, universities or research institutions trigger regional development, often with a particular focus on regional R&D. In industry-led networks larger firms are the innovative hub, while policy-led networks are initiated by local administrations and intermediaries such as business associations.

All these networks are frequently within federal programmes, such as the previously mentioned initiatives 'Entrepreneurial Regions' or 'Learning Regions'. For example, in Parchim, Nukleus represents an example of a science and industry-led network. Nukleus is an InnoRegio network for precision mechanical engineering, aimed at restructuring the Parchim-Wismar-Rostock region as an expanding and internationally recognised location for precision mechanical engineering. Nukleus works across governance levels and district boundaries, bringing together a broad range of private and public actors from economic development agencies, municipalities, enterprises and universities in Mecklenburg-Western Pomerania. Another example refers to 'Luchs', a network created within the learning region programme in the Uckermark. In both cases, the broad range of public and private actors involved, together with key network promoters, appear to have had a major influence on creating a sustainable and successful regional network.

Targeting support at the local level: reaching out to diverse groups

Targeting support is the third and final element in building a coherent local approach. Support for new businesses and specific target groups refers to a variety of different measures, including, for example, information packages, advisory and consultancy for groups such as previously unemployed business founders, women entrepreneurs, inventors or graduate potential entrepreneurs. In this regard, the major challenge for local administration lies in clearly identifying the most pressing support needs and adequate target groups within their regions, as one requirement to design a coherent policy approach.

The complexity involved can be illustrated by the example of Halle, where the local case study presents an integrated support model for mobilising and training *university graduates* in all questions related to business creation. Univations is a network available in all university cities in Southern Saxony-Anhalt offering institutionalised support. As with all similar instruments at the local level, the underlying philosophy is an excellent one; but contrary to some local programmes, Univations has an excellent track record, having helped launch more than 200 student-owned businesses. This particular initiative also helped mobilising industry and other actors outside the university, which constitutes one important step in developing a coherent local approach to foster graduate entrepreneurship at the regional level. Low commitment within the university however might present a problem in the long run, as a sustainable approach to fostering entrepreneurship education needs a broad basis of mentors within all faculties. However, one weakness of the approach to reaching out to university graduates in Halle apparently is its lack of success in fostering growth-oriented or technology-driven businesses. This might come as a surprise because Halle also possesses an impressive infrastructure for exploiting and commercialising research into businesses such as technology parks, research institutions and patent companies. Overall, this obviously indicates weaknesses in the local development strategy which should aim at strengthening links between the university and research institutions.

³³ Schätzl (1999), p. 103.

Another dimension of the targeted approach gains particular importance in regions with a consistently low level of entrepreneurship. Here, municipalities need to consider widening their support approach and reaching out to new groups of potential entrepreneurs. Again, the local case studies serve as an example in illustrating the complexities involved in developing a targeted local approach. For example, both Mittweida and the Altenburger Land focus on technology sectors in promoting entrepreneurship, neglecting other potential groups such as women, young persons or creative entrepreneurs. Other regions such as Parchim and Uckermark concentrate many of their programmes on unemployed entrepreneurs, neglecting the development potential of existing SMEs.

Areas for policy intervention

Since re-unification, East Germany has made enormous progress in developing entrepreneurship. The case study reviews of six representative regions in East Germany illustrate a variety of innovative models used at the local level to cope with the challenges discussed above. Nevertheless, there is also room for improvement, especially in exchanging good practices in local entrepreneurship promotion. The following conclusions and recommendations are based on reviewing the case study reports written within the OECD programme on strengthening entrepreneurship and economic development in Eastern Germany in the light of the policy environment and current challenges for entrepreneurship development.

Taking into account the local context for entrepreneurship

The local context for entrepreneurship in East Germany challenges ‘traditional’ approaches to entrepreneurship development at the local level, in particular those aimed at improving the business environment and providing infrastructure. De-industrialisation and massive unemployment pose a major challenge for any strategy to foster entrepreneurship: Unemployed persons often have low self-confidence and no entrepreneurial qualifications. Qualified individuals leave the regions, as there is a lack of business opportunities and support infrastructure in rural and peripheral regions or in regions having experienced de-industrialisation. Moreover, current urban and rural dynamics might aggravate this, where regions such as some inner-city areas are especially affected adversely by economic and social transformation. Negative effects refer to further economic deterioration in the form of long-term unemployment, declining income and purchasing power, out-migration, and related demographic and socioeconomic changes.

Recommendation: Local municipalities should evaluate their entrepreneurship support policies in order to tailor them to local contexts. For example, municipalities in Mecklenburg-Western Pomerania or in peripheral and de-industrialised regions in Thuringia would need strategies that take into account high levels of unemployment, skills deficits and low motivation as well as a lack of business opportunities.

Despite difficulties experienced throughout the economic and social transformation process, all local case study areas seem to have made (some) progress in developing local entrepreneurship, albeit without realising the full entrepreneurial potential in the region. Where strong network initiatives exist, as is visible in several case study areas, such progress also depends on a sustainable base within the region. Moreover, where the transformation process proceeded well and regions could build on their traditional industrial bases and strengths, clusters of small enterprises emerged as in Halle and Parchim, which could serve as starting points of vibrant economic development. In this regard, federal, state and local governments face a dilemma, namely whether to focus on strengths or whether to tackle weaknesses hindering regional development. Where governments prioritise a policy of ‘strengthening selected strengths’, this impedes entrepreneurship development in structurally weak regions, because such regions often lack the physical and support infrastructure needed for new firms to emerge.

Recommendation: State governments should reconsider their regional development policy of ‘strengthening strengths’ as this might additionally impede entrepreneurship development in structurally weak regions, thus counteracting entrepreneurship policy initiatives at the state level. Another policy direction could be to focus on ‘solving weaknesses’ or a mixture of both approaches, fine-tuned to regional specificities. In this regard, there apparently is room for improving the co-ordination of different policy areas (for example regional policies and the state-wide entrepreneurship initiatives).

Moreover, realising the full entrepreneurial potential within a region also depends on the local entrepreneurial culture. An environment where people might have lost confidence in their own capabilities and lack opportunities to set up businesses requires a strategy to foster the overall emergence of a local entrepreneurial culture. This concerns both individuals living in the region and local municipalities which frequently understand entrepreneurship development as the main solution to unemployment, instead of acknowledging its economic potential. In this regard, the case studies reveal room for improvement. A major shortcoming is a lack of suitable role models and an often negative regional image which might impede the emergence of an entrepreneurial local culture.

Recommendation: There is considerable room in the case study areas for measures addressing ‘soft’ factors such as awareness of entrepreneurship, which constitutes one element of an entrepreneurial local culture. Local public and private actors should work with local media on how best to provide role models through portraying local entrepreneurs, their business models and ways to solve problems through business development. Promotion campaigns, a prize for the local entrepreneur of the year, and similar measures can help increase local awareness of entrepreneurship as a way to foster regional economic development. In the case of a negative regional image, such specific campaigns need to be accompanied by an overall marketing effort to change the image of the place in order to attract and retain qualified persons within the regions.

Improving the business environment at local level

Business support by municipalities traditionally focused on providing a business-friendly environment, mainly through decreasing bureaucracy and/or through setting up start-up and technology centres. In order to improve the business environment, the local approach to be observed in all case studies is one of trying to integrate services and to facilitate business entry. This is done by setting up ‘virtual’ or ‘real’ one-stop agencies where potential and new entrepreneurs can obtain general information and are redirected to more specific organisations. However, local municipalities additionally, must cope with different groups of entrepreneurs at the local level, requiring a different support strategy. Financing a business at the local level poses a particular challenge because of the increasing centralisation of the German banking system.

Recommendation: Local governments should initiate discussions with local banks on how to improve access to financial resources at the local level. Moreover, they should critically review the emerging new models of public-private partnerships for micro financing which appear to offer a workable solution for a more decentralised lending approach. With regard to their financing needs, entrepreneurs should be encouraged to recognise different financing sources available such as business angels or venture capital instead of relying mainly on bank credit. This however also requires support for business angel networks to emerge locally.

Developing a coherent policy and support system at local level

Local governments also face institutional challenges in building a coherent support system. This refers to the development of local policy strategies focused on entrepreneurship. Most

entrepreneurship development measures at local levels seldom reflect genuine ‘new’ approaches of local government, but they are often triggered by federal and/or state schemes as becomes apparent in most of the case studies. Local support measures concentrate on improving the business environment, the financial situation of (potential) entrepreneurs or offering training and qualification for potential entrepreneurs, neglecting ‘soft’ factors such as the entrepreneurial local culture as mentioned above. Such a ‘project-oriented’ approach might indicate the lack of a clear policy strategy which will hamper the emergence of an entrepreneurial local culture in the long run, as becomes apparent in several of the local case studies. Problems arise because of a lack of common understanding and local vision, a lack of commitment and an often blurred division of responsibilities between actors across different government levels and locally.

Recommendation: Local governments should strive to develop a local vision and strategy for entrepreneurship development, taking into account local strengths and the general local context. This involves setting priority policy areas and clarifying responsibilities of different actors. Furthermore, a coherent local strategy needs to address both support needs at individual, firm-level and factors required for creating an entrepreneurial local culture.

Public-private partnerships could help in building a coherent policy strategy at local level. Here, different spatial, structural and demographic contexts for local entrepreneurship create challenges related to governance and delivery mechanisms for entrepreneurship support at local level. In light of tightening budgets, local governments could consider ways to pool resources and collaborate by establishing joint services or infrastructures. In this regard, a particular strength of the East German support system appears to be its strong networks and partnerships, which also span government levels. When they started to establish entrepreneurship and SME promotion, the East German *Länder* and local actors quickly turned to a network approach, which resulted from the overall shift towards public-private partnerships and competition selection procedures. One major requirement for successful networks and public-private partnerships is the need to overcome institutional and personal egotisms and political resentments, indicating a need for commitment of local actors and for the identification of local promoters. Local circumstances dictate whether private actors are involved through public-private-partnerships or even through private sector leadership.

Recommendation: With regard to networks and partnerships, all of the local case studies show examples of considerable commitment of local private and public actors, which also indicates a high level of local awareness required for an entrepreneurial culture to emerge at local level. In this regard, the local case studies contain interesting examples of how to best foster entrepreneurship at local level through public-private partnerships, policy-, industry- or science-led networks. Other regions in East and West Germany might learn from such models, therefore it is recommended to promote such exchanges by making good practices known, for example in the framework of existing networks and organisations.

Different contexts for local entrepreneurship also create challenges at support levels. This refers to adequate measures and programmes for a whole variety of target groups ranging from innovative start-ups, knowledge-based businesses, graduate entrepreneurs, to businesses created by unemployed persons. While the local case studies demonstrate good practice models of reaching out to target groups such as graduate entrepreneurs, main weaknesses are related to the problem of clearly identifying and supporting all relevant local target groups. This is partly explained through the strong supply-side orientation of local support, which to some extent is apparent in all local case studies. However, this might prevent municipalities from developing a coherent strategy for local entrepreneurship and from realising the full entrepreneurial potential within the region.

Recommendation: The districts and boroughs reviewed within the OECD programme should review their target groups with the aim of broadening their support approach to include ‘new’ target groups, for example women entrepreneurs or young entrepreneurs. Such an approach could be implemented where appropriate and needed, and should be based on a thorough evaluation of economic potential within the region.

References

- Achtenhagen, L. and F. Welter (2005), “‘The attractive blond lady in a pink business suit’ – Analyzing the discourse on female entrepreneurship in German newspapers between 1997 and 2003”, paper to the 2005 IECER Conference, Amsterdam.
- Achtenhagen, L. and F. Welter (2006), “Re-creating an Entrepreneurial Spirit in Germany: A Review of the Public and Newspaper Discourse”, paper presented at the Rencontre de St-Gall, Switzerland, September.
- Behrendt, H. (1996), *Wirkungsanalyse von Technologie- und Gründerzentren in Westdeutschland. Wirtschaftswissenschaftliche Beiträge*, Physica, Heidelberg.
- Bergmann, H. (2005), “Entrepreneurial attitudes: Wodurch werden sie determiniert und welche Rolle spielt die Region?”, *Zeitschrift für Wirtschaftsgeographie*, Vol. 3-4, pp. 185-199.
- Bertelsmann Stiftung, impulse and RWE (2004), *Unternehmerfreundliche Großstadt: Bericht über eine Telefonumfrage unter mittelständischen Unternehmern in den 25 größten Städten Deutschlands*, conducted by Institute for Demoskopie Allensbach.
- DST *et al.* (2001), *www.gruenderfreundliche-kommune.de: Praxis-Beispiele für kleine und mittlere Kommunen*, DtA, Bonn.
- Evers, J. and M. Habschick (2001), *Micro finance designed for start ups as an exit out of unemployment*, Schriften und Materialien zu Handwerk und Mittelstand 10, RWI, Essen.
- Forrest, R. and A. Kearns (2001), “Social Cohesion, Social Capital and the Neighbourhood”, *Urban Studies*, 38, No. 12, Sage, pp. 2125-2143.
- Habschick, M., J. Evers and M. Jung (2004), *Finanzierung im Kleinen: Praxishandbuch zur Entwicklung innovativer Mittelstandsförderinstrumente*, Books on Demand, Norderstedt.
- IfM Bonn (2007), *Neue Unternehmerische Initiative in den Regionen Deutschlands, NUI-Regionenranking 2005 des IfM Bonns*, <http://www.ifm-bonn.org/>
- Jung, M. (2002), *Kleinkreditprogramme in Deutschland: Kurzprofile, State as of 24th October 2002*, manuscript for an expertise commissioned by the DtA and supported by the EU, EversJung, Hamburg.
- Kehlbeck, H. and U. Schneider (1999), *Frauen als Zielgruppe von Existenzgründungen unter besonderer Berücksichtigung der Finanzierungsaspekte*, study commissioned by Senate Agency for Gender Equality, Hamburg.
- Kay, R., E. May-Strobl and F. Maaß (2001), *Neue Ergebnisse der Existenzgründungsforschung*, Schriften zur Mittelstandsforschung N.F. 89, Gabler, Wiesbaden.

- Kröhnert, St. and R. Klingholz (2007), *Not am Mann: Vom Helden der Arbeit zur neuen Unterschicht? Lebenslagen junger Erwachsener in wirtschaftlichen Abstiegsregionen der neuen Bundesländer*, Berlin-Institute for Population and Development, Berlin.
- Lageman, B. and F. Welter (1999), “Eine neue Kultur der Selbständigkeit? Zur Diskussion einer wirtschaftspolitischen Idee”, in D. Bögenhold (ed.), *Unternehmensgründungen und Dezentralität – Eine Renaissance der beruflichen Selbständigkeit?*, Westdeutscher Verlag, Opladen.
- OECD (2003), *Entrepreneurship and local economic development: Programme and policy recommendations*, OECD, Paris.
- OECD (2007), *Prüfbericht zur Politik für ländliche Räume - Deutschland*, OECD, Paris.
- Papenheim, D. and J. Görisch (2001), *Landesförderprogramme für Existenzgründungen aus Hochschulen*, Fraunhofer-Institut für Systemtechnik und Innovationsforschung, Karlsruhe.
- Schätzl, L. (1999), “Regionen: Kompetenzzentren und Globalisierung”, in H. Hesse (ed.), *Vision und Verantwortung. Herausforderungen an der Schwelle zum neuen Jahrtausend*, Hildesheim.
- Schrumpf, H. (1990), “Selbständige in der DDR”, *RWI-Mitteilungen*, Vol. 41, No. 1-2, pp. 105-116.
- Stahlecker, Th. (2001), “Netzwerkinitiativen für innovative Gründungen aus Hochschulen – aktueller Stand in Deutschland”, paper presented at the conference ‘Science and economy in the regional entrepreneurship context [Wissenschaft und Wirtschaft im regionalen Gründungskontext]’, Karlsruhe.
- Statistisches Bundesamt (2006), *Gendermonitor Existenzgründung 2005*, Statistisches Bundesamt, Wiesbaden.
- Sternberg, R. *et al.* (1997), “Bilanz eines Booms. Wirkungsanalyse von Technologie- und Gründerzentren in Deutschland”, Dortmundervertrieb für Bau- und Planungsliteratur, Dortmund.
- Tamasy, Ch. (1995), “Förderung innovativer Unternehmen durch Technologie- und Gründerzentren in Ostdeutschland – eine regionalwissenschaftliche Initiative”, Dissertation, University Hannover.
- Wallau, F. and B. Günterberg (2007), “Gründungsgeschehen in Deutschland”, presentation to the ‘Bund-Länder Ausschuss Mittelstand’, 15-16 March, updated version of 12 April, <http://www.ifm-bonn.org/assets/documents/Wallau-28-04-2006.pdf>
- Wagner, J. and R. Sternberg (2004), “Start-up activities, individual characteristics, and the regional milieu: Lessons for entrepreneurship support policies from German micro data”, *Annals of Regional Science*, Vol. 38, No. 2, Springer, pp. 219–240.
- Welter, F. (2006), “Women’s entrepreneurship in Germany: Progress in a still Traditional Environment”, in C.G. Brush *et al.* (eds.), *Growth Oriented Women Entrepreneurs and Their Businesses: A Global Research Perspective*, Edward Elgar, Cheltenham, UK.

- Welter, F. and L. Achtenhagen (2006), “Unternehmerinnenbild und Unternehmerinnenidentität”, in A. Bührmann, *et al.* (eds.), *Das Unternehmerinnenbild in Deutschland. Ein Beitrag zum gegenwärtigen Forschungsstand*, Lit, Münster.
- Welter, F. and B. Lageman with assistance from Stoytcheva, M. (2003), *Gründerinnen in Deutschland: Potenziale und institutionelles Umfeld*, Untersuchungen des RWI, Vol. 41, RWI, Essen.
- Wigren, C. (2003), *The Spirit of Gnosjö – the Grand Narrative and Beyond*, JIBS Dissertation Series, 017, Jönköping International Business School, Jönköping.
- Zimmermann, V. and J. Schumacher (2005), *Unternehmensfinanzierung: Immer noch schwierig, aber erste Anzeichen der Besserung, KfW Unternehmensbefragung 2005*, Frankfurt and Main.

FINDINGS AND POLICY RECOMMENDATIONS FROM LOCAL CASE STUDIES

OECD

Entrepreneurship is firstly a local issue. It creates jobs, generates and improves both private and public incomes, and therefore contributes to local development. Ideally, policy design and delivery should be based on the participation of a wide range of stakeholders and tailored to local needs and circumstances. Strengthening entrepreneurship is a cross-policy issue. The effectiveness of public support policy depends upon the integration and co-ordination of policies and measures. The policy framework regards all policy areas relevant to entrepreneurship and enterprise development, as well as all legitimate stakeholders in the design, implementation and evaluation of public support policy. Current policy models in entrepreneurship and innovation strongly emphasise developing knowledge-based and high-tech industries. Recent OECD work reviewing national innovation systems stresses the importance of increased networking and collaboration amongst public agencies in this respect. Greater attention to institutional adaptation in entrepreneurship, science, technology and innovation is needed across ministerial boundaries.³⁴ This co-ordination needs to involve the local level in identifying the precise policy mix required for local needs and in pulling together appropriate activities from different national, regional and local levels of government.

The local case studies revealed that more could be done to increase integration and co-ordination on entrepreneurship and innovation policy across ministries at *Land* level. Current arrangements at *Land* level seem to constrain the development of stronger integration and co-ordination at district level as the different priority setting is translated into different strategies implemented by different agencies at local and/or *Länder* level. Local tailoring of policies would require a closer co-operation between local and *Land* levels, and also interregional co-operation with other *Länder*. In a federal system, economic geography is not necessarily congruent with administrative borders. This is of crucial importance for entrepreneurship support intended to spark wider economic development. The local case studies revealed that especially in economic areas spreading across *Land* borders, limited inter-*Land* co-operation in policy issues related to entrepreneurship development seems to negatively affect collaboration efforts at the local level. Involving the private sector in tailoring policies to business needs is considered important by all *Länder* for effective policy making. *Land*-wide programmes are bringing forward strategic alliances with the private sector at *Land* level. In some cases, counselling and evaluation boards have been established. Yet, engagement of panel members seems to be not always as sufficient and effective due to time constraints for preparation and follow-up, as well as insufficient distribution of roles and responsibilities.

The local case studies give the impression that at the local level, policy design and delivery arrangements are rather fragmented. While local entrepreneurship problems appear to be well understood, the capacity to design policy locally is limited. Many initiatives are driven 'top-down' from the *Land* level with varying degrees of local discretion and input. Systematic analysis of local needs and policy options is lacking. The involvement of local governments is characterised by limited financial and human resources. Competencies of local governments are restricted to land use, business registration and the provision of information. Often these programmes make use of on-line training facilities as a supplement to face-to-face training. Reducing administrative burdens for entrepreneurs and investors is understood in all local case study areas as a mandatory requirement for district authorities and municipalities in order to turn their

³⁴ OECD (2005): "Governance of Innovation Systems", volume 2: Case Studies in Innovation Policy, Paris.

work into a real contribution to economic development and growth. In most *Länder*, competitions and awards for the most entrepreneurial local governments are enhancing initiatives to increase clarity, transparency and communication of business support services for local entrepreneurs and businesses.

Policy design relies upon relatively generic instruments with limited relation to the local context. However, a great number of public and private stakeholders are involved in local economic development. In spite of increased possibilities through successful project co-operation with EFRE and ESF, the absence of a strategic document for entrepreneurship development as part of a wider economic development strategy might be a critical barrier to the advancement of a comprehensive approach that would allow the integration of urban regeneration projects, infrastructure development, property initiatives, skills development and wider strategic economic development activities. Hence, there is a risk that projects are implemented in an *ad hoc* manner and largely based on funding opportunities. Little evidence was found in the local case study areas of systematic evaluation of projects and programmes, so that it is difficult to know which approaches are the most, or least, successful and therefore which policies and programmes should be mainstreamed. It is also difficult to know what should be adopted or adapted to increase their impact. With regard to the range of local development organisations and actors, a participatory evaluation of previous and on-going programmes and projects, involving major local and regional stakeholders, can help create an inventory of experience to date and help align different strategies and action plans.

The obvious question, to which level of governance competences in strategy development and implementation should be devolved, cannot be answered in a general way. Rethinking the scale at which entrepreneurship policy is designed, delivered and evaluated might be required: if the district level is too small, then cross-district integration and joint working possibilities need to be explored. Communication channels need to be established where they do not already exist, and maintained between different levels of government. More formalised involvement of line Land ministries in existing local networks in the case study areas would offer opportunities to further develop and tailor local approaches and would help ensure timely communication on changing eligibility criteria and regulations in public funding.

Differences between the local case study areas became obvious as far as horizontal co-operation between local organisations is concerned. In some places, the review showed significant networking activity amongst economic development organisations, which helped generate a bottom-up process in the development of local strategies. Some of these networks have been formalised into strategic alliances; others are operating in a more informal way and are organised in an *ad hoc* fashion to address current problems. However, there are also cases, where policy design relationships appear to work vertically between *Land* and local levels, rather than horizontally between partners within one district or between different districts. Co-ordination and integration opportunities may be missed as a result. Relationship between the public and private sector differed for the local case study areas. Some places demonstrated limited capacity to maintain sufficiently close and timely linkages with local businesses to replenish understanding of local business needs, whereas for other case study areas, co-operation between the public and private sector is well established, with consultation on a regular basis.

For all local case study areas, the absence of a local entrepreneurship development strategy with clear priorities, based on an assessment of the evidence of local business development needs and policy gaps, prepared through an extensive consultation process and implemented by a local business support network, became obvious. Good practice examples from other OECD regions demonstrate that the success of entrepreneurship and enterprise policies is closely linked to the existence of a more proactive and comprehensive local approach that aims at increasing co-ordination and local tailoring across different levels of governance. Such an entrepreneurship strategy will enable the local institutional framework to take a systematic approach in identifying key priorities, thus establishing clear views on the prioritisation of sectors, businesses, places and properties, and social groups.

It is also important to develop appropriate links between local and regional strategy-building and implementation arrangements, rather than to consider the needs of districts in isolation from wider regional opportunities and challenges. This approach should be supplemented by efforts to simplify the interface between business support organisations and SMEs through partnerships between the relevant organisations and clearly visible entry points into the system. In some of the local case study areas, main entrepreneurship and business support organisations are represented in one single location. This offers entrepreneurs access to services through a one-stop-shop model and eases access following the motto: "the entrepreneur does not need to know who will help him, but where they can access this help". This is in contrast to the second type of approach that can be found, where economic promotion is an integrated service of the district administration and other business support agencies are located in different locations. This approach might require more time and personnel to maintain communication and partnerships.

Experience from other OECD countries demonstrates positive results from locating advice and counselling services within business incubation facilities and technology and innovation centres. In some of the local case study areas, such facilities have been established with a wider regional outreach. They are able to initiate, develop and support clusters of technology-oriented companies and strengthen the local science industry base through networking amongst companies and research organisations that is not confined to administrative units. Such facilities also provide valuable feedback for policy design at *Land* and federal levels. Networking can be a significant factor contributing to the growth of small companies. For high-technology firms in particular, networking is a means of making up for risks and uncertainties in the development and exploitation of new products and processes. Across the local case study areas, there are good practice initiatives that stimulate networking among companies and research organisations not confined to administrative units. These initiatives are based on regional networks and continuous admittance of new actors, following the principle of trust, reciprocity and mutual advantages amongst partners. Experience from OECD member countries shows that clustering processes have often been initiated through the establishment of forums, platforms and regular meetings of firms and organisations related to a particular network of production in the local value chain. Such activities may be important in helping to develop sectors – such as healthcare and tourism – in which the locality has comparative advantages. Access to strategic information will often be an incentive to meet. Technology foresight studies and strategic cluster studies can be prepared locally, or with local input. Here, the role of *Regionalmanagements* could be revisited with regard to introducing cluster development and management as new objectives for their work.

Small businesses often face difficulties integrating into clusters, and/or production chains of large companies. In most of the local case study areas, business associations along with Chambers are active in establishing contacts and communication channels that local small firms can use to enhance their position in locally, regionally, or internationally based value chains. Often SMEs, and especially small firms, prepare themselves for firm growth through participation in public procurement. In all local case study areas, initiatives are on the way to ensure that public sector practices do not disadvantage small businesses. Local governments are improving their procurement processes to ensure that small businesses are better able to find out about, and bid for, public procurement opportunities. Special training seminars are being organised to address the potential disadvantages for small businesses that can occur due to a lack of awareness of available opportunities.

The local case studies in East Germany brought to light a number of policy recommendations that can be taken up when revising the current policy design and delivery framework of entrepreneurship and SME development policies and when developing a local strategy that allows addressing relevant policy issues in a comprehensive and integrated way. Despite their local provenance, the policy recommendations have a certain relevance for other localities in East Germany and elsewhere. Hence, the following list of recommendations should be considered and consulted as checklist for national and local governments and

organisations active in developing and strengthening entrepreneurship and local economic development, operating locally and across different levels of government.

Policy recommendations to improve the entrepreneurship policy delivery framework

Design a local entrepreneurship development strategy. A clear and mutually agreed strategy for entrepreneurship aims to formalise the aspirations and co-operation of key partners locally. Such a strategy should be the product of public debate, deliberation and consensus building amongst relevant local institutions, as well as consultation amongst relevant communities, and seek to develop a comprehensive and integrated approach in enhancing entrepreneurial activity. Translated into an action plan clear priorities and roles for partners, timescales and resources can be defined. It might be also relevant to include a discussion about the role of the place in some wider region with a certain economic relevance, also beyond administrative borders.

Tailor policies to local and regional contexts. A more proactive, future-orientated approach to entrepreneurship promotion, ways to increase policy co-ordination and local tailoring of policy and programmes should be fostered. Given the potential this creates for policy divergence and diversity, efforts will be required to maintain co-ordination and integration between different institutions working at different geographical levels.

Establish clear priorities. An entrepreneurship development strategy, local institutional framework and a systematic approach to locally-oriented policy provide a means for identifying key priorities. A clear focus can help local institutions to be more discerning about the quality of entrepreneurship, potentially seeking to encourage and support those entrepreneurs and businesses with growth and sustainability potential. Priority policy areas can also be targeted at key needs and/or bottlenecks locally, for example developing micro-finance instruments together with local financial institutions to address the weak capital base of local SMEs, and extending current knowledge transfer activities to encourage innovation in SMEs.

Adopt and further expand the application of the policy cycle methodology. Policy and programme development at all governance levels should be thought of as involving four linked stages – problem definition, design, delivery and evaluation. These stages underpin a potentially stronger and more systematic approach to entrepreneurship policy. Linking target and objective setting in different programmes and initiatives is further a key ingredient of building sound local development strategies. The introduction and further expansion of systematic evaluation efforts of programmes and initiatives is a valuable source of information that helps to integrate lessons learned and findings about framework conditions for delivery success in new programme and initiative development. A participatory evaluation of previous and on-going programmes and projects, involving major local and regional stakeholders, can help to create an inventory of experience made and helps to align different strategies and action plans.

Identify and segment categories of enterprises. Growth companies can emerge from all sectors. Programmes of advice, support and funding should be tailored to the growth needs and growth prospects of different segments of companies. This process is about recognising new business plans and company features that can form the foundation for business expansion and lead to growth, and then identifying and segmenting the companies that display such features. It is crucial that transparent categorisation procedures and objectives following clear criteria are applied. A well functioning network of business support organisations and industry experts can be used to prepare and regularly update a detailed inventory of local companies, their growth intentions and orientations.

Expand technology support and activities. SMEs in OECD countries, given cost structures and others, increasingly need to compete on technology or other added value features that give them competitive edge on international markets. The establishment and further development of external R&D services could help local SMEs to innovate. It might be that the Districts perceive themselves as too small to create by themselves the innovation support infrastructures necessary for SMEs. In this case, collaboration with neighbouring Districts or thematically related higher education institutions should be sought.

- Foster institutional innovation. Institutional arrangements characterised by high levels of integration, co-operation and transparent co-ordination are likely to positively influence entrepreneurial development and firm growth.* It is important to strengthen and increase co-ordination and integration in functional policy areas. Inter-ministerial working groups can contribute to further flag entrepreneurship development as priority and foster integration and co-operation. This process would also contribute to the identification of hindering framework conditions that need to be addressed and to how procedures related to entrepreneurship development could be streamlined. At local level key local partners may benefit from more formalised joint working, for example using partnership and network models, which may also go beyond administrative borders.
- Co-ordination and co-operation mechanisms to bundle local development efforts of existing networks.* Participation in policy and programme design could be increased by bringing together different networks. The establishment of a sounding board has proved to be a useful instrument to receive feedback on effectiveness and impact of entrepreneurship policies and measures. Further, effective co-ordination mechanisms and the existence of social capital can be market as a strong local development asset.
- Keep existing networks open for new members.* The involvement of other actors should be sought in order to address new issues such as provision of apprenticeship places, business succession and rural tourism development. Existing local initiatives should also seek a stronger involvement of local governments and their agencies. This would help to further streamline procedures related to business registration and administrative matters depending from local authorities.
- Increase international networking efforts.* Active involvement in international networks would help to contribute to the internationalisation of the local economy. It is important to expose leading local development actors to their peers in other jurisdictions and to establish working networks with the people involved. This could be tackled through active involvement in international networks of economic development practitioners such as the European Association of Development Agencies (EURADA), which is currently planning to launch a European network of universities and regions, the International Economic Development Council (IEDC) in the US, the European Business Angels Network, and the National Business Incubation Association as well as the activities of the OECD LEED Programme.
- Increase private involvement in infrastructure development.* Whilst public subsidy and support may continue for enterprise promotion in East Germany for a long time to come, it is strongly recommended that private finance is introduced into the real estate component of the enterprise strategy as speedily as possible. In addressing future needs of companies for a greater diversity in quality and size of physical innovation infrastructure, private high-tech facility developers and managers should be consulted, at an increased level of current involvement, and potentially attracted to develop and operate space. For the future viability of these facilities it will be important to see the real estate as an asset capable of producing a commercial return, against which maybe also further funds could be secured. Successful firms will need to develop rapidly in the next years. Places must be ready for this otherwise there might be a risk that successful start-ups and existing firms will seek space and people elsewhere.
- Discuss the establishment of an Enterprise Agency.* The establishment of an enterprise agency, which as a one-stop shop is familiar with the specialisations of local SMEs and that can build on long-standing formal and informal relationships with business support organisations and the local business community can help to increase efficiency and effectiveness of public support programmes, provide potential beneficiaries with information on existing programmes to increase science-industry linkages, and contribute to a further tailoring of policy interventions to local needs and streamline procedures. A successful agency would require the active support of local and regional stakeholders such as the Chambers, the larger private and public sector employers, including the hospital, and financial institutions whose services are key to small business development. Assembling such stakeholder support is likely to be a difficult task without a previous record of co-operative working. Therefore strong leadership from the local authority, with both a political and practical dimension, would be so important. Such an agency could be tasked with the development of the entrepreneurship strategy.

- Adoption of a "Small Business Charter".* The adoption of a "Small Business Charter" seeks to introduce changes to the administration's internal arrangements which would directly support the local small business community. It is not about giving small firms preferential treatment or discriminating against larger enterprises. The process involves all the departments of the local government in evaluating current procedures in order to design a regime conducive to business not by bending the rules but by attempting as far as possible to make their procedures reflect the business needs of their small firm clients. Implementation also requires extensive internal consultation and training within the local authority to achieve commitment and increased understanding of how to meet small businesses needs. Strong political leadership is required to both introduce and maintain the effectiveness of a "Small Business Charter".
- Make the existence of a "Small Business Charter" widely known.* To achieve most effect, the existence of the "Small Business Charter" needs to be made widely known. There may be involvement of representative business organisations in drawing up the terms of the Charter and reviewing its effectiveness periodically. Including a reference to the existence of such a Charter in international marketing efforts might increase the attractiveness of the borough as business location by highlighting the local administration's commitment to working effectively with small business.
- Review procurement policies of the local authority in order to open up the possibility of more small firms tendering to supply goods and services.* The conditions which apply to eligibility to bid for local authority contracts often make it hard for small firms to qualify. Whilst the introduction of restrictions is for risk protection, experience in a number of jurisdictions has shown them to be unduly cautious whilst at the same time denying public policy a valuable tool in boosting the small business sector. Promotional activity is needed to bring the changes and opportunities to the attention of small businesses. Officers need to be trained to ensure that conditions and eligibility criteria allow small businesses to bid. Training can help in making small firms more capable in bidding for contracts.

Box 1. Being inspired from good practice in enhancing effectiveness in policy delivery

[Adoption of a "Small Business Charter": Examples from United Kingdom:](#) Making local authorities business-friendly.

[Enterprise Estonia: Joining efforts in supporting business development – Estonia:](#)

[Institutional architecture in delivering enterprise policy in North East England – United Kingdom:](#)

[Science and SMEs in North Jutland - Denmark:](#) re-organising regional industrial policy and streamlining delivery.

[A regional small business strategy, Ontario – Canada:](#)

[Harmonising Planning Instruments in Urban and Rural Development in Saxony – Germany:](#) A single not formalised and flexible regional planning instrument.

[Integrated Programme "Regional Growth" in Saxony – Germany:](#) Maximising public support through an integrated approach, including technical and budgetary handling of interrelated programmes.

["Lotsendienste" in Brandenburg – Germany:](#) First-stop shops in Brandenburg.