

OECD Local Entrepreneurship Reviews

Entrepreneurship in the Districts Uckermark in Brandenburg, and Parchim in Mecklenburg-Western Pomerania



Discussion Paper

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This local case study on entrepreneurship and local economic development in the districts Uckermark (Brandenburg) and Parchim (Mecklenburg-Western-Pomerania) would not have been possible without the contributions provided by the project partners at Land level. Ms Dr Ursula Bretschneider, Ms Ingrid Kube and Mr Georg Dybe from the Ministry of Economy supported the process in Brandenburg. Mecklenburg-Western Pomerania has been represented by Ms Dr Marianne Rautenberg and Mr Gerhard Reichert, Ministry of Economy, and Mr Kai Breithaupt, previously Ministry of Labour, Infrastructure and Regional Development. The authors are also grateful to the local authorities at district and municipal levels for their interest in the review and their engagement in the organisation of the study visit and the regional workshop. The latter would not have been possible without the time and commitment of all interview partners and workshop participants, as well as the organisational support provided by Regionomica, Berlin. Special thanks are extended to the translators and interpreters that made this work happening.

AUTHORS' NOTE

This discussion paper on "Entrepreneurship in the Districts Uckermark (Brandenburg) and Parchim (Mecklenburg-Western Pomerania)" is part of a series of discussion papers resulting from the OECD review on "Strengthening Entrepreneurship and Local Economic Development in East Germany". The review, a co-operative project between the German Federal Ministry of Transport, Building and Urban Affairs and the OECD, is being implemented by the action programme on Local Employment and Economic Development (LEED), within the OECD Centre for Entrepreneurship, SMEs and Local Development.

The review includes, in addition to a global assessment of needs and opportunities for entrepreneurship policy in East Germany as a whole, the examination of six local case study areas. The following areas have been proposed by the participating East German Länder ministries: the districts of Mittweida (Saxony); Altenburger Land (Thuringia) (case study areas 1 and 2); the districts of Uckermark (Brandenburg); Parchim (Mecklenburg-Western Pomerania) (case study areas 3 and 4); the university context in the City of Halle (Saxony-Anhalt); and the borough of Marzahn-Hellersdorf in Berlin (case study areas 5 and 6).

For the local case study in the districts of Uckermark (Brandenburg) and Parchim (Mecklenburg-Western Pomerania) the OECD recruited an international review team. Brian Dabson (USA), Jarna Heinonen (Finland), Robert Pollock (UK) and Holger Kuhle (Germany) accompanied the OECD Secretariat in a review panel visit, undertaken from 16 to 20 January 2005, to the two districts. Brian O'Kane (Ireland) and Hannu Vesa (Finland) contributed to a regional workshop on 5 April 2006 in Berlin, Germany and presented good practice initiatives in entrepreneurship development. Jonathan Potter is managing the review and supervised the fieldwork which has been co-ordinated by Andrea R. Hofer. Wolfgang Helmstädter represented the Federal Ministry for Transport, Building and Urban Affairs, 'Aufbau Ost' and chaired the regional workshop. Manuela Wehrle from Regionomica/Berlin managed all preparatory works related to the field visit and the regional workshop.

This discussion paper is based on: (i) information from a local diagnostic report prepared by Regionomica/Berlin, (ii) the findings of an international review panel visit, and (iii) the discussion of a draft summary report in a regional workshop.

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INTRODUCTION

Entrepreneurship is a critical driver of economic and employment growth, and a wide range of policy initiatives and programmes exist in OECD countries to promote it. Local actors, including Land and local governments and development agencies, have a key role to play in designing and delivering these policies. Appropriate local policies can often help to overcome barriers to the creation and growth of new and small firms by addressing specific market failures (in areas such as finance, information and networking), government failures (in areas such as the teaching of entrepreneurial skills and the regulatory climate) and learning failures (in the assets, capabilities and connectivities in the local innovation system) at the local level.

OECD work shows that entrepreneurial vitality is a function of three main factors: (i) the strength of the entrepreneurial culture, such as attitudes to employment and enterprise, and the existence of role models of entrepreneurial behaviour and entrepreneurship skills; (ii) the framework conditions for entrepreneurship, such as access to finance, education and training, exchange and co-operation networks, bureaucratic and administrative barriers and infrastructure, including business sites and premises; and, (iii) the presence and quality of public support programmes and their delivery framework.

Effective local policies for entrepreneurship promotion need to be comprehensive, integrated, well resourced and adapted to local needs. They therefore have to bring together the full range of stakeholders that are involved, or could be involved, in activities affecting the local entrepreneurship environment. These include the public sector, covering the full range of federal, Land and local governments and development agencies, as well as private and non-profit sector organisations such as universities and colleges, chambers of commerce and crafts, and industry and business associations. Proper mechanisms are required to ensure that all of these stakeholders can input into policy design and delivery in such a way as to maximise synergies.

The main chapters of this discussion paper follow a division according to these three main factors. The chapters are structured in a three-fold way resulting from a brief initial discussion about strengths and weaknesses, a set of recommendations is developed for further expert discussions at local, Land and federal level. International learning models, selected by the authors as good practice examples, illustrate the recommendations given and offer ideas and inspiration for policy innovation.

The international learning models constitute a core component of the discussion paper. They aim at bringing to light: new local approaches that could better exploit opportunities or overcome barriers to entrepreneurship; methods to improve the effectiveness and efficiency of existing local policies and programmes; and, methods to improve the co-ordination and delivery of local entrepreneurship instruments across different programmes and partners and to build more comprehensive and integrated policies.

Both the discussion of strengths and weaknesses, and the list of recommendations are not meant to draw-up an exhaustive picture of the local scenario, leading to immediate and concrete policy actions. The aim of this paper is, rather, to stimulate and catalyse a process, whereby regions, cities and districts in East Germany can stand back and reflect on their overall options, needs and priorities, by facilitating an exchange of information on innovations and good practices from a range of OECD Member countries.

The main chapters of this Discussion Paper can be read also as freestanding documents that provide insights into the main themes as mentioned above. The key messages of the report, in terms of suggested actions, are summarised in an Action Plan included in the Annex of this discussion paper.

ENTREPRENEURIAL CULTURE, AND ENTREPRENEURIAL SKILLS THROUGH TRAINING FOR SME MANAGERS AND EMPLOYEES

By Jarna Heinonen, Finland

Introduction

Transformation from centrally planned to market economies in Central and East European countries involves the development of small and medium sized enterprises (SMEs) and entrepreneurship as part of a wider social and economic restructuring. SMEs have potential to contribute to: (i) employment; (ii) development of diversified economic structure; (iii) development of a supply base to serve the needs of larger firms; (iv) innovations; (v) sectoral restructuring; and, (vi) social transformation from a socialist to a democratic, market based system. Self-employment and small businesses may also provide a means of 'self help' support for those without a job.¹

Following reunification in the early 1990s large East German industries were dismantled resulting in extensive lay-offs. New-firm formation and small businesses started to contribute to the economic restructuring of East Germany through the creation of new employment opportunities. Previous literature has identified several challenges which new companies are confronted by including the lack of capital, insufficient entrepreneurial experience, development of modern working methods and production processes (i.e. productivity gap), and needing to learn how to operate under free market conditions (i.e. weak competitive position).²

This report looks at entrepreneurial attitudes and culture, as well as on entrepreneurship skills and training for SME managers and employees. The aim of this report is to analyse the strengths and weaknesses of local and regional policies and programmes from the perspective of fostering entrepreneurship.

Firstly, this report addresses cultural and attitudinal issues related to entrepreneurship and small business development. Culture has a strong influence over a wide variety of human behaviours including entrepreneurship.³ Berger argues that "it is culture that serves as the

¹ Smallbone, David/Welter, Frederike (2001a): „The Distinctiveness of entrepreneurship in transition economies", in: *Small Business Economics*, Vol. 16, No. 4, pp. 249-262. Smallbone, David/Welter, Frederike (2001b): *The Role of Government in SME Development in Transition Economies*", in: *International Small Business Journal*, Vol. 19, No. 4, pp. 63-77.

² Musyck, Bernard (2003): „Institutional endowment, localized capabilities and the emergence of SMEs: from mining to recycling, the case of Freiberg (Saxony)". *Entrepreneurship & Regional Development*, Vol. 15, October-December, pp. 273-298. Lee, Sang M./Peterson, Suzanne J. (2000): *Culture, Entrepreneurial Orientation, and Global Competitiveness*. *Journal of World Business*, Vol. 35, No. 4, pp. 401-416.

³ Mueller, Stephen L./Goic´, Srecko (2002): „Entrepreneurial Potential in Transition Economies: A View from Tomorrow's Leaders", in: *Journal of Developmental Entrepreneurship*, Vol. 7, No. 4, pp. 399-414.

conductor and the entrepreneur as the catalyst (to entrepreneurship)".⁴ In the former German Democratic Republic (GDR), the prevailing culture was likely to discourage independent thinking, individual initiative, and innovation – which are all considered to be integral elements of entrepreneurial behaviour. As a result of this climate, entrepreneurial characteristics such as autonomy and risk-taking are not well developed among most the people. Economic modernisation, therefore, also involves cultural transformation.⁵ Thus, Smallbone and Welter have suggested that the most important role of the government (or authorities) in relation to entrepreneurship and small business development is its influence on the value placed on enterprise and entrepreneurship within society.⁶

Secondly, this report touches upon skills and training for SME managers and employees. The previous management experience of those employed in state-owned companies may not be ideal for starting and running a business under market conditions⁷ as a result of a lack of business expertise and management skills.⁸ Market related factors, such as sales and marketing, as well as knowledge on markets, have become increasingly important in the minds of SME managers, particularly in the later stages of economic transition. Management weaknesses can also be identified in the fields of business planning and financial management.⁹ Skills requirements not only affect SME managers, or the self-employed, but the availability of appropriately skilled workers is also important for any type of enterprise. If enterprises face problems in the supply of skilled labour, there is a risk that this will hamper the growth of the enterprise.¹⁰

Key issues and policy options

Entrepreneurial attitudes and skills are needed in modern society as they help the society and individual to cope with current challenges and an uncertain future. Globalisation and global pressures, such as the reduction of trade barriers, advanced telecommunications and technology, provide more opportunities as well as more uncertainty in the world, and thus shape government and social institutions, small and large businesses, and individual actors. At the social level, the

⁴ Berger, B. (1991): „The culture of entrepreneurship", San Francisco, CA: ICS Press, pp. 122ff.

⁵ Lee, Sang M./Peterson, Suzanne J. (2000): „Culture, Entrepreneurial Orientation, and Global Competitiveness. *Journal of World Business*, Vol. 35, No. 4, pp. 401-416.

⁶ Smallbone, David/Welter, Frederike (2001a): „The Distinctiveness of entrepreneurship in transition economies", in: *Small Business Economics*, Vol. 16, No. 4, pp. 249-262. Smallbone, David/Welter, Frederike (2001b): „The Role of Government in SME Development in Transition Economies", in: *International Small Business Journal*, Vol. 19, No. 4, pp. 63-77.

⁷ Kusnezova, N. (1999): „Roots and Philosophy of Russian Entrepreneurship", in: *Journal for East European Management Studies JEEMS*, Vol. 4, No. 1, pp. 45-72.

⁸ Kornai, J. (1995): „Highway and byways: Studies on reform and post-communist Transition", Cambridge, Mass: The MIT Press.

⁹ Smallbone, David/Welter, Frederike (2001a): „The Distinctiveness of entrepreneurship in transition economies", in: *Small Business Economics*, Vol. 16, No. 4, pp. 249-262. Smallbone, David/Welter, Frederike (2001b): „The Role of Government in SME Development in Transition Economies", in: *International Small Business Journal*, Vol. 19, No. 4, pp. 63-77.

¹⁰ Observatory of European SMEs 2003: „Competence Development in SMEs". European Commission, KPMG Special Services and EIM Business & Policy Research in the Netherlands in co-operation with European Network for SME Research (ENSR) and Intomart No. 1., European Commission (2002) Final report of the expert group on the transfer of small and medium sized enterprises.

dominance of the market paradigm (e.g., privatisation, deregulation, the creation of markets in public services) implies a stronger culture of self-help within society. At the organisational level, the impact of restructuring, downsizing, and the development of strategic partnerships and supply chains, suggests a widening of the responsibility of management and contributes to the uncertain climate. Individuals as employees are also facing more responsibility, greater complexity and more uncertainty. Entrepreneurship and entrepreneurial behaviour thus touch upon a wide range of different actors and stakeholders in the community, and are not the sole prerogative of business.¹¹ An innovative approach to problem solving, a readiness for change, self-confidence, and creativity, are all attributes related to entrepreneurship, and constitute a viable platform for economic development in any society. Therefore the need for developing entrepreneurial attitudes, culture and skills is great, even more so in the emerging markets, where opportunities are abundant.¹²

Skilled labour is usually seen as a crucial element for competitive advantage, whether it be that of the individual, a company, a region or a nation. A skilled workforce and the managerial skills of SME managers are also of crucial importance when aiming at creating sustainable businesses with growth possibilities. The skills and competencies of managers and employees need to be up-dated and developed systematically. It is of the utmost importance that culture and skills development are considered to be long term investments for sustainable economic development. If there are serious gaps in entrepreneurship culture and skills, then even substantial inputs may not bear the expected fruits, particularly in the long run. In the transformation of a centrally planned economy to a market economy, it is important to put significant emphasis upon the development of the appropriate culture and skills in order to make people take active responsibility for their own future. Building up an entrepreneurial society is a long-term process. Less emphasis should be put on subsidies and grants, which usually tend to have only short term effects, and may even in the worst case disrupt or even prevent markets from developing. Instead, measures encouraging people to take the initiative and seize the available opportunities should be supported. It has been discussed by the international debate that success or failure of a transition economy can be traced in large part to the performance of its entrepreneurs, and government should mainly concentrate on providing a stable business environment.¹³ This understanding shall be pursued in this paper. Although systemic impact can not be neglected, after all, the entrepreneurs themselves are the main actors in entrepreneurship. People equipped with higher skills levels, and courage, are more able to cope with uncertainty and conduct the activities required for entrepreneurship.

Governments in different countries have introduced a plethora of measures to address the development of entrepreneurial attitudes, culture and skills. Entrepreneurship can be brought in to the education system already at very early stages to strengthen the attitudinal and cultural aspects of entrepreneurship. Enterprise education can take place from the elementary level and continue up to university, and can either be embedded in the educational system by including it in the curriculum or through project-based work, such as Young Enterprise.¹⁴ Enterprise

¹¹ Gibb, Allan A. (2002): „In pursuit of a new ‘enterprise’ and ‘entrepreneurship’ paradigm for learning: creative destruction, new values, new ways of doing things and new combinations of knowledge“, in: *International Journal of Management Review*, Vol. 4, No. 3, pp. 233-269.

¹² Henry, C./Hill, F./Leitch, C. (2003): „Entrepreneurship education and training“, Ashgate, Aldershot.

¹³ McMillan, John/Woodruff, Christopher (2002): „The Central Role of Entrepreneurs in Transition Economies“, in: *Journal of Economic Perspectives*, Vol. 16, No. 3, pp. 153-170.

¹⁴ Lundström, Anders/Stevenson, Lois (2005): „Entrepreneurship Policy: Theory and Practice“ New York.

education primarily addresses entrepreneurial attitudes and culture, but may also affect entrepreneurship skills.

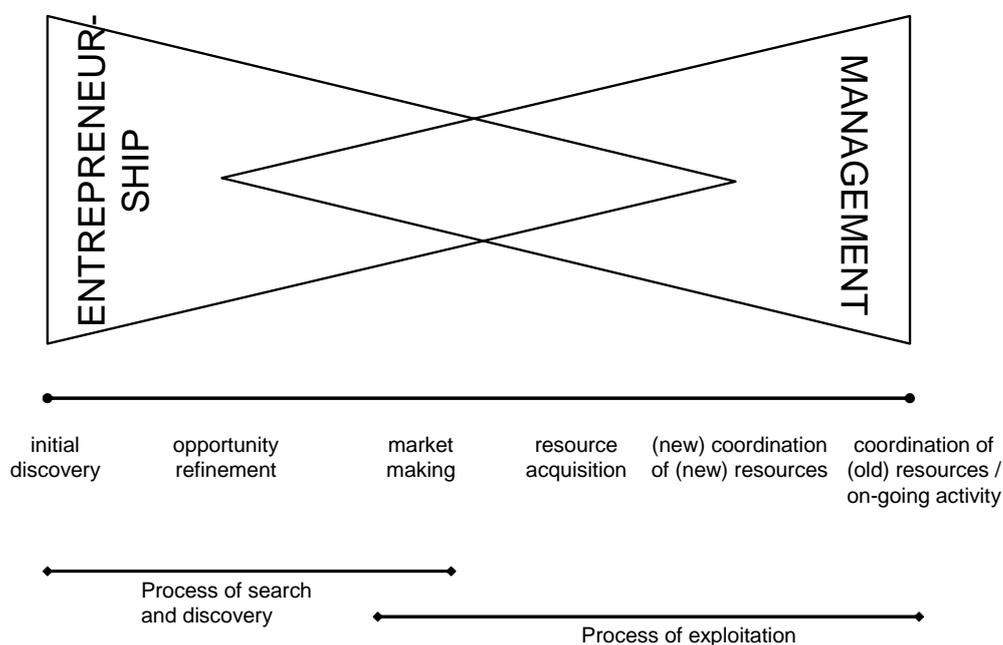
In addition, there are a number of other ways to promote the skills development of (potential) entrepreneurs. Measures to promote business entries, early-stage survival/growth and exits address the development of entrepreneurial skills of (potential) entrepreneurs. First, access to relevant information is of crucial importance, especially in the start-up phase. One-stop-shops, web-portals, and a network of business enterprise centres are examples of the measures to promote the skills and knowledge required for setting up and running a business. Second, access to training and mentor programmes support the development of entrepreneurial skills, which form the basis for sustainable businesses. Usually these programmes are implemented in public-private partnerships, and some subsidies might be available for (potential) entrepreneurs to encourage their participation in programmes. Training activities may also encompass the training of business advisors and development agents so as to encourage better understanding of the nature of the entrepreneurial businesses to be promoted. Systematic quality evaluation of business advisors and development agents will improve the usability of such services and make it possible for best practice to be exchanged amongst service delivery agencies. Third, collaboration and horizontal networks incorporating such people as educators, advisers, regulators, policymakers, researchers and entrepreneurs, make it easier to address the skills needs of entrepreneurs. This may also include some governmental support for business associations to develop their resources and competences in offering peer-mentoring and self-help.¹⁵

When promoting entrepreneurship it is important to understand the need to balance entrepreneurial and managerial skills.¹⁶ Entrepreneurship is a process of search and discovery, whereas management is about exploiting the resources (see Figure 1). When considering the training and skills development required in Uckermark and Parchim we can utilise this categorisation as a starting point.

¹⁵ Ibid.

¹⁶ Davidsson, Per (2001): „Towards paradigm for entrepreneurship research". Conference Proceedings of the 15th Workshop of Research in Entrepreneurship and Small Business (RENT XV) held in Turku, Finland November the 22nd – 23rd by Turku School of Economics and Business Administration, The Small Business Institute, Vol. 1, pp. 57-69.

Figure 1. The domains of entrepreneurship and management



Source : Davidsson, 2001.

This report on the districts of Uckermark and Parchim is structured as follows:

- An analysis of the strengths and weaknesses of the entrepreneurial attitudes and culture for promoting entrepreneurship;
- An analysis of the strengths and weaknesses of entrepreneurship skills and training for SME managers and employees for promoting entrepreneurship;
- Recommendation for policy developments based on an analysis of existing local and regional policies and programmes aimed at improving entrepreneurial attitudes and culture, as well as entrepreneurship skills and training for SME managers and employees; and,
- Good practice from the two districts, and international learning models, from other OECD countries.

Strengths and weaknesses

Some observations of the socio-economic environment

This report is part of a larger review of entrepreneurship and the economy in East Germany, and it is therefore unnecessary to provide an in-depth examination of the characteristics of the two districts studied or the demographics of the business sector. Still, some basic facts are needed to enable a discussion of the strengths and weaknesses in relation to entrepreneurial attitudes and skills, as well as about entrepreneurship training and skills for SME managers and

employees. The following is based mainly on a local diagnostic report, which has been complemented by information gained during study visits to Uckermark and Parchim.¹⁷

Both Uckermark and Parchim districts are rural areas with low population density. The population has been in decline, with young, educated and skilled people appearing to be leaving the districts. The proportion of young people, under 25 years, in the population is slightly below the German average. The situation is more severe in the district of Uckermark, which shows a population decline of 11.8% during 1995-2004, during the same period in Parchim the decline was 3.3%. The unemployment rate is also relatively high in the districts: 25.4% in Uckermark and 17.2% in Parchim, compared to a German average of 10.5%. Employment opportunities in the districts are also somewhat different: Parchim has been able to increase the number of employed persons, whereas Uckermark has faced a significant decline in employment. In both regions the proportion of employees in agriculture is about twice as high as the German average. GDP per capita is below German average in both districts. Sectoral development of businesses differs between the districts, but the most important sectors in both districts are trade and repairs, construction; and hotels and catering, indicating that after 15 years of reunification the districts have already moved to a late stage of market reform.¹⁸

From an entrepreneurship viewpoint, the districts are suffering from a lack of local purchasing power. Approaching wider European and global markets does not only require capital and other resources (competence and skills), but it is also a cultural issue. During the GDR-period private ownership and entrepreneurship were considered more or less illegal resulting in the near disappearance of SMEs and private entrepreneurship. Accordingly the districts do not have a self-supporting economic structure but rather a lack of entrepreneurial activities, of new enterprises as well as of high-potential entrepreneurs.

Besides the public sector and some few labour intensive enterprises in the farming sector, the refinery and its industrial establishments are one of the few larger employers in Uckermark. Agriculture and forestry are of great importance, but young people are unwilling to continue farming. Overall, the socio-economic situation in Parchim looks somewhat brighter. Parchim has a better industrial tradition, and agriculture, similar to Uckermark, has been heavily modernised, with resultant profitability. Both districts possess beautiful countryside which could be better exploited for business use, such as through cultural events and tourism.

Statistics describing the focal areas of this report (attitudes, culture, skills and training) are scarce. According to the recent, 2003, NUI Ranking the district Uckermark is amongst the regions with the lowest entrepreneurial climate in Germany, whereas Parchim almost reaches to the German average.¹⁹

¹⁷ For further information and data, see Regionomica (2005): "Local Diagnostic Report for Districts Uckermark (Brandenburg) and Parchim (Mecklenburg-Western Pomerania) ", Regionomica, Berlin

¹⁸ Smallbone, David/Welter, Frederike (2001a): "The Distinctiveness of entrepreneurship in transition economies". *Small Business Economics*, Vol. 16, No. 4, S. 249-262. Smallbone, David/Welter, Frederike (2001b): „The Role of Government in SME Development in Transition Economies". *International Small Business Journal*, Vol. 19, No. 4, pp. 63-77.

¹⁹ The so called regional NUI Ranking (New Entrepreneurial Initiative) measures the intensity of the entrepreneurship initiative or entrepreneurship climate in a region. The measure shows the number of registered businesses (start-ups and relocations) per 10,000 inhabitants able to work (aged 15-64 years) in a region in a year.

Some observations of the policy environment

The districts of Uckermark and Parchim have implemented a number of measures to promote entrepreneurial attitudes, culture and skills. The policies and measures for promoting entrepreneurial attitudes and culture in the districts are scarce, as the focus of activities lies on coping with unemployment, that is on start-ups and self-employment. Even though start-up support programmes are likely to have a positive influence also on entrepreneurial attitudes and culture, they do not explicitly seek to promote those elements which form the basis for entrepreneurial endeavours.

In the Parchim district, the administration also makes a strong effort to attract larger companies in to the district in order to provide jobs and wealth for the economy. Start-ups are not so much in focus anymore, but rather developing and renewing the economic structure by attracting companies from other regions as well as by strengthening the existing companies to be able to grow. This is well demonstrated by Parchim's Agenda for 2010.²⁰ The future depends on large investments being made in the region. It is also necessary for young people to find employment in order to keep them in Parchim. The vision contained in the agenda is a product of a waged work society, not one of an entrepreneurial society. This is further demonstrated by the fact that strengthening the industrial base through larger companies and promoting small businesses and entrepreneurship are not intertwined, but rather separate issues, for example, the spill-over effects of SMEs are hardly discussed. However, in Mecklenburg-Western Pomerania (including Parchim) the campaign "*Einfach Anfangen*" (see below) is successfully addressing the attitudinal and cultural issues behind entrepreneurial activities.

A range of skills development services are also available in the districts for SMEs, provided mainly by the Chambers of Commerce and Trade, the Chambers of Craft, private consultants and/or associations. The demand for such services among entrepreneurs is, however, quite moderate reflecting, on the one hand, the lack of company resources in terms of time and money to be invested, and, on the other hand, entrepreneurs' perceptions of their actual training needs. Some government grants are available to SMEs who fulfil certain criteria in order to access services at affordable prices. Some public services (for no or low charge) are also available, but the focus is on promoting start-ups and on counselling existing SMEs about how to proceed grant applications, more of a technical nature, with little focus on skills development. A number of well-established initiatives are currently running (such as "*KEI*" and "*GO*"; "*AGiL*"), but publicly sponsored initiatives for promoting systematic skills development, both for managers and employees, in existing and growing SMEs are rarer than those for start-up companies.

Strengths and weaknesses of entrepreneurial culture and attitudes

It is mainly a cultural issue that in the districts of Uckermark and Parchim entrepreneurship is not considered as a viable career option and people are risk-averse and still heavily dependant on the state. It takes some decades to build up an entrepreneurial society. If entrepreneurship culture is weak there is a danger that efforts and investments in promoting start-ups and entrepreneurship will not result in sustainable entrepreneurship, but rather serve as a short-term cure for unemployment. The following strengths and weaknesses were identified in the districts.

²⁰ This agenda was produced by Mr Unger from the Chamber of Industry and Commerce Schwerin.

Strengths

The importance of entrepreneurship and start-ups is well recognised by authorities and public support is available in order to promote start-ups. In the late 1990's and early 2000's the number of business start-ups was decreasing, but somewhat positive development of business registrations and number of start-ups has taken place recently, especially in Parchim. Local authorities have managed to attract larger companies to settle in the region in order to provide younger people with local job opportunities as well as preparatory periods for self-employment and entrepreneurship. The study visit also showed that a number of successful and entrepreneurially active people have entered from other, even western, parts of Germany to the districts and started successfully their businesses in the district. The study visit generated an impression that many existing entrepreneurs would be willing to expand their business and employ more people indicating positive entrepreneurial culture.

The importance of entrepreneurship culture in promoting entrepreneurship has been recognised in the districts. In Mecklenburg-Western Pomerania, including Parchim, extensive efforts have been put on the "*Einfach Anfangen*" (simply begin) campaign in order to promote entrepreneurial spirit and start-ups by raising awareness of entrepreneurship among large public. The campaign and successful learning model is of relevance to some other East German districts or transition economy countries struggling with low levels of aspiration and entrepreneurship culture. In Brandenburg, including the district of Uckermark, the campaign, "*AGiL*", is being implemented.

Weaknesses

Most people in the two districts seek to have a secure job and to be employed by someone else. Even 15 years after reunification people appear to find it difficult to see themselves as a customer oriented service provider or an entrepreneur. Entrepreneurship seems to be the last option, as people are looking for jobs for life. The prevailing culture therefore does not have images of entrepreneurial society, but rather of waged work. The two districts are facing the great challenge presented by young and educated people leaving the district for work, and have failed to attract people to settle in the district. Those people who have left the district, but who still retain strong family ties and historical links, could act as a useful asset for future entrepreneurship and local economic development.

The districts both suffer from the existence of only a small number of SMEs and a lack of entrepreneurship culture. People seem to be risk-averse and incapable of seeing entrepreneurial opportunities in the business environment. Lack of purchasing power and equity are considered the most important obstacles to the development of existing businesses. This is closely linked to the inability of entrepreneurs to recognise the opportunities of the global economy. Nascent entrepreneurship is mostly necessity-based, with people entering entrepreneurial careers predominantly unemployed, indicating quite a narrow notion of entrepreneurship.²¹ Most of the start-up companies are, thus, very small in size. Entrepreneurship is not considered as an

²¹ The Global Entrepreneurship Monitor (GEM) study has introduced the concepts of necessity-based and opportunity-based entrepreneurship in studying entrepreneurial motivation and early-stage entrepreneurial activity globally. Briefly, opportunity-based entrepreneurship refers to people willing to exploit a perceived business opportunity, whereas necessity-based entrepreneurship refers to people being pushed into entrepreneurship because all other options for work are either absent or unsatisfactory. See also: Minniti, Maria/Bygrave, William D./Autio, Erko (2006): „Global Entrepreneurship Monitor 2005“, Executive Report. Babson College and London Business School.

opportunity to make a better living, but rather as a last possible option. In the districts under consideration skilled and educated people who, due to their higher skills level, have other employment options available, do not consider entrepreneurship as a viable career choice, but rather search for waged employment. However, it is especially these skilled and educated people who would be the most capable of setting up and running internationally oriented growth businesses which would be welcomed in the districts. Entrepreneurship is somewhat one-sidedly linked to small businesses, even though entrepreneurship literature demonstrates that the core of entrepreneurship is found in the entrepreneurial process not in the context (e.g. SMEs) where the process might take place.²²

The route to entrepreneurship through unemployment implies not only mental challenges (attitudes), but also gaps in the managerial skills required. However, the typology of necessity- and opportunity-based entrepreneurship should not be seen as being too categorical. Even though an entrepreneur might be 'pushed' to entrepreneurship, such as in the case of unemployment, this does not necessarily mean that later they would not recognise and exploit opportunities for the development of the business.²³

Public start-up support is focused particularly on unemployed people, who do not necessarily possess optimal resources for successful entrepreneurship, but rather for self-employment. In such a difficult situation people are, thus, still relatively heavily relying on state support (subsidies and support programmes). On the other hand inspiration, or a 'push' toward entrepreneurship, is quite low as social security is providing reasonable subsistence, which from the entrepreneurship point of view may be seen as an obstacle, even though it is otherwise considered as reasonable.

The lack of identifiable entrepreneurial role models and success stories is evident in the two districts. Despite the 'start-up champions' initiative, it was hard for the experts interviewed to recognise and name any regional success stories which could serve as a role model for potential would-be-entrepreneurs. It seems as if successful entrepreneurs might even receive more envy than real appreciation among other people. Based on various studies the existence and presentation of local role models and stories about them have a considerable impact on the entrepreneurial culture.²⁴

²² Shane, S./Venkataraman S. (2000): „The promise of entrepreneurship as a field of research", in: *Academy of Management Review*, Vol. 25, No. 1, pp. 217-226; Mueller, Stephen L./Goic', Srecko (2002): „Entrepreneurial Potential in Transition Economies: A View from Tomorrow's Leaders", in: *Journal of Developmental Entrepreneurship*, Vol. 7, No. 4, pp. 399-414.

²³ J. Earle and Z. Sakova (2000) "Business Start-ups or Disguised Unemployment? Evidence on the character of self-employment from transition economies", *Labour Economics*, Vol. 7, pp. 575-601. The paper discusses the character of self-employment in transition economies. At one extreme a self-employed person may be a successful business owner exploiting new opportunities, but on the other hand self-employment status may result from forced recourse to a residual sector in which the individual's activities and income differ little from those in unemployment. High rates of self-employment may therefore be a reflection of an environment encouraging risk-taking, job creation and market development, but it may also indicate a lack of jobs in a primary sector in which wages are set above the market-clearing level. Finally, their empirical study shows somewhat mixed evidence demonstrating that no strict categorisation can be made and self-employment may be a reflection of both types of phenomenon.

²⁴ Hytti, U. (2003) "Stories of Entrepreneurs: Narrative construction of identities", *Publications of the Turku School of Economics and Business Administration*, Series A-1.

The strengths and weaknesses discussed point to three emerging themes related to entrepreneurial culture and attitudes influencing entrepreneurial behaviour in the districts: (i) a prevailing wage work culture; (ii) a lack of entrepreneurship culture; and, (iii) a narrow notion of entrepreneurship. These themes provide the basis for recommendations for policy development discussed later in this report. Of these three themes the lack of entrepreneurial culture is the most important issue to be addressed in the districts. The two other themes are closely related to entrepreneurial culture. Recent entrepreneurship literature tells us that current social and economic changes are increasing entrepreneurship opportunities. Factors such as outsourcing, project-based work, individual preferences as well as increasing employment of market mechanisms are leading to the blurring of boundaries between entrepreneurship and waged work. The transition 'towards an entrepreneurial society' is not only economic, but also cultural and social by its nature. Cultural issues are of the utmost importance in understanding and promoting entrepreneurship because of the way in which entrepreneurship is heavily culturally embedded in society.²⁵

Strengths and weaknesses of entrepreneurship skills and training for SME managers and employees

Successful entrepreneurship requires intellectual capital, that is skilled entrepreneurs and a skilled workforce. Entrepreneurial attitudes and culture, discussed in the previous section, provide the framework for entrepreneurial processes, the realisation of which is highly dependant on skills available. The following strengths and weaknesses were identified in the districts.

Strengths

Based on the local diagnostic report the districts have 'good business support structures'. Potential entrepreneurs planning to start-up their businesses are offered different kinds of seminars and courses aimed at developing the qualifications and skills needed in the start-up phase. The courses give useful information on technical and practical issues related to the start-up phase (e.g. taxation, choice of a legal form and financing, technical knowledge). There is a reasonably good supply of training courses and seminars for skills development for SMEs, mainly provided by private sector consultants and companies, as well as Chambers and Enterprise Association. Services cover areas such as technical qualifications, finance and taxation, vocational examinations, marketing, networking and changing of experience among entrepreneurs. Additionally, in a number of craft sectors an obligatory 'Master Craftsman' qualification is required, which provides craft workers with further professional skills. Even though the skills base in the companies is heterogeneous, entrepreneurs in the districts tend to have adequate competence with regard to technical issues.

Weaknesses

Due to the current focus on economic development, notably on start-ups (in both districts), or attracting large businesses (Parchim), increasing awareness about the need for skills development in existing SMEs is not paid enough attention. Skills development in the districts is not considered to be a long-term investment requiring both time and financial resources. A lack of local purchasing power and equity are most often named as the main obstacles for

²⁵ Steyart, C. and J. Katz (2004) "Reclaiming the Space of Entrepreneurship in Society: Geographical, discursive and social dimensions", *Entrepreneurship and Regional Development*, Vol. 16, No. 3, pp. 179-196.

entrepreneurship and growth, whereas the skills level of potential entrepreneurs, SME managers and employees are usually considered to be sufficient. This may, at least, partly be related to the fact that most of the start-ups focus on locally produced (consumer) services, which are easy to learn and do not require highly specific expertise. On the other hand entrepreneurs' inadequate understanding of markets may result in a failure to fully identify the need to develop the companies according to changed global market needs and consumer behaviour. This is reflected also in the perceived needs for skills development.

The entrepreneurship policy focus is on unemployed persons or persons facing the threat of unemployment. The measures are, thus, means of coping with unemployment rather than developing the necessary future skills *per se*. The public advisory services available for existing entrepreneurs focus predominantly on technical issues, such as the provision of information about the district as a business location and procurement of grants and subsidies, as well as advice on legal or regulatory issues. The courses focusing on skills that are needed when actually running and managing a business, as well as developing and/or internationalising it, are not as common as the ones providing technical skills and information for start-ups. As far as public policy measures are concerned, less emphasis is put on skills development in existing enterprises for entrepreneurs or employees. More emphasis should not only be put on surviving the so called 'death valley', that is the most critical early years of the company), but also on stabilising existing enterprises and supporting them to grow and gain wider market share. Participation in skills development seminars and training courses is limited, mainly due to time constraints, but also due to a frequent lack of financial resources as public money, is not channelled to support skill development in existing SMEs. It is also a question of realising the need for such training. This is a very universal phenomenon among SMEs and not particular to Uckermark or Parchim.

The local diagnostic report suggests that there exists 'little market potential' in the districts. The statement is addressed especially to the district of Uckermark, but is equally applicable to the district of Parchim. During the study visit one particular point emerged as the most important obstacle to entrepreneurship and growth: namely the lack of local purchasing power. This very issue is closely linked to the notion of markets – how do we define markets for our products or services? In remote and sparsely populated districts, such as Uckermark and Parchim, the only possibility for a company to grow is to have products and services marketable outside of the region. The entrepreneurs in the districts seem to suffer from a lack of understanding of the concept and notion of markets, as well as from a lack of marketing skills and knowledge of markets. In most cases market entry is more timely and costly than expected, requiring risk-taking as well as enthusiasm and confidence in the product. Continuous complaints about a lack of purchasing power indicate that the entrepreneurs might be incapable of recognising and exploiting new opportunities emerging from the constantly changing business environment, and unaware of their shortages of marketing skills and market knowledge. The issue is linked to the industrial background of the workforce, as well as to the cultural and economic heritage of people with regard to their lack of ambition and initiative. No significant public investment or effort has been put on overcoming this crucial skills gap.

Gradually, it has also become popular to provide consultancy and support for SMEs and craftworkers to facilitate and promote business transfers (succession) and ownership changes to the next generation. Even though this challenge has already been identified in the districts and some measures have been taken (such as raising awareness by "AGiL" and support initiatives by Chambers), more could be done in order to secure future business transfers (e.g. longer term training programmes and systematic consultation, see the international learning model "Take-over programme"). In European countries the so-called 'baby boomers', born after the Second World War, are reaching retirement age and a remarkable number of businesses are facing either

changes in ownership or closure. It has been estimated that about one third of the businesses will face business transfer in the next ten years. This suggests about 610 000 SMEs annually, of which about half are self-employed businesses; the other half employs around 2.1 million people in total. In Europe business transfers affect the future of almost 2.5 million jobs.²⁶

As well-trained specialists tend to leave the districts, companies face difficulties in keeping qualified labour. In Uckermark, SMEs are able to find skilled labour due to high unemployment, but in Parchim there are already signs that in certain sectors, such as manufacturing, it is becoming increasingly difficult to recruit skilled employees. Highly qualified staff, including engineers and doctors, are already in great demand in the districts. This amount of skilled labour is not only an issue for SMEs and entrepreneurship, but it also touches upon the economic development of the districts. In the future it may become increasingly difficult to attract new businesses or larger companies in the district if there are not enough skilled workers available. The situation is worsened by the fact that the districts lack their own universities (despite the neighbouring ones in Rostock and Eberswalde) and, hence, the direct positive effects universities usually have on entrepreneurial activities. In addition, the majority of entrepreneurs and SME managers are not used to benefiting from the knowledge and resources available within universities (e.g. in form of technology transfer, recruitment) even though companies are involved in some networks in order to profit from university-based knowledge and technology.

In the districts of Uckermark and Parchim unemployment is not only related to low skills, but it is becoming a cultural problem too, as even skilled workers may become redundant, and young people cannot find apprenticeship places during their studies. Lack of work, or opportunities to gain work experience, push young people to leave the district, making it even more difficult for SMEs to find skilled labour in the future. The young people leaving do not see the districts, or their future prospects, as attractive enough to hold them. They face problems in finding apprenticeship places, especially in manufacturing, as an inadequate number of companies are willing to take apprentices. The sustained difficulties in the employment situation, and the tendency to see entrepreneurship as an unpleasant career option, lead young people to consider the opportunities available in western states as being more tempting. Having left one's 'home district' it is too easy not to return if no particular reason is given or the circumstances do not change. It is of vital importance for the future development of the districts to find ways to support and provide opportunities, and enhance the prospects for young people in the districts. A low birth rate and high immigration rates from the districts, accompanied by a lack of qualified young people to whom businesses could be transferred to, or who have the skills necessary to exploit entrepreneurial opportunities, may have profound consequences for the districts.

During the study visits the main outcome of the discussions relating to skills and training can be put under the following themes: skills development as an investment, the availability of skills development services, a lack of marketing skills, and a lack of opportunities for young people. Entrepreneurship is mainly seen as a cure for high unemployment and not as a means to create economic wealth and prosperity. Due to that understanding the measures tend to promote starting-up a business by providing technical support in assessing business ideas and business plans, as well as providing basic financing in form of grants. The target group – unemployed people or those in danger of becoming unemployed – is based on a narrow notion of entrepreneurship. In the long term, the creation of sustainable businesses requires skills in

²⁶ European Commission (2002) „Final report of the expert group on the transfer of small and medium sized enterprises". European Commission. Enterprise Directorate-General. May 2002. http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/transfer_business/index.htm#best_project>.

business competence and know-how, as well as in discovering, recognising and exploiting the opportunities arising from global business environment. In the districts, skills development *per se* is not considered to be an investment for the future and not enough attention is paid on developing the skills of potential entrepreneurs, managers of existing SMEs or employees, nor on providing skills development opportunities for young people.

Good practice in Uckermark and Parchim

*"KEI" and "GO" – initiatives to provide information and assistance for start-ups and new businesses*²⁷

In the districts, the Chambers of Industry and Commerce and the Chambers of Crafts have jointly started an initiative together with the Public Employment Service to provide information and assistance in drafting business plans for start-ups and new businesses. The initiative offers free access to an informative internet portal providing links to other start-up support initiatives (e.g. "AGiL" provided by the Brandenburg Ministry of Economics, Brandenburg Economic Development Board and the Public Employment Service, as well as "Lotsendienst", orientation and guidance services, as a part of "AGiL"). "GO" is a similar initiative of the Chambers and the Public Employment Service in Mecklenburg-Western Pomerania. The initiatives have succeeded in supporting a large number of start-ups. Based on these initiatives, it has been recognised that there is a need not only to assist with technical issues during the start-up phase, but also to further develop the skills and entrepreneurial personality of new entrepreneurs in order to promote the development of sustainable businesses.

In Brandenburg a number of institutions offer so called "Lotsendienste" for persons in the pre-start-up phase to support the training needs of the future entrepreneurs. In Uckermark this is offered by the Chamber of Industry and Commerce Frankfurt/Oder, amongst other institutions. Orientation and guidance services, which are co-financed by the European Social Fund, address the deeper skills development needs of potential entrepreneurs. The programme has been able to provide, free of charge, training opportunities to about 55-60 potential entrepreneurs annually, with a value of up to EUR 1 300 per person. Such opportunities include the following: individual counselling, evaluation of the business idea and the personality of a potential entrepreneur, provision of external advice (for example, consultancy in relevant areas) and individual consulting and training according to a plan made during the process. In Brandenburg, orientation and guidance services have existed for about four years; during that time over 90% of the participants have created new businesses, the survival rates of which are high. The "Lotsendienste" initiative supports skills development and the start-up process in a specialised and professional manner.

*"Einfach Anfangen" – Campaign to promote start-ups and entrepreneurship climate*²⁸

"Einfach Anfangen" (simply begin) is a successful, award winning campaign implemented in Mecklenburg-Western Pomerania (including Parchim). The target audience is people aged between 18-50 years resident in the state. The programme is financed by the European Social Fund and Ministry of Labour, Building and State Development in Mecklenburg-Western Pomerania. In addition, the programme co-operates with all the political parties and is sponsored by large number of stakeholders. The campaign started in 2002 and addresses start-ups and the

²⁷ For further information, see <http://www.kei-online.de> (Uckermark) and <http://www.go-mv.de> (Mecklenburg-Western Pomerania)

²⁸ For further information, see <http://www.einfachanfangen.de>.

entrepreneurial environment as a 'new spirit of entrepreneurship and courage are needed'. The goals of the campaign are:

- To improve positive image of entrepreneurship;
- Provide entrepreneurship and start-ups with good framework conditions;
- To promote start-ups; and,
- To address entrepreneurship jointly with stakeholders.

The activities include the website providing information on start-ups and entrepreneurship, a telephone hotline assisting start-ups, radio and television spots, advertising and articles in newspapers and magazines, as well as raising awareness at schools (road show). In addition to the start-up assistance the brand "*Einfach Anfangen*" includes a mentoring programme for young potential entrepreneurs and a business plan competition (formerly known as "MV Start-up"). In the six-month mentoring programme successful business managers provide advice and support for young potential entrepreneurs.

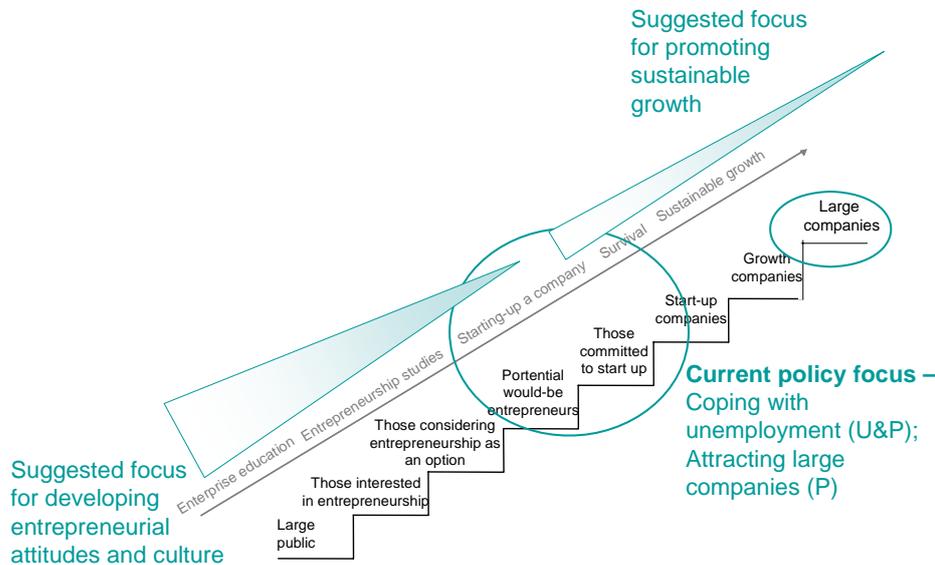
The inputs of the campaign as well as the results of the programme have been systematically evaluated, and results show e.g. some increase in positive attitudes towards entrepreneurship during the campaign. The district of Parchim is involved in the campaign and its performance, based on telephone hotline follow-up information, is at an average level, indicating a positive outcome.

Recommendations

As entrepreneurship is about exploring, discovering and exploiting opportunities entrepreneurship should not be seen as reserved only for certain people, but as part of a process that can touch many people in different forms.²⁹ In that sense public programmes promoting entrepreneurship have a role in developing the attitudes, culture and skills needed in the process of entrepreneurship (Figure 2). This figure also highlights the different 'stages' of entrepreneurship and the fields of entrepreneurship policy focus (both current and suggested ones) in Uckermark and Parchim.

²⁹ Shane, S./Venkataraman S. (2000): „The promise of entrepreneurship as a field of research", in: *Academy of Management Review*, Vol. 25, No. 1, pp. 217-226.

Figure 2. Promoting Entrepreneurship in Uckermark (U) and Parchim (P)



Based on the previous discussion, this section presents and discusses suggestions for entrepreneurship policy development in relation to entrepreneurial attitudes and culture as well as to entrepreneurship skills and training for SME managers and employees. The recommendations touch upon the following areas: entrepreneurship culture, skills development in start-up companies, as well as in existing SMEs. These areas are linked to different 'stages' of entrepreneurship development and target groups of entrepreneurship policy measures respectively.

Entrepreneurship culture

Acknowledging the strengths and weaknesses previously identified, the following issues related to entrepreneurial attitudes and culture should be addressed in order to fully benefit from the opportunities emerging from entrepreneurship in the districts. All the themes are relevant to both of the districts even though a different emphasis is required in each of the districts. Recommendations address the themes identified: namely a prevailing waged work culture, the absence of an entrepreneurial culture and a narrow notion of entrepreneurship.

Promote enterprise education endeavours and campaigns. Promoting enterprise education at the early stages of education, and also later on throughout the education system including university level, increases entrepreneurial aspirations, attitudes and behaviour in the long term. Education from an early age should promote creativity and empowerment as well as provide children and youth with a realistic picture of entrepreneurship as a viable alternative to paid employment.³⁰ In the districts of Uckermark and Parchim the development of such an entrepreneurial platform was prevented during the GDR-period, and the efforts need to start from the very beginning, that is at the level of basic education. Enterprise education should also involve teacher training as teachers traditionally are not well enough equipped to teach entrepreneurship. The international learning models in the following section present examples of

³⁰ Harding, R. (2003): "Global Entrepreneurship Monitor (GEM) United Kingdom", London Business School, London.

enterprise education endeavours. Both are possible approaches in the districts of Uckermark and Parchim, depending upon the resources available and the visions of stakeholders. Competitions, such as for business plans or R&D competitions, and campaigns for different target groups, are also good instruments to raise awareness about entrepreneurship, but including enterprise education in the educational system is of crucial importance as the education system is to provide systematically long-term, sustainable outcomes.

In order to promote the generational shift in attitudes and culture it is suggested special attention should be paid to creating favourable attitudes and culture towards entrepreneurship as well as raising awareness amongst the wider public about entrepreneurship as suggested for transition economies by Smallbone and Welter.³¹ Some measures, such as "*Einfach Anfangen*" and "*AGiL*", have already taken place with favourable outcomes. However, the area of enterprise education is relatively unexploited and it has been neglected for a long time by the educational system in the districts. It is worth noting, that promoting entrepreneurship culture is not only about 'marketing' entrepreneurship, PR-activities or campaigns, but rather about the persistent and systematic building of an entrepreneurial culture favourable for entrepreneurship of any kind. At its best, the larger campaigns are heavily embedded in business life and linked to enterprise education endeavours within schools at different levels.

Local actors can promote local features within the ongoing campaigns and bring the campaigns closer to local people. The collaboration between companies, business associations and the education system should be enhanced in order to promote entrepreneurial culture and attitudes in the schools. Enterprise education is not a prerogative of schools but its effective and successful implementation requires intensive collaboration among local actors and stakeholders. It may also reflect the fact that entrepreneurial education has been neglected for a long time by the educational system.

Create identifiable role models and champions locally or bring them from elsewhere to the districts in order to produce learning opportunities. Promoting role models and champions is relevant for most of the countries striving for a better entrepreneurial culture and attitudes. If the role models cannot be identified locally it is always possible to invite them from other districts. As the district develops, it will be easier to find entrepreneurial role models and champions locally. A more down-to-earth approach is likely to be more effective, as personally knowing the champions is always encouraging ('I can succeed if my neighbour/friend/school mate has been able to do so!'). It is most important that authorities and policy measures manage to create such an atmosphere where entrepreneurship is not only accepted, but also appreciated.³² Entrepreneurship provides well-being not only for the entrepreneur themselves, but also is beneficial for the local, regional and national economy.

Regional success stories of the entrepreneurs, companies or initiatives need to be identified and promoted in a range of media. Business associations, community organisations, and public and private sector organisations can contribute to this promotion through awards, etc. at conferences, fairs and other events. This would also provide opportunities for natural co-operation between entrepreneurship stakeholders in the district. It is important to demonstrate that entrepreneurship is about taking manageable risks and sometimes even failing, but it is

³¹ David/Welter, Frederike (2001a): „The Distinctiveness of entrepreneurship in transition economies. *Small Business Economics*, Vol. 16, No. 4, S. 249-262. Smallbone, David/Welter, Frederike (2001b): „The Role of Government in SME Development in Transition Economies". *International Small Business Journal*, Vol. 19, No. 4, S. 63-77.

³² Ibid.

worth trying and taking the risk. Gartner argues that entrepreneurship is about "failing forward", meaning that you cannot succeed if you do not try hard enough, which may also sometimes imply failing.³³ If it is hard to find visible local role models and champions it is advised to ask 'national heroes' to tell their entrepreneurship story to the audiences of Uckermark and Parchim. Practical real life stories and events provide people with hands-on experience about what it is like to be an entrepreneur. Initiatives making successful real-life entrepreneurs visible and awarding entrepreneurial champions and role models (such as 'start-up champions') are suggested to be encouraged.

Local actors need to collaborate to find such role models and to make them visible. It is important that a consistent message around entrepreneurship to be communicated to the large public is shared. Public authorities and other 'friends of entrepreneurs' need to critically assess their strategies, skills and working practices to ensure that they go with the aim to develop and strengthen the entrepreneurial mindset and culture.

Increase the number of entrepreneurial people in the district by attracting people to return to the district as well as attracting new entrepreneurial people from elsewhere to settle down to the district. A remote and sparsely populated district naturally suffers from lack of people willing to initiate entrepreneurial activity. Sometimes an outside perspective is needed in order to see the opportunities available and emigration from and immigration to the districts can be seen as a means for the exchange and acquisition of experience. Attracting investors is not enough for a developing district, but it can be useful to attract newcomers and, particularly, to try to promote the return of migrants back to their home district. It is then a question of increasing the attractiveness of the district, especially in the eyes of skilled and educated people. The initiative "MV4you" in Mecklenburg-Western Pomerania should therefore be continued with enhanced awareness at the local level.

During the study visit it was interesting to note that many successful entrepreneurs had actually moved to the district from elsewhere, such as western states. If there are not enough entrepreneurial people in the region, attracting people to the district to settle should be pursued. Natural target groups for such measures are those people, usually skilled and experienced, who have left the district but still possess natural ties, such as familial ones, in the district. Having seen and experienced life elsewhere it may be easier to recognise the opportunities the districts of Uckermark and Parchim have to offer. It is suggested that greater emphasis should be placed upon promoting migration 'home'. In Mecklenburg-Western Pomerania (Parchim), the "MV4you" a programme exists, but it does not address business development capabilities. Even if the two districts do lag behind in a number of areas (e.g. wage level or logistics) they do have some advantages, such as lower living costs, access to some grants, a clean and beautiful environment, that could be converted to business opportunities. Therefore it might be reasonable at some extent to integrate some business development and start-up initiatives with the programmes promoting migration. At least those individuals, who have been identified as potential ones to move back, could be introduced to some schemes promoting entrepreneurship. Migration programmes are, thus, likely to benefit from business dimension.

³³ Gartner, W. (2005) "What Entrepreneurs Do?" Presentation to the FSF-NUTEK Award Winners Panel Session held at the ICSB 2005 World Conference in Washington DC, USA, June 15-18, 2005.

Skills development in start-up companies and in existing SMEs

The following issues related to entrepreneurship skills and training for SME managers and employees should be addressed in order to fully benefit from the entrepreneurship opportunities emerging in the districts. All the themes are relevant to both of the districts and reflect upon the themes identified and discussed: skills development as an investment, the availability of skills development services, lack of marketing skills and knowledge on markets as well as a lack of opportunities for young people.

Continue to assist potential entrepreneurs but put more emphasis on future skills development and less on technical issues. In the districts of Uckermark and Parchim promoting new start-ups has been successful. These efforts should be continued, but it is recommended that increased emphasis should be placed on the *skills development* of potential entrepreneurs. More systematic training at an affordable price should be provided for start-ups. This training, in order to promote sustainable businesses, should emphasise the importance of personal skills and character, as well as the originality and feasibility of the business idea. Training programmes should not only focus on technical issues (such as taxation, legal form etc.) but also on future opportunities (and knowledge of markets), as well as the running and marketing of the business. In general, it is suggested that financial support is given to concrete skills development activities for the company, rather than subsidising 'normal' running of a company, as this will provide a solid basis for the future.

Promote high-quality training programmes for SME managers to support their entrepreneurial process, especially opportunity recognition and to strengthen their marketing skills and knowledge on markets. To begin with, it is vital to open the eyes of SME managers, as well as potential entrepreneurs, to the business opportunities and markets outside of the district. This implies supporting the search and discovery process for entrepreneurship. The main obstacle for young businesses and growth firms, or developing businesses, is a lack of ideas in the districts. Education, new experiences, co-operation and discussion are important to both for seeing the need for change and trying to find the way to change. In Uckermark and Parchim it is also a question of understanding markets as well as deficiencies in marketing skills and market knowledge (including areas such as the functioning of the markets, as well as market and competitor analyses giving ground for relevant marketing activities in the global business arena). High-quality training should be promoted to address these needs, most notably because it seems that entrepreneurs in the district are willing to grow their businesses. It would be natural for chambers and enterprise associations to be active in this area and focus some of their training programmes on marketing skills and the acquisition of market knowledge.

Both of the districts can benefit from promoting training and skills development for SME managers and employees. As stated earlier, the focus of the activities is on the start-up phase and existing enterprises receive little support. Bearing in mind the unemployment situation and limited resources this approach is understandable, but it leaves many opportunities related to promoting the development of existing businesses to go unexploited. It is possible to identify a number of phases and issues, where training and skills development, that is an investment in intellectual capital, would be reasonable, and useful, for existing SMEs. Training could address, for example, surviving the first critical years (death valley), discovering and recognising opportunities (growth), widening understanding and knowledge of markets (growth, internationalisation) and business transfer (succession). It is reasonable to conclude that more quality (sustainable entrepreneurship with growth perspectives and competences) and less quantity (number of start-ups from unemployment with inadequate skills for sustainable entrepreneurship in the future) is needed in the districts. Therefore it is also recommended that

the quality of training services provided by assessed and there be a willingness to invest in the training of trainers.

Promote systematic training activities and follow-up coaching for SME managers and employees in critical phases of company life-cycle in order to strengthen the intellectual capital of the company, and thus to boost company growth. On the other hand successful business requires also professional management, which is needed when opportunities have been discovered in the first place. It is vitally important to support systematic skills development of SME managers and employees in the field of management skills and business know-how, as well as occupational skills development. Some programmes and services are already offered, but more emphasis should be put on systematic skills development in order to assist the manager and employees through critical phases of a company life-cycle, e.g. death valley, growth and succession. One learning model from Finland addresses the topical issue of business transfer and succession by offering 'planning the transfer' counselling. Skills development in the districts faces a general challenge, namely that the managers of the companies are not committed enough to train neither themselves nor their employees. Therefore it is important to emphasise the importance of skills development either through in-house training or outside courses and programmes.

Create incentives for SMEs to take apprenticeships. Both districts are facing the dilemma of young, educated people leaving the district as there is a lack of opportunities. Adequate provision of apprenticeship places is one possibility to encourage such people to stay in the districts, but the problem is also related to lack of entrepreneurial cultural of the districts. Young people would rather be employed by a stable employer/company than start-up a business of their own. Young, skilled labour is an important asset for economic development and entrepreneurship in the region and SMEs find it easier to face market challenges with skilled employees. Apprenticeships are an opportunity for young people to gain work experience and technical skills, and also gives SMEs the possibility to test young workers and their capabilities and train them according to the company needs. This results in an increase of the skills and competency level within the SMEs. Therefore, it is recommended that there should be greater awareness of the future needs for skills development and incentives should be created SMEs to take apprentices.

In principle the discussion above is applicable for both of the district studied due to the many similarities found in Uckermark and Parchim. However, as the districts have not developed in the same manner since reunification, or indeed before it, and the economic policy strategies and measures, especially in relation to entrepreneurship, have been designed with a local approach in mind, some further adjustments, for the above recommendations are suggested.

Some further recommendations for policy adjustments for Uckermark

Entrepreneurial attitudes and culture provide a playground for entrepreneurial activities, be it self-employment, craftsmanship or growth entrepreneurship. In order to get full benefit from start-up promotion it is of utmost important to pay attention to 'entrepreneurial environment'. Strengthening and increasing the local aspects of the existing promotion campaigns for entrepreneurship are suggested in shorter run, and even more systematic enterprise education endeavours in somewhat longer run (see also international learning models). It is important that entrepreneurship would not been seen as a cure for unemployment but rather as a means to dynamic economic development.

Some further recommendations for policy adjustments for Parchim

It is important to continue with the successful entrepreneurship campaign "*Einfach Anfangen*", and to complement it further with even more 'systematic enterprise education approach' as suggested in case of Uckermark. This would not only have its influence on entrepreneurship culture and environment, but also on skills and competences needed in entrepreneurial activities.

On the other hand economic development strategy (if not stated explicitly, however implicitly understood) in Parchim seems to be heavily counting on the influence of larger companies in restructuring the economy. In that sense it is not a question of exploiting the opportunities rising from entrepreneurship *per se* as the link between large and small scale activities seems to be vague. It is important that the spill-over effects of larger companies could be efficiently used in order to 'promote sustainable growth among small businesses'. This is to be enhanced by e.g. systematic skills development in SMEs as well as more generally among workforce. It is advisable to promote skills development of SME managers and employees in order to support sustainable company growth. In the first place, it is about skills needed in discovering and searching the opportunities for growth as well as marketing skills and market knowledge, and secondly about managerial skills for running the business effectively.

International learning models

Finally, learning models that can provide lessons for the districts of Uckermark and Parchim from different OECD countries will be briefly described. The initiatives chosen address some of the recommendations for change suggested earlier. As the promotion of entrepreneurial culture was highlighted in the recommendations, two of the learning models discussed are related to the issue. Both nationally and regionally implemented initiatives have been chosen. Finally, the Finnish Initiative promotes business transfer and succession, the topical issue, the importance of which is well recognised in European level.

Enterprise education initiatives for young people

The promotion of enterprise and entrepreneurship culture is of the utmost importance in the districts as one of the main obstacles for promoting entrepreneurship stems from cultural heritage of the districts. In many European countries enterprise education has been addressed by different kinds of approaches.³⁴ It is clear that different countries and schools put a different focus on their enterprise education endeavours. Transition economies suffering from the lack of entrepreneurial culture and low level of aspiration and entrepreneurial enthusiasm have significant potential to benefit from enterprise education programmes. During the study visit the need for such programmes at schools was brought up, even though the issue was not clearly considered as a part of local economic strategy, but rather as an educational issue for schools. Such activities and programmes could not be found in the districts even though this kind of activity was perceived to strengthen the low level of aspiration and entrepreneurship in the long run. Previous evidence from European countries highlights that those enterprise education

³⁴ An informative database can be found at <http://www.entredu.com>. It includes more than 350 literature references (recent theories, practices and/or evaluations in the enterprise education) and over 100 enterprise education programmes or initiatives run in number of European countries. The database may be reached free of charge through the website, which is linked to two other websites, namely <http://www.entreva.net> and <http://www.entlearn.net> including information on evaluating enterprise education programmes and on programmes supporting entrepreneurial learning.

initiatives that are either embedded in the national educational curricula, or locally developed, may make a valuable impact upon the long-term development of an entrepreneurial culture. Building up an entrepreneurial society however, requires, intensive work during at least one generation. They also reflect the need of the two districts to transform their culture and economy following reunification. A strong entrepreneurial environment forms a solid basis for enterprising behaviour amongst the young, who might then find better future prospects in the districts of Uckermark and Parchim.

"Determined to Succeed" – Making a Smarter Scotland, UK

Description of the approach

"Determined to Succeed" (DtS) is an initiative which aims to both create a new culture and change attitudes, so that young people have the opportunity to realise their full potential. DtS teaches enterprise in education. The DtS website outlines the programme and provides information and resources for teachers, and details the contribution the business community can make to enterprise education.³⁵ The importance of parental encouragement is also explained.

Why the approach is relevant to the two districts

DtS is a nation-wide example of an enterprise education programme promoting entrepreneurial culture and attitudes of young people; the most important issue to be developed in the districts in relation to entrepreneurship. A number of stakeholders collaborate in implementing the programme.

Reasons for the success or failure of the approach

DtS was evaluated in 2002 and received positive feedback from the review group: "[w]e were impressed by what we saw. We recognise that there is much to celebrate in this area of the work school. We consider examples of good practice across the length and breadth of Scotland from inner-city areas to rural communities, in primary, secondary and special schools [...]." DtS utilises a partnership approach, bringing together a range of different actors in order to provide young people with better skills, attitudes and understanding of enterprise. The purpose of this is not only to contribute to the fulfilment of individual potential, but to develop a more enterprising and more active Scotland in the long term.

The obstacles that were faced and the quality of the response taken

The main challenges in producing the significant cultural change are: securing the commitment of the teaching community, ensuring that a consistent message is presented by all stakeholders, encouraging business sector engagement, and managing expectations as to the long-term nature of the cultural change being sought.

³⁵ For further information, please see <http://www.determinedtosucceed.co.uk>.

Considerations for adoption of this type of approach in the two districts

The obstacles mentioned are relevant for the two districts. It is also important to find a 'lead-actor' who is capable of empowering other actors as well as ensuring the resources needed are available.

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"Go! To School", North-Rhine Westfalia, Germany

Description of the approach

The programme is being created and maintained by the Institute of German Economy in Cologne and the German federal state of North-Rhine Westphalia. Local school bodies and business consultants are also actively participating in this regional programme. The main target group of this programme are pupils who should be attracted to entrepreneurship. In addition, the programme is targeted at teachers who are interested in teaching entrepreneurship (the training of trainers). The objectives of the programme are: to give an overview of entrepreneurship and entrepreneurs to pupils, to enable pupils to think about entrepreneurship as a viable alternative in their own life/work planning, to create business ideas within the school, to create real operating pupil firms in- or out-side schools, and, finally, to train teachers to become more open towards entrepreneurship and enable them to teach entrepreneurship in connection with their main topics.

The main element of the programme is local project days in schools, which are supported by the Info-bus of the project and project work. The three day entrepreneurship classes ("Praxis-Seminar") with simulation games and competitions are introduced to the pupils to raise their awareness of entrepreneurship. After the project days, business ideas should be extended to become business plans and 'real' businesses within 'normal' classes. Beside this pupil centred approach the education of teachers by seminars and the creation of media sets, games, etc. supports entrepreneurship in schools.

Why the approach is relevant to the two districts

The programme promotes entrepreneurial attitudes and culture within the school setting. Local business people are involved in the programme, and it also addresses the important issue of teacher training in relation to entrepreneurship. Based on experience, one of the major obstacles in enterprise education is an inadequate understanding of entrepreneurship amongst teachers.

Reasons for the success or failure of the approach

The idea of becoming an entrepreneur is part of a 'normal' topic at school – speculating and planning a future profession (*Berufswahlorientierung*). The methods (seminars, games, simulations, competitions and management) require certain skills which are identified and taught during the seminars, e.g. project management, creativity techniques and idea management. Also basic management skills like book-keeping, labour law, etc. are included. It is an attempt during the initial project days to interest pupils in the topic (the project differs from the school 'routine') and aims to encourage pupils to discover that becoming an entrepreneur may be a future option for their lives. Games and competitions attract pupils to learn about the skills and knowledge required for entrepreneurship, and to operate their mini-businesses – pupils have 'hands-on' learning with the help of teachers and/or business consultants.

The obstacles that were faced and the quality of the response taken

The approach is considered to be quite successful. Within six months approximately 150 teachers and 3 500 pupils had been attracted by initial Info-bus project days. Pupils value quite highly the appearance of local 'experts', 'live' entrepreneurs. In the classroom setting basic workshops and games are very successful, and could even be extended. Evaluations indicate that knowledge learnt during the games was more sustained than in traditional classes. Pupils also show great interest in practical seminars and a start-up laboratory, the learning outcomes of which have been positive. However, schools seem to be incapable of organising such events as a part of their normal activities, because they do not have enough resources. More intensive teacher training should be organised in order to promote the skills and experience needed. The methods and approach are, however, highly welcomed by the teachers.³⁶

Considerations for adoption of this type of approach in the two districts

It is of crucial importance to find dedicated teachers who are willing to learn about entrepreneurship as well as to promote entrepreneurial attitudes and skills among the pupils.

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³⁶ Institut der deutschen Wirtschaft Köln (2004): „Sachstandsbericht Dezember 2003“, Köln. der deutschen Wirtschaft Köln (2004) Sachstandsbericht Dezember 2003, Cologne: IdW, 2004.

"Take-Over Programme" (ViestinVaihto-ohjelma) for Existing SME Managers, Finland

Description of the approach

The "Take-Over Programme", (*ViestinVaihto-ohjelma*), is a programme for SME managers to support their planning of business succession. The programme is offered nationally through regional Employment and Economic Development Centres, and financed by the Ministry of Trade and Industry. The aim of the programme is to support SME managers to plan and implement their business transfer by offering tailor-made external advice and consultancy for the predecessor. During the programme the situation and needs of the predecessor and successor are analysed and discussed. In addition to this, legal questions, the value of the company and issues related to finance and taxation of the transfer are also addressed. The programme consists of three days of consultancy at a subsidised price as a result of which the company is given a written plan for succession including recommendations for further clarification and/or action. The predecessor can also purchase five extra days of consultancy at a subsidised price in order to get further clarification e.g. for fiscal or financial consequences. The consultants conducting the analyses and expert advice are specially trained to handle the crucial issues related to business transfer and succession.

Why the approach is relevant to the two districts

Both districts are facing problems with business transfers and are in danger of losing a number of existing businesses. The "Take-Over Programme" systematically approaches the main issues to be considered when preparing the business transfer and is based on high-quality analyses and business planning. In the two districts young people are not eager to take over the family business, farm or craft. This is partly a cultural issue which can be addressed through promoting stronger entrepreneurial culture in the regions. However, challenges in business transfer and succession are also linked to insufficient planning and discussions within the family and with potential successors. Also some technical issues related to business transfer (e.g. taxation, financing) need to be clarified before further actions can take place. The Finnish learning model, "Take-Over Programme", addresses the need of an entrepreneur to plan and discuss the business transfer well in advance and to understand the current realities and future needs of the company. This all implies skills development of a predecessor (an entrepreneur) as well as of a successor. Business transfer can also serve as a new opportunity window for the company as future needs and requirements of markets and customers are to be addressed by a successor with new skills and enthusiasm.

Reasons for the success or failure of the approach

The work of the "Take-Over Programme" was evaluated in 2005-2006³⁷. The evaluation discusses the role of the programme in supporting business successions in SMEs in general. The results indicate that the "Take-Over Programme" has been effective and extensive enough to meet the needs of the entrepreneurs (predecessors). The most essential benefits were a completed succession plan, access to external expertise on the business succession issues and the business itself, as well as the start-up or acceleration of the business succession process. About one third of the entrepreneurs who participated in the programme considered that the "Take-Over

³⁷ Stenholm, P. (2006): "Evaluation of the ViestinVaihto-programme". publication of the Ministry of Trade and Industry, 13/2006. Edita Ltd, Helsinki.

Programme" had been, or will be, of great importance and help for their business succession planning. At the very least it was seen to accelerate the process.

The obstacles that were faced and the quality of the response taken

The crucial issue for the successful implementation of the programme is the expertise of the consultants and their ability to customise their expert services based on the needs of different SMEs and entrepreneurs. Succession, and business transfer, are very delicate issues and they need to be addressed and promoted with great care, patience and expertise.

Considerations for adoption of this type of approach in the two districts

It is difficult to accomplish rapid outcomes, as the preparations needed for a business transfer usually take several years. Therefore one needs to be patient when assessing the results. The access to and supply of high-quality experts dedicated to succession related issues are crucial for the successful implementation of this measure.

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(Finnish only)

FINANCING ENTREPRENEURSHIP

By Holger Kuhle, A.E.I.D.L., Brussels

Introduction

A challenge for entrepreneurship financing in the eastern German *Länder* stems from the different capital structure of SMEs. Since the introduction of the market economy in the early 1990s, financing by means of private resources through family and friends has been, and continues to be, largely impossible as, for historical reasons; people have a much lower capital stock than, for example, those in the western *Länder*. Against this background, many existing firms rely on external finance. As a result of high interest rates in the 1990s, they are burdened by 'expensive' credit, which continues to accumulate, alongside the chronic lack of equity that, in the light of stagnating and/or sinking revenues, has proved difficult to reverse. From the banks' perspective, this constellation is very risky, and lies at the bottom of their restraint. Different factors are at play, including the regulation of banks, which demands that companies are subject to a standardised ratings method.

The range of financial support corresponds more appropriately to the dominant entrepreneurial characteristics of the existing companies in the western German *Länder*. However, the overwhelming number of eastern German companies today does not correspond to the traditional medium-sized company. Facing this antagonism, an overdue adjustment of the promotion instruments and their preconditions to the predominant micro- small- and medium sized entrepreneurship in East Germany, is needed, however, without undermining the regulations of banks. In order to tackle the central problem of a lack of collateral and low equity, adequate responses are being developed by the public sector.

Strengths and weaknesses

In both districts a wide range of public financing programmes for both start ups and existing businesses are provided by public finance institutions, such as *Mittelstandsbank*, *Kreditanstalt für Wiederaufbau* (KfW), for Uckermark the public bank of the Land, *Investitionsbank des Landes Brandenburg* (ILB), and for Parchim the *Landesförderinstitut Mecklenburg-Vorpommern*. The latter, however, does not have bank status. Public programmes in the form of loans are delivered by a local private bank, the so called *Hausbank* of the business.

The limited preparedness of firms for raising finance is a major challenge. Entrepreneurs often submit crude business plans to banks and tend to be disappointed when the bank decides a business idea or project is not yet 'ready for credit'. In both districts considerable efforts have been made in the past by the Chambers, the respective *Länder*, and within the framework of special federal programmes, to offer training and advice on issues related to finance. However, there seems to be an imbalance, which can be observed for both localities, between financial consulting and actual financing: influences on the demand for financing are happening, in most cases, during the processes of consulting and support. The entrepreneurs are helped to deepen

and round off their project, to present it convincingly, and, when searching for financial backers, to offer better collateral. The financing sector has clearly not been able to keep up with this.³⁸

A bank examines the nature of the credit applied for and the security offered to assure future repayments. A credit readiness assessment includes several steps and components, such as existing collateral, (potential) market share, management and technology assets. Entrepreneurs have to pass the internal assessment and rating methods of SMEs, as applied by their *Hausbank*. For an entrepreneur it means that accessing credits and getting a positive assessment becomes more difficult. The entrepreneur's starting position is often not compatible with the banks' requirements in risk and repayment management.

Apart from obligatory risk prevention, credit worthiness and assessment criteria may vary between banks, depending on existing profitability objectives. In general, the banking sector is characterised by increased competition, continuous expectations for increased profit and shareholder value. In addition, the above mentioned, banks also have a very narrow margin for issuing credit to business applicants that do not fully meet the requirements. It seems that in terms of issuing credit to companies, banks tend to be more rigid when operating in local markets that are challenged by high unemployment and out-migration tendencies. An additional cause for banks' behaviour can be found in the fact that property is no longer always accepted as collateral. This results mainly from a crisis in the property market and property indebtedness caused by unpaid mortgages that were taken out in the early 1990s for construction and refurbishment purposes. Examples of commercial property, such as warehouses, being considered completely worthless by banks in Uckermark, are not unique.

In order to improve and complete the range of financial support available for entrepreneurship in both areas, the central problem of the lack of bank collateral needs to be addressed. Given the principle of *Hausbanken* which exists in Germany, this would require the strengthening of a system with a mechanism that would be accepted by the banks. The venture capital companies of both *Länder*, which already co-operate with the existing guarantee schemes of both *Länder*, can be seen as contact points.

Usually public grant finance is linked to specific investments and do not necessarily contribute to a sustainable generation of equity. Entrepreneurs face obstacles in generating a mid-term increase of equity and are confronted with insufficient and unsuitable financing during all phases of their business development, from the pre-start-up phase to their early years on the market. Despite the wide range of public support offered mainly to start-ups and for investment purposes (e.g. for infrastructure, logistics, machines, and new technologies), financial gaps exist predominantly in the financing of operating resources and in supplementary financing for difficult liquidity situations.

Whilst with development oriented venture capital financing an *integrated* range of financing is available for entrepreneurship in the area of technological innovation, this represents the central deficiency for other forms of entrepreneurship. In particular there is still little change in the range of financing in the area of small corporate banking. If the share of the non-technological small and medium-sized companies (SMEs) is compared with that of technologically innovative enterprises, it becomes evident that only a very small, selective part of entrepreneurship is reached by this development oriented financing. In the two districts under consideration venture capital financing for small- and mini- enterprises is not available.

³⁸ During the interviews, excluding those with financial institutions, the problem of insufficient and unsuitable financing for existing enterprises has been mentioned several times.

Programmes exist to support the start-up of mini businesses, in particular from amongst the unemployed. The range of support available from the Federal Agency for Employment has proved to be insufficient for providing enough latitude for the financing of projects where there is pre-existing potential for growth. Except from the start-up support provided by Federal Employment Office, only a part of the demand can be covered. The financial support for necessity start-ups covers, to some extent, allowances for materials and equipment and costs for maintenance. The amount seems particularly small if the support for maintenance is subtracted and only those resources which remain for investment are considered. For most people, these are the only resources upon which to draw, as they do not have any savings and are not able to access bank credit. Of course, the financial need for investment in materials and equipment varies between companies. Normally start-up financing is supposed to draw upon private financial resources, but in the case of start-ups from a position of unemployment, it is largely impossible to fall back on private capital from savings or from family connections. As described below in Mecklenburg-Western Pomerania a microlending scheme supplements the offer from the Federal Agency for Employment with a complementary range of financing.

Good practice in Uckermark and Parchim

There exist land-specific supplementations to federal programmes that address some of the above mentioned challenges.

Microcredit programmes. Mecklenburg-Western Pomerania has offered a supplement to the financial support from the Federal Agency for Employment for start-ups from unemployment since 2004. Microlending was introduced by the Ministry for Employment, Construction and State Development in order to address shortages in financing for company start-ups resulting from the difference, or the gap, between what is available through the Federal Agency for Employment (bridging money and start money) and the real financing needs of businesses. This supplement seeks to address the latter in accordance with the business plan. This involves an analysis of the financing needs by the *Society for Structure and Job Market Development* (Gesellschaft für Struktur- und Arbeitsmarktentwicklung - GSA) on behalf of the above-named Ministry. The application for it must be made before the start-up and lasts a maximum of five years, with a one year repayment break, at an interest rate of 5%. This financing acts as a useful supplement to the programmes of the Federal Agency for Employment, such as 'Me Plc' (Ich AG) and 'bridging money'. Aside from a living allowance, these programmes offer company start-ups seminars, vouchers for training on the basic questions of start-ups and, upon completion, a training certificate. This system of 'microcredit' could be a useful example for Brandenburg. Microcredit financing is offered which is calculated according to the financial gaps that arise between all of the available private means (such as existing private capital as well as the available financial support of the Federal Agency for Employment in the form of bridging money) and the need for financing according to the business plan. This shortage financing is issued directly and without the mediation of *Hausbanken*. Internationally there is a trend towards the targeted issuing of microcredit by means of specific instruments (microlending). According to previous experience, this seems to be effective given two factors: microlending must be constructed as a mass business with the correct incentives and encompass coaching directed at microenterprises. The examples in France, or the guarantee system running in Italy, as presented in the international learning model section below, demonstrate that financing and coaching can be successfully brought together, something which is still little known in Germany.

Lending fund. A further example of the way in which Mecklenburg-Western Pomerania supplements those funds from the federal KfW is a lending fund. This fund combines the resources of the KfW and EU Structural Funds resources (mainly the European Regional

Development Fund), and can be used to finance investments and operating resources in enterprises with weak private capital, especially when the acquisition of additional financial resources is needed to enable customer order to be fulfilled. Companies who are weak in equity, that is, with insufficient liquid assets, often have difficulties in securing advance financing. The financing of operating resources is thus a suitable target for lending resources. This promotion is supplied by the Mecklenburg-Western Pomeranian State Promotional Institute. At the time of its foundation at the end of the 1990s, the lending fund initially only focused upon investment promotion, until, approximately eighteen months ago, the financing of operating resources was also added. A maximum of EUR 100 000 can be borrowed, with two years before repayment must start. The term of a loan is 10 years, with an interest rate of 6.7% in the case of investment promotion, or, 8 years in the case of operating resources financing with an interest rate of 9.7%.

Venture capital companies/venture capital funds. The form of financial support which appears to have adapted itself to the specific needs of non-traditional entrepreneurship in the areas under investigation, is that of venture capital financing. Initiatives of this sort have been launched in both *Länder*. The here discussed example of *GENIUS Venture Capital GmbH* provides funds through a combination of a state deposit, investment from one or several banks (in the start-up) and a growing private deposit fund. Unlike venture capital companies focused upon commercial gain, which almost exclusively concentrate on testing, providing financing, administering and later selling investment proposals, the above examples are concerned with development-oriented venture capital companies. These too, are interested in the capital gain of their investment, however, they achieve this by formally accompanying the development of the company in which they invest as an active partner. Founded in May 1998, by the technology park in Schwerin/Wismar (*Technologie-und Gewerbezentrum e. V.*), the *Genius Venture Capital* seeks to support technology oriented SMEs in Mecklenburg-Western Pomerania through the provision of private capital. *Genius Venture Capital GmbH* takes part in the company as a partner (open investment) and provides additional capital as a silent partner (silent investment). The commitments range in order of magnitude from EUR 100 000 to EUR 1.5 million. Larger investments are realised in co-ventures with other venture capital companies. The Land Mecklenburg-Western Pomerania supports the *Genius Venture Capital GmbH* in the context of the project *Gründungshilfe für technologieorientierte Unternehmen* (Start-up assistance for technologically oriented companies). This involves opportunities for university graduates, particularly from *Länder* outside Mecklenburg-Western Pomerania. Private banks are involved indirectly in this fund. The fund itself offers credit to graduates with a project idea (early stage finance) and then raises the money from private banks. In turn, the private banks receive a guarantee from the KfW or from the Mecklenburg-Western Pomeranian Guarantee Bank. Venture capital funds in Brandenburg are owned by, or are close to the Land, including the medium-sized *Venture Capital Company Berlin Brandenburg* (Mittelständische Beteiligungsgesellschaft Berlin-Brandenburg), *Venture Capital Company Ltd* (Kapitalbeteiligungsgesellschaft mbH), *Seed Capital Brandenburg GmbH* and *BC Venture GmbH*. The average investment sums amount to more than EUR 500 000.

Innovation assistant for SMEs – the financing of knowledge and innovation investment. In connection with the development-oriented range of financial support available for technology oriented companies, the promotion of ‘innovation assistant’ for SMEs in Uckermark and Brandenburg, which is offered by *Investitionsbank des Landes Brandenburg* (ILB), the public promotional bank, should also be mentioned. The aim is to raise the innovation and competitive ability of SMEs in Brandenburg, and to convert to environmentally sustainable products and production methods by taking on college, and advanced technical college, graduates as skilled employees (innovation assistants). The employment of innovation assistants is promoted if the job requirements make it necessary to employ college or advanced technical college graduates,

and/or if the products, methods or services to be developed are innovative and/or environmentally sustainable, and give rise to the expectation of competitive advantages. The job has to be in Brandenburg and the employment has, as a rule, to be contracted for at least 24 months. The programme subsidises graduates in the first year of employment with 50% of the gross, income tax liable wage (without special payments) up to a maximum of EUR 20 000, decreasing to 40%, up to a maximum of EUR 10 000 in the second year. Two graduates per existing company are supported for a period of 24 months each. For companies in the start-up phase (the first five years of existence) up to four graduates can be hired, although only up to two assistants at the same time. Unused support time of more than 6 months can be used to increase the number of subsidised assistants.

The forms of public support, as described above, are aimed at technological innovation entrepreneurship which demonstrates the potential to establish itself on the market or break into new markets outside the region. Precisely because it concerns companies that have great development potential but are still in the product introduction phase, this investment form is of great importance. Within the areas researched, it was found to suit the needs of entrepreneurship involved in technological innovation. The latter are characterised by the need for a technological 'up-grade', which arises when they want to exploit the chances for further development. In turn, this presupposes capital intensive research and development. This type of company, in Parchim and in Uckermark, often appears to begin with small projects but, for want of capital, not to have the ability to keep up with national and international developments.

Recommendations

Strengthening the financial management capacities of firms. The entrepreneurship which emerged rather rapidly following the introduction of the market economy, is characterised by openness to new developments and flexibility. The available opportunity structures were able to be used flexibly and quickly, and resulting follow-up jobs were generated. This entrepreneurship was also developed by 'trial and error' undertakings. The challenge then is to enhance entrepreneurial skills. In order to do this, it is recommended that training for overcoming skills shortages, and making education and training more responsive to the business needs of financial management capacities, be provided. Individualised, and more long-term further training, should be extended. Standard courses should merely serve as an introduction before they are allocated to individual companies. Due to the often reserved attitude of entrepreneurs to utilising consultants, whether arising from a lack of critical self-awareness or from scarce financial resources, the value of training should be communicated, and examples of success presented in a way to gain effective publicity. The desire for entrepreneurial training can be instilled by directly showing the example of a successful employer. This assumes that training providers co-operate with business associations and chambers. A permanent publicity campaign on what public financial support measures are available should be initiated and an efficient circulation of information on public and private funding should be established.

It would be sensible to improve and strengthen the financing endowment for necessity start-ups. Financial support for start-ups from unemployment at the level of the *Länder* involves the resources of the Federal Agency for Employment. These cover financial support for maintenance and allowances for materials and equipment. The amount resulting from the two taken together is insufficient for the beginning of a company start-up. The amount seems particularly small if the support for maintenance is subtracted and only those resources which remain for investment are considered. From this initial disparity in access to resources, grows a financial gap, which cannot be compensated by the existing promotional offers. As such it would be advisable to secure access to additional investment resources at the beginning of a start-up, for example,

through either tightening the resources available in later start-up stages, or by means of micro-credit.

Support the lobbying capacity of SMEs. This recommendation involves actors at the levels of *Länder* and districts. Negotiations with finance institutions and banks led by a SME lobby group may prove to be a useful means for obtaining access to financing, better value credit conditions and a larger local effect in the use of the existing financing for SMEs. Given the changing positions of the savings banks, who ensured local orientation and commitment, is uncertain. The lobby group founded in the name of many companies could also lead to a certain competition between the banks. How a lobby group of SMEs could work is explained in the learning model "*Artigianfidi Ferrara*".

Instigate discussion on the role of banks for local entrepreneurship financing. In future it will be important that the role of public finance institutions and guarantee banks at Federal and *Länder* levels is reinforced. This includes their central positioning as promoter and guarantor of the financing in co-operation with, or independent from commercial banks. In order to ensure a more independent position for public finance institutions, the, to some extent, already existing service of providing finance directly to enterprises (i.e. without the commercial banks as distributors) should be enlarged. Public banks may only be active where a market failure exists. Given the obvious difficulties described, it will be of great importance for the role and function of private and public banks to be discussed and to improve and, if necessary, to redesign, the financing conditions which exist between banks, insurance companies and the state, and the state-owned bank, KfW. It would be beneficial if private banks, as finance providers, co-operate more on public information campaigns on offers for accessing public refinanced loans. Successful examples of public financing issued by *Hausbanken* should be presented in such a way as to gain effective publicity in the *Länder*. It is at the Land level, rather than at the local level that influence can be exerted on the issuing of public credit by private banks by means of the public finance institutes, whether savings banks, the *Volks- und Raiffeisenbank*, or co-operative banks or private commercial banks. The involvement of public financial institutes, which act as a liability guarantor, means that the financial institutes of the *Länder* cannot become bankrupt, and that they can refinance themselves at lower costs in comparison to the non-public banks. They pay less interest on money from the financial markets because they enjoy a favourable position in the ranking of risks. This comparatively inexpensive refinancing can be passed on to the *Hausbanken*, for example, in the form of programme-linked refinancing. Programme-linked inexpensive refinancing is more widespread than the public financial institutions' offer of global credit to the *Hausbanken*, and is linked to specific aspects of SME financing. Something which for the *Hausbanken* would mean favourable refinancing represents inexpensive credit for the SMEs as credit users. This is because the *Hausbanken* are obliged to extend the more favourable conditions to the credit users. In cases where the *Hausbanken* do not want to deal with the funding of certain SMEs due to risks, it would be conceivable for the public financial institutions to meet them halfway with indemnification clauses, a sharing of the risks or of a guarantee. It is of the utmost importance that the Land uses and strategically employs the public financial institution, to close the financial gaps for SMEs. For this an explicit political decision is needed, as the banks, whose actions are driven by the profit motive, will not solve the problem by themselves. A prerequisite for the implementation of the financing mechanisms that are more in line with needs of SME's, as outlined above, will be that the state and federal governments both want to, and are in a position to be able to, position their financial support in such a way that the public promotion of private financing is brought about despite insufficient collateral. In light of diminishing public resources and a decreasing range of support, the primary significance of public financial support consists of arranging the general framework conditions in such a way that the *Hausbanken* can solve the acute problems. The

recommendation is to base public finance support on a credit based mechanism within a revolving fund system and to reduce the grant based public finance. There is an advantage for the public in that credits will be paid back. The advantage for the company is the creation of a credit history which will be useful as a future 'entrance ticket' to the private finance markets. This recommendation is consistent with the support by the EU Structure Fund, which will be of continued relevance to Brandenburg and Mecklenburg-Western Pomerania in the 2007-2013 period.³⁹ In concrete terms, this means the use of European subsidies (e.g. structural funds resources) to award promotional credit.

Extend and complement the existing range of venture capital schemes for small and medium enterprises. A further extension would help to (i) improve financing for the growth of small and medium companies established in the market (including takeovers) as well as enabling them to tap into international markets; and (ii) to improve financing for the development of products and processing where early innovation potential is demonstrated. Development-oriented venture capital forms could be strengthened. In addition, the venture capital company scheme is connected to various support schemes of the local and regional economic development agencies. In this case the range of financial support is supplemented by a relevant covering of the credit risk by means of binding guarantees. Extending this scheme to small and medium companies would be of great use in assisting them to realising their entrepreneurial potential. It would be sensible to learn from development oriented venture capital financing and to adapt it to other financial instruments, e.g. guarantees, and to offer it to all kinds of entrepreneurship. The low equity quota of the companies represents the central financing problem, even among non-technologically oriented companies. For this reason venture capital funds which have been geared towards the narrow sector of technologically oriented companies should expand their focus to include the whole spectrum of entrepreneurship. Extending the existing range of co-venturing offers could take place within the already existing co-venturing funds owned by, or close to, the *Länder*. This could be proposed and initiated by the finance ministers of the *Länder*, who have authority over the fund financiers of the *Länder*.

International learning models

FILTARN, France

FILTARN is a good example from which lessons can be drawn in relation to the recommendation for the extension of the existing range of co-venturing support for SMEs.

Description of the approach

FILTARN has operated since 1991 and is a local venture capital fund for SMEs, which was created with the support of the agency, AGATE (*Agence de Développement Economique du Tarn et Garonne*), the development agency of the areas Tarn and Garonne. AGATE was created in 1989 with the chief of objective of strengthening SMEs and fostering their growth. In 1991, the AGATE agency also became administrator of the LEADER I programme for the Tarn des Montagnes region and later, in 1997, of the LEADER II programme for *Tarn des Talents*. The venture capital fund is the initiative of a Local Action Group, carried out without LEADER funding. AGATE, on the basis of a contract, plays an active role within FILTARN, ranging from the provision of advice and counselling to taking up a share in the participating SMEs.

³⁹ See for further information Kienbaum Management Consultants GmbH (2006): "Ex-ante-Bewertung für das EFRE OP des Landes Brandenburg 2007-2013", Berlin/Düsseldorf.

The FILTARN approach emphasises that the earlier companies act in situations with growth potential, the more room they have to manoeuvre, and with this, the better the chance they to 'make it around the corner'.

FILTARN was set up in order to offer company founders the opportunity to have development oriented venture capital and consultancy from the beginning of their project. FILTARN's aim is to boost the equity of SMEs either during their foundation or their development. By encouraging local businesses to acquire a stake in other local firms, it exerts an educational and synergetic effect on entrepreneurs. In this way negative developments can be recognised in time through the cooperation of founder and advisor and appropriate measures taken early. With equity participation in businesses ranging from only EUR 15 000 to 76 000 for a maximum period of seven years, the projects financed by FILTARN are more modest than those supported by most conventional venture capital companies, but they serve as a lever to mobilise further sources of funding. Since 1997, more than 20 applications have been submitted each year. To be eligible, these applications must be from owner-managed firms (in industry or services, but not the trade sector) which are based in the Tarn region. Their projects must be seen as innovative and coherent from a financial, commercial and human capital position, as well as creating new jobs in the long term. At the same time, the enterprises are provided with the advantage that they not only receive capital, but that it is also inexpensive. The enterprise climbs in the rating of banks, thereby increasing its chances of acquiring additional financing.

An investment committee analyses the funding applications. These are then submitted to the board of directors (12 members, including nine shareholding company managers), which considers around 12 projects per year. Seventy per cent of the projects receive a favourable response, culminating in FILTARN acquiring a stake in the business. Before, on average, every fourth founder of a start-up was not able to keep his company in the long-term. Reasons for this development lie, along with business factors, in management mistakes. These include in particular

- Founders lacking the time to regularly review their businesses;
- Planning errors resulting from this;
- Lack of external support in the implementation and use of possibly existing planning tools;
- Lack of experience of the founders in dealing with crises; and,
- Belated reactions to plan deviations resulting from this.

With the capital and consultancy offered by FILTARN an instrument for the real-time supervision of the company's development is available to founders and advisors. In this way negative developments can be recognised in time through the cooperation of founder and advisor and appropriate measures taken early. At FILTARN a guarantee is systematically secured from SOFARIS, a national institution providing sureties for SMEs. Once the investment decision has been taken, FILTARN provides project support and follow-up from a member of the board of directors. Since its creation, FILTARN has increased its capital by three times, bringing it to around EUR 650 000 by the end of 1999. It currently has 56 shareholders, 42 of which are local businesses and the regional authority arranged the ERDF contribution within the frame of the EU Objective 2 funding rules.

After fifteen years of operation, FILTARN has acquired a stake in more than 60 businesses worth a total of around EUR 1 629 375. Its average stake is no more than 20% of the capital of the business firms concerned. 38% of these interventions have involved new business start-ups, 9% business firms in operation for less than five years, 47% projects to expand existing businesses and 6% business takeovers. The first proper divestitures took place in 1998 and 1999, with average capital gains of around 18% per year, although one yielded over 30% per annum.

Why the approach is relevant to Uckermark and Parchim

The FILTARN scheme was designed in response to the local economic environment, where micro-firms predominate, and where job creation has been a priority for local authorities. It was established beforehand that limited private equity is an obstacle for the average eastern German enterprise in surpassing the bank's company's credit worthiness assessment. At the same time, it was recommended that the venture capital funds exclusive to technology and innovation oriented companies which already exist in both *Länder* be extended to the whole entrepreneurial spectrum. FILTARN shows that venture capital funds can be applied to a wide range of entrepreneurship, in particular small and family firms. In both investigated areas much will depend on capital supplies reaching the historically determined structural needs and opportunities.

FILTARN also shows that venture capital funds can be initiated at the local level and organised with the use of guarantees of the public surety bank (SOFARIS). Taking the need in both areas into consideration, it would be possible, with the involvement of the respective surety bank of the Land and/or the public finance institutions, to implement a similar system.

Each individual venture capital investment has had a fairly limited impact in terms of the investment generated and new jobs created. The context in which FILTARN emerged, namely a comprehensive structural transformation, also highlights its relevance for Uckermark and, in particular, Parchim. More densely populated and industrialised than most other departments in south western France (with the exception of the Toulouse conglomeration), the department of Tarn has two large-scale labour pools, organised chiefly around the mining (*Carmaux*) and textile (*Mazamet*) industries. In both cases, this generally involves small, highly traditional family businesses. Over the past 15 years, these two labour pools have been hard hit by major restructuring problems which have become evident in this peripheral region and which often call for investment far beyond the means of the businesses concerned. However, such financial resources do exist locally, in particular in certain business firms and financial institutions. These problems led to the creation of the economic development agency AGATE in 1989.

Reasons for the success of the approach

The main reason for success lies in the fact that the use of FILTARN proceeded from an exact analysis of what was needed. In addition, FILTARN operated at the local level. In this way, what was needed, and what was offered, was brought into an effective and sustainable relationship. FILTARN has among its stakeholders 41 local companies; its board and the five other administrators represent the local enterprises. The stakeholding local enterprises hold 40.8% of the fund, with others including the saving bank *Caisse d'Epargne Sodepar* with up to 15.9% , the financing agency of the *Caisse de Dépôt, CDC Entreprises* with up to 11.9%, the bank *Crédit Agricole* up to 9.6% and the association *Proxidev* with up to 6%.

A study in the French region concerned has shown that it is the need for capital contributions of less than EUR 154,000 that existing financial mechanisms are failing to address.

It concluded that a local venture capital company, which would rely on local investors, was required. The project was set up in 1990 in the form of a joint stock company (FILTARN S.A.) with capital of EUR 164,600. It was designed in response to the local economic environment, where micro-firms predominate, and where job creation has been a priority for local authorities. According to their formal, legal status the local venture capital distribution fund was founded on the initiative of the local authority. The regional council (*Conseil General*) provided logistical support. It had shareholders, five of which were business firms from the Tarn area and four were local financial institutions. Above all, however, the local venture capital management ensures easy accessibility for the enterprises.

The obstacles that were faced and the quality of the response taken

Initially there was also a widely held view that venture capital was not something for local companies, but only for larger, and/or rapid profit making technologically innovative companies. At the same time, there also existed scepticism amongst the companies requiring capital with regard to accessing money directly from investors instead of from a bank. The local focus of FILTARN is an important reason for its success, because both the providers and the beneficiaries are local, while trust plays a greater role in decision-making. Going beyond business and employment terms, FILTARN has had an educational impact and has raised awareness in the area, amongst both beneficiaries and the fund's shareholders.

Considerations for adoption of this type of approach

The FILTARN example is an example of good practice, and its approach shows how development oriented forms of venture capital investment can also be provided to mini and small entrepreneurial activity through decentralised co-operative regulation. This experience shows that it is possible to adapt the development oriented financing of the venture capital funds to other financing instruments. In this case, the development oriented components of the venture capital financing are practiced and applied to loan guarantees and, apart from that, also act as subsidies during the start-up phase.

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Artigianfidi Ferrara, Italy

"*Artigianfidi Ferrara*" provides an excellent example of both a development oriented guarantee scheme, for all kinds of craft- and artisan-based entrepreneurship, and of an effective lobby group for SMEs.

Description of the approach

Artigianfidi Ferrara, founded in 1972, is a co-operative which provides loans for local artisan and handicraft SMEs and new businesses exclusively in the Province of Ferrara, Italy, and has over 5 600 members. It is a commendable example of how effective cooperation can take place within a local unit of the Italian-wide CONFIDI network. The CONFIDI network, of which *Artigianfidi Ferrara* is a member, is a collective guarantee scheme and is delivered either by the local Chambers of Crafts and company consortia (*Conzorzi*), or by confederations (*Cooperative Artigiane di Garanzia*). Local companies act as guarantors for the capital deposits (*Fidi*).

Artigianfidi Ferrara was founded to improve the availability of services and finance offered to artisans and craft based SMEs, it also represents the interests of member companies, particularly to banks. The amount of the guarantee available is between 50% and 80% of the given credit and is decided on a case-by-case basis by a committee of members. *Artigianfidi Ferrara* has in turn joined forces with other similar organisations in Emilia Romagna to form a network called *Artigiancredit Emilia Romagna*, representing some 120 000 artisans and handicraft based SMEs. This regional network has, together with associations from other regions, become a member of the *Confederazione Nazionale del Artigiano*, the national network of handcraft companies.

Belonging to regional and national associations has enabled *Artigianfidi Ferrara* to extend the financial support available. Up to sixty times as much as the fund of *Artigianfidi Ferraras* can be offered as guarantees for loans. Between 1999 and 2003 the guarantees of *Artigianfidi Ferrara* amounted to around EUR 47 million, for 778 guarantees within the Province of Ferrara.

Artigianfidi Ferrara negotiates contracts with the banks which enable more favourable conditions to the member companies of the confederation, and also negotiates with them in the event of changes to account management. In this case, they assist the companies by relieving them of the burden of bureaucratic and often time-consuming interviews with the bank. Due to its large number of members *Artigianfidi Ferrara* has bargaining power at its disposal which a single entrepreneur could never summon. *Artigianfidi Ferrara* therefore acts as both a guarantor and as a lobbyist.

The advantages of the organisation are clear:

- Firstly, companies are able to receive credit as a result of guarantees;
- Secondly, credit and financing are made cheaper; and,
- Thirdly, a lobby group acts on behalf of its members.

The guarantee mechanism is of interest to both investigated areas and *Länder*, because the resources of the European Investment Bank also include a revolving fund, thus lightening the burden of the regional development and the local private banks (*Hausbanken*).

Why the approach is relevant to Uckermark and Parchim

It was established that in Uckermark and Parchim one of the central problems was the weak position of entrepreneurship in relation to the banks. This has consequences as to whether companies receive any credit at all and the actual cost of such credit. The weak position of the

companies must be overcome. However this cannot be achieved by a strengthening of the respective companies alone, for example by means of training measures. It will also not be enough to rely on so-called investors readiness programmes, that is, making companies 'fit' into the conditions which exist in the financial economy. Instead, it is vital that the companies find a common voice in order to articulate their concerns with regard to the financial economy. At the same time, it is assumed that the banks will adapt themselves to the historically determined characteristics of companies within a given area.

This is of vital importance in Uckermark and Parchim. In the face of the specific eastern German conditions (little or no securities and markets that are still restricted) companies will not be able to tailor themselves to the requirements of the financial economy in the medium term. A range of factors are at play here, including the regulation of banks, which demands that companies are subject to a standardised ratings method, and the regulations according to which financial institutions are founded, or alternative credit providers (private banks, co-operative banks, etc.) are permitted into the market. *Artigianfidi Ferrara* is thus an example worth adopting.

Similarities can also be seen in the context in which *Artigianfidi Ferrara* works. The economy of the Province of Ferrara, in the region of Emilia Romagna, is characterised by a multitude of small, and very small, production units, and by a high failure rate among new businesses. *Artigianfidi Ferrara* was created in a regional context where credit was expensive and those seeking loans were unable to provide the required guarantees. The banks justified this practice by blaming the high level of investment risk and a lack of collaterals.

Reasons for the success of the approach

The decisive reason for the success of *Artigianfidi Ferrara* can be found in its local focus. At the very local level it helps to generate a strong entrepreneurial relationship, with a large commercial base, and with aim of increasing the accessibility of credit and guarantee schemes. This local knowledge is ultimately the reason for the lower rate of default than that of the banks) as it allows for effective scrutiny of proposals to take place.

Considerations for adoption of this type of approach

Artigianfidi Ferrara is an excellent example that can also work in a rural context and one of relevance for Uckermark in particular. It should be kept in mind that *Artigianfidi Ferrara* has retained its mutual character, under the responsibility of its entrepreneur managers. For this approach to be successful, experienced management seems to be a necessary precondition, particularly in relation to financial management capacities. As this cannot be taken for granted as a widespread competence in Uckermark and Parchim, the introduction of an approach similar to *Artigianfidi Ferrara*, should be accompanied by training and consulting measures so as to improve financial management competencies.

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ADIE, France

ADIE, covering the region of Hainaut-Nord Pas-de-Calais in France, provides a valuable example which is particularly relevant to Brandenburg, in relation to the recommendation to improve the financing endowment for start-up support from unemployment.

Description of the approach

The French organisation, ADIE (*Association Pour le Droit a l'Initiative Economique*), which was established in the early 1990s, operates almost 100 local agencies and around 300 contact offices in all regions of France, of which Hainaut in northern France is one. ADIE is probably the biggest and most experienced supplier of micro-loans in Europe.

ADIE offers a host of different products for microentrepreneurs. First of all, there are micro-loans of up to EUR 5 000 which are accompanied by access to mentors. The aim is to finance the establishment, or development, of a microbusiness, usually in the retail and/or services sector. The interest rate is currently 7% with monthly repayments, plus a 'solidarity contribution' of 2% to 3% which is channelled into a type of mutual guarantee fund. Guarantees, which are only used, in the very rare case when debtors deliberately refuse to effect repayment, are also requested from friends, neighbours, etc.

If no equity at all is available, ADIE has two alternative offers at hand: start-up subsidies that are financed by public bodies in the region, and 'quasi-equity' loans that rank below commercial loans and which are fed from interest-free, so-called *Predeneur* funds which ADIE has set up with the support of private banks. Furthermore, special gradual loans, equipment leasing and monitoring services are also on offer. ADIE also organises founder networks in order to facilitate mutual support, as well as a virtual 'trade union' – financial cooperative organisations of individuals with a common affiliation, such as employment, union membership, or place of residence. Credit unions accept deposits of members, pay interest (dividends) on them out of earnings, and primarily provide consumer installment credit to members.

ADIE has established work-sharing partnerships with over 50 French banks: the micro-finance organisation looks after the loan and the banks are responsible for handling repayment. Since 1994, around 10,000 'solidarity loans', with a total volume of more than EUR 30 million, have been awarded, as well as quasi-equity loans where the banks have contributed up to EUR 1.9 million (which corresponds to 77% of the overall sum). The repayment rate is currently 93% and is expected to increase even further. Compared to the cost borne by the French government for one unemployed individual (namely around EUR 18 000), the costs of subsidising a founder, between EUR 1 800 to EUR 3 000, are ridiculously low. This investment can also be termed sustainable, because the average survival rate amongst the companies established using this money, 75% after two years and 52% after five years, is in line with the French average. This is hence a good business – both for the individual and for the community.

One of the key obstacles facing economic initiatives, in particular those focusing upon deprived individuals, are the highly complicated and very complex requirements which apply in west European societies when establishing a business – even if this business merely involves selling pizzas. ADIE now has 240 permanent and 700 voluntary workers nationwide who, with mentoring and business advice, can assist in meeting the requirements. ADIE is also active on a political level in order to promote founder-friendlier legislation. This involves the high social collateral costs which often 'gobble up' the entire annual income of a micro-entrepreneur: ADIE

was able to convince the French government to include in its agenda the demand to suspend or reduce these payments for low-threshold businesses during the first two business years.

Furthermore, ADIE is campaigning for improvements in the legal framework conditions for micro-lending in France. Supported by French banks, banking legislation has been amended so that organisations such as ADIE are now permitted to lend the money borrowed from banks to the unemployed or to social-welfare recipients. This means that it is finally possible to set up a central 'back-office' which receives favourable lending lines from partner banks, thus enabling them to work in a cost-saving manner. All the same, it will hardly be possible to keep operating costs so low that they remain below the usury interest rate of around 10% currently valid up to now for loans. ADIE is also campaigning here for a more flexible approach.

In December 2001, ADIE Hainaut signed an agreement with the Hainaut Savings Bank (*Caisse d'Epargne Hainaut*) designed to improve access to banking services for microenterprises. From 2002 the agreement has guaranteed a stable interest rate of 7.1% for a maximum term of two years, the opportunity of a four-month delay in repayment, and collateral deposit of 50% from an outside guarantor. The beneficiaries have access to a fee-free business account with the *Caisse d'Epargne* for a two year period and business advice services.

In the region of Hainaut, ADIE implemented a new type of field agents called 'district loan agents'. These new loan officers are based in well-defined neighbourhoods and are familiar with the local context. This concept is based on the idea that the target group of this scheme consists of persons not accustomed to leaving their neighbourhoods and interacting with so-called traditional structures. The loan officer's task will be to fulfil the financing needs and to guide the client towards registering their activity through the services of an information and registration office. ADIE Hainaut is continuously seeking to identify enough volunteers to guarantee that all the enterprise creators financed by the project can benefit from follow-up services to support their new enterprises. In this regard, ADIE has been publishing articles in the press and focusing on volunteer involvement within the scope of their public relations work.

In addition to ADIE's traditional activities, new instruments have been developed to enable ADIE to assist potential enterprise creators in as many ways as possible. There is, for instance, the equipment pool, comprising market stalls, vehicles and computers, which has grown as ADIE itself has evolved. This helps those who create enterprises by giving them the means of testing their activity while keeping their debt levels as low as possible.

Reasons for the success of the approach

The following conclusion can be drawn with regard to microlending in Europe: the more developed the finance sector of the respective country is, the narrower the margins are for micro-lenders, and the more likely it is for micro-lenders to be those who use niches such as unemployment start-ups and flank offers of financing with consulting offers. In countries with less developed finance sectors, such as in Eastern Europe, micro-lenders are widely scattered among the population; those who also offer consultation and accompanying measures are scarce. The ADIE example, demonstrates the need, however specific, for micro-credit in a society even with a generally highly developed banking sector. Indeed, the ADIE example shows how micro-lending can operate under such circumstances, although micro-credit banking in Western Europe cannot generate a high return. What is important is to ensure the correct interaction between banks and micro-credit organisations. If the contribution of the banks is restricted to issuing money, and a micro-credit organisation, like ADIE, takes on both the preparation and

preliminary examination of the credit applications, as well as the supervision of punctual repayment, cost-effective lending can be secured for all organisations involved.

Considerations for adoption of this type of approach

The previous comments, with regard to the co-operation between banks and micro-credit organisations, provide an opportunity to discuss the role of the public institutions and their financial contribution in a micro-lending system. ADIE is financed by state resources, including from the European Social Fund. It receives this as part of its role as a micro-lending organisation which both initiates the provision of credit, as well as its supervision. ADIE also takes on the function of managing the risk for the banks, as well as acting as a consultant for company founders. In so far as the banks, as well as the public finance institutes should be induced to introduce micro-credits, the *Länder* could secure their contribution to measures through micro-credit organisations such as ADIE. This would involve tying the resources up, in order to attain a long term commitment from the banks. The public resources should not be dependent on political demands, such as budgets and public spending cuts, rather it should be available on a long-term basis, otherwise the micro-credit organisations necessary for the whole system of micro-lending will not be secured.

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ACCESSING EXTERNAL MARKETS, PROMOTING INNOVATION AND DEVELOPING BUSINESS NETWORKS

By Robert Pollock, United Kingdom

Introduction

This paper focuses on three factors of entrepreneurship and economic development policy in the districts of Parchim (Mecklenburg - Western Pomerania) and Uckermark (Brandenburg). These factors are (i) accessing external markets; (ii) innovation; and (iii) networks. The paper starts by briefly exploring the theoretical underpinnings relating to the three areas of focus of this paper. However, as Blakely (1996) notes: "Currently, no theory or set of theories adequately explains regional or local economic development. There are several partial theories that can help us understand the underlying rationale for local economic development". This paper will strive not to become a "prisoner of theory" but will provide useful theoretical perspectives to underpin practical policy recommendations.

Furthermore, all local economies are different. Recognising the unique context of any economy is the very first step in developing successful economic development policies. As Jean-Jacques Rousseau noted in 1762, "The general objectives of all institutions must be adapted to meet the local conditions and meet the character of the people concerned." Any recommendations in this paper need to be considered within the socio-economic context of the two East German districts being reviewed. To that end, the paper details characteristics of both local economies that need to inform public policy and the recommendations contained in the paper. A recent E.C. study of the Factors of Regional Competitiveness (2004), noted that for an economy to embark on successful economic development it must understand its current economic assets, set a clear vision and strategy of development shaped by these assets, and have a clear and agreed plan of action for achieving the vision.⁴⁰ This applies to any economy: national, regional or local.

Three key factors of local and regional economic development

The three factors (accessing external markets, innovation and networks) have been identified by a range of studies as key determinants of the success in local economies. Successful local economies have dynamic businesses bases with significant penetration of external markets, high levels of innovation and appropriate networks of local business and organisations. There is also ample evidence that it is interaction between the three factors that determines the success of local economies. Although the reasons for local economic success are usually multi-causal, by focusing resources on these three factors and recognising their inter-dependence, there is greater likelihood of policy makers stimulating a virtuous cycle of development and avoiding the downward spirals of economic stagnation and decline.

⁴⁰ See http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/3cr/competitiveness.pdf.

Accessing external markets (regional, national and international)

Demand is vital to any economy. Low demand leads to stagnation and decline. Successful local economies have high levels of demand. Furthermore, a significant part of such demand comes from outside the administrative boundaries of the local economy. Local economies need to recognise that the wider regional, national and international economies are the market places for both their goods and services. Export-based models propose that the performance and development of a regional or local economy depend on the relative size and success of its export-orientated industries – its tradable sector. The simplest model is the economic base model, in which a local economy's growth depends on the growth of its export sector and its ability to generate demand for its goods and services from outside its political boundary. The external demand for a local economy's goods and services is assumed to be determined by their price, the income level of external markets and the price of substitute goods in those external markets. Factors such as product quality will also affect demand and will also influence external demand.

On the supply side, all factors having a significant effect on production costs can be expected to affect a region's competitive position in external markets. These will include wage costs, capital costs, raw material costs, intermediate input costs and technology. If demand and supply are favourable to an economy's export growth, this will lead to higher overall output and rising employment.

A key element in this cumulative process lies in the way in which increased output leads to increased productivity. This is the essence of the dynamic increasing returns assumption that underpins the 'Cumulative Causation model'. Expansion of output induces innovation within and across firms both through the opportunities for increased specialisation within firms, and through the accumulation of specific types of fixed capital within which technological advances and innovations are embodied. These technological advances raise labour productivity in the region. A virtuous cycle is created.

Also, technological spill-overs are often geographically localised. Once a local economy acquires a relative advantage in terms of innovation and technological advance, it is likely to be sustained over a long period of time. It is to this aspect, we now turn with greater attention.

Innovation

A key driver for local economic success is innovation. Innovation is dependent on a number of factors including investment in and access to technology and human capital. This innovation-driven approach to economic development is associated with the 'Endogenous Growth model'. The key assumption of the model is that the accumulation of knowledge generates increasing returns. Therefore, a key role for public policy is the stimulation of innovation via the adoption of new technologies, R&D, facilitating spill-over effects and so on.

As noted, an important aspect of the endogenous growth model is human capital. Skilled and educated workers tend to be more productive and innovative and are therefore of crucial importance to local economies. It follows that the private & public sectors should invest in training for employees and schooling for the population.

Talent is attracted to places with high levels of opportunity, low entry barriers and diversity. Industries are in turn attracted to places with high levels of talent. Attracting and retaining

skilled people is a key means to stimulating and maintaining innovation and growth in all economies.

An OECD study, *"The New Economy: Beyond the Hype"* (2001), examined economies where growth improved or stagnated in the 1990s. Using comparative and regression analysis, it identified five factors as having a strong causal relationship with economic growth and competitiveness. Three of these were: innovation and technology diffusion; human capital; and ICT/technology usage (the remaining two were entrepreneurship and macro-economic stability). The report concluded that "[p]olicies that engage ICT, human capital, innovation and entrepreneurship are likely to bear the most fruit over the longer term".⁴¹

The role innovation in economic development is even more visible at the local level, as geographic disaggregation emphasises differences in development. There are two profound messages for policy makers in lagging local economies:

- A local economy that wants to stimulate a virtuous circle of development must stimulate innovation; if not a downward spiral of decline may be unavoidable;
- A wider public policy interpretation of innovation must be adopted in lagging economies; one that goes beyond the conventional notions of formal R&D and that promotes innovation appropriate to the local company base and market demand, and that stimulates the diffusion of immediate market relevant knowledge and technologies.

This takes us on to the next factor of consideration in this paper.

Networks

A range of studies in different economies have identified a clear relationship between business competitiveness and networks in both urban and rural areas. Entrepreneurs in dynamic growth firms invest more time in formal and/or informal networks. Networks are especially vital to the innovation process as business innovation is an interactive learning process. Recent studies have demonstrated that innovative and knowledge capacities of a firm are determined by its environment: partners; competitors; customers; human capital; knowledge infrastructure; regulation; etc. Such innovation networks also exist at the local level and are vital to the success of local economies ('Grassroots innovation systems'). These networks are associated with smaller economies and are characterised by local initiatives, diffuse funding (banks, local government, chambers of industry), applied near-market research, lower levels of technological specialisation and local co-ordination. In short, such networks are as important to "low-tech" industries as 'hi-tech' industries.

Strengths and Weaknesses

As noted earlier, recommendations within this paper need to be considered within the socio-economic context of the districts of Parchim and Uckermark. Below are characteristics of the local economies that need to inform public policy as regards the three factors of analysis of this paper. This is not an exhaustive list of characteristics but rather an attempt to identify the "headline" issues that need to be recognised if the recommendations are to have local, practical applicability and value.

⁴¹ OECD (2001): *"The New Economy: Beyond the Hype"*, Paris.

Low income + high unemployment = low demand

Demand is vital to any economy – it is a prerequisite of any successful local economy. Given the combination of low incomes and high unemployment in Parchim and Uckermark, it is vital that both local economies fully recognise and exploit wider regional, national and international markets for both their goods and services. If a local cumulative causation affect is to take place and a virtuous cycle initiated, more local businesses need to look beyond their current perceived market boundaries and further expand in non-local markets in which they are operating.

Demographic disadvantage

Both areas are suffering from marked population decline, especially Uckermark, and significant levels of out migration. Evidence indicates that it is the skilled and educated who are leaving the two districts. This has major policy implications for two reasons:

- Further negative impact on local demand;
- Skills retention and attraction is central to innovation within a local economy and an endogenous growth approach. The difficulty that the two districts have in retaining key members of the workforce, let alone attracting new ones, undermines growth in the two economies.

Diversity of economic structures

Both the Parchim and Uckermark economies have potential cleavages between (i) urban and rural; and (ii) big employers and small employers.

In both areas the manufacturing and agricultural sectors are of marked importance. In Uckermark, it was commented that the economy is essentially "rural with an industrial island". Such an economic structure can lead to policy polarisation and fragmentation, and potential economic opportunities and synergies at the District-wide level being ignored. It is common in the EU for development agencies to bias innovation and export/internationalisation interventions towards manufacturing enterprises in urban areas.

Another potential cleavage in both areas is between big and small employers. GDP per employee and GVA per employee is higher than Land average in both districts. This is driven by the concentration of larger, capital intense companies in Parchim (e.g. engineering companies) and Uckermark (e.g. paper and refining companies). This dependence on such enterprises for wealth creation, can lead policy makers to prioritise larger, capital intense companies as the primary focus for economic development policy at the expense of small, less capital intense enterprises.

Business start-ups driven by necessity not economic opportunity

In both economies there were limited higher value start-up businesses. It was recognised that most start-ups are not driven by market opportunity but by "personal economic necessity". In both local economies, it was noted by policy makers that "there are too many small companies".

The prevailing policy emphasis on stimulating lower value start-ups is only sustainable in the shorter-term due to issues of displacement and the decline of "entrepreneurial supply".

Lower-value start-ups are characterised by a limited ability to grow, in terms of staff, turn-over and profitability, or attract investment. Furthermore, lower value start-ups are the types of businesses that do not have the product potential, capacity or resources to innovate, trade outside their local market or contribute to dynamic business networks.

The innovation deficit

Using Guerrero and Seró's⁴² innovation proxy of patents, both Brandenburg and Mecklenburg – Western Pomerania are very low innovators. In 2004 the number of patents per 100,000 inhabitants at the Federal level was 59, in Brandenburg it was 13 and in Mecklenburg - Western Pomerania 12. It can be assumed that the level of innovation in both districts is also very low.

This was borne out by the level of "Zukunftsagentur Brandenburg ZAB" support (the Brandenburg agency with an innovation focus) for companies in Uckermark. In the last two years ZAB has worked with 85 enterprises and assisted 2 potential high growth/high technology start-up companies in Uckermark. Also, it was noted that the potential for linkages between universities and research bodies and Uckermark companies was limited (15 links had been established over two years).

During interviews in both districts, there was a general opinion that innovation was concentrated in a small number of local industries and that innovation behaviour and investment was low amongst the wider business base. Innovation was often seen as a higher technology driven process. Hence innovation policy is being directed primarily through bodies such as ZAB and "PITZ" (Innovation and Technology Centre Parchim), potentially at the expense of 'grass roots innovation'.

Challenging perceptions

Both districts are perceived as lagging and under developed. This is based on historic, geographic and economic factors. However, such perceptions can be challenged and changed to economic advantage. Both areas have 'Unique Selling Propositions' (USPs): location; landscape and environment; quality of life; property prices; low crime; wage rates etc) and these, along with the districts' economic assets and local products, need to be promoted to encourage immigration, retention of human capital, investment and penetration of external markets.

There are other characteristics unique to each area which are worthy of note.

Parchim

- Entrepreneurial climate near to federal average but "quality" of start-ups is questionable
- Significant concentration of industry by Land standard
- Potential need for a process to facilitate vision, inclusive strategic dialogue and prioritisation in regard to local development
- Airport and equi-distant location between Hamburg and Berlin (and proximity of Airbus manufacture)

⁴² Guerrero and Sero, 1997: "Spatial Distribution of Patents in Spain: Determining Factors and Consequences on Regional Development", in: Regional Studies, Vol. 31.4.

Uckermark

- Geographic opportunity or geographic peripherality (doorway to Poland or dead end)
- Tourism business registrations are high
- Rural culture and good profile regarding its environment and proximity to Berlin
- Severe population decline

Good practice in Uckermark and Parchim

During the study visit to the districts Parchim and Uckermark, a range of interviews were undertaken with local agencies and organisations involved in the local economic development. The level of commitment and professionalism amongst those involved in this policy area was evident and commendable.

There were also initiatives that should be singled out for their good-practice, innovation and effectiveness. These may merit further study or consideration for adoption in other parts of East Germany. Examples are noted below (this is not an exhaustive list), divided by the three areas of consideration of this report: accessing external markets; innovation; and networks.

Accessing external markets

The geography of demand. In Uckermark, the District Authority and other local agencies have taken steps to generate demand for the District's goods and services by tapping into the wider regional economy and neighbouring Poland. The opportunity of importing demand for local services by developing Uckermark's role in the wider "Capital Region" is recognised in the District Authority's economic development strategy. The District Authority is pursuing opportunities relating to: tourism; healthcare; culture and heritage; and relocation of regional public services. Importing such demand from the wider regional and national economy is an effective means of using under utilised capacity (supply) in the local economy. More over, Uckermark is using its USPs to import such demand for its private and public services.

As regards the emergent links with Poland, these were recognised as having longer term but significant potential. In order to stimulate this growing opportunity and lower cultural barriers, the "WIKTOR" project was established for the Oder region. It had three very practical strands:

- Lowering risk aversion, information deficiencies and barriers to market entry for SMEs in regard to trading with Poland by providing market advice and organising matching events in Poland;
- Lowering risk aversion and information deficiencies amongst future entrepreneurs by working with teenage school students to promote entrepreneurship and the opportunities presented by Poland; and
- Lowering cultural barriers amongst Uckermark citizens by sponsoring management assistant internships in Polish companies.

Rethinking supply (tradable products and services). In Parchim and Uckermark initiatives have encouraged businesses to consider supplying products and services, which are often perceived as local, to new markets. In Parchim, the Chamber of Crafts Schwerin recognised over capacity in the local construction industry. In order to find new markets and demand for this industry, the Chamber organised an international trade mission. The trade mission involved 30

participants to Sweden. Both the District Association of Crafts and the Chamber of Crafts play an important role stimulating their members to change their behaviours and think pro-actively in regard to demand and future market changes (e.g. the impact of supermarkets on local supply chains and demand). In Uckermark, in addition to the "Capital Region" strategy and the Polish market, other initiatives are assisting local businesses enter new markets. One notable example is a dairy business that has received marketing and networking support via Leader+ and the "Impulse" initiative. This has encouraged the dairy to attend "green food fairs", promote its products in Berlin, explore franchising and also to export its products and internationalise, for example in Finland and Poland. Interestingly, the dairy was owned and managed by a Dutch migrant who was a strong advocate of the economic potential of the area and its 'Unique Selling Propositions'.

Developing and deepening links with the wider economy. Each District has a small number of prioritised key industries that are well networked within the local economy but also externally. These industries have been rightly identified as having genuine international competitive advantage. The "Energy Cluster Initiative for North East Brandenburg" and the "NUKLEUS" network involving Parchim's precision engineering companies widen and deepen national and international links for local businesses and also facilitate the internationalisation in the local business base. Both networks act as catalysts for engagement in external markets (in Germany, the EU and globally) via trade, inward investment, changing behaviours and awareness, and the exchange of tacit and formalised knowledge across regional, national and international boundaries.

Innovation

Grass roots innovation systems. The "Energy Cluster Initiative for North East Brandenburg" is an excellent example of a place specific, fit for purpose Grass Roots Innovation system. The innovation system is tailored to the differing needs and capacities of the 100 actors in the cluster. Moreover, innovation is interpreted in a holistic manner that involves both large and small, and urban and rural companies. The innovation diffusion mechanisms are also fit for purpose, involving: internal company R&D; co-operative R&D; technology transfer; internationalisation of knowledge flows (e.g. Austria, Denmark, France, Sweden); inward investment; and learning through 'seeing and doing'. Furthermore, explicit attention is given to the communication and dissemination of knowledge in the manner most appropriate to recipient. For example, in order to engage local farmers there is an emphasis on training them at demonstration centres on local farms. This is an ideal model for exchanging tacit and formalised knowledge in a local and relevant setting. Finally, although the innovation process is localised it is linked into the wider regional policy framework via Brandenburg's "Regional Innovation Strategy".

Stimulating a culture of innovation in micro-enterprises and wider community. Another notable approach to 'grassroots innovation' was undertaken by the District Association of Crafts in Parchim and the Chamber of Crafts. Both organisations saw their roles as stimulating a behaviour and culture of innovation amongst their diverse members. They recognised that cultural barriers to innovation were just as important as financial barriers to innovation. They also rightly recognised that innovation is as important to micro-enterprises as larger businesses. One worthy initiative developed by the Chamber of Crafts was an innovation competition for local companies (the first prize being EUR 5 000). It was noted that the competition generated high levels of local publicity regarding the need to innovate and demonstrated that innovation was essential and possible for all types of companies - not just larger, capital intense or technology firms.

Building current and future competitive advantage via innovation. In Parchim a number of inter-related industries had been rightly prioritised due to their international competitive advantage and potential for future growth. These are: precision engineering; hydraulics; and medical engineering. The interplay between a local and a regional initiative - "PITZ" (local) and "NUKLEUS" (regional) - is instrumental in ensuring this competitive advantage is sustained. "PITZ" offers business accommodation for engineering companies and acts as the centre for this industry in Parchim, providing advice on public support, industry information, brokering local relationships, training facilities and a "neutral" place of meeting for companies in the sector. In a very tangible manner "PITZ" provides a high profile physical, focal point for the industry and a clear statement of Parchim's commitment to the industry. The centre also has an important role in representing and championing the longer-term infrastructure and development needs of the local companies and plays an instrumental role in the development of the adjacent industrial zones. If "PITZ" is the physical manifestation of local public commitment to the engineering industry in Parchim, "NUKLEUS" is the network that links local companies to wider regional, national and international opportunities in terms of knowledge and innovation. As noted, innovation is an interactive learning process that requires interactions between private and public actors. The innovative capacity of firms is determined by their surroundings: partners; competitors; customers; human capital; knowledge infrastructure; regulation; etc. Recent research has also demonstrated that links into the national and global economy are also vital for local businesses. Although at a local level there is an absence of formal public knowledge infrastructure (e.g. universities), "NUKLEUS" links local companies into formalised knowledge assets in Rostock and Wismar and co-ordinates demand for and supply of these assets. In addition, the network encourages innovation via supplier development, technology transfer and influencing training provision. Given this role, the potential uncertainty surrounding the "NUKLEUS" initiative due to the ending of InnoRegio funding is unfortunate. In Uckermark, there is also evidence of good-practice that should be commended. The Technology Centre and Business Foundation Centre for Uckermark is a good example of innovation infrastructure at the local level.

Networks

Successful formal networks. The "Energy Cluster Initiative for North East Brandenburg" is a good example of an effective formal business network. It brings together all key local players in the industry (over 100) and acts as a mechanism for strategic dialogue, capacity development, lobbying and co-ordination of stakeholders, internationalisation and innovation. Furthermore, the network is an effective means for exploring, reconciling and addressing tensions between: bottom-up and top-down policy making; national, regional and local regulations; the urban /rural divide in Uckermark; and small and larger businesses. The "NUKLEUS" initiative is also a successful high technology network that brokers relationships and opportunities between public and private sector actors and ensures that Parchim's precision engineering companies can tap into the wider regional assets for this industry in Wismar and Rostock.

Successful informal networks. In Uckermark there was a widespread and consistent awareness of the strengths, weaknesses, opportunities and threats of the local economy, coupled with a willingness to speak candidly on the need for change. There was also clarity in regard to the roles and responsibilities of the various organisations and individuals involved in economic development policy. In addition, there was an understanding of how local policies fitted with wider regional policies e.g. the Brandenburg "Regional Innovation Strategy" and the role of ZAB in its delivery. In short, the informal governance processes for economic development appear to be functioning well in both districts. This is a major asset in terms of local economic development capacity. The reasons for this are probably multi-causal but will be due, in part, to a

common local identity and the scale of the socio-economic issues facing the local economy (e.g. the worsening demographic position).

Recommendations

Accessing external markets (regional, national and international)

There is a need to further increase penetration of external markets in order to create demand for local goods and services. A pre-requisite for this happening is to undertake market research to understand potential demand for the supply of local goods and services at three market levels:

- *Regional market.* It was recognised that Parchim was surrounded by 15 million consumers within a two hour drive time and that Uckermark was an integral part of the Berlin "Capital Region". Market opportunities (demand) at this spatial level will be accessible to a wide range of small firms in a range of sectors in both rural and urban settings.
- *National market.* Parchim and Uckermark have a range of industries that operate beyond the regional boundary. More can be done to link specific local industries to national demand opportunities by configuring the districts' USPs. For example, the lower wage rate in Parchim's engineering industry, coupled with the airport is a potential means to becoming more involved in the Airbus supply chain. The districts also have the potential to import demand in the form of inward investment (e.g. call centres in Parchim), tourists and migrants based on the districts' USPs.
- *International market.* Both districts have industries with international competitive advantage and public policy needs to focus significant attention on maintaining such advantage. Even so, more can be done to support the internationalisation of industries that are perhaps less obvious candidates for undertaking international trade, for example: agriculture and food; and construction. Market intelligence, trade fairs / missions and marketing are important forms of support for such candidate industries.

For companies that have existing export experience, there may be a requirement for support and advice on deeper forms of internationalisation, such as licensing, joint ventures, sourcing and acquisitions. This could be applicable to companies in the industries with international competitive advantages e.g. engineering, renewable energy. It should be recognised that there are existing, mature programmes at the Land level and a wide range of activities offered by the Chambers of Commerce and Trade, and Crafts to support internationalisation and their resources and significant experience need to be utilised in this process.

For each of these three geographic market levels the public sector should undertake research with the private sector to answer five fundamental questions:

- Given our USPs, which local industries (supply) could meet demand in this market?
- What is the explicit proposition of this industry in this market?
- How do we market this proposition to the specific customers in this market?
- What is the business model for this industry in this market?

- What is the role of public and private partnership in supporting this business model?

Further market research needs to be given to the unique geographic opportunities of both areas and policies developed to respond to these opportunities:

- *Parchim* – equi-distance between Hamburg and Berlin, and airport (e.g. place driven inward investment: logistics, transport, maintenance, warehousing),
- *Uckermark* – proximity to Poland and within "Capital Region" (as above, plus tourism, environmental industries, high net-worth / entrepreneurial migrants).

Innovation

In both areas there is need for more innovation in order to close the innovation deficit and a wider, more holistic policy interpretation of innovation.

'Grass Roots' Innovation. More should be done to encourage innovation in agricultural and food industries; basic industries and services; and in smaller, less capital intensive companies. There are good examples of grass roots interventions in both districts. The "Energy Cluster Initiative for North East Brandenburg" is a good example of a place specific, fit for purpose 'Grass Roots Innovation' system. The Chamber of Crafts operating in Parchim has practical initiatives to stimulate a culture of innovation. Such good-practice should be considered for replication across a wider group of companies and industries. Furthermore, by building on existing experience and public support, more could be done to promote investment in and application of ICT and "generic" technologies. There is ample international evidence that the adoption of such main-stream technology has a significant impact on the productivity and growth in all types of companies. Encouraging the adoption and usage of such technology can be done via awareness raising campaigns of the benefits, demonstration and training, and part-financing, micro-grants. This is important to both urban and rural economies.

Higher Level Innovation. The "NUKLEUS" initiative is a good example of a technology-oriented initiative that brokers relationships between the public and private sectors and ensures that Parchim's precision engineering companies can tap into wider regional innovation assets, markets and knowledge flows. The scope for duplicating this initiative is limited as each District has only a handful of industries that are technology driven, capital intense and that have clear international competitive advantage. However, the capacity and infrastructure of "NUKLEUS" should be sustained and lessons applied to other industries (e.g. convergent technologies, supplier development). Also, more consideration needs to be given to human capital issues. Another potential route for stimulating higher level innovation in the local company base is by brokering relationships between larger regional companies with latent IP (intellectual property) that currently do not have the capacity or desire to utilise the IP and smaller local companies with the capacities to utilise the latent IP. The smaller company could buy, licence or pay a commission for the IP. This model stimulates technology transfer and is an alternative to the "spin-out" approach. The approach requires a public sector agency - with in-depth technology and business awareness - to scan for such brokering opportunities and to initiate and facilitate dialogue.

Prospecting for and Prioritising Innovative Companies. In both districts greater resource needs to be applied to identifying start-up companies that are innovative and that have the potential to grow. There needs to be greater emphasis on scanning and pro-active identification of growth companies. This will require a dedicated resource and a wider, more holistic

interpretation of innovation – one that encompasses product, process and marketing. A high-growth start-up programme should be piloted in both districts. This would identify start-up companies with a minimum growth potential (based on employee numbers and/or turn-over), coordinate public support, provide bespoke mentoring and advice, and assist with the raising of private investment. A method for prospecting for and analysing new start-up companies or pre-start-up companies would need to be introduced. In the UK, some development agencies identify higher growth start-up companies as those with the ability to generate an annual turn-over of over 1 million euros per year. Such a programme would only focus on a small cohort of start-ups over a two year period (given the size of the economies, perhaps only twenty companies, depending on the growth criteria, a year would be recruited). This could be particularly valuable in Parchim where the entrepreneurial climate is close to Federal average but quality issues are evident. The on-going initiatives in Brandenburg, such as "*Innovationen brauchen Mut*", seem to be a good starting point for further localisation of the initiatives at district level.⁴³

Importing human capital. Given the USPs of each area (location, landscape/ environment, quality of life, property prices, low crime, wage rates etc), more should be done to attract entrepreneurs to each District. As noted earlier, there is a clear "triangular relationship" between "growth, talent and diversity". If Parchim and Uckermark can't internally generate enough innovative entrepreneurs, then they should try and import some. More can be done to achieve this outcome.⁴⁴

Networking

There are good examples of successful networks in both districts. Both the "Energy Cluster Initiative" and "NUKLEUS" are commendable. However, these need to be sustained and their linkages with other policy areas – such as education, human capital - strengthened. The success of such networking should be emulated in other appropriate industries e.g. construction, food, logistics, tourism. Networking can be stimulated by undertaking value chain analysis and scenario planning with the appropriate stakeholders of these industries.

A key to initiating such networks is for the embryonic membership to pose and attempt to answer a central question: By co-operating how can we move this local industry from being a *price-taker* to being a *price-maker*? This will require collective discussion and agreement on:

- The nature of external demand and changes to external demand over the next three years;
- The local value chain and local structure of an industry;
- How these can be further developed to meet external demand and predicted changes; and
- A strategy to be collectively produced and implemented in order to generate greater value add within the local industry.

⁴³ Further inspiration might be provided by the international learning models "SPOTcheck", "Enterprise Estonia" and "Kredex".

⁴⁴ In both Parchim and Uckermark, the OECD review panel met with dynamic residents who had chosen to migrate to these districts due to the place specific USPs.

There was evidence of a strong network between the economic development actors in Uckermark and the wider region but this was less evident in Parchim. A review of mechanisms for co-ordinating strategy and intervention would be valuable in Parchim.

International learning models

Three learning models have been identified as having potential value to Parchim and Uckermark and potentially other economies of East Germany. These are:

- Auvergne, France – building on existing competitive advantage in a lagging economy
- Scotland – talent attraction strategies to counter declining population and skills gaps (including entrepreneurial deficit)
- Ireland – rethinking Innovation and the Tradable Sector

Building on Existing Competitive Advantage, Auvergne, France

Description of the approach

The Auvergne is a region of contrasts. It is largely rural, with a low population density and is, paradoxically, isolated at the centre of France. However, it also retains a strong industrial base, particularly in sectors such as chemicals, rubber and plastics (it is home to Michelin), metalworking and food processing. The share of employment in industry and agriculture is above the national average, whilst it lags behind in terms of the development of services. It is also characterised by a firm structure marked by a few dominating large enterprises and a very significant small firms sector, engaged in craft-based activities. It is nationally perceived as a lagging region.

Why the approach is relevant to the two districts/to East Germany?

In many respects, the Auvergne is a larger version of Parchim and Uckermark and faces many similar economic challenges derived from perception, location and economic structure.

Reasons for the success of the approach

The 1990s were a period in which the Auvergne benefited from considerable public sector support; major investments were made in improving the region's transport and industrial infrastructure and development of the Clermont-Ferrand airport. However, the area remains economically weak by national standards.

Even so, there are a few key industries that have improved their competitive advantage, and in turn the regional economy, and strengthened the SME base via research and innovation. Many of the research activities within Auvergne are associated with its main industrial activities: food processing; chemicals and related materials; and high performance mechanical equipment. An increasingly important development is in the bio-technologies field. The region has a multi-disciplinary sector based around biological and medical engineering, in particular in the fields of biomaterials, biomechanics and medical electronics. Data indicates that these industries are vital

to the overall competitiveness of the regional economy in terms of wealth creation, productivity, employment, internationalisation and high technology start-ups / commercialisation. In terms of private sector R&D staff by enterprise size, the proportions for medium size enterprises and small enterprise are above the national average in the Auvergne: 18.4% and 20.6% versus 13.7% and 17.8% for France, respectively. This high proportion of researchers in small and medium sized enterprises, relative to the national average, reflects the creation during the 1990s of research orientated organisations aligned to the region's industries with competitive advantage. Auvergne also developed industrial locations focused on supporting these key industries (e.g. in biotechnology - Biopôle Clermont-Limoges, Bioparc de Vichy, Biopôle de Haute Auvergne).

Considerations for adoption of this type of approach in the two districts and in East Germany

The lessons for Parchim and Uckermark are evident. Both districts need to continue to invest in their industries that have international competitive advantage, such as precision engineering (Parchim) and renewable energy (Uckermark). It is these industries that have the capacity to utilise and generate higher value knowledge and achieve a sufficient critical mass of innovation and human capital to facilitate growth via cumulative causation and endogenous growth. These are also the industries which will facilitate a significant proportion of high technology start-ups and encourage R&D in the SME base. Such an approach is, however, capital intensive and requires clear prioritisation of public resources.

Websites for further information

<http://www.casimir.org>
<http://www.anvar.fr>
<http://www.auvergne.drire.gouv.fr>
<http://www.recherche.gouv.fr/drrt>
<http://www.cr.auvergne.fr>

Talent Attraction, Scotland, UK

Description of the approach

Scotland has a long-term declining population, a long-term growth rate lagging behind the UK and a lower level of business start-up compared with the UK average. Over the last five years, with the advent of the Scottish Parliament, policy attention has focused on the economic opportunities of attracting talent from the wider UK and overseas. Scotland has a number of distinct USPs:

- Perceived quality of life (not overly urbanised, good natural environment);
- Lower cost of living than UK average (e.g. house prices);
- Good education system and child care; and
- Less pressure on public services (e.g. health care).

Objectives of the policy are to attract: (i) entrepreneurs and potential entrepreneurs (ii) individuals with skills that the economy requires (iii) individuals that will bring diversity, new knowledge and an international perspective to the Scottish economy.

There have been two strands to the policy approach. Firstly, general raising of awareness of Scotland as a place to live and work via the internet, marketing and the media (e.g. Scotland is the Place Campaign). Secondly, targeted programmes to support people to come and live and work in Scotland (these programmes offer specific advice about employment, the business environment, types of support for entrepreneurs, advice on living in Scotland e.g. legal issues, taxes, housing, schooling). These programmes are focused both at high technology skilled migrants (Talent Scotland initiative) and at the wider market of potential migrants (Fresh Talent initiative). These programmes are not capital intense but require marketing and media campaigns and co-ordination between agencies. The cost for such a programme is approximately EUR 300 000 per annum.

Why the approach is relevant to the two districts/to East Germany

For Parchim and, especially, Uckermark, of particular interest will be the success of the Highlands and Islands region of Scotland in using this approach to stimulate economic development. This region is primarily rural, sparsely populated (only one notable urban centre) and is extremely peripheral. The region historically suffers from population decline, declining state planned industries, a dependence on agriculture and a limited service sector. It has been designated an Objective 1 area. There are similarities with the two districts.

Reasons for the success of the approach

In recent years the Highlands and Islands area has marketed its very distinct USPs to attract new entrepreneurial talent and stimulate an economic and business renaissance. The region has successfully marketed itself as place where the high quality of life, rich cultural heritage, good public services and public assistance to business, outweigh the issues of peripherality and isolation. This change in perception and reality has also been greatly assisted by the internet and ICT.

In the Highlands and Islands, the results speak for themselves. The long-term downward demographic trend has been reversed, talented migrants have settled (primarily from other parts of the UK but a growing number from Central and East Europe) and for the first time in many decades economic indicators (growth rates, incomes, business start-up rates, especially in services) are moving in the right direction.

The obstacles that were faced

Such an approach needs a clear understanding of an area's USPs, a willingness to change and accept new residents, and effective marketing strategies and channels.

Considerations for adoption of this type of approach in the two districts and in East Germany

Given Parchim and Uckermark's demographic and entrepreneurial situation, both districts should consider talent attraction strategies. In both districts migrants who had settled in the districts felt that not enough was done to market and promote the positive assets that each district possessed. This will require a co-ordinated marketing and media strategy for each area and the promotion of positive stories in the regional and national media. There also needs to be co-

ordination between local agencies to ensure a consistent proposition and approach to marketing and advice.

A final policy lesson from Scotland relates to internationalisation. Companies that have existing export experience may require support and advice on deeper forms of internationalisation, such as licensing, joint ventures, acquisitions, opening overseas offices and facilities. Such support has been introduced by Scottish Enterprise's "Global Companies Development Programme". This approach could be applicable to companies in Parchim and Uckermark in industries such as engineering and renewable energy.

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www.scotlandistheplace.com

www.scotland.gov.uk/Topics/Business-Industry/support/Fresh-Talent

Rethinking Innovation and the Tradable Sector, Ireland

Description of the approach

Companies in Ireland have been historically low innovators and also inward looking in regard to market opportunities. R&D expenditure and innovation activity is usually concentrated in large indigenous companies and foreign owned companies. In 2004, of the 16 countries of the EU, Ireland came 11th in terms of private sector expenditure on R&D. Also, given that indigenous firms are concentrated in sectors such as business services, retail, consumer services, construction and food processing there was a perceived barrier to internationalisation in the indigenous business base.

In order to address the innovation deficit, Enterprise Ireland was created in 1998. The agency focuses much of its attention on manufacturing and internationally traded services companies, as well as high growth start-ups. However, the agency is also specifically tasked to encourage innovation in a wider set of traditional, non R&D driven companies. The agency is now delivering a strategy that has a more holistic interpretation of innovation (Technology Innovation Strategy 2003 – 06). Central to Enterprise Ireland's strategy is Technology Transfer.

Enterprise Ireland Technology Transfer services are aimed at companies that are:

- Searching for new technologies which are in line with company needs;

- Looking for an innovative ways in which to satisfy a company or customer need;
- Wanting to license their technologies or share innovative solutions.

Also, over the last ten years, Ireland has encouraged its indigenous company base to internationalise. This has led to the internationalisation of its business services, retail, consumer services, construction and food processing industries. This has been primarily caused by a change in the business culture and a re-appraisal of the possible goods and services that can be traded internationally. Ireland's public agencies have played a key role in this process, primarily Forfas, the national policy and advisory board for enterprise, trade, science, technology and innovation, and Enterprise Ireland via awareness raising and international market analysis.

Why the approach is relevant to the two districts/to East Germany

The lessons for Parchim and Uckermark are evident in light of issues around innovation and accessing external markets.

Reasons for the success of the approach

A company that requests innovation support from Enterprise Ireland is allocated a technology transfer consultant. The consultant will discuss and analyse with the company its innovation issues and technological requirements and then produce a jointly agreed report on the company's needs. Information specialists within Enterprise Ireland then search the agency's networks and databases in order to locate possible partners or collaborators. The agency will also offer assistance in terms of subsequent negotiations with the potential partners or collaborators.

Whilst the service does not stimulate R&D, it does facilitate innovation. Technology, knowledge and processes that are proven to work are transferred quickly and easily.

Considerations for adoption of this type of approach in the two districts and in East Germany

A wider interpretation of innovation by the public sector would benefit the wider business base in the two districts and there is also scope for further developing the innovation services provided by both the public agencies and the Chambers in Parchim and Uckermark. Such an approach will require an agreed and joined up approach between local and Land agencies. Also, as noted earlier, the two districts should reconsider what local businesses have the potential to trade outside the District and regional boundaries.

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PROMOTING RURAL ENTREPRENEURSHIP

by Brian Dabson, USA

Introduction⁴⁵

Rural regions, whether in East Germany, the United States, or elsewhere, tend to be challenging environments for the promotion of entrepreneurship. The seriousness of these challenges obviously varies from region to region, but obstacles tend to fall into three broad groups – those associated with the:

- Small size and low densities of rural communities;
- Social and economic composition of rural communities; and
- Nature of internal and external linkages.

Low population size and density, and as a consequence, limited local demand, make it difficult for rural businesses to achieve economies of scale or critical mass. Without such economies, their products and services must be sold at higher prices, often beyond the reach of local consumers, thus limiting their market still further. Small firms have no choice but to sell outside their regions, often in niche markets; although the arrival of e-commerce has made this a more realistic strategy for many rural entrepreneurs.

Difficulties in achieving economies of scale are also apparent for those who provide services to small businesses. Entrepreneurs in rural communities are less likely to find the resources and services that are taken for granted in more urban locations, such as regular parcel services, high-speed internet access, or specialist technical advice. Suitable buildings with the right access, configuration, or utilities may be hard to find. In many rural communities, there are few lending institutions, the effect of which is to limit access to capital, limit competition and options, and encourage risk averse and sometimes discriminatory behaviours. Moreover, entrepreneurs are less likely to encounter peers with whom they can share ideas and problems – the absence of support networks may limit levels of new firm creation.

The social and economic composition of rural communities can also have a dampening effect on entrepreneurship. Agriculture, natural resource extraction, or a single manufacturing plant often dominates a rural economy, with most local institutions geared to serving that industry and its employees. This lack of economic diversity may not be a problem in good times,

⁴⁵ For a fuller analysis, see Dabson, Brian (2001): "Supporting Rural Entrepreneurship" in: Center for the Study of Rural America, "Exploring Policy Options for a New Rural America", Kansas City, MO: Federal Reserve Bank of Kansas City.

and dependency and complacency – the antithesis of entrepreneurship – become embedded in the culture. But when farm prices collapse, natural resources are exhausted, or the factory closes or downsizes, there is little capacity to withstand the consequences of the change in fortunes.

Many rural workforces suffer from low skill levels, a lack of skill diversity, a dearth of professionals, and a structural mismatch between available jobs and people. The young and well-educated tend to leave. Rural people, by force of circumstance, may be more self-sufficient than their urban counterparts, but the culture of entrepreneurship tends to be weak. The strong sense of independence, borne of necessity and experience, lessens the likelihood of seeking assistance and reduces interaction. Moreover, there is limited capacity to solve economic development problems – the pool of people and organisations on which to draw is small, and public and civic assistance is less plentiful.

Entrepreneurs rely on internal linkages that encourage the flow of goods, services, information, and ideas. The intensity of family and personal relationships in rural communities can sometimes be helpful, but they may also present obstacles to effective business relationships – business deals may receive less than rigorous objectivity, and inter-community rivalries may reduce the scope for regional co-operation. Existing businesses may resist new business development for fear of allowing further competition in a limited market. Local politics may blur lines of authority and decision making processes.

But it is the limited connections to the outside world that most clearly characterize rural communities. Remoteness from an airport or a major highway will limit the type of businesses that can operate in rural locations. Rural businesses have to make extraordinary efforts to access urban markets, and relationships between urban and rural economies are often unequal. Natural resources are shipped out to urban centres without opportunities for local value to be added through processing or manufacturing. Many rural assets are controlled by absentee owners, whether government or corporate, severely limiting opportunities for local entrepreneurial activity.

Strengths and weaknesses

*The context for entrepreneurship in Uckermark*⁴⁶

The District of Uckermark is the largest district by area in Germany covering over 3 000 sq. km. (1 180 sq. miles) but has a population (2005) of only 140 503 at a density of 46 per sq. km (119 per sq. mile). It has experienced a decline in population of 11.8 percent between 1995 and 2004 compared with a 0.3 percent increase in population over the same period in Brandenburg and 0.3 percent for Germany as a whole. The decline is due to both a decreasing birth rate and outward migration. Forecasts for the year 2020 indicate further population decline for the District to about 120 000.⁴⁷

Over the past 40 years, Uckermark has experienced a number of structural economic shifts. Schwedt was transformed from a small market town of 5 000 people to a major industrial centre, which at its peak had a population of 55 000 with some 8 000 employed in the oil refineries and 2 000 in paper processing. Unification and opening up of the industrial sector to market forces led to widespread closings and down-sizing across the region. Now, Schwedt, although still an

⁴⁶ The statistics presented in this section are based on information supplied by Regionomica from State and Federal Statistical Offices and other government agencies.

⁴⁷ For further information, <http://www.rpg.uckermarkk.barnim.de/planungsregion/prognose.html>.

important center of oil refining and paper production has shrunk back to a population of less than 38,000, and the major employer is PCK owned by a consortium of BP-Shell-Total with some 1,300 workers.

In the countryside, state-owned farms and cooperatives created a structure of large arable farms that are still very productive but little in the way of value-added local processing. Employment levels in Uckermark declined by 15.8 percent in the period 1992-2003 to 52 660 of which 8.3 percent were in agriculture and forestry, 25.7 percent in manufacturing, and 65.9 percent in service sectors. The proportion employed in agriculture and forestry is 3.5 times that of Germany and twice that of Brandenburg.

The result of these shifts has been a combination of high unemployment – the unemployment rate is 25.4 percent compared with 18.7 percent for Brandenburg and 10.5 percent for Germany, the out-migration of skilled young people, and a low wages as compared with the rest of Germany. In turn, this has led to depressed local markets for goods and services. Few companies have equity to finance expansions or developments, and banks, having experienced major problems in small company lending after unification, tend to be risk averse.

Entrepreneurship is generally seen as an alternative to unemployment – entrepreneurship by necessity, as opposed to an enthusiastic desire to grasp or create opportunity. One estimate was that necessity entrepreneurs accounted for 80 percent of the total. Momentum for entrepreneurial activity has primarily been provided by "Ich-AG", a three-year living allowance program operated by the federal public employment service (*Bundesagentur für Arbeit*) through its local offices (*Agentur für Arbeit*), for people who have set up their own business. These allowances have been backed by a range of counselling and training programs offered through the Chambers. The Association of Crafts (*Kreishandwerkerschaft*) in Uckermark estimate that some 200 new businesses have entered the crafts sector helped both by "Ich-AG" and recent relaxations in the law that have lowered the barrier to entry in certain occupations. This means that in a depressed local market, competition is increasing in local services, reducing prices but not creating any wealth. Even for better educated and higher skilled workers, entrepreneurship is rarely seen as an attractive option if employment opportunities are available.

With a heavy reliance on public funds and expectations that it is the government's job to create economic opportunity, there is a reluctance to embrace further change that is being brought about by wider global forces. Challenges and problems loom large and few people see possibilities and opportunities.

According to the Institute of SME Research (IfM) in Bonn, Uckermark is one of the poorest performing districts in Germany in the Regional Entrepreneurial Initiative rankings for 2003. The rankings measure the number of start-ups and relocations registered in a year divided by the number of employable residents as compared with the previous year. In 2004 the number of business registrations per 1 000 inhabitants was 11.6 for Germany, 11.7 for Brandenburg and only 7.7 for Uckermark. Business registration data shows that there were 1 088 business registrations in 2004 and a net gain of 367 businesses; this compares with five years previously when there were 731 registrations and a net loss of 21 businesses. For 2004, the main sectors for start-ups were trade and repairs (27.6 percent), construction (14.2 percent), and hotels and catering (9.9 percent).

*The context for entrepreneurship in Parchim*⁴⁸

The District of Parchim has the same population density as Uckermark at 46 people per sq. km. with a population of 103 294 (2005) in an area of 2 223 sq. km. (862 sq. miles). There has been a small decline of 3.3 percent population between 1995 and 2004 somewhat less than that of Mecklenburg-Western Pomerania at 5.7 percent. As with Uckermark, net outward migration is a significant factor.

Unlike Uckermark, employment levels for Parchim have increased over the period 1992-2003 by 2.3 percent to 36 253, almost twice the national increase and in contrast to the 6.0 percent decline for the state. The broad employment structure by sector, however, is very similar to Uckermark's, with higher than the national average in agriculture and forestry (8.4 percent). The unemployment rate is high at 17.2 percent – the rate for Mecklenburg-Western Pomerania is 20.5 percent and Germany 10.5 percent.

The economic base has traditionally been farming and even today contributes 40 percent of GDP. What were once cooperatives are now large highly productive corporate farms of up to 7 000 ha, and management and, to a lesser extent, technological improvements since 1990 have led to a 75 percent reduction in agricultural employment. Mechanical engineering was the main industrial sector but now only one significant firm remains, Hydraulik Nord Parchim, a manufacturer of automobile and heating system components which employs 800, down from some 2 500, 15 years ago. These two pillars of agriculture and mechanical engineering are no longer able to sustain the Parchim economy.

Lack of employment opportunities has encouraged young people, particularly those with education and skills to head west. Ironically, because of the differential in wages (reported to be in the order of EUR 1 000 to EUR 1 500 per month) between the East Länder and those in the west, Parchim is facing a scarcity of skilled labour in the precision and mechanical engineering sectors. At the same time, the availability of apprenticeships and on-the-job training places can satisfy only 60 percent of demand.

The depressed state of the regional economy has dramatically reduced demand for local services and construction. The *Kreishandwerkerschaft* reported a 50 percent drop in construction activities at the turn of the century reducing the number and size of firms to the point that now there is inadequate capacity to compete for large contracts. Small local retailers are beginning to feel the pressure of changing consumer preferences and the restructuring of the retail industry. Efforts to tackle unemployment in the area through the promotion of "*Ich-AG*" and other support programs are bringing new ventures into an already crowded local market and members of the *Unternehmerverband Norddeutschland Mecklenburg-Schwerin* referred to what they perceived to be a growing challenge of the informal economy.

Parchim's entrepreneurial climate according to the Regional Entrepreneurial Initiative rankings matches the national level with 11.6 business registrations per 1,000 people – the rate for Mecklenburg-Western Pomerania is slightly higher at 11.9. Business registrations have shown a significant turnaround since 2000 when there was a net loss of 143 businesses to 2004 when there were 1,210 registrations and a net gain of 408 businesses. For 2004, the main sectors for start-ups were trade and repairs (24.1 percent), construction (19.1 percent), and hotels and catering (7.5 percent).

⁴⁸ The statistics presented in this section are based on information supplied by Regionomica from State and Federal Statistical Offices and other government agencies.

As in Uckermark, necessity appears to be the main driver for entrepreneurship in Parchim, but the general conditions of lack of demand, the financial security of unemployment benefits, unwillingness to leave hard-to-get paying employment, and difficulties in accessing capital were all cited as constraints on entrepreneurship. A range of views were expressed as to whether or not there were significant gaps and whether or not current government programs or bank products were adequate for the demand. One banker was adamant that no venture need fail through lack of financing if the idea is sound, quality management is in place, and the business idea is professionally presented.

One important perspective is that Parchim in common with all of East Germany is going through a painful period of transition as the older generation raised in the traditions and constraints of the pre-1990 era hand over the reins to a younger, perhaps more open generation. This was discussed in two contexts. One was the issue of business succession and the need to encourage careful planning and appropriate financing to ensure that businesses survive and prosper under new and better trained ownership. The other was the need to encourage those who have left the area to return and apply their new skills and know-how.

Opportunities for rural entrepreneurship in Uckermark

Brandenburg's Economics Ministry has a regional development strategy focusing on key clusters, such as aircraft engineering, automobiles, and biotechnology, which are most likely to benefit the main cities of Potsdam, Frankfurt/Oder, Eberswalde, and Brandenburg. This allows state funds and expertise to be prioritised into the primary economic drivers, but there are also district specific strategies, which for Uckermark include paper production, mineral oils, metal processing, and logistics services with a primary focus on Schwedt.

The Head of the district authority in Uckermark is engaged in an ongoing process to realign the economic vision of the district with regard to the for Capital region. In this strategy, rural districts are to develop specific and complementary roles, and in the case of Uckermark these are to be built on three pillars. The first is the stabilisation of existing employment levels in industry, crafts, services, and trade, the second is supporting integrated approaches to agriculture, tourism, and nature protection, and the third is exploring the potential in the fields of health care, education, and culture. Of particular interest are the entrepreneurial opportunities that might be created between and across these pillars, such as agriculture, energy and biotechnology, or health, education, and nature protection.

A draft Integrated Rural Development Strategy for Uckermark was published in August 2005.⁴⁹ The concept of Integrated Rural Development has its roots in the European Union's LEADER and LEADER+ programs and with the Federal Government's pilot and demonstration program *Regionen Aktiv* in 18 regions, and is intended to bring these together into coherent strategies.⁵⁰

⁴⁹ Landkreis Uckermark und Landgesellschaft Mecklenburg-Vorpommern mbH (August 2005): "Integriertes Ländliches Entwicklungskonzept für den Landkreis Uckermark".

⁵⁰ In 2004, new federal funding principles were introduced to encourage the preparation of integrated rural development strategies across Germany. These are intended to combine existing measures for village renewal, land reorganization, and development planning with regional management and rural development strategies in an attempt to harmonize previously separate and isolated programs. Integrated development implies region-specific, cross-sectoral, partnership-based, dynamic, and long-term approaches for tackling deep-seated challenges of rural economies. The principles seek to encourage building on regional assets, partnerships

In Uckermark, there are three LEADER+ Local Action Groups – "*Zukunft Unteres Odertal*", Land-Stadt Uckerregion, and "*Naturparkregion Uckermärkische Seen*", which respectively cover much of the East, central, and western parts of the District. These rural economic development initiatives represent strong bottom-up engagement of over 50 local actors in government, non-governmental organisations, businesses, farmers, and foresters to pursue ecologically sustainable tourism, income diversification in agriculture, and the creation of jobs and small scale enterprises. Overlaying these three initiatives is the "*Regionen Aktiv*" for Barnim-Uckermark.

The Draft Integrated Rural Development Strategy stresses the importance of making full use of regional assets and potential, the need to prepare the population to be able to cope with and take advantage of the major changes underway both external and internal to the region, the value of cooperation with neighbouring regions (including Poland and the Baltic countries), balancing environmental and social imperatives with strengthening the economy, and developing new economic possibilities in alternative fuels, renewable energies, modern agriculture, and tourism.

A number of promising economic and entrepreneurial opportunities within Uckermark have already been identified and are being explored. There is considerable optimism about the potential for renewable energy production, particularly in the areas of bio-fuels and solar energy. Some 100 companies and organisations are networked in an energy cluster initiative through which 640 jobs have been created. The combination of processing capacity in Schwedt and agricultural capacity in Uckermark and the surrounding districts to grow rapeseed and other energy feedstock has attracted considerable investment. Eight demonstration facilities have been established to educate sceptical farmers and public officials of the potential.

The natural beauty of Uckermark with its abundant forests, lakes, and wildlife suggests considerable potential for tourism with a primary market of Berlin residents. Although tourism has been declared a priority by the Brandenburg authorities, investment is needed in tourist facilities, accommodations, and marketing as well as service-oriented training.

Uckermark's location on the border with Poland approximately halfway between Berlin and Szczecin (Stettin) offers the possibility for local businesses to expand their markets. There are EU initiatives and local initiatives supported by EU funds to encourage cross-border partnerships and trade with Poland and Sweden which have attracted some attention, but language barriers and shortages of capital and marketing capacity have made internationalisation, being a significant economic driver to date, difficult.

Finally, there are elements of an entrepreneurship infrastructure in place that could form the basis of an entrepreneurial renaissance in Uckermark. These include the activities of the University of Applied Science at Eberswalde, the "*Lotsendienste*" or 'guidance' services to aspiring and new entrepreneurs provided by the Chambers and others, the range of sectoral-specific services provided by *Zukunftsagentur Brandenburg GmbH (ZAB)*, the technology centres at Schwedt and Eberswalde, and a risk capital fund managed by Brandenburg Capital for technology firms.

between policymakers, administrators, citizens, businesses, and science, so that competing social, cultural, and economic demands can be considered together rather than independently.

Opportunities for rural entrepreneurship in Parchim

As part of preparatory work for the Integrated Rural Development Strategy for Western Mecklenburg, a detailed sub-regional assessment for Parchim has been made, guiding principles have been developed, and projects are being identified for implementation. This is still a work in progress and has yet to be formally approved. At the same time, the Local Action Group established under the LEADER Plus program has been carrying out studies and implementing projects under a three-pronged strategy that focuses on the quality of life for the rural population, the transfer of knowledge and best practices, and the provision of technical assistance. There are efforts to explore the possibilities for tourism development based on the abundant nature parks, lakes, and forests in the District. One idea being discussed is to find ways of connecting healthy food, outdoor recreation, and visitor accommodations, but this has yet to be translated into an actionable initiative. In parallel, there have also been discussions about how farmers can exploit value-added opportunities with food processing and bio-energy. The Regionaler Planungsverband Westmecklenburg is the agency charged with promoting a regional consensus on development priorities for the western part of the Land including Parchim.⁵¹

At the Landkreise level, the economic development strategy has two thrusts: the major one being the support and expansion of existing firms, the other being the attraction of inward investment. Success would depend on an ability to improve physical infrastructure, particularly highway connections, and to improve soft assets such as schools and cultural facilities that impact the quality of life. Parchim airport is seen by many to be a major strategic asset. Once a Russian military base, it became a civil airport in 1994 with a 3 000 metre runway, a 24-hour use permission, and large areas of adjacent land suitable for industrial development. A private cargo operator had expressed an interest and reference has been made to the airport as a test facility for Airbus Hamburg. Investment in additional infrastructure to better connect Parchim to the Berlin-Hamburg highway and to the railway could be an essential complement to the re-use of the airport, making Parchim an attractive target for inward investment.

The successful operations of the company Hydraulik Nord Parchim in the field of precision engineering and fluid technologies already attracts highly qualified workers to the area and offers the potential to build a high value cluster. The "PITZ" incubator may be one of the ways to facilitate the cluster and much interest has already been generated.

The fact that Parchim residents speak "standard German" has made the area attractive to call center operations and although this is an intensely competitive global market sector, there is some confidence that there could be a clustering of call centres in Parchim, offering relatively well-paid moderate skilled employment.

Recommendations

Earlier in this chapter, the challenges for rural regions in creating a culture of entrepreneurship, and more importantly, the possibilities that exist for building upon existing policies, programs, and initiatives to promote rural entrepreneurship were described. This section

⁵¹ The study mission did not have the opportunity to meet with the agency but it is understood that its most recent efforts have been focused on the wood industry, renewable energy, and aquaculture. However, the agency's current funding comes to an end in 2006 and it is expected that future efforts will likely centre more on regional marketing and promotion activities and on the region's internationalisation.

makes five recommendations for capitalising on these possibilities, linking them to models that have been applied in rural America, which are described in the subsequent section.

Any rural entrepreneurship strategy should include the following five elements.

1. *Focus on identifying local and regional assets and converting them into entrepreneurial activity.* There is a tendency in economically challenged communities, including those in rural areas, to emphasise their problems and deficiencies, often as a means of attracting public sector investment and support. As a consequence, it becomes difficult to see opportunities that may translate into economic advantage. An intentional mapping of local and regional assets – and even the poorest rural communities have some assets, whether human, social, physical, or financial – can yield possibilities that might attract entrepreneurial interest and help improve economic competitiveness. The recent and ongoing work on regional and integrated rural development strategies and the local planning initiated as part of "Leader Plus" have encouraged regional and local leadership to pay attention to the assets to be found within Uckermark and Parchim. The natural environment of these districts has been recognised as a major asset that can yield a number of economic possibilities in tourism, outdoor recreation, education, and health care. Moreover, the adjustment of agricultural practices towards alternative crops, value-added production, bio-energy, and wind power all offer complementary opportunities for sustainable entrepreneurial development. Valuing the environment may also pay dividends in supporting broader regional economic development goals, whether in encouraging firms to relocate in the region so that employees have attractive choices to live and pursue recreational activities, or enabling entrepreneurs who no longer want or need to locate in metropolitan areas to thrive in small town and rural settings.

The learning model "Central Appalachian Network" provides an example of a systematic approach to rural entrepreneurship based on natural and placed-based assets.

2. *Connect rural entrepreneurs to external markets, regionally, nationally, and internationally so that they are not dependent upon stagnant local markets for their goods and services.* Strategies are likely to include the use of information and communication technologies for e-commerce, collaborative marketing strategies that might be sectoral, geographic, or both, and the fostering of networks and exchanges between entrepreneurs across regional and national boundaries. One of the challenges to be addressed in Uckermark and Parchim is the fact that entrepreneurship has become viewed primarily as strategy to provide opportunities for unemployed people, rather than as a way to bring new wealth and job creation possibilities to these rural regions. There seems to be little expectation, either from the entrepreneurs themselves or from the agencies and programs that support them, that these new ventures will be other than services and activities serving a local market. Technical assistance and training will need to be retooled to emphasise the importance of accessing broader markets for Uckermark and Parchim products and services.

The learning model "Central Appalachian Network" describes an approach to tapping external markets through regional cluster development, and the learning model "Kentucky Rural Innovation Fund" confirms the fact that with the right support, good ideas and people can be nurtured through commercialisation to the point at which they can attract venture capital investment. Using the appropriate networks, rural-based entrepreneurs can be connected to resources and markets outside their own region to create successful businesses.

3. *Organise support services for entrepreneurs into effective systems for providing resources such as technical assistance and training, access to capital, land and buildings, and*

regulatory guidance. The aim has to be to bring in ways that increase efficiency and reduce transaction costs while maintaining or improving quality outreach to dispersed rural entrepreneurs. There is no shortage of agencies and institutions at the local, district, and state levels that can contribute in different ways to promoting and supporting entrepreneurship. There is evidence of strong linkages between government departments and chambers, and also bottom-up collaborations facilitated by the "Leader Plus" programmes. These relationships and networks will be critical in ensuring that integrated and comprehensive support is available for those entrepreneurs with the motivation to create jobs and wealth in rural communities. Particular attention will have to be paid to regulatory frameworks and the time it takes to obtain regulatory approvals.

The learning model "Entrepreneurship Development Systems in Rural America" describes a relatively new concept that is attracting interest in rural America is the creation of entrepreneurship development systems, where financial incentives and technical assistance are available to providers (public, private, and non-profit) of services to entrepreneurs and small businesses to work and plan together to create entrepreneur-focused systems.

4. *Embed entrepreneurship education into the school and college curricula, and into workforce training programs.* Broadening education and career preparation to increase creating and growing businesses is potentially a powerful way to retain young people in rural communities. It also opens up new possibilities for employees in trades and professions, as well as those in agriculture and forestry, to consider how they can create their own business, particularly when they are not getting adequate rewards from their current employment and do not want to move away to the cities for better prospects. "*Einfach Anfangen*", the campaign launched in Mecklenburg-Western Pomerania to stimulate interest, particularly among young people, in entrepreneurship as a career option is an excellent example of the focused effort needed to shift entrenched attitudes away from waiting for government programs to create jobs to encouraging people to think about creating their own opportunities. Already there are 100 schools, mainly in the urban areas, that have incorporated entrepreneurship into the curriculum. The task ahead is to generate the same level of interest within the rural schools.

The learning model "REAL" in North Carolina is one model that has been developed specifically to engage rural schools, students, parents, and communities in promoting an entrepreneurship curriculum.

5. *Generate local community support for entrepreneurship to increase the chances that entrepreneurs will be successful in their ventures.* If people trying to start and expand their businesses are treated with suspicion or are not valued in the community, they will either abandon their venture or move elsewhere. Rural entrepreneurship has to be embraced by community leaders as an effective alternative to attracting companies to relocate from other places.

The learning model "Enterprise Facilitation®" emphasises rural self-reliance and resonates well with rural community leaders, especially in areas where there has been little interest in entrepreneurship development.

International learning models

Strategies for Sustainable Entrepreneurship in Appalachia, USA⁵²

Description of Approach

The Central Appalachian region is a mountainous area that extends over parts of five states of Kentucky, Ohio, Tennessee, Virginia, and West Virginia and includes some of the most economically distressed communities in the country. Since 1993, the Central Appalachian Network ("CAN") has been focused on building a healthy and sustainable regional economy through ecologically sustainable rural development strategies. "CAN" comprises eight non-profit institutions and organisations, and with funding support from the W.K. Kellogg Foundation and the Appalachian Regional Commission, a joint Federal-13 state regional development agency, has formulated a set of sustainable entrepreneurship strategies, based on the Network's practical experiences and research from across the country.

"CAN" has identified a number of strategies, including the following two:

- *Build on Appalachia's assets.* Asset-based entrepreneurship is based on the sustainable use of forests, farmland, rivers, lakes, and mountains, through products such as organic and niche crops, ecotourism, and wood products from sustainably harvested timber, all drawing from the beauty and heritage of the region, including traditional crafts, music, foods and architecture. Asset-based entrepreneurship is a major contributor to the regional economy and is growing annually. The natural assets are seen as the region's competitive advantage. Programmes include helping entrepreneurs identify and develop niche markets, expanding market power through regional marketing, and focusing on improving the quality and quantity of products and services.
- *Build Regional Markets for Rural Entrepreneurs.* "CAN" promotes regional clusters as an economic development strategy. These are informal geographic concentrations of entrepreneurs, specialised suppliers, service providers, trade associations, regional development agencies, universities and governments who serve similar markets and collaborate for mutual gain. In the Central Appalachian region, clusters have been promoted and supported by incubators (kitchens, arts, wood products), technical institutions, and specialised infrastructure such as solar wood-drying kilns, with the aim of spurring innovations, improving quality, reducing business set-up costs, and expanding markets.

Why the approach is relevant to the two districts

The activities of "CAN" and its constituent organisations provide a model for rethinking a region's approach to economic development, based on its natural assets. Many of the initiatives that have been proposed through "Leader Plus" and other approaches in the two districts are similar to those underway in Appalachia, but "CAN" provides a clear framework for building upon natural assets, promoting entrepreneurship and innovation, and expanding markets. An important feature is the belief that asset-based entrepreneurship is consistent with, and even essential to ecological sustainability.

⁵² This learning model has been adapted from Central Appalachian Network (2005) *Strategies for Sustainable Entrepreneurship*.

Reasons for the success of the approach

After many years of relying upon industrial recruitment as the primary economic development, of watching environmental degradation being accepted as the acceptable price for economic progress, and experiencing population decline as young people left for economic opportunity elsewhere, the "CAN" organisations have been able to offer an alternative paradigm. Each organisation has its own strengths – cluster networking, niche marketing, business financing, sustainable development – but they found by working and learning together they can significantly enhance their regional impact. Working directly with entrepreneurs who see value in the places and natural resources of Appalachia has sharpened their focus and provided concrete examples of their principles in action.

The obstacles and challenges that were faced

Decades of natural resource extraction – coal mining, timber – have created ingrained cultural attitudes towards economic development and the environment. In spite of evidence to the contrary, the recruitment of industrial development is the preferred approach by legislators and the business community, and entrepreneurship is seen to be of secondary importance. The extraction and exploitation of natural resources is still evident in practices such as mountain top removal, open-cast mining, and clear-felling, and for some pursuit of economic development and stewardship of the environment are irreconcilable goals. "CAN" organisations still are faced with the task of continuing education and advocacy to lift their strategies into mainstream public policy.

Considerations for adoption of this type of approach in the two districts

It is possible that "CAN"'s strategies would find a more sympathetic audience in Uckermark and Parchim given the stronger support for environmental issues in Europe. "CAN" is a network of non-profit organisations and is thus outside, although connected to governmental organisations at the local and state level. An important consideration for Uckermark and Parchim is whether it will be possible to pursue this model within a governmental framework.

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Innovation and Entrepreneurship in Rural Kentucky, USA⁵³

Description of Approach

The Innovation Group, an initiative of the Kentucky Science and Technology Corporation, is an independent non-profit organisation created and part-funded by the State of Kentucky. The Innovation Group, through a contract with the state, manages a network of six Innovation and Commercialisation Centers ("ICCs") housed at universities across Kentucky.

One of these "ICCs" is the Centre for Economic Development, Entrepreneurship and Technology (CEDET) at East Kentucky University. This ICC manages a network of four regional Innovation Centres based in community colleges, although Innovation Centres in other parts of the state are collaboratives of local governments, development districts, small business development centres, chambers, banks, and private companies.

The Innovation Centres have the job of fostering entrepreneurial opportunities through entrepreneurship education and training, mentoring, assisting with the application of appropriate technologies, and providing access to a state-wide network of capital, web-based resources, and technical guidance. Each centre is managed by someone with strong local ties and knowledge with a background in entrepreneurship, finance, and business. An understanding of local institutions and local culture has been critical to gain the trust of entrepreneurs who normally would not consider engaging with a public program. These centres focus on high growth opportunities based on technology; they provide comprehensive stage-by-stage services from concept to prototype to commercialisation and capital-raising; and they embrace community involvement. One example of the latter has been the ability of the Innovation Group to stimulate the formation of four local venture capital investment groups across rural Kentucky to provide equity capital to businesses that have progressed through their commercialisation process.

⁵³ This learning model has been adapted from Dabson, Brian (2005): *Innovation and Entrepreneurship in Rural America* and Stone, Cheryl and Mel White (2005): *Kentucky's Rural Innovation and Entrepreneurship Program: An In-Depth Look at How it Works*, in: *Economic Development America* Winter 2005 edition. www.eda.gov/EDAmerica/winter2005/.

The Innovation Group manages a Rural Innovation Fund designed to help small, rural Kentucky-based firms start out on the road to converting their inventions and ideas into investment quality ventures. The Fund has been active for just over three years and in that time has received 227 applications for funding in excess of USD 3.7 million. One hundred and nine awards have been made to the value of USD 1.6 million. The Fund makes investments in proof of concept development or early stage prototypes at two levels: an initial level of up to USD 7 500 and a higher level of up to USD 100 000 over two years. So far, four of the awards have been at this higher level. As experience has grown about how the Fund operates and is used, the Innovation Group is now considering ways of raising the initial bar so the quality of applications increases and a higher proportion can be funded.

An example of the entrepreneurial ventures that have been supported through this process is a business created by husband and wife farmers, that has developed the hardware, software, and information technology services to allow farmers and others in agriculture-related industries to keep track of soil preparation, crop treatments, and harvesting using hand-held devices linked to a central server, and to prepare appropriate reports for a variety of federal and management purposes. Another example is provided by two brothers who started a software business that has developed a very sophisticated point-of-sale tracking system for hardware stores and other retail outlets with large or complex inventories. This brings affordable technology to smaller operations to enable them to better compete with the large discount retailers. Other ventures that have been emerged from remote rural areas include a syringe for delivering food to the feeding-tube dependent, a programmable handlebar for motorbikes, a computer-regulated medicine dispenser, and a vacuum cleaner for horse grooming. In all cases, the entrepreneurs work through an intensive protocol – "a continuous conversation" with Innovation Group staff – that builds their financial, marketing, and technical skills to the point where they are confident and ready to seek significant equity investment.

Why the approach is relevant to the two districts

The East part of Kentucky is a large rural area (approximately 40,000 sq.km.) of great scenic beauty but contains some of the most economically distressed counties in the United States. Its main traditional sources of employment have been logging and mining but these no longer adequately support the regional economy and as a result out-migration, unemployment and underemployment, a poorly educated and skilled workforce, and inadequate infrastructure have become major barriers to regional competitiveness.

The importance of The Rural Innovation Fund is that it confirms the fact that potential entrepreneurs do exist in rural regions and that with the right support shows that good ideas and people can be nurtured through commercialisation to the point at which they can attract venture capital investment. Public funds are used strategically to support the venture through the process and are not used as employment subsidies. It represents a systemic top-down approach that uses networks of organisations and expertise to connect local entrepreneurs in remote rural locations to statewide systems of support and investment

Reasons for the success of the approach

The Fund has been in operation for about three years so it is too early to be definitive about its success. However, there appear to be a number of factors that contribute to the positive results so far. First, the Fund and its operations have been conceived as a process within which entrepreneurs pass through clearly articulated stages leading to a goal of engaging rural-based entrepreneurs with the private investors. Second, a structure has been established that is based on

local knowledge and connections that can identify and build trust relationships with inventors and entrepreneurs, and which are part of regional networks of expertise and technical assistance that are in turn part of a state-wide system that promotes innovation and technology applications. Third, the lead organisation, the Kentucky Science and Technology Corporation is an independent entity that is distinct from the state government, and is thus more able to work alongside private capital companies and development relationships across the public, private, and non-profit sectors.

The obstacles and challenges that were faced

The challenges to the model are essentially the obverse of the potential success factors. The sharp focus on finding products that have private investment potential means that the search for inventors and entrepreneurs has to be rigorous and extensive in order to generate an acceptable deal flow. The particular characteristics of poor rural regions make this process much harder than it would be in suburban and metropolitan areas. The creation of a structure with many different organisations and institutions with different capacities and competencies leads to transaction costs that are higher than a less complex, more centralised arrangement. The fact that the lead organisation is outside state government but largely dependent upon state funds for its operation means that it constantly has to be making its case to legislators for continued financial support.

Considerations for adoption of this type of approach in the two districts

The Rural Innovation Fund has been introduced in a context of limited public resources, a challenging economic environment, and a host of problems associated with a poor rural region going through major economic and social transition. To launch something similar in Uckermark and Parchim will take a combination of dedicated resources, the availability of skilled technical and investment staff, and a willingness to make patient investments in entrepreneurial ventures that may take many years to mature. This is not a quick-fix solution to the regions' problems but an expression of confidence in the future.

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Entrepreneurship Development Systems in Rural America, USA

Description of Approach

In most parts of rural America, there is no shortage of programs and agencies that exist to support small business development. These provide advice, training, technical assistance, and capital access but often they tend to be disconnected, categorical, competing, under-resourced, and altogether too confusing for entrepreneurs to bother to navigate. The most comprehensive critique of these programs has been provided by Gregg Lichtenstein and Thomas Lyons who note that they are generally funder- rather than client-driven, and focused on the business activity or on offering specific products rather than on the needs and circumstances of the entrepreneur.⁵⁴

Lichtenstein and Lyons were pioneers in advocating a systems approach to entrepreneurship development based on tailoring services that are both responsive to the various levels of skill, education, and motivation to be found among entrepreneurs and aligned with the capacities and resources of the service providers. A competitive project of the W.K. Kellogg Foundation in 2004 designed by Corporation for Enterprise Development (CFED) built upon this thinking with the intention of investing in a variety of approaches that would create or enhance systems approaches to entrepreneurship development.⁵⁵ These were defined as a coordinated infrastructure of public and private supports that facilitate entrepreneurship, and an effective system was seen as one that integrates a wide range of programs and tailors products and services to the diverse needs of entrepreneurs. These systems, it was determined, would be comprehensive, flexible, culturally sensitive, and integrated, and should require providers to collaborate rather than operate independently or in isolation.

The Entrepreneurship Development Systems in Rural Development project looked for collaborative efforts that would embrace entrepreneurship education, training and technical assistance, capital access, networks, and entrepreneurial culture in self-defined multi-county rural regions. There were 182 submissions from rural regions in 47 states, and over 2 000 organisations were directly involved in the process as part of collaboratives.⁵⁶ There was a vast array of lead organisations, including regional development organisations, universities, community colleges, community action agencies, community foundations, microenterprise development organisations, small farms groups, and school districts. Six systems in North Carolina, Nebraska, New Mexico, Oregon, South Dakota, and West Virginia were selected for Kellogg Foundation investment over two to three years.

Why the approach is relevant to the two districts

The European Union's "Leader Plus" programmes and the German Integrated Rural Development Strategies represent significant steps on the road to creating coherent visions and actions for rural regions and communities – ones which have yet to be taken within the United

⁵⁴ Lichtenstein, Gregg A. and Thomas S. Lyons, "The Entrepreneurship Development System: Transforming Business Talent and Community Economies" in *Economic Development Quarterly* 15 (February 2001), 3-30.

⁵⁵ Based upon Dabson, Brian, Jennifer Malkin et al (2003) *Mapping Rural Entrepreneurship* W.K. Kellogg Foundation and CFED.

⁵⁶ Dabson, Brian, *Fostering Entrepreneurship Development Systems in Rural America: First Review of the Results of the Request for Proposals*. CFED/RUPRI Report to the W.K. Kellogg Foundation, January 2005.

States. Nevertheless, the concept of entrepreneurship development systems could strengthen these strategies in the East German länder and beyond. The Kellogg investment introduces some powerful financial incentives and technical assistance for providers (public, private, and non-profit) of services to entrepreneurs and small businesses to work and plan together to create entrepreneur-focused systems.

Reasons for the success of the approach

The project has been underway for just one year and it is too soon to be able to identify success factors. There are many different models being tried and tested within the project and it will be several years before clear impacts can be discerned. One indicator of the attractiveness of the concept is that other systems approaches are being introduced using local resources in rural regions from Minnesota to Louisiana, which will add further richness to the data and insights that are currently being gathered. Moreover, there is growing federal and state government interest in developing programs that adopt the underlying principles of entrepreneurial development systems.

The obstacles and challenges that were faced

From the limited evidence available, there would appear to be no shortage of obstacles and challenges facing the emergent regional systems. Four challenges stand out. First, the Kellogg investment of \$2 million for each system is both a blessing and a curse. The resources are very much needed in the poor rural regions where they are operating, but in some places, disagreements about how these substantial funds should be allocated are getting in the way of progress. Second, the approach seeks to address issues of turf and competition between agencies by forcing them to collaborate and cooperate. It raises many personal, institutional, and operational issues that will take many years to resolve. Third, there is a tendency to focus attention on the supply of services (dealing with the first two challenges) rather than on stimulating the supply of entrepreneurs. Making these systems entrepreneur-focused is one of the primary goals of the project. Fourth, in these stages of the project, certain components are proving to be more difficult to advance than others, particularly those relating to influencing state policy towards entrepreneurship, and to engaging young people.

Considerations for adoption of this type of approach in the two districts

The entrepreneurship development systems approach as adopted in rural America is an ambitious effort, the outcomes of which will not be known for some time. Perhaps more important than considering a large-scale replication for Uckermark and Parchim at this point, would be for all the agencies and institutions engaged in entrepreneurial development to think hard about what it would take to create a coordinated infrastructure of public and private supports that facilitate entrepreneurship that integrates a wide range of programs and tailors products and services to the diverse needs of entrepreneurs.

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Entrepreneurship Education in Rural North Carolina, USA⁵⁷

Description of the approach

REAL – Rural Entrepreneurship through Action Learning – was first conceived in the mid-1970s as a response to rural youth leaving their communities due to declining job opportunities, while at the same time being ill-prepared to compete for good jobs in urban areas. Co-founder Dr. Jonathan Sher saw the need for youth to become job creators, not just job seekers, and developed the idea of school-based community development corporations. School students identified opportunities and unmet needs in their communities and set about creating businesses to serve these markets. Over the years, REAL has expanded beyond high schools to working with younger children from kindergarten onwards, and with adults in community colleges and community-based organisations. There are REAL member organisations in 10 states as well as Thailand and Norway. In 2004 REAL became part of CFED, a national non-profit organisation dedicated to asset building and economic opportunity in poor communities.

According to CFED's website, the REAL program is taught in 43 states and countries, and 290 high-school, 151 post-secondary, 92 community-based and on-line, and 420 elementary and middle school facilitators use REAL curricula. Each year, REAL provides hands-on entrepreneurship education to over 10 000 students of all ages, and 1 668 instructors have been trained in the REAL program.

The most extensive implementation of REAL is in North Carolina. This is a very diverse state with, on the one hand, successful cities, world class universities, and research parks, and on the other, large regions of high rural poverty. Since North Carolina REAL began in 1985, over

⁵⁷ This learning model has been adapted from information presented in the websites of CFED and North Carolina REAL Enterprises <http://www.cfed.org> and <http://www.ncreal.org>.

10 000 entrepreneurs have received training and more than 392 high school, post-secondary, and community-based educators and administrators have participated in professional development seminars and week-long institutes. In addition, more than 550 entrepreneurs, bankers, accountants, and other professionals have provided assistance to REAL Entrepreneurship participants and graduates through community support teams. The current year's programs activities extend to all of North Carolina's 85 rural counties.

In high schools, REAL Entrepreneurship is offered as an elective course within business or marketing programs, in which students can assess their entrepreneurial capabilities, analyse their communities, and research and plan enterprises of their choice, which they then may open, operate and own. In community colleges and universities, REAL provides training and helps to expand and strengthen existing programs through integration of REAL curricula. REAL also provides 14-16 week courses for aspiring and new entrepreneurs. Other programs include a Spanish REAL, a program for younger children, school-based enterprise workshops (for example, in-school shops), youth camps, and on-line courses.

Why the approach is relevant to the two districts

One of the more effective ways to change the entrepreneurial culture of a community is to expose young people to the possibilities of entrepreneurship. This is one of the key components of Mecklenburg-Vorpommern's "*Einfach Anfangen*" campaign. REAL is a tried and tested model for instilling entrepreneurial attitudes within the formal education system and for maintaining momentum beyond high profile marketing campaigns.

Reasons for the success of the approach

REAL was created as a response to a critical problem that faces rural communities across the world – the migration of rural young people to the cities in search of economic opportunity. The essence of REAL is that it based on experiential learning – the cycle of experience, reflection, expansion, and application. Entrepreneurship does not lend itself to traditional teaching and learning methods and REAL encourages students to get directly involved rather than reading about it. The curricula, whether for children, youth, or adults, is based on six factors: collaboration between students and instructors, the role of instructor as facilitator and coach, the achievement by students of core competencies, an emphasis on peer teaching and cooperative learning, direct engagement with the local community, and encouragement of creativity.

The obstacles and challenges that were faced

After 30 years of development and implementation, REAL has still not been implemented at scale outside North Carolina and Georgia. As mentioned earlier, there are REAL member organisations in ten states but their activities tend to be limited in scope and scale. Although there has been significant interest over the years in entrepreneurship education – which shows strong signs of increasing across rural America – there are some major obstacles to widespread adoption. The two main obstacles are resources and curriculum constraints. Entrepreneurship education can be expensive to introduce and maintain and although there is evidence of positive educational achievement and student motivation outcomes, there has been little interest by public or philanthropic organisations in providing the necessary resources. The second obstacle is the increasing emphasis on test-based teaching in the United States that is leaving less room for non-core activities within the school system.

Considerations for adoption of this type of approach in the two districts

Effective and widely-available entrepreneurship education is an essential component of creating an entrepreneurial culture. The USA experience has shown that there is strong support among some teachers and those interested in economic and community development, but there has been substantial resistance from educators, education administrators and policymakers to an approach that requires a different pedagogy, additional resources, and which has still to be fully evaluated for impact on educational outcomes. For the model to work in Uckermark and Parchim, there will need to be a close cooperation between educational and economic development interests to create an approach that will be effective in better preparing young people and in creating increased economic options in their rural communities.

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Enterprise Facilitation® in Rural Kansas, USA⁵⁸

Description of approach

A bottom-up approach to stimulating rural people to pursue entrepreneurship is provided by Enterprise Facilitation®. This "people centered approach to community and economic development" is the brainchild of Ernesto Sirolli developed and tested in Western Australia and has attracted much attention across rural America in the past five years. Sirolli's view is that a successful business requires competency in three areas: technical ability to produce a product or service, ability to market the product or service, and ability to manage the finances of the venture, and that few individual entrepreneurs have competency across all three areas. Consequently, teams of competence have to be built around the entrepreneur to achieve success.

⁵⁸ This learning model has been adapted from Macke, Don, Deborah Markley and Erik R. Pages (2005): "Enterprise Facilitation® in Kansas: Lessons and Recommendation", RUPRI Center for Rural Entrepreneurship.

In practice, Enterprise Facilitation® comprises two elements. The first is an enterprise facilitator who serves as the initial point of contact for business owners and aspiring entrepreneurs, and who provides confidential, free services within his or her local community. The second element is a community board, composed of anywhere between 20 to 50 local residents, which supports the facilitator by providing introductions to community leaders and potential clients.

The enterprise facilitator is not an expert but someone who is a good listener, supportive, well-networked, and able to evaluate the skills and needs of entrepreneurs. The community board includes local business and civic leaders, economic development practitioners, and private sector professionals, and is responsible for hiring and supporting the facilitator. Board members are trained by the Sirolli Institute.

Kansas is an important large-scale commodity agriculture state that is facing significant challenges from outward population migration that is "emptying out" the US Heartland region. In 2001, the State of Kansas in an attempt to respond to rural decline embraced the Sirolli concept and committed to invest in three rural regions (two more were added in 2003). An evaluation conducted in mid-2005 showed that across the five regions, out of 956 clients assisted, 88 new businesses were created, 40 businesses retained, 30 businesses expanded, and 485 jobs were created or saved. The estimated cost per job ranged from USD 2 400 to USD 7 800. The State of Kansas invested nearly USD 500 000 in these projects over five years and an additional USD 750 000 to cover the costs of the Sirolli Institute's assistance and training. Each regional site was expected to raise about USD 100 000 from local sources as its contribution.

Why the approach is relevant to the two districts

Enterprise Facilitation® was created to respond to the specific needs and challenges of rural communities. Its emphasis on self-reliance and making the fullest use of local resources has resonated well with rural communities in many countries. Working through the Sirolli Institute ensures that enterprise facilitators and the community boards receive appropriate training so it can be applied in areas where there has been little interest in entrepreneurship development. For Uckermark and Parchim, this approach may be helpful in encouraging communities and groups to explore entrepreneurship possibilities for themselves without waiting for a government program to initiate action. It may work particularly well as a complement to "Leader Plus" type efforts.

Reasons for the success of the approach

The Sirolli Institute is currently working with 21 rural communities across the central and western United States as well as five communities in Canada and one in England. From the Kansas evaluation, there is confirmation of the great power of the concept. It seems clear that communities do understand and value the model and do take ownership of the approach. The nature of the support provided by the Sirolli Institute during the start-up phase is regarded as effective and appropriate, and there are clear impacts being achieved in terms both of economic development and regional capacity to support entrepreneurship. It is also the case that the model stands or falls with the quality of the enterprise facilitator and the degree of support he/she is given by the community board.

The obstacles and challenges that were faced

There are a number of challenges that will need to be addressed as the projects mature. The first is the need to continue to find the resources to sustain them as the initial funding and Sirolli Institute support diminishes. The Enterprise Facilitation® model is undoubtedly expensive and beyond the reach of many poorer communities, and this has prompted the emergence of lower cost (but not necessarily as effective) alternatives. Other challenges are a function of the design and focus of the model. Most of the clients are small, micro and lifestyle entrepreneurs with limited economic impacts in terms of job creation. To date there has been no apparent effort to expand beyond this niche market to support potential growth entrepreneurs. Moreover, the projects tend to rely on their own community resources, which obviously are a strength in terms of engaging community engagement, but they tend not to be connected to the wider array of entrepreneurship and business development support provided by public and other private and non-profit organisations and programs.

Considerations for adoption of this type of approach in the two districts

There are both cultural and practical issues to be addressed. Enterprise Facilitation® has proven to be effective in Australia, Canada, and the USA and is being tried in the UK; whether it would work in a German context is a matter for careful consideration. If there is interest in proceeding, a choice would need to be made between working with the Sirolli Institute or developing a German model based on similar principles.

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THE ENTREPRENEURSHIP POLICY DELIVERY FRAMEWORK

By Andrea R. Hofer, OECD

Introduction

Entrepreneurship development is a cross-policy issue. The effectiveness of public support policy is dependent upon the integration and co-ordination in both policy design and delivery. The delivery framework for entrepreneurship policy regards all policy areas relevant to entrepreneurship, including policies and programmes, as well as all legitimate actors holding a stake in the design, implementation and evaluation of public support policy. Entrepreneurship is, firstly, a local issue. It creates jobs, generates and improves both private and public incomes, and therefore contributes to local development. Ideally, the local delivery of policies should be based on the participation of a wide range of stakeholders. Given communication is institutionalised and information is fed back into policy design, this could facilitate the tailoring of policies to local needs, and thus contributes to the effectiveness of public policy.

The partly rural character of the districts, and their proximity to economic development centres within and outside Land borders further underlines a general need for the increased integration of different policy programmes and initiatives and their joining up in local development strategies that can frame entrepreneurship and job creation. Further, the territories regional diversities make the local tailoring of policies and programmes designed at Land level a prerequisite for their effectiveness. In terms of integrating policies, it is important that programmes and initiatives undertaken, e.g. in the fields of modernising existing SMEs, general workforce development, strengthening the local and regional science industry base, and supporting entrepreneurship amongst groups with limited business ownership representation, are clearly linked to each other and are also part of an overall strategy. Integrating and linking policies and programmes at Land level helps to align objective and target setting and to reduce duplication and trade-offs. It further supports policy implementation at local level, as integrated policies reduce the number of interlocutors and help to streamline regulations and eligibility criteria. The development of adequate co-ordination mechanisms that enable the involvement of different stakeholders and actors at all governance levels in policy design, implementation and evaluation, while keeping the balance between effectiveness and efficiency, will be another prerequisite for tailoring policies to local needs.

Hence, the aim of this chapter is to provide a brief review of the strengths and weaknesses of current arrangements for the delivery of entrepreneurship policies and recommendations for strengthening this delivery framework together with a set of recommendations on how to develop these policy delivery arrangements in the future. There is already good practice developed at Land and local levels. Together with an international learning model, these will be briefly presented in this report to inspire further policy innovation.

Strengths and Weaknesses

Integration and co-ordination seem to characterise the activities in entrepreneurship development of different ministries and departments at Land level in Brandenburg and Mecklenburg-Western Pomerania. Ministries and business community representations, such as the Chambers of Commerce and Trade, and the Chambers of Crafts are joining efforts in major campaigns promoting and fostering the culture and spirit of entrepreneurship, like Brandenburg's "AGiL- Aufbruch: Gründen im Land" and "Einfach Anfangen" in Mecklenburg-Western Pomerania. These initiatives of good practice aim at increasing awareness and interest about entrepreneurial activities. They also provide access to a wide range of information about where to get expert assistance for start-ups, young companies, business succession and SMEs with growth tendencies.

At federal and Land levels first steps towards a more integrated approach for local development in rural areas have been started. The development of local rural development concepts, called "*Integrierte Ländliche Entwicklungskonzepte*" and the establishment of regional management agencies ("*Regionalmanagement*"), aim at outlining new economic development perspectives for rural areas. A continued synergy building at Land level between the Ministry of Agriculture, leading rural development efforts, and line ministries for entrepreneurship development will also help to further minimise co-ordination problems at local level that may derive from a translation of different priority setting into different strategies implemented by different agencies at local and/or Land level.

Under the objective of increasing co-operation and integration in public support programme delivery, around 26 local based institutional guidance services, so called "*Lotsendienste*", have been established in Brandenburg. Including tailored services for specific target groups, e.g. women, migrants, students and researchers, these initiatives contribute significantly to increasing transparency and co-operation in public support programme delivery. The approach taken by Mecklenburg-Western Pomerania differs in terms of its realisation and delivery, but achieves the same objective. Here, besides an internet portal and a telephone hotline ("*Gründertelephon*"), around 100 institutions are co-operating under the umbrella of "*Einfach Anfangen*".

Involving the private sector in tailoring policies to the need of businesses is considered by both Länder important for effective policy making. Land wide programmes, like the *INNOPUNKT* campaigns in Brandenburg, initiated by the Ministry of Labour, Social Affairs, Health, and Family (MASGF), are bringing forward strategic alliances with the private sector. The thematic focus of the current programme is on strengthening linkages between culture and economic development. In Mecklenburg-Western Pomerania, the core initiative "*Einfach Anfangen*" is regularly being complemented by new strategic components that aim at involving existing SMEs and larger successful companies in mentoring schemes for start-ups and young companies. Also, representatives of private firms and SMEs are participating in public governance and policy design at Land level in counselling and evaluation boards. Examples include entrepreneurship focused initiatives like the "*Gründerbeirat*" in Brandenburg, an institutionalised public private council discussing issues around start-up and entrepreneurship development, and the "*Denkwerkstatt 2020*", a major undertaking under the auspices of the Ministry of Labour, Construction and Regional Development in Mecklenburg-Western Pomerania aiming to bring forward strategic local development thinking throughout the Land with the involvement of Land-wide and locally well-known personalities. Yet, engagement of panel members might not be always as sufficient and effective due to time constraints for preparation and follow-up as well as due to insufficient distribution of roles and responsibilities.

At local level, in both districts, co-operation between the public and private sector is well established and business associations are consulted on a regular basis.

There is significant networking activity among public and private economic development organisations in both districts, which has helped generating a bottom-up process in the drafting of local and regional development strategies. In Uckermark, these activities, like the "Luchs" network and the "Netzwerk für Existenzgründer Barnim-Uckermark", have a more formalised character. The latter is co-ordinated by the Savings Bank Uckermark ("Sparkasse"). This allows for close contact between entrepreneurs and local banks, enables a better mutual understanding of partners' needs, and thus facilitates access to finance for entrepreneurs. The network is regularly presenting successful local role models and initiates various competitions around entrepreneurial activities. Existing networks in Parchim tend to be rather informal and *ad hoc* organised around current development challenges and problems. Although being problem oriented, partners in informal networks tend to be less committed and willing to take over responsibility than in formally established partnerships. It can be therefore mentioned as a good initiative that major work in getting different involved actors is being undertaken by the Regional Management ("Regionalmanagement"), as part of the "Regionaler Planungsverband Westmecklenburg". The main objective is fostering and strengthening a dialogue amongst local and regional actors on development priorities. Given the gaps in knowledge and understanding of activities initiated and undertaken by different actors, this can be seen as a good co-ordination initiative.

A number of strategic documents exist at the district level both for spatial planning and economic development. These documents are aligned with regional development concepts. The lack of substantial financial means to design and conduct comprehensive local programmes makes it difficult for district authorities and municipalities to build local development strategies. However, successful project co-operation with ERDF (European Regional Development Fund) and ESF (European Social Fund) have led to increased possibilities for single programmes and projects and opened opportunities for local authorities and involved partners to engage in an international exchange and learning process. This way, experience and know-how about different approaches and initiatives in local development can be exchanged. But, it is not clear to what extent these programmes and projects are interlinked with, and contributing to, local development strategies.

The existence of technology oriented service centres with local outreach providing advice and counselling for interested firms and start-ups, like *Zukunftagentur Brandenburg GmbH* (ZAB), is important. The ZAB, established in 2001 through a merger of three public support agencies dealing with technology oriented and innovative companies, functions like a One-Stop-Shop for technology oriented businesses, enterprises interested in technology transfer and investors. To guarantee also a local outreach of its activities, the integration of this Brandenburg-wide service into the work of local business support agencies, needs to be maintained by both the agency itself and the local business support services and networks.

The joining of business support services in one single location at local level, like the *Haus der Wirtschaft* in Prenzlau (Uckermark), led by the economic promotion department of the district office, is a good example of co-ordination in policy delivery at local level following the motto: "the entrepreneur does not need to know who will help him, but where they can access this help". The Parchim model, where economic promotion is an integrated service of the district administration and other business support agencies are located in different locations, might require more time and personnel to maintain communication and partnerships between the different agencies. Whereas for a mature enterprise addressing the right support agency in time

might not be a problem, for new start ups and young companies finding the right interlocutor for their problems might be difficult. Further, distance from, and limited contact with, main Chambers and specialised economic support offices might also reduce a company's interest in and demand for expert training programmes to modernise and diversify SMEs.

Experience from other OECD countries demonstrates positive results from locating advice and counselling services in business start-up and growth in technology and innovation centres. In both districts, cities like Schwedt/Oder (Brandenburg) and Parchim (Mecklenburg-Western Pomerania) are actively involved in developing space and premises for technology oriented companies. These centres have a wider regional importance, and, as the case of the Technology and Innovation Centre "PITZ" in Parchim shows, such centres are able to initiate, develop and support clusters of technology oriented companies and strengthen the local science industry base. The "NUKLEUS" initiative in Parchim, as part of the InnoRegio programme, is a good model for networking among companies and research organisations that is not confined to administrative units. The initiative is based on regional networks and continuous admittance of new actors, following the principle of trust, reciprocity and mutual advantage amongst partners. Technology centres, like the ones in Parchim and Schwedt/Oder, can be therefore be considered good practice in terms of a targeted delivery policy and programme that, in the case of Parchim, also provide valuable feedback for policy design at Land and federal levels.

Reducing administrative burdens for entrepreneurs and investors are understood by both district authorities and municipalities as mandatory requirements for turning their work into a contribution to economic development and growth. In both 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. The district of Uckermark participated in 2005 and has been honored for its successful networks and local partnerships. In Parchim, both the district and the City of Parchim participated in 2006 and have been distinguished for their Technology and Innovation Centre and for having reduced the local trade tax by 10% and local property tax by 20%. Both districts are using e-government mechanisms and have achieved positive results in reducing bureaucratic burdens in business registration and management. In Uckermark, due to the districts proximity to Poland, the official web-site contains also a direct link to a Polish-German enterprise database. In addition, the district of Parchim participates in a pilot project on e-government in the region of Western Mecklenburg, called "*e-Government Region Westmecklenburg*". Both district administrations offer on their web-sites a number of services facilitating business to business activities and local public tenders are announced.

Good practice in Uckermark and Parchim

There are several good practice initiatives concerning the delivery of integrated, tailored and accessible entrepreneurship policies and programmes that operate in the two districts.

"Lotsendienste" – business start-up pilotage at local level

Business start-ups have access to a wide range of support activities. However, not always the information on their existence and particular access modalities is not always easily obtainable, especially in rather rural areas. This has been tackled in Brandenburg by the establishment of a Land-wide network of 26 "*Lotsendienste*", local services attached to existing agencies that function as first-stop shops. Technology- and incubation centres, Chambers of Commerce and Trade, regional development agencies, institutes of higher education, and agencies focusing on social groups underrepresented in business start-up and business

ownership, like women and migrants, are participating in this initiative and contribute with dedicated personnel to a one-to-one advice and counselling approach. The package is tailored for different target groups, like pupils, youth, women, migrants and university graduates, includes first orientation about challenges and opportunities related to the start of a business, pre-start coaching, assessment centres and training needs identification as well as coaching in the post-start-up phase. Some tailored services for target groups are concentrated in some parts of Brandenburg. For instance "Lotsendienste" for young people has initially been established in the Potsdam area. At a later stage, a Brandenburg-wide outreach was made possible by the Land policy initiative "Junge Leute machen sich selbstständig" (young people get self-employed) implemented through specific programmes by the Chambers of Commerce and Trade in Potsdam, Cottbus and Frankfurt/Oder.

"Lotsendienste" is an initiative co-funded by the Ministry of Labour (MASGF) and European Structural Funds. It is an integral part of a Land-wide initiative to increase business creation and entrepreneurial activities, called "AGiL". The Ministries of Economy (MW), Labour (MASGF), Science and Research (MWFK), Education and Youth (MBSJ) in partnership with Chambers of Commerce and Trade and Chambers of Crafts concluded in 2002 an agreement on joining efforts in business start-up and entrepreneurship development. Later on the public employment services in Brandenburg, Land Council of Vice Chancellors (*Landesrektorenkonferenz*), the *Zukunftsagentur Brandenburg* (ZAB), public banks, like the Investment Bank Brandenburg and the *Bürgschaftsbank*, as well as the *Landesagentur für Struktur und Arbeit Brandenburg* (LASA) joined the partnership which today integrates most relevant regional stakeholders in the field of business start-ups and entrepreneurship development.

The "AGiL" partnership at Land level, together with its local outreach, ensured by the "Lotsendienste" initiative, can be considered good practice in addressing the often existing problem of fragmentation in entrepreneurship policy delivery, especially when it concerns business start-ups in regions characterised by demographic changes and high levels of unemployment.

"GO" - Gründeroffensive der Wirtschaft in Mecklenburg-Vorpommern

The shared understanding that "unemployment alone is not a sufficient reason for granting public financial support" led to establishment of a strong coalition between the Public Employment Service, the Chambers of Commerce and Trade, and the Chambers of Crafts at Land level in Mecklenburg-Western Pomerania.⁵⁹ In light of major programmes fostering entrepreneurship as a way out of unemployment, like the closed "Ich-AG" programme, the "GO" initiative complements the standard co-operation between the chambers and the public employment services in appraisal procedures of business ideas eligible for funding under public schemes like the "Ich-AG". The work of "GO" takes into account that entrepreneurship promotion, conducted at an intensive rate, might lead to rather short-term employment creation, and thus seeks to enhancing local employment impacts. The aim of the initiative is therefore to co-ordinate activities in the field of start-up support and to provide tailored expert assistance for growth oriented companies. The offered service includes expert advice in developing business plans including forecasts of growth options and sound financing strategies. Further, on the basis of individual training needs assessments detailed training plans are being developed.

⁵⁹ Cited from the initiative's website <http://www.go-mv.de>.

"Einfach Anfangen"

Making information about entrepreneurship attractive, easily accessible and ubiquitous seems to be the motto under which *"Einfach Anfangen"* has been set up by the Ministry of Labour, Construction and Regional Development as a Mecklenburg-Western Pomeranian wide campaign to increase awareness about entrepreneurship. A rich website, radio and TV spots, supplements to daily newspapers and magazines preferred by different social groups, are complementing this impressive outreach activity, which aims at building a general understanding that running a business can contribute to an improved quality of life and that a start-up is not only a way out of unemployment.

The website offers possibilities for interaction and invites feedback from beneficiaries and implementing partners.⁶⁰ This way the initiative developed in a dynamic way that allows for a proactive approach in identifying and designing new activities and programmes addressing relevant issues for entrepreneurship development and business growth.

- The *"E-Commerce Award"*, first issued in 2006, aims at fostering entrepreneurial growth by increasing the understanding of opportunities resulting from ICT application in sourcing production means and selling products and services. This can help to increase companies' interest in business growth. Especially, in peripheral areas a greater usage of e-commerce can help to modernise and diversify existing companies by offering ways of overcoming the barrier of insufficient local market capacity. The *"E-Commerce Award"* initiative is complementing the virtual market place, where start-up and young companies can present their businesses and advertise their products and services for free.
- Out-migration of skilled and high-skilled persons is an issue for most localities in Mecklenburg-Western Pomerania. Hence, the programme *"MV4you"* with a website, in both English and German languages, is developing linkages with out-migrants by informing them about opportunities for business start up and succession, as well as about business needs for skilled and high-skilled labour.

"GO" and *"Einfach Anfangen"* can be considered as good practice in terms of co-ordination and integration at programme level, allowing for increased synergies between different relevant stakeholders. In addition, these initiatives ensure access to high-quality pre-start advisory services. They can therefore also be considered good practice in terms of addressing the common issue of fragmentation in policy delivery, however, different to the Brandenburg model of *"Lotsendienste"*, the local outreach of these initiatives might be limited; main activities seem to be concentrated around major cities. Here a greater localisation of the initiatives could yield further success.

LUCHS: Lernen in der Uckermark, Chancen sehen – a network to foster integration and needs orientation in policy delivery for skills upgrading

Being part of the programme *"Lernende Regionen"* (Learning Regions), a joint initiative of the Federal Ministry for Education and Research (BMBF) and the Länder, *"LUCHS"* is one of 5 learning regions in Brandenburg. The overall objective of *"LUCHS"* is to contribute to local firm development by extending knowledge resources and facilitate access for SME managers and their employees. An emphasis is given to the further development of the local tourism industry

⁶⁰ For further information about the website, see <http://www.einfach-anfangen.de>.

and exploitation of business opportunities deriving from the district's proximity to Poland. The local network has around 50 partners, including public and private providers of vocational, professional and further training, the Chambers of Commerce and Trade, the Chamber of Crafts, SMEs and local companies, the Public Employment Service, trade unions (*Deutscher Gewerkschaftsbund Bezirk Uckermark/Barnim*), local governments, NGO's and cultural organisations, like the cultural centre of the dominican monastery in Prenzlau and the Natural Park "Lake District" (*Naturparkverwaltung Uckermärkische Seen*). "LUCHS" maintains good working relations with the Land Ministries of Labour, Social Affairs and Health, (MASGF) and Education, Youth and Sports (MBS); ministry representatives are participating in steering group meetings and strategic working groups. This is, on the one hand, facilitating the information flow on changing requirements for programme and project application. The Ministries, on the other hand, have access to inside information that, being fed into policy design at Land level, enhances the tailoring of policies and measures to local needs.

The "LUCHS" initiative can be considered good practice in involving local partners and maintaining cross governance level co-operation. Evaluation assesses the work of *LUCHS* as effective in addressing issues of skills up-grading and development of the local labour force.

Recommendations

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:

- With regard to rural development, the establishment of formalised inter-ministerial working groups at Land level, including the Ministry of Agriculture and other line ministries for entrepreneurship issues 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 for entrepreneurship development that need to be addressed and to how procedures related to entrepreneurship development could be streamlined;
- At local level in Parchim, key local partners may benefit from more formalised joint working, for example using partnership and network models such as those in Uckermark;
- The lessons gained from "InnoRegio" initiatives (like "NUKLEUS" in Parchim), which are not strictly bound to administrative borders, should be fed into a wider process of innovating institutional co-operation. It is recommended that such a process is initiated for all existing "InnoRegio" projects. This would enable an exchange of information on the lessons of different regional networking experiences in East Germany as an input into further innovation in institutional partnerships; and,
- A closer co-operation at Land level between Brandenburg and Mecklenburg-Western Pomerania would further enhance collaboration and joining efforts at local level, especially in border areas.

Tailor policy and programmes to the local and regional context. The target setting process in entrepreneurship policy making should ideally reflect the variety of local contexts and local needs.

- Communication channels therefore need to be established, where not already existing, and maintained between different government levels. More formalised involvement of line Land ministries in existing local networks, would offer opportunities to further develop and tailor local approaches and would help to ensure timely communication on changing eligibility criteria and regulations in public funding;
- At local level, a clear and mutually agreed strategy for economic and entrepreneurship development aims to formalise the aspirations and co-operation of key partners locally. Such a strategy would help to position the districts development priorities, which can be translated into an action plan with clear priorities and roles for partners, timescales and resources; and,
- The example of both districts with relatively high numbers of high-skilled employees (7.9% compared to the federal average of 7.5%) suggests considering an expansion of current activities. Widening the group of potential recipients of initiatives like "AGiL - Aufbruch: Gründen im Land" and "Einfach Anfangen", and including high-skilled employees as a target group with great potential for entrepreneurial activities, should be considered, also in light of the still limited interest in business succession compared to start-up activities.

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. The policy cycle also includes a more forward looking policy development approach.

- This may begin to foster a more proactive approach locally that may be more future-oriented rather than reactive in its responses to local economic change and Land level initiatives;
- 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. Linking target and objective setting in different programmes and initiatives is further a key ingredient of building sound local development strategies; and,
- 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.

Further localise "GO" and "Einfach Anfangen" and consider establishment of "One-Stop-Shops". This recommendation is of particular relevance to Parchim and Mecklenburg-Western-Pomerania, where good networking exists at Land level, but local outreach in the form of local offices and counters seems to be limited. The envisaged creation of regional managements (*Regionalmanagement*) as leading bodies in drafting and implementation of rural renewal strategies and related action plans, should be recognised as an opportunity to foster integration and co-ordination across different levels of governance. In addition, clarity, transparency and communication of business support services may be improved by the establishment of a single institutional identities, brands or gateways, applying the 'One-Stop-Shop' model to provide single and widely communicated information point for entrepreneurship services. Such

specialised entrepreneurship and SME agencies could also help to alleviate capacity problems in public administration caused by a decrease in personnel and an increase of areas of competence and would also facilitate the development of a knowledge pool. The question of whether this service should be outsourced to a private provider or established as a public agency, separated from or integrated into local government structures, will need further attention.

Keep existing networks open for new members. The actual engagement of local stakeholders in network initiatives in Uckermark can be welcomed as a good and effective start, however further involvement of other actors like the Chamber of Crafts, the Local Association of Crafts and Farmer Associations should be sought in order to address new issues such as provision of apprenticeship places, business succession and rural tourism development. Existing local initiatives, like the "*Lotsendienste*", should seek a stronger involvement of local governments and their agencies. It would help to further streamline procedures related to business registration and administrative matters depending from local authorities.

Involvement of new private sector members in institutional advisory boards. Advisory and sounding boards, with the participation of entrepreneurs and the private sector, have proved to be a useful instruments for receiving feedback on effectiveness and impact of entrepreneurship policies and measures. It is important, though, to clearly state roles and responsibilities, as well as to maintain a representative character of this board and hence leaving access open for new members. Annual business competitions at Land and local levels could be seen as casting opportunities for identifying new members.

Strengthen institutional links with Poland. Uckermark's proximity to Poland has been understood as its main local asset and various initiatives have been developed. It is therefore recommendable to further strengthen and, if possible, institutionalise communication between local public agencies on both sides. A formal invitation to join as an observer the steering group of "*Luchs*" or other networks could therefore be discussed as concrete initiative.

International learning model

***Enterprise Estonia, Estonia*⁶¹**

Description of the approach

Enterprise Estonia (EE) was established in 2000. It replaced a number of smaller organisations previously providing business support, albeit in a rather fragmented way. The Estonian government, with encouragement from the EU, wished to adopt a clearer, more focused approach. EE is accountable to the Ministry of Economic Affairs, and its Chairman and Supervisory Board are appointed by the Minister. EE's budget in 2005 was EUR 98 million, rising from EUR 57 million in 2004 and EUR 42 million in 2003. It has a staff of around 130. It has become a major channel for EU structural funds into Estonian business. EE achieved the ISO 9001:2000 standard in 2005.

Its principal aim is to increase the competitiveness of Estonian business. Its main clients therefore are new start and established SME's. The services provided to these clients include:

⁶¹ Learning model prepared by David Crichton, Chief Executive of the Confederation of Forest Industries (UK) Ltd.

- *Start-up grants.* EE offers two categories of start-up grant. The first is aimed at faster growth potential businesses that estimate their annual revenue at over EEK 500 000 (approx. EUR 30 Mio.) over the next three years. The level of grant available is much higher than in the second category, aimed at lower growth but stable businesses. For both, employment levels must be less than 50 and at least 1 full time.
- *Support for consultancy advice.* Good quality consultancy support is recognized as too expensive for small firms to pay for in full. EE therefore provides grants to assist with hiring consultants for a range of services, including business, financial or marketing plans, business restructuring, quality or environmental management and feasibility studies;
- *Training grants.* Grants of up to 70% of project costs are available to encourage investment in training, and thus improved productivity and competitiveness. Both vocational and management training are eligible for support;
- *Support for business infrastructure.* Unusually amongst most business support agencies, EE will contribute to improvements in the infrastructure available to client businesses. This can include energy, water and sewage supplies, road access, loading, parking and storage areas;
- *Funding for export planning and marketing.* Grants are available for both the planning and implementation of export projects. The former can cover consultancy advice, drafting of plans and training. The latter can include attendance at foreign trade shows, market visits and marketing materials; and,
- Alongside these specific programmes of support, EE helps small firms to participate in EU-wide support measures such as the 6th Framework, Relay Centres and Eureka.

There is a particular and growing emphasis on exporting, tourism and product innovation. For some of its services, businesses in the capital city, Tallinn, are excluded. Tallinn is relatively prosperous and vibrant compared with the rest of Estonia, and is believed by EE to be less in need of intervention in support of business.

EE appoints a client manager for each business that it supports, who then offers a package of advice and support from both EE itself and from other relevant institutions. The client chooses what elements of the package to adopt, depending on its business plan.

Unusually, EE also provides advice and support to research and educational institutions, municipal authorities and NGO's. This is to help them provide a more supportive physical and cultural environment for enterprise.

Whilst the services offered by EE are not widely different from those that can be sourced in other enterprise agencies internationally, there are some characteristics that make it useful as a benchmark:

- It is a relatively new agency and has designed its structure and services on the basis of learning from good practice in other countries. It therefore represents a distillation of experience from other places;

- It has a very straightforward, simple focus on small businesses with growth potential, and remains relatively unburdened by multiple objectives and targets;
- It works hard to make its services as accessible as possible to small firms, with its network of regional offices, clear eligibility criteria and commitments to quick decisions on applications for support; and,
- It has been successful in connecting with EU measures, broadening the package of support available to its client businesses.

Why the approach is relevant to the two districts/to East Germany?

The example of a single enterprise agency, such as a One-Stop or First-Stop-Shop is relevant for both districts in terms of integrating, co-ordinating and tailoring entrepreneurship policy. Although EE is an example located at national level, it is also relevant at regional and local levels.

Brandenburg and Mecklenburg-Western Pomerania can report good practice as it regards the integration of policies and programmes around modernising existing SMEs, general workforce development, strengthening the local and regional science industry base, supporting entrepreneurship amongst groups with limited business ownership representation, and adding specific framework conditions for rural areas. Despite the existing linkages and the synergies that have been built, more can be done to integrate them into an overall strategy. There are agencies that deliver strategies at a wider regional level. However, at local level, the outreach of these initiatives might be limited and main activities seem to be concentrated around major cities. Here a greater localisation of the initiatives could yield further success.

The example of EE shows: (i) the importance of a shared entrepreneurship strategy that integrates different policies and programmes; (ii) how a strategy can act as a co-ordination tool; and, (iii) the importance of using a strategy for tailoring policies to local needs. As a single enterprise agency, EE is signalling a clear point of access to entrepreneurs. The establishment of a single institutional identity, brand and gateway, increases clarity, transparency and improves the communication of business support services as it provides a single and widely communicated information point for entrepreneurship services.

In particular, there are a number of characteristics of the EE approach that seem especially relevant to Uckermark and Parchim contexts:

- Although keen to identify technology-oriented businesses, EE does not see these as the only source of growth and is prepared to support growth potential across all industry sectors;
- It works closely with business lobby groups such as the Chamber of Commerce, thus helping to maintain its business understanding and credibility;
- It aims to work with "opportunity" businesses where the entrepreneurial drive is more evident rather than "necessity" businesses, driven by lack of other employment options;
- It operates through a network of "one-stop" shops, enabling easier access to support from client businesses;

- It aims to encourage exporting activity, to reduce dependence on more limited local markets;
- It is well integrated with central and local government, and with other agencies such as Kredex, demonstrating an effective policy network; and,
- It has retained its focus on SME's, a specialism that avoids the risk of multiple and potentially conflicting objectives.

Reasons for the success of the approach

There are a number of positive factors underlying EE's success:

- The overall political and social environment in Estonia is supportive. Since independence there has been a strong commitment to an open, market economy and to an entrepreneurial culture. EE has therefore been operating in a positive, sympathetic institutional environment;
- Related to that, EE has maintained good partnerships and a strong reputation with its clients and stakeholders. The Ministry of Economic Affairs regards EE as central to delivering its objectives, the EU is supportive, the Estonian Chamber of Commerce and Industry is also supportive, and individual client companies are appreciative of the services received;
- EE has developed a strong focus on SME support and has not adopted wider economic development responsibilities. This is in contrast to many other development agencies, which have been given multiple and often conflicting objectives. EE is able to determine its priorities solely against the simple measure of support for business;
- More recently, EE has begun to concentrate on some specific priorities: high growth potential businesses; technology and product innovation; export potential. It has set targets for the proportion of its clients fitting into these categories, and is delivering services tailored to their requirements. Over time, this approach will enable higher impact and value for money to be demonstrated;
- EE has retained flexibility in how it delivers its services. Whilst there is an in-house team of 60 business advisors, it also contracts out to around 300 external consultants. This enables a more customised service for each client, and also helps renew and refresh the skills available on a continuous basis; and,
- Finally, EE operates a network of 16 centres around the country. These are small, often only with one member of staff. But they provide local knowledge and an easier point of access for new starts in particular. This type of local network is generally more effective in supporting new starts and smaller enterprises than a more centrally based service, even if it only involves a simple point of access.

The obstacles that were faced and the quality of the response taken

EE did experience some difficulties in its early stages and still faces a number of challenges:

- Politically, there was some early over-ambition to take on too many functions and objectives. This was recognised by 2003 when EE was restructured to bring a much clearer focus on business advice and support.
- There was also some initial resistance from other government departments that were unwilling to lose responsibilities that they had previously controlled. EE has however now established itself within the institutional landscape, with continued strong support from the Ministry of Economic Affairs.
- It has proved difficult to attract and retain good business advisors, both in-house and through external consultants, especially people with direct business experience. To help address this, EE has undertaken some competence training for business consultants, for example in project design and management.
- The relatively small R&D base in Estonia has made it difficult to deliver technology and product innovation objectives. EE has therefore worked closely with research and higher education institutions to improve their capacity to work with SME's. An example is the establishment of a number of "Competence Centres". These are small R&D centres comprising a number of companies and universities, specialising in applied research and product innovation. Examples include centres in food technology and in healthy dairy products.
- EE has successfully become a major channel for EU structural funds into the Estonian business sector. But this has required a significant administrative effort to ensure compliance with EU regulations. There is a risk that this may stifle flexibility and innovation in how EE operates. There is no simple response to this, but at least EE and its partners are alert to the risk.
- EE recognises a need to improve its understanding of its client base, and in particular to develop a more accurate segmentation of its market. It faces the challenge of being required to provide a service to all businesses, whilst trying to select those with the highest growth potential. The response so far has been to set a relatively modest target for this prioritisation: to have 10% of its clients in the high growth category.

Considerations for adoption of this type of approach in the two districts and in East Germany

There are a number of questions that need to be considered if the EE model was to be applied in the two districts:

- Is there a political will within the relevant levels of government to devolve business support to a separate organisation? Whilst political direction and accountability are essential, the organisation must then have the flexibility and responsibility to deliver its objectives.
- Can business support be delivered in a focused way? Much of EE's success has been due to a concentration on a relatively small set of objectives and activities, rather than being diverted by wider economic development responsibilities.
- Can effective partnerships be built with other organisations? EE works well with, for example, municipal authorities, research and education institutions, and the Chamber of Commerce.

- Is there a good enough understanding of the client base? EE has recognised the need to understand more clearly the scale, structure and needs of the new start and SME market that it is aiming to serve.
- Is there sufficient capacity to meet clients' requirements? A strong, experienced pool of advisors, partly in-house and partly external, is needed to win credibility from partners and clients, and to provide the personal service that new starts and SME's value.
- Will there be sufficiently easy access to the services provided? EE benefits from its regional network of offices, primarily in providing easy points of access for SME's to the overall package of support.

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CONCLUSION

This Discussion Paper seeks to provide an external perspective on opportunities for the development of entrepreneurship policies in the districts of Uckermark (Brandenburg) and Parchim (Mecklenburg-Western Pomerania). It makes observations on the strengths and weaknesses of the current regional and local entrepreneurship environment and policy framework, recommendations on how policy could further promote entrepreneurship, and provides examples of programmes in other countries that illustrate the sorts of approaches that could be taken to implement the recommendations.

It must first be recognised that entrepreneurship policies in the districts of Uckermark and Parchim operate in a very challenging economic and social context. A shrinking population, high unemployment and insufficient rates of job creation are the central development challenges for the districts of Parchim and Uckermark. The districts' territories are characterised by regional diversity. They combine within their administrative borders rural and sparsely populated areas with 20 inhabitants per square kilometre and urban centres of economic importance. On the other hand both districts also have significant opportunities. In particular, they benefit from proximity to economic development centres, such as Berlin and Hamburg, and are well connected to Poland and potential exists to exploit these important markets and supply chains. Entrepreneurship activity will be very important to overcoming challenges and exploiting opportunities.

Entrepreneurship, and the stimulation of entrepreneurial thinking and creativity, are important ingredients for the generation of new and better jobs and incomes that can, in the long run, foster the districts' capacities to adjust to economic changes. It is the shift towards growth activities, and the stimulation of innovation and local competitiveness, that will bring the districts forward in their local economic development path. The levels of entrepreneurship activity measured by business stocks and start rates in the districts are diverse. Whereas Parchim matches the national level with 11.6 business registrations per 1 000 persons, Uckermark reaches only 7.7, and thus ranks as one of the poorest performing districts in Germany.

Policy has an important role to play in helping to increase entrepreneurship activity locally. There is already substantial, good quality entrepreneurship policy support available in each district from the Federal, Land and District levels and there are initiatives to tailor them to the needs of the districts. Furthermore, many of the initiatives in place can be considered as best practice within OECD Member countries. A key message of this report is that the current policy effort in the field of entrepreneurship should be maintained and good practices continued and built upon. Five main areas of intervention are now required for extending and improving support:

- Introduce entrepreneurial education at school for promoting young people's attitudes and motivations for successful entrepreneurship;
- Enhance skills development in existing SMEs and amplify the policy focus on enterprises capable of significant growth;

- Further tailor public support in financing entrepreneurship to the needs of SMEs;
- Build upon existing policies, programmes and initiatives to promote rural entrepreneurship; and,
- Strengthen the local policy design and delivery framework.

These key issues are discussed in turn below.

Promoting entrepreneurial culture and attitudes through entrepreneurship education at school

There is a need to strengthen entrepreneurial culture in the two districts in order to encourage more new start-ups and SME growth. Experience from other OECD countries acknowledges that if a culture shift is to be achieved effectively, there needs to be greater emphasis upon entrepreneurial education at schools. Greater penetration of entrepreneurial thinking and creativity can be achieved if enterprise education is at the heart of the curriculum. The understanding that entrepreneurship is not simply about business start-up, but that, increasingly, employability and entrepreneurship have become an indivisible pair, should remind policy makers of the importance attached to apprenticeship schemes. The experience of other OECD regions can be helpful in considering the sorts of responses that can provide inspiration for policy innovation in Uckermark and Brandenburg, and in Parchim and Mecklenburg-Western-Pomerania.

Key activities recommended for promoting entrepreneurial attitudes, motivations and skills in Uckermark and Parchim include embedding entrepreneurship education throughout the system, intensifying entrepreneurship promotion campaigns at the local level and, in rural areas, promoting successful entrepreneur role models, and providing incentives for SMEs to take apprentices.

The experiences of other OECD regions demonstrate, with concrete cases, how public agencies have sought to introduce these types of initiatives. The types of approaches that can be taken include:

- An example of an enterprise education programme promoting entrepreneurial culture and attitudes of young people, which joins the efforts of all main stakeholders in developing, implementing and monitoring initiatives and activities (as in "Determined to Succeed", Scotland, UK).
- A programme that helped the establishment of school based community development corporations, that enabled youth to become job creators, not just job seekers, by allowing them to identify opportunities and unmet needs in their communities and setting about creating businesses to serve those markets (as in "Rural Entrepreneurship through Action Learning – REAL", USA).

These types of actions can provide further support to the policy emphasis in place by introducing and embedding entrepreneurship education Land-wide into the school system.

Enhance skills development in existing SMEs and promote the growth of enterprises

Existing SMEs in Uckermark and Parchim will need to focus more on skills development and business performance if they are to survive and grow in an environment characterised by increasing domestic and international competition. Business survival and growth depend not only upon SME leadership and management, but also upon the skills and motivation of their staff. The prevalent belief of entrepreneurs that training costs time and money, accompanied by a lack of awareness of, and access to, training offers, as well as a lack of incentives and financial support structures, all need to be addressed as barriers to enhanced skills development approach for SME's.

Developing tailored skills development schemes can help to increase the interest in attending training programmes. It is important to identify topics of high relevance for local businesses, such as accessing external markets, increasing innovation in production and service delivery, and managing and financing growth. Business networks can be used to support and to run campaigns to increase awareness of such programmes. In light of the still limited interest in business succession, compared to start-up activities, the inclusion of highly-skilled employees, with great potential for entrepreneurial activities, should be considered as a target group for training programmes in business succession.

In order to help young companies to survive, and to grow, public support schemes for coaching and training activities during the post start-up phase should also be reconsidered. Although young companies tend to be less interested in such schemes, as their daily work in running the business often does not leave enough time, these kinds of services provide valuable support. Very often young companies do not realise that their current business capabilities and know-how are insufficient and that external help would be a real advantage. Experience with post start-up coaching programmes in other OECD countries show that the relationship between entrepreneur and coach, built up during the pre-start-up and start-up phases, has the potential, if carried on to the post-start-up phase, to provide helpful assistance that allows new entrepreneurs to recognise upcoming difficulties at an early stage. Tailored services at the local level could be used for maintaining direct interaction with previous clients in the post start-up phase by continuing the initial one-to-one interactions established during the pre-start and start-up phases.

A number of key actions are recommended to support business survival and foster potential growth companies, including: supporting the development of training schemes for SME managers and employees, tailoring existing programmes to business needs, prospecting for and prioritising innovative companies from technology and non-technology oriented sectors, and extending public support schemes to the post start-up phase.

Examples of programme approaches in these areas developed in other OECD countries include:

- Providing SMEs with a tool that enables them to understand and assess their training needs and their growth potential by identifying what factors will have the most impact on company survival and growth (as "SPOTcheck – Success POTential check" in Ireland).
- Offering advice and guidance in business succession by developing, at an early stage, a business transfer plan, including an assessment of existing skills and designing a training strategy for business staff (as "Take-Over-Programme" in Finland).

- Getting high skilled employees interested in starting their own business by targeting them for tailored training programmes on starting, running and growing an enterprise (as "Enterprise Start Programme" in Ireland).

Tailor entrepreneurship financing to the needs of SMEs

In both districts there is a wide range of public financing programmes for both start-ups and existing companies. However, the lack of equity capital and collaterals seem to set an insurmountable barrier to existing SMEs in the districts in terms of accessing favourable credit schemes. As most of the public financing schemes are delivered through local branches of private banks (*Hausbanken*), access to these schemes is partly restricted. Furthermore, existing information asymmetries between banking institutions and borrowers make it hard for banks to determine the real value of a project, which leads to credit rationing. Venture capital schemes exist, but, on the one hand, entrepreneurs seem to be reluctant to access formal sources of outside equity capital, as they fear a dilution of their control over the firm. On the other hand, these schemes are focused on technology-oriented companies, which are considered to have a greater market potential and higher profit potential than SMEs from other sectors. Thus, the latter suffer from a lack of develop oriented venture capital.

These framework conditions might impair the survival chances of young and existing SMEs, and might also negatively impact on growth tendencies of companies. In particular, the high numbers of micro enterprises that have been established with the support of public programmes, like "*Ich-AG*", have little access to additional capital that would allow them to consider opportunities for business expansion. It is important to recognise the difference between the two policy objectives – social and economic – and to provide distinct support for each objective and achieve an appropriate balance between the two objectives. In the case of Uckermark and Parchim, a stronger effort is recommended on promoting the development of potential growth enterprises involving increased targeting and segmentation of business support. There could be considerable economic and social returns on public investment in identifying and supporting growth enterprises. The provision of tailored public financing programmes that include substantial coaching over different phases can help. Furthermore, such an approach does not require abandoning support for necessity entrepreneurs or traditional SMEs, but simply represents distinct additional support.

A number of key actions are recommended to enhance the tailoring of SME financing including: co-operation on collateral-based lending constraints, extending micro-lending accompanied by coaching, extending development financing to other instruments and types of businesses, instigate on the role of banks in financial consulting, and provide public financial support also independent of *Hausbanken*.

The experience of other OECD countries provides concrete cases of how public policy has sought to introduce these types of initiatives. The types of approaches that can be taken include:

- Addressing the gap in the financial market for higher risk start-ups and SMEs through a mechanism that has become self-financing building on strong relationships and credibility with relevant partners, such as commercial banks, the economic chambers and government departments (as "*Kredex*", Estonia);
- Offering access to development-oriented financing to all kind of entrepreneurs and extending it from venture capital schemes to guarantee funds (as "*FILTRAN*", France);

- Developing and delivering local guarantee schemes that makes accessing capital easier and helps local companies to lobby their needs towards banking institutions (as "*Artigianfidi Ferrara*", Italy); and,
- Financing the start and development of micro businesses through the delivery and monitoring of micro credits (as "*ADIE*", France).

Promote rural entrepreneurship

Rural regions tend to be challenging environments for the promotion of entrepreneurship. The seriousness of these challenges obviously varies from region to region, but the main obstacles derive from the small size and low population densities of rural communities, their social and economic composition, and the nature of internal and external linkages. Delivery of public support tends to be more fragmented, and access to banks, suitable premises, high-speed internet access, and specialist technical advice is more difficult. Networking activity between entrepreneurs is limited or has a focus on agricultural activities. The latter often results from the tendency for rural economies to be less diversified than urban ones. Consequently, labour forces tend to suffer from low skill levels, low skills diversity, and a structural mismatch in the local labour market, caused also by outward migration of the young, professionals, and well-educated people.

A number of good practice examples to overcome these barriers to entrepreneurship development in rural areas can be found in Uckermark and Parchim. Integrated rural development strategies are drafted and implemented at the local level; this allows for synergy building between agricultural production and key economic areas, like renewable energy generation and tourism, and provides a solid local pillar for an effective rural entrepreneurship policy. Experience from other OECD countries demonstrates that a crucial factor for the success of entrepreneurship development programmes lies in convincing farmers, or dependent workers in the agricultural industry, of their ability to become entrepreneurs. Farmers tend to be an attractive group for entrepreneurial activities because by running their farm, they have already acquired a number of skills necessary for successfully operating a business.

Key activities recommended to promote rural entrepreneurship include: identifying local and regional assets and converting them into entrepreneurial activity, connecting rural entrepreneurs to external markets, organising effective comprehensive systems of support services for entrepreneurs combining technical assistance, training, access to capital, land, buildings, and regulatory guidance, fostering a cultural change, and promoting openness towards entrepreneurial activities beyond the farm.

The experience developed in rural parts of the United States can be helpful in considering further policy initiatives and programmes in rural areas of Uckermark and Parchim. The types of approaches that can be taken include:

- Fostering an understanding where rural entrepreneurship is considered an effective alternative to attracting companies to relocate from other places (as "*Enterprise Facilitation®*"); and,
- Supporting the tapping of external markets through regional cluster development in rural areas (as "*Kentucky Rural Innovation Fund*").

Strengthening the local policy design and delivery framework

There are significant initiatives already undertaken to overcome the challenge of fragmentation in current entrepreneurship policy design and delivery arrangements, especially with regard to business start-ups in regions characterised by demographic changes and high levels of unemployment. At the local level, successful project co-operation with ERDF and ESF help to increase the possibilities to design and run single programmes and projects. However, there seems to be a strong use of top-down, generic instruments, and limited resources are available to develop local strategies limits tailored to the local context. There is also little 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 adopted or adapted to increase their impact.

It is therefore important to foster a more proactive, future-orientated approach to entrepreneurship design and to seek ways to increase policy co-ordination and local tailoring. Principal areas for intervention to achieve this include the development of integrated local entrepreneurship strategies and the introduction of the policy cycle methodology (which involves moving through four linked phases of policy development, namely problem definition, policy design, delivery, and evaluation and feedback). In Parchim, where horizontal co-ordination seems to be organised along more ad hoc lines and less institutionalised, efforts should be made to simplify the interface between entrepreneurs and SMEs through partnerships amongst the relevant actors with clearly visible entry points into the system, for example using the one-stop-shop model.

Examples from other countries of regional approaches for strengthening entrepreneurship policy design and delivery frameworks include:

- Building a comprehensive entrepreneurship development system that combines financial incentives and technical assistance and joins the efforts of public, private, and non-profit providers of services, which allows for close co-operation with beneficiaries and can therefore be considered an entrepreneur-focused systems (as "Entrepreneurship Development Systems in Rural America" in USA); and,
- Combining the creation of a single enterprise agency with a shared entrepreneurship strategy that integrates different policies and programmes and thus acts as a co-ordination tool between the efforts of different stakeholders, and helps tailoring policies to local needs (as "Enterprise Estonia" in Estonia).

In order to introduce these types of approaches in Uckermark and Parchim, agreement is needed on which organisation, or organisations, can lead the development of an enterprise strategy and pull organisations together into partnership delivery of this strategy. It is also important to develop appropriate links between local level and regional level strategy building and implementation arrangements, rather than to consider the needs of the districts in isolation from wider regional opportunities and stakeholders.

ANNEX

Box 1. Estonian Credit and Export Guarantee Fund (Kredex), Estonia

(by David Chrichton, United Kingdom)

Description of the approach (aims, delivery, budget etc)

As with Enterprise Estonia, Kredex was established in order to consolidate a number of existing but fragmented activities. It was set up in 2001, and is under the jurisdiction of the Ministry of Economic Affairs. It is a credit guarantee agency, with three main objectives:

- To develop SME's
- To encourage export growth
- To support housing for young families

This report concentrates on the first two of these, as the services most relevant to business support. Kredex's client base comprises new starts and SME's, to which it provides loan and leasing guarantees as well as export credit guarantees.

Whilst the Estonian commercial banking sector is relatively mature, there remains a market gap facing higher risk start-ups and SME's generally. These continue to find it difficult to raise finance from the commercial sector for a variety of reasons: insufficient collateral, limited equity, limited credit history. The local leasing market also remains under-developed.

The range of financial services available from Kredex include:

- **Equity loans:** These are for established small firms with a good trading record, who are seeking to expand but have been unable to secure a bank loan. The product therefore aims to support second stage development of such businesses. There is no requirement for collateral, and the loan is not generally repayable until the end of the loan period. The banks are therefore prepared to consider it as equity, and their willingness to lend increases. The funds can be used for, for example, mergers, acquisitions and new product development. Loans can be in the range of EEK 1 million to EEK 16 million.
- **Business loan guarantees:** These are for businesses with less of a trading record, and can take two forms: investment loan guarantees and working capital loan guarantees. The former is for longer term investments, for example in equipment or premises. The latter is for shorter term needs, such as stock purchase or marketing campaigns. In both cases, the target businesses are those with limited security, short credit history, involved in new business areas or high risk sectors. Investment guarantees can be offered up to the value of EEK 15 million, and working capital guarantees to EEK 8 million. Kredex charges both a management and arrangement fee.
- **Export credit guarantees:** A number of types of export credit guarantee can be provided. These include: short term risk guarantees, where payment deadlines are in the 3-6 month range and purchases cover, for example, consumer goods and raw materials; long term cover, for capital goods; and pre-shipment risk guarantees, covering the risk of customers withdrawing from a sale after the goods have been produced.
- **Leasing guarantees:** These are to help businesses to enter into lease agreements for machinery and equipment. Kredex will guarantee up to 40% of the unpaid redemption price of leased property, up to a maximum value of EEK 15 million.

In all cases, the finance is provided by the commercial banks, and applications to Kredex are channeled through the banks rather than directly from the SME's themselves except for very small guarantees. The terms of the guarantee vary by the type of loan, but Kredex charges an arrangement fee and an annual guarantee fee: the latter varies from 1.3-3.5%. These charges, and

a very low incidence of guarantees being called in, have enabled Kredex to become self-financing and indeed profitable in a very short period of time. Applications are assessed against a business plan, and visits are made to most applicants for further investigation.

The latest available financial data are for 2004. By then, Kredex had entered into 653 business loan guarantees and 635 export guarantees. It had enabled EUR 89 million of business loans to be made, with Kredex guaranteeing 47% of this amount. Over EUR 60 million of export turnover had been supported. Just under 2000 jobs were estimated to have been supported through Kredex's activities.

The provision of credit guarantees is a well established means of intervening to support SME's. A number of factors make Kredex worthy of attention however:

- It has successfully achieved financial viability in a relatively short period of time, with no drain on public funds.
- It has also won credibility with the commercial banking sector in a short period, becoming an established player in the local financial market.
- It is relatively unbureaucratic, making for easier and quicker access to capital for local SME's.
- It has developed and refined its product range to match the development of its client base, for example in introducing equity loans for businesses entering into second stage growth phase.

Why the approach is relevant to the two districts/to East Germany?

The two districts share certain characteristics with the Estonian situation, such as a low rate of business formation, a preponderance of SME's, a larger than EU average manufacturing sector, declining population and a recent history of emerging from a planned economy into a market economy and EU membership. Policy objectives for the business sector are also likely to be similar, such as increased competitiveness, technical and product innovation and exporting. Both areas have established, mature banking sectors but with the likelihood of the same risk aversion when dealing with new starts, relatively small companies, low levels of security, and high dependence on loan rather than equity finance.

For all of these reasons, the experience of Kredex in addressing a gap in the financial market through a mechanism that has become self-financing will be of relevance in the East Germany context.

There are a number of particular characteristics of the Kredex approach that may be especially relevant in Uckermark and Parchim:

- Like Enterprise Estonia, Kredex is prepared to back growth potential irrespective of industry sector.
- Kredex tackles the issues of limited security and collateral that constrain investment in other emerging economies.
- It helps to lever additional development-oriented capital into the business sector.
- It directly involves the banks in working with client SME's in a more supportive and advisory capacity.
- It offers specific support for exporting companies, reducing dependence on local markets.
- Its close working relationship with government and with Enterprise Estonia indicates a well integrated policy network.

It remains highly specialised in its purpose, and is not therefore diverted by multiple objectives.

Reasons for the success of the approach

Credit guarantee agencies and funds are common across most EU member states, and in this regard there is nothing unique about Kredex. It does however display a number of features that have contributed to success:

- Kredex has a very systematic approach to the appraisal of applications. This has helped ensure a limited degree of call-in of guarantees. It has also guarded against the "deadweight" of guarantees being provided where they are not absolutely necessary. Provision is therefore very focused on the genuine areas of market need and failure.
- Kredex has also built strong relationships and credibility with relevant partners: the commercial banks, Chamber of Commerce and government departments. It has built partnerships with international guarantee agencies, for example in Scandinavia and Russia. It also has a co-guarantee contract with the European Investment Fund.
- These partnerships, and Kredex's own financial success, has enabled it to continually refine its services, for example through offering better conditions or higher credit limits.
- Kredex operates in a very sophisticated and commercial manner. For example, where guarantees are called in, Kredex does not normally pay the banks until 24 months after the end of the loan agreement. This ensures that the banks do everything possible to recover the loan without drawing on the Kredex guarantee.

The obstacles that were faced and the quality of the response taken

Kredex has been in most respects a clear example of success, but it has faced a number of challenges since its inception and continues to do so:

- Initially it had to establish its credibility and reputation, especially with a banking sector that was primarily foreign-owned. It achieved this through building strong relationships with partners, for example through having private sector participation on its Board, and through adopting from the start a disciplined and commercial approach.
- As Kredex's portfolio has grown, the level of guarantees called in has increased. This is however seen as an inevitable and acceptable consequence of growth. In fact, by handling claims efficiently, it has enhanced the organisation's reputation.
- The increased volume of work has brought organisational and administrative challenges. This has required some restructuring, increased application of IT, and new administrative processes.
- Kredex operates in an increasingly competitive financial market and has had to change its approach to adapt to that. This has included improvements to products, terms and procedures. For example, it has given more emphasis to higher risk export markets and to longer term projects. It is also considering an equity loan product.
- Operating a successful guarantee fund does not necessarily increase the capacity and sustainability of the SME sector. Kredex has recognized the need to support its clients to improve their management skills. For example, it has provided training in risk management for exporters. It is also cooperating with the Estonian Business School in offering risk management training to students there.
- Similarly, credit guarantees do not necessarily deliver wider policy objectives of business and economic growth. However a 2004 survey showed that net sales growth amongst Kredex clients exceeded the national average by around 50%. Export growth from Kredex clients also exceeded the national average.

As activity has increased, Kredex has on occasion reached the state's limits on guarantee

exposure and has had to suspend applications. This has been resolved by seeking legislative changes, and these have been granted by government.

Considerations for adoption of this type of approach in the two districts and in East Germany

- A fundamental question must be whether the same type of market gap and failure in the financial market exists in East Germany. There is no case for state intervention on the Kredex model if this cannot be shown. If there is such a case, however, key considerations would be:
- Is there the political will to provide a guarantee fund through a separate, discrete agency such as Kredex? Although accountable to the state, Kredex has been allowed to operate along commercial lines without significant political interference, and this has been an important contributor to its success.
- Can the necessary partnerships be built with the commercial banking sector? This has been another essential factor in Kredex's success, and is based on commercial discipline combined with mutual respect and confidence.
- Are the appropriate management skills available to run this type of operation? Kredex has a small staff of around 30, but has been able to attract high calibre people with the necessary financial and commercial skills.

Contact details and website for further information

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Box 2. Enterprise Start Programme, Ireland

(by Brian O'Kane, Ireland)

Description of the approach (aims, delivery, budget etc).

In Ireland, there are many training programmes, both State- and private sector-funded, that aim to teach potential entrepreneurs the skills needed to start and run their own businesses. This availability has been instrumental in encouraging start-ups, currently running at 20 000 *per annum* (Global Enterprise Monitor, 2005).

However, the number of high-potential start-ups has remained constant at around 55 to 60 *per annum*. Defined by Enterprise Ireland, the State agency for indigenous industrial development, as businesses capable of employing more than 10 staff, with turnover in excess of EUR 1 million, of which 75%+ is export, within three years of start-up. Accordingly, in its response to the Enterprise Strategy Group report in 2004, Enterprise Ireland set itself the target of doubling the number of high-potential start-ups (HPSUs) to 210 over the period 2006/2007 and then doubling it again 200 *per annum* thereafter.

The Enterprise Start Programme was devised by the Enterprise Ireland division responsible for the regions (outside Dublin), as a regional initiative. It was piloted in 7 locations outside Dublin in 2005 and then mainstreamed throughout Ireland in 2006. FAS, the national industrial training agency, agreed to part-fund participants on the programme and thus joined Enterprise Ireland as a partner.

The programme is heavily advertised and promoted in each region and begins with a "First Step" introductory session, which concentrates on "prospecting" – identifying potential participants. A "Second Step" workshop provides participants with further information from the State enterprise support agencies.

The core programme, which consists of 12 three-hour workshops, is run over six weekends (Friday evening, 1800 to 2100, and Saturday, 0930 to 1230). The programme is managed and delivered in each location by the local Institute of Technology (although, in Galway, the local Business Innovation Centre is responsible), using local entrepreneurs to deliver the workshops.

These workshops focus on the realities and practicalities of starting and running a business. The aim is to encourage potential entrepreneurs to 'make the leap' and to provide the information they require to do so. They cover:

1	The Entrepreneurial Mindset
2	Business planning – Entry and Exit Strategy / SWOT Analysis
3	Starting a business in Ireland / Formalities
4	Finding the Opportunity and Building a Sustainable Competitive Advantage
5	Business Planning – Marketing / Customer ID / Competitive analysis
6	The New Venture Team – The entrepreneur as a manager – Managing a Start-up
7	Sales / Marketing Plan
8	Sales / Marketing Plan
9	The Financial Plan
10	The Financial Plan / The Protection and Management of Intellectual property

12	Summarising the Entrepreneurial Process: Next Steps
<p>The key distinguishing element of the Enterprise Start Programme, however, is that it is targeted at people currently at work, who have yet to declare their entrepreneurial intentions by leaving employment.</p> <p>Although the programme is focused on identifying and nurturing high-potential start-ups, it does not exclude potential entrepreneurs with other business ideas. A close link-up with the City and County Enterprise Board network (responsible for businesses with fewer than 10 staff) ensures that all participants are provided with onwards support, whatever their path.</p> <p>To ensure commitment, participants pay EUR 275, with FAS making up the remaining 70% of the programme cost. Enterprise Ireland pays for administration, promotion and recruitment.</p> <p>Oak Tree delivers a number of the workshops on the programme in two locations, covering strategy development and business planning, as well understanding and explaining the entrepreneurial mindset.</p>	
<p>Why the approach is relevant to the two districts/to East Germany?</p> <p>The Enterprise Start Programme:</p> <ul style="list-style-type: none"> • Is a pro-active approach to developing entrepreneurship and entrepreneurial opportunities in the regions • Is targeted at potential entrepreneurs, who have not yet declared their intentions and who thus cannot be identified by other means • Provides both motivation and knowledge transfer • Offers flexible delivery, using entrepreneurial role models. <p>Because the programme is focused on motivating people to become entrepreneurs, and not just helping them to do so, it reaches deeper into the marketplace and creates a new pool of entrepreneurs or potential entrepreneurs.</p> <p>And, by using local entrepreneurs as practical role models in the delivery of knowledge and skills training, the programme reinforces positive perceptions of entrepreneurship.</p>	
<p>Reasons for the success of the approach</p> <p>A formal evaluation of the Enterprise Start Programme has not taken place yet (scheduled for Summer 2006), so it is difficult to identify whether it has been "successful".</p> <p>However, 70 people participated in 7 pilot programmes across Ireland in 2005, leading to a second wave of 10 programmes scheduled for 2006.</p> <p>Of the 70 participants in the first year of the programme, half have engaged in further entrepreneurial activity – 10 have joined an Enterprise Platform Programme (A 12-month incubation support programme), 20 are being mentored towards the development of a business plan and 5 have engaged to date with other agencies – and half have not formally done so.</p> <p>Anecdotally, it is accepted that the success of the programme derives from its flexibility, practicality and targeting.</p>	
<p>The obstacles that were faced and the quality of the response taken</p> <p>Like every programme, the Enterprise Start Programme has faced obstacles. To date, these have included:</p>	

- The programme schedule – Friday evenings and Saturday mornings – leaves no time for one-to-one engagement with participants. Many have questions or concerns that cannot be addressed in a group setting. For the Autumn Dublin programme, the period set aside for group work in each session will be reduced from three hours to two hours and the time released used for one-to-one meetings with the participants before and after the group work.
- Scheduling for the entrepreneur tutors – although the Friday / Saturday schedule suits potential entrepreneurs who are not able to attend during core working time and are willing to sacrifice some family/personal time, it is problematic for the entrepreneur tutors, who must make the same sacrifice. As the programme demand grows, either the tutors lose all their weekends or additional tutors must be trained.
- Some regions have only a small pool of potential entrepreneurs at any point in time, perhaps insufficient to justify a programme – joint programmes across regions may deal with this, as would development of blended learning (a combination of self-study and face-to-face/group learning) using a smaller number of formal group-based sessions.

The Enterprise Start Programme remains a pilot programme in many ways and experimentation is being encouraged by Paula Carroll, the co-ordinator for Enterprise Ireland.

Considerations for adoption of this type of approach in the two districts and in East Germany

In planning the adoption of the Enterprise Start Programme (or something similar) in East Germany, the agencies should ensure:

- Inter-agency co-ordination
- A practical focus
- Tutor entrepreneurs
- A combination of motivation and knowledge transfer.

Widespread publicity for the initial "prospecting" session is essential, in order to reach as many potential entrepreneurs as possible – even though some may not even attend.

In addition, given the stage of entrepreneurial development in East Germany, it may be useful to consider broadening the remit of the programme to include all businesses, not just high-potential start-ups.

Contact details and website for further information

The Enterprise Start Programme is funded by Enterprise Ireland (<http://www.enterpriseireland.com>) and FAS (<http://www.fas.ie>). It is co-ordinated by Paula Carroll (paula.carroll@enterprise-ireland.com), to whom enquiries about evaluations, etc, should be addressed.

Box 3. SPOTcheck Programme, Ireland

(by Brian O'Kane, Ireland)

Description of the approach (aims, delivery, budget etc).

SPOTcheck (**S**uccess **P**O**T**ential **c**heck) (<http://www.spotcheckonline.com>) was originally developed at the request of South Dublin County Enterprise Board (SDCEB), which is one of a network of 35 Enterprise Boards in Ireland that support businesses with fewer than 10 employees (<http://www.sdceb.ie>). The SDCEB wanted a tool that would:

- Help it identify the areas in which it should provide interventions to client companies
- Prioritise these interventions
- Provide a benchmark to measure the effectiveness of such interventions, by comparing results at a later date.

This was against a background of a change in the form of supports provided by SDCEB from "cash for jobs" to "soft" supports, including training, mentoring and management development.

SPOTcheck is not a "health check", but a tool to assess the growth potential of a business and, more importantly, to identify what factors will have the most impact on whether growth occurs. It was developed through a literature search, from which 16 factors were identified that impact on the growth potential of a business, namely:

- **External**
 - Environment
 - Market
 - Customers
 - Direct competition
 - Suppliers
- **Promoters / Management team**
- **Internal**
 - Strategy
 - Marketing
 - Sales / Promotion / Channels
 - Products / Services
 - Process
 - Product Development / Innovation
 - Human Resources
 - Financial Resources
 - Financial Management
 - Systems and Administration

Having registered their business' profile, a user assesses the business on these 16 factors, by scoring it on a series of "line items" under each factor. The result is saved in a central database and can be reported against a number of benchmarks – for example, businesses in similar locations, of a

similar turnover, of similar employee numbers, etc.

SDCEB accesses these reports by requiring them to be submitted as part of the application process for supports, in some cases providing mentors to carry out the SPOTcheck assessment. (The submission of a SPOTcheck assessment is now optional.)

By repeating the assessment at intervals, it is possible to measure progress against earlier assessments – areas in which successful interventions have been made should be reduced in priority in later assessments.

Nearly 700 users are logged on the SPOTcheck database.

Why the approach is relevant to the two districts/to East Germany?

SPOTcheck identifies and prioritises the factors that will contribute to the growth of a business and thus the effort required to achieve the business' growth potential, making it a useful tool for Uckermark and Parchim to apply supports selectively. In addition, through its benchmarking function, it provides a means to measure the impact of interventions, for learning and future development of programmes and supports.

In addition, by clearly identifying the factors that impact a business' growth potential, SPOTcheck often takes entrepreneurs outside their own "comfort zone", where the greatest opportunities (and risks) lie.

SPOTcheck is part of an holistic strategic growth process, documented in **Growing Your Own Business:A Workbook**, by Ron Immink and Brian O'Kane, published by Oak Tree Press (<http://www.oaktreepress.com>).

Reasons for the success of the approach

SPOTcheck is a low cost, simple-to-use approach to identifying where support agencies can best direct their interventions and supports to assist in the growth of clients. It is easily accessed over the Web and allows for ongoing benchmarking of businesses – against previous results or other similar businesses. It is easily integrated into the assessment procedures of a support agency.

The obstacles that were faced and the quality of the response taken

Initially, there was some resistance from SDCEB mentors, who were concerned that a diagnostic tool, like SPOTcheck, could not capture the richness of a qualitative assessment. SPOTcheck allows mentors to add comments and an overall subjective score to the assessment to reflect their own judgement – this has helped acceptance of the tool.

Nonetheless, due to other factors, submission of a SPOTcheck assessment is now optional for SDCEB support applications.

One other CEB experimented with SPOTcheck for a year, hosting it on its website for clients to use – with very little take-up. SPOTcheck needs to be part of a overall "growth" programme for businesses, of which there are few in Ireland – without this, there is little incentive to use it.

For direct users, we believe that low take-up is associated with the low price, which creates perceptions of low quality (the low price was intended to remove a potential obstacle to regular use). Pricing is currently under review, to balance value-for-money with perception of quality.

Considerations for adoption of this type of approach in the two districts and in East Germany

If SPOTcheck is to be used in East Germany, it should be part of an overall "growth" programme, helping companies to identify their own potential for growth, and specifically what factors impact it most and thus should be their focus going ahead, and helping companies implement a process of strategic growth.

Contact details and website for further information

SPOTcheck was developed by Brian O'Kane and Ron Immink. More information is available at the websites above, or from Oak Tree Press, 19 Rutland Street, Cork, Ireland.

<http://www.spotcheckonline.com>; <http://www.oaktreepress.com>

Action Plan

(This "ActionPlan" builds on the recommendations given in a draft summary report on the districts Uckermark (Brandenburg) and Parchim (Mecklenburg-Western Pomerania), March 2006, presented at a regional workshop on 5 April 2006 in Berlin, Germany)

ENTREPRENEURIAL ATTITUDES AND CULTURE

What

How

Who*

Intensify enterprise education and awareness campaigns

It is important that entrepreneurship is not seen as a cure for unemployment but rather as a means to dynamic economic development. In the long run, promoting enterprise education throughout the education system up to university level increases entrepreneurial aspirations, attitudes and behaviour in the long run. Education from an early age should promote creativity and empowerment as well as provide children and youth with a realistic picture of entrepreneurship as a viable, also temporary, alternative to paid employment that in the future will be more a blend of dependent and self-employment.⁶² Training of teachers in entrepreneurship education is also required for messages to be transmitted. It also helps build the skills and competences needed in entrepreneurial activities. In the shorter run, entrepreneurship promotion campaigns should be undertaken.

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, vocational and professional training institutions and providers, HEI, Public Employment Service, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, relevant Land government agencies, relevant Federal agencies

Create identifiable role models and champions

Regional success stories need to be identified and promoted in different media (TV, radio, newspapers, magazines, internet), in different forms (e.g. awards, success stories), at different occasions (e.g. conferences, fairs, events) and by different public and private actors (e.g. local government, chambers, business associations, community organisations, etc.). It is important to demonstrate that entrepreneurship is about taking manageable risks and sometimes even failing, but however it is worth trying and taking the risk. If it is hard to find visible local role models and champions it is advised to ask "national heroes" to tell their entrepreneurship story to the audience of Uckermark and Parchim. Practical real life stories and happenings provide people with better understanding of what it is like to be an entrepreneur. The presentation of traditional start-up champions in the framework of deGUT ("*Deutsche Gründer- und Unternehmertage*") (<http://www.degut.de>), where examples from all 16 Länder are

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, vocational and professional training institutions and providers, HEI, Public Employment Service, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, relevant Land government agencies,

⁶²

Comment made by the Brandenburg Ministry of Economy, Department Business Start-up (*Existenzgründungen*).

honoured can be named together with the Brandenburg initiative "AGIL" and the „Einfach Anfangen" campaign in Mecklenburg-Western Pomerania as good examples in presenting role models.⁶³

relevant Federal agencies

Make the districts attractive for entrepreneurs

An initiative should be developed to seek to attract entrepreneurial people from other areas to set up businesses in the districts, using marketing and promotion of the districts to a targeted entrepreneurial audience and taking advantage of the local contacts they may have. Local people currently living outside of the districts but who maintain family linkages should be a particular target group for such measures, because they will find it easier to recognise the quality of life and business opportunities the districts have to offer (e.g. lower living costs, access to grants, natural beauty) and may also have social reasons to return.

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, vocational and professional training institutions and providers, HEI, Public Employment Service, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, relevant Land government agencies, relevant Federal agencies

* This is not an exhaustive list of stakeholders and actors. It needs to be adapted to and completed for the local context.

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ENTREPRENEURSHIP SKILLS AND TRAINING

What

Include training for enterprise development in business start-up programmes

How

More emphasis should be placed on developing business management and development skills within start-up support programmes. Existing training should be expanded to cover identification of markets outside of the district, business sustainability issues and the identification and exploitation of future growth opportunities in addition to support with technical issues in business start-up.

Who*

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, vocational and professional training institutions and providers, HEI, Public Employment Service, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, relevant Land government agencies,

⁶³

Comment made by the Brandenburg Ministry of Economy, Department Business Start-up (*Existenzgründungen*).

relevant Federal agencies

Support training for existing SME managers

Promote high-quality training programmes for SME managers to support their business development skills, especially opportunity recognition, marketing skills and knowledge of markets. These may be publicly or privately delivered and in the form of in-house training or outside courses. They should include a focus on how to recognise business opportunities and markets outside the district. The Chambers of Commerce and Trade, Crafts and professional associations as well as business associations will have to take a greater involvement.⁶⁴ Offer opportunities for education, new experiences, co-operation and discussions to help entrepreneurs identify the needs of their businesses for change and how change can be achieved. Target in particular entrepreneurs that are willing to grow their businesses.

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, vocational and professional training institutions and providers, HEI, Public Employment Service, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, relevant Land government agencies, relevant Federal agencies

Create incentives for SMEs to take apprentices

Provision of apprenticeship places will help encourage young educated people to stay in the districts and support SMEs in facing market challenges. Apprenticeships assist young people to gain work experience and provide SMEs with possibilities to test young workers and their capabilities and train them according to company needs. It is important to continue initiatives that can raise awareness of skills development needs and can create incentives for SME to take apprenticeships.

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, vocational and professional training institutions and providers, Public Employment Service, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, relevant Land government agencies, relevant Federal agencies

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FINANCING ENTREPRENEURSHIP

What

How

Who*

Improve financing for company formation

Start-up companies in both districts require further financial support for the early stage of company formation.

Public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, relevant Land government agencies, relevant Federal agencies

Tackle the problem of limited securities and collateral.

In order to support companies with early innovation potential and growth SME the central problem of limited securities and collaterals needs to be tackled. This will require close co-operation between relevant institutions, namely local government, venture capital companies at Länder level, regional economic promotion agencies and banks.

Public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, relevant Land government agencies, relevant Federal agencies

Increase development-oriented financing

Development-oriented finance initiatives should be extended from venture capital to other financial instruments, e.g. guarantees, and should be offered to all kinds of entrepreneurs, rather than just technology businesses. However, extending existing institutions and instruments should be preferred to developing new ones.

Public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, relevant Land government agencies, relevant Federal agencies

Extend microlending

Develop micro-lending instruments designed as a mass business and encompassing coaching for micro enterprises.

Public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, relevant Land government agencies, relevant

<i>Instigate discussion on the role of banks in financial consulting</i>	Banks should be encouraged to fill the gap in financial consultation opportunities for SMEs.	Federal agencies Public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, relevant Land government agencies, relevant Federal agencies
<i>Provide public financial support independent of house banks</i>	In order to increase the leverage effect of public finance, Federation and Länder financial institutions should be positioned as providers or guarantors of SME financing independent of the house banks.	KfW, public banks of the Länder (Landesförderinstitutionen and Investitionsbanken der Länder)
<i>Support building of SME lobby groups vis à vis banks</i>	In the context of uncertainty about the future local orientation and commitment of savings banks, the public sector should support the formation of SME lobby groups to negotiate access to finance with banks on behalf of their members. Such lobby groups founded in the name of many companies could also increase competition between the banks.	Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies

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SME INNOVATION AND EXPORTING

<i>What</i>	<i>How</i>	<i>Who*</i>
<i>Access external markets</i>	There is a need to increase penetration of external markets in order to create demand for local goods and services. As a prerequisite market research to understand potential demand for the supply of local goods and services in regional national and international markets needs to be intensified. Policies also need to be developed to respond to these opportunities. Existing programmes to facilitate market entrance	Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, InnoRegio projects, technology and innovation support agencies

opportunities should be continued.

Foster 'grass roots' innovation

More should be done to encourage innovation in agricultural and food industries, basic industries and services and in smaller, less capital-intensive companies. There are good examples of grass roots interventions in both Districts (e.g. the "Energy Cluster Initiative for North East Brandenburg" and initiatives of the Chamber of Crafts and the Local Association of Crafts operating in Parchim to stimulate a culture of innovation). Such good practice should be considered for replication across a wider group of companies and industries.

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies

Promote investment in and application of ICT and 'generic' technologies

More should be done to promote investment in and application of ICT and 'generic' technologies. It is important to overcome existing initial barriers in traditional SMEs in applying and making use of ICT. There is ample international evidence that the adoption of such mainstream technology has a significant impact on productivity and growth in all types of companies. Encouraging the adoption and use of such technology can be achieved via awareness raising campaigns of the benefits, demonstration and training, and part-financing micro-grants.

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies

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Promote high level innovation

Existing good practice initiatives should be sustained and lessons applied to other industries. Brokering relationships between larger regional companies with latent intellectual property and SMEs with the capacities to use it should be seen as another potential route for stimulating higher level innovation. The smaller company could buy, licence or pay a commission for the intellectual property. The approach requires a public sector agency with in-depth technology and business awareness to scan for such brokering opportunities and to initiate and facilitate dialogue.

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies

Prospect for and prioritising innovative companies

Greater resource needs to be applied to identifying start-up companies that are innovative and have the potential to grow. There needs to be greater emphasis on scanning and pro-active identification of growth companies. This will require a dedicated resource and a wider, more holistic interpretation of innovation, which encompasses product, process and marketing.

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies

Pilot a high-growth start-up

A high-growth start-up programme should be piloted in both Districts. This would identify start-up companies with a minimum growth potential (based on employee

Chambers of Commerce and Trade, Chambers of Crafts, Associations of

<i>programme</i>	numbers and/or turn-over), co-ordinate public support, provide bespoke mentoring and advice, and assist with the raising of private investment. Such a programme would only focus on a small cohort of start-ups over a two year period (given the size of the economies, perhaps only twenty companies a year would be recruited). This could be particularly valuable in Parchim where the entrepreneurial climate is close to Federal average but quality issues are evident.	Crafts, professional guilds, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies
<i>Import human capital</i>	Given the locational advantages of each district (communications, landscape/environment, quality of life, property prices, low crime, wage rates etc), more should be done to attract innovative entrepreneurs from elsewhere.	Technology and innovation support agencies, local governments, relevant Land ministries
<i>Intensify business network initiatives</i>	Good practice examples of successful business networks in both districts should be sustained and their linkages strengthened with other policy areas, e.g. education, and emulated in other appropriate industries, e.g. construction, food, logistics and tourism. Networking can be stimulated by undertaking value chain analysis and scenario planning with the appropriate stakeholders of these industries. A key to initiating such networks is for the embryonic membership to pose and attempt to answer a central question: By co-operating how can we move this local industry from being a price-taker to being a price-maker?	Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies , local governments, relevant Land ministries

* This is not an exhaustive list of stakeholders and actors. It needs to be adapted to and completed for the local context.

RURAL ENTREPRENEURSHIP

<i>What</i>	<i>How</i>	<i>Who*</i>
<i>Focus on identifying local and regional assets and converting them into entrepreneurial activity</i>	There is a tendency in economically challenged communities, including those in rural areas, to emphasize their problems and deficiencies, often as a means of attracting public sector investment and support. As a consequence, it becomes difficult to see opportunities that may translate into economic advantage. An intentional mapping of local and regional assets – and even the poorest rural communities have some assets, whether human, social, physical, or financial – can yield possibilities that might attract entrepreneurial interest and help improve economic competitiveness. The recent and ongoing work on regional and integrated rural development strategies and the local planning initiated as part of "Leader Plus" have encouraged regional and local leadership to pay attention to the assets to be found within Uckermark and Parchim. The natural environment of these districts has been recognized as a major asset that can yield a number of economic possibilities in tourism, outdoor recreation,	Local governments, Regionalmanagement, "Leader Action Groups, local enterprise support agencies, InnoRegio projects

education, and health care. Moreover, the adjustment of agricultural practices towards alternative crops, value-added production, bio-energy, and wind power all offer complementary opportunities for sustainable entrepreneurial development. Valuing the environment may also pay dividends in supporting broader regional economic development goals, whether in encouraging firms to relocate in the region so that employees have attractive choices to live and pursue recreational activities, or enabling entrepreneurs who no longer want or need to locate in metropolitan areas to thrive in small town and rural settings.

Connect rural entrepreneurs to external markets, regionally, nationally, and internationally so that they are not dependent upon stagnant local markets for their goods and services

Strategies are likely to include the use of information and communication technologies for e-commerce, collaborative marketing strategies that might be sectoral, geographic, or both, and the fostering of networks and exchanges between entrepreneurs across regional and national boundaries. One of the challenges to be addressed in Uckermark and Parchim is the fact that entrepreneurship has become viewed primarily as strategy to provide opportunities for unemployed people, rather than as a way to bring new wealth and job creation possibilities to these rural regions. There seems to be little expectation, either from the entrepreneurs themselves or from the agencies and programs that support them, that these new ventures will be other than services and activities serving a local market. Technical assistance and training will need to be retooled to emphasize the importance of accessing broader markets for Uckermark and Parchim products and services. The learning model "Central Appalachian Network" describes an approach to tapping external markets through regional cluster development, and the learning model "Kentucky Rural Innovation Fund" confirms the fact that with the right support, good ideas and people can be nurtured through commercialisation to the point at which they can attract venture capital investment. Using the appropriate networks, rural-based entrepreneurs can be connected to resources and markets outside their own region to create successful businesses.

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guildes, vocational and professional training institutions and providers, local enterprise support agencies Regionalmanagement, "Leader" Action Groups, relevant Land and federal ministries and agencies

Organise support services for entrepreneurs into effective systems for providing resources such as technical assistance and training, access to capital, land and buildings, and regulatory guidance

The aim has to be to bring in ways that increase efficiency and reduce transaction costs while maintaining or improving quality outreach to dispersed rural entrepreneurs. There is no shortage of agencies and institutions at the local, district, and state levels that can contribute in different ways to promoting and supporting entrepreneurship. There is evidence of strong linkages between government departments and chambers, and also bottom-up collaborations facilitated by the "Leader Plus" programmes. These relationships and networks will be critical in ensuring that integrated and comprehensive support is available for those entrepreneurs with the motivation to create jobs and wealth in rural communities. Particular attention will have to be paid to regulatory frameworks and the time it takes to obtain regulatory

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guildes, Public Employment Service, public and private banks, venture capital companies and schemes, business angels, InnoRegio projects, technology and innovation support agencies, local governments, relevant Land government agencies,

<p><i>Embed entrepreneurship education into the school and college curricula, and into workforce training programs</i></p>	<p>approvals.</p> <p>Broadening education and career preparation to increase creating and growing businesses is potentially a powerful way to retain young people in rural communities. It also opens up new possibilities for adults in trades and professions, as well as those in agriculture and forestry, to consider how they can create their own business, particularly when they are not getting adequate rewards from their current employment and do not want to move away to the cities for better prospects. Einfach Anfangen, the campaign launched in Mecklenburg-Western Pomerania to stimulate interest, particularly among young people, in entrepreneurship as a career option is an excellent example of the focused effort needed to shift entrenched attitudes away from waiting for government programs to create jobs to encouraging people to think about creating their own opportunities. Already there are 100 schools, mainly in the urban areas, that have incorporated entrepreneurship into the curriculum. The task ahead is to generate the same level of interest within the rural schools.</p>	<p>relevant Federal agencies</p> <p>Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guildes, vocational and professional training institutions and providers, Public Employment Service, local enterprise support agencies, HEI, relevant Land government agencies (e.g. Landesrektorenkonferenz)</p>
<p><i>Generate local community support for entrepreneurship to increase the chances that entrepreneurs will be successful in their ventures</i></p>	<p>If people trying to start and expand their businesses are treated with suspicion or are not valued in the community, they will either abandon their venture or move elsewhere. Rural entrepreneurship has to be embraced by community leaders as an effective alternative to attracting companies to relocate from other places.</p>	<p>Local governments, local enterprise support agencies, Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guildes, vocational and professional training institutions and providers, HEI, Regionalmanagement, "Leader" Action Groups, public and private banks, venture capital companies and schemes, business angels, Public Employment Service</p>

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ENTREPRENEURSHIP POLICY DELIVERY FRAMEWORK

<i>What</i>	<i>How</i>	<i>Who*</i>
<i>Foster institutional innovation</i>	Institutional arrangements characterised by high levels of integration, co-operation and transparent co-ordination are likely to positively influence entrepreneurial development and firm growth.	All agencies involved in enterprise support and economic development. All agencies involved in the design of

With regard to rural development, the establishment of formalised inter-ministerial working groups at Land level, including the Ministry of Agriculture and other line ministries for entrepreneurship issues 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 for entrepreneurship development that need to be addressed and to how procedures related to entrepreneurship development could be streamlined.

policies and programmes

At local level in Parchim, key local partners may benefit from more formalised joint working, for example using partnership and network models such as those in Uckermark.

The lessons gained from "InnoRegio" initiatives (like "NUKLEUS" in Parchim), which are not strictly bound to administrative borders, should be fed into a wider process of innovating institutional co-operation. It is recommended that such a process is initiated for all existing "InnoRegio" projects. This would enable an exchange of information on the lessons of different regional networking experiences in East Germany as an input into further innovation in institutional partnerships.

A closer co-operation at Land level between Brandenburg and Mecklenburg-Western Pomerania would further enhance collaboration and joining efforts at local level, especially in border areas.

Tailor policy and programmes to the local and regional context

The target setting process in entrepreneurship policy making should ideally reflect the variety of local contexts and local needs.

Communication channels therefore need to be established, where not already existing, and maintained between different government levels. More formalised involvement of line Land ministries in existing local networks, would offer opportunities to further develop and tailor local approaches and would help to ensure timely communication on changing eligibility criteria and regulations in public funding.

At local level, a clear and mutually agreed strategy for economic and entrepreneurship development aims to formalise the aspirations and co-operation of key partners locally. Such a strategy would help to position the districts development priorities, which can be translated into an action plan with clear priorities and roles for partners, timescales and resources.

The example of both districts with relatively high numbers of high-skilled employees (7.9% compared to the federal average of 7.5%) suggests considering an expansion of current activities. Widen the group of potential recipients of initiatives like "AGiL - Aufbruch: Gründen im Land" and "Einfach Anfangen" and including high-skilled employees as a target group with is carrying a great potential for entrepreneurial

All agencies involved in the design of policies and programmes. All agencies involved in enterprise support and economic development

activities, should be considered, also in light of the still limited interest in business succession compared to start-up activities.

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. The policy cycle also includes a more forward looking policy development approach.

All agencies involved in the design of policies and programmes. All agencies involved in enterprise support and economic development

This may begin to foster a more proactive approach locally that may be more future-oriented rather than reactive in its responses to local economic change and Land level initiatives.

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. Linking target and objective setting in different programmes and initiatives is further a key ingredient of building sound local development strategies.

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.

Further localise "GO" and "Einfach Anfahren" and consider establishment of "One-Stop-Shops"

This recommendation is of particular relevance to Parchim and Mecklenburg-Western-Pomerania, where good networking exists at Land level, but local outreach in the form of local offices and counters seems to be limited. The envisaged creation of regional managements (Regionalmanagement) as leading bodies in drafting and implementation of rural renewal strategies and related action plans, should be recognised as an opportunity to foster integration and co-ordination across different levels of governance. In addition, clarity, transparency and communication of business support services may be improved by the establishment of a single institutional identities, brands or gateways, applying the 'One-Stop-Shop' model to provide single and widely communicated information point for entrepreneurship services. Such specialised entrepreneurship and SME agencies could also help to alleviate capacity problems in public administration caused by a decrease in personnel and an increase of areas of competence and would also facilitate the development of a knowledge pool. The question of whether this service should be outsourced to a private provider or established as a public agency, separated from or integrated into local government structures, will need further attention.

Initiatives like "GO" and "Einfach Anfahren", *Regionalmanagements*, local enterprise support services and local economic development agencies

Keep existing networks open for

Advisory and sounding boards, with the participation of entrepreneurs and the private

Existing networks, local enterprise

new members

sector, have proved to be a useful instruments for receiving feedback on effectiveness and impact of entrepreneurship policies and measures. It is important, though, to clearly state roles and responsibilities, as well as to maintain a representative character of this board and hence leaving access open for new members. Annual business competitions at Land and local levels could be seen as casting opportunities for identifying new members.

support services and local economic development agencies

Strengthen institutional links with Poland

Uckermark's proximity to Poland has been understood as main local asset and various initiatives are developed. It is therefore recommendable to further strengthen and, if possible, institutionalise communication between local public agencies on both sides. A formal invitation to join as observer the steering group of "Luchs" or other networks should therefore be a discussed as concrete initiative.

Chambers of Commerce and Trade, Chambers of Crafts, Associations of Crafts, professional guilds, enterprises, local governments, Land ministries

** This is not an exhaustive list of stakeholders and actors. It needs to be adapted to and completed for the local context.*

List of interview partners

*(Review panel study visit to the districts of Uckermark and Parchim,
16 – 20 January 2006, in alphabetic order)*

Mr	Altenburg	Vorsitzender des Vorstandes, Kreissparkasse Parchim-Lübz Deutschland
Mr	Barten	Nukleus e.V.
Mr	Breithaupt	Abteilung „Existenzgründungen“, Ministerium für Arbeit, Bau und Landesentwicklung Mecklenburg Vorpommern
Ms	Bretschneider	Referat Existenzgründungen, Ministerium für Wirtschaft, Brandenburg
Mr	Bungenberg	Geschäftstellenleiter Deutsche Bank Prenzlau
Ms	Bünger	Wirtschaftsministerium Mecklenburg-Vorpommern
Mr	Burmeister	Betriebsberatung Handwerkskammer Schwerin
Mr	Dau	Unternehmer Landkreis Parchim
Mr	Fellmer	Geschäftstellenleiter. Industrie und Handelskammer, Geschäftsstelle Eberswalde
Ms	Feusch	Abteilung für Wirtschaftsförderung, Landratsamt Parchim
Mr	Fischer	Prokurist, Betreuer Großkunden, Region Ost Dresdner Bank AG
Ms	Ms Roth	Amtsleiterin Stabstelle für Regionalentwicklung Landratsamt Parchim
Mr	Geick	Geschäftsführer Parchimer Innovations und Technologiezentrum – PITZ
Mr	Gerloff	Industrie und Handelskammer, Geschäftsstelle Eberswalde
Mr	Goldbecher	Agentur für Arbeit Sternberg
Mr	Gotzian	Unternehmer Landkreis Parchim
Mr	Gülink	Mitglied des Vorstands, Volksbank Uckermark e.G. Prenzlau
Mr	Hampel	Büro für Kommunalberatung und Projektsteuerung
Mr	Mr Fink	Geschäftsführer Kreishandwerkerschaft Uckermark
Mr	Mr Schmidt	Vorstandsvorsitzender und Geschäftstellenleiter Sparkasse Prenzlau
Mr	Mr Wandel	Leiter der Kreisgeschäftsstelle Uckermark, Bundesverband Mittelständische Wirtschaft – BVMW
Mr	Holz	Volksbank e.G., Parchim
Mr	Iredi	Landrat des Landkreises Parchim
Mr	Kinza	Leiter der Kreisgeschäftsstelle Unternehmerverband Norddeutschland Mecklenburg-Schwerin e. V.
Mr	Krüger	Unternehmer Landkreis Parchim
Ms	Kuchmetzky	Gründertelefon Mecklenburg-Vorpommern, Landesförderinstitut Mecklenburg-Vorpommern
Ms	Ludwig	Geschäftsführerin, Kreishandwerkerschaft Parchim
Ms	Malinowski	Regionale Zuständigkeit Nordbrandenburg, Investitionsbank des Landes Brandenburg
Ms	Meinelt	Ministerium für Arbeit, Bau und Landesentwicklung, Mecklenburg-Vorpommern
Mr	Müller	Agentur für Arbeit Eberwalde
Mr	Müller	Abteilung für Wirtschaftsförderung, Landratsamt Parchim

Ms	Paulsen	Regionalmanagerin, Regionaler Planungsverband Westmecklenburg
Mr	Polzehl	Bürgermeister der Stadt Schwedt
Ms	Rautenberg	Referat Mittelstand, Existenzgründungen, Gesundheits- und Kulturwirtschaft Wirtschaftsministerium Mecklenburg-Vorpommern
Mr	Reisener	Unternehmer Landkreis Parchim
Mr	Resch	Leiter Naturpark, Uckermärkische Seen
Ms	Riescher	Agentur für Arbeit Schwerin
Mr	Rohlf	Abteilung für Wirtschaftsförderung, Landratsamt Parchim
Mr	Rolly	Bürgermeister der Stadt Parchim
Ms	Rosien	Kreishandwerkerschaft Parchim
Mr	Roth	Zukunftsagentur Brandenburg – ZAB
Mr	Scheifler	Gründeroffensive Mecklenburg-Vorpommerns – GO, Industrie und Handelskammer zu Schwerin
Mr	Schmitz	Landrat des Landkreises Uckermark
Ms	Schöndube	Projektleiterin, Angermünder Bildungswerk e.V.
Mr	Schreiber	Unternehmer im Landkreis Uckermark
Mr	Schubert	Mitglied des Vorstands, Keissparkasse Parchim-Lübz
Mr	Steffini	Unternehmer im Landkreis Uckermark
Ms	Stenzel	Bereichsleiterin, Agentur für Arbeit Schwerin
Mr	Tramp	Amtsleiter, Wirtschaftsförderung und Kreisentwicklung
Mr	Unger	Leiter der Abteilung für Regionalplanung und Verkehr, Industrie und Handelskammer zu Schwerin
Mr	Waldmüller	Unternehmer Landkreis Parchim
Mr	Walter	Geschäftsstellenleiter, Commerzbank Schwerin
Ms	Wickborn	Dresdner Bank AG, Parchim
Mr	Wolters	Unternehmer im Landkreis Uckermark

International review panel and workshop participants

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