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Strengthening Entrepreneurship in Marzahn- Hellersdorf



Discussion Paper

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AUTHORS' NOTE

This discussion paper on "Strengthening Entrepreneurship in Marzahn-Hellersdorf (Berlin)" 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 Marzahn-Hellersdorf (Saxony-Anhalt); and the borough of Marzahn-Hellersdorf in Berlin (case study areas 5 and 6).

For the local case study in the Berlin district of Marzahn-Hellersdorf, the OECD recruited an international review team. Petr Adamek (Czech Republic), Holger Kuhle (Germany), Rod Shrader (US) and David Walburn (UK) accompanied the OECD Secretariat in a review panel visit, undertaken from 26 to 28 June 2006, to Marzahn-Hellersdorf. Dylan Jones-Evans (UK) and Andrea Manuelli (Italy) contributed to a workshop on 28 September 2006 in Berlin, Germany and presented good practice initiatives in entrepreneurship development. Jonathan Potter is managing the review and supervised the fieldwork which was co-ordinated by Andrea R. Hofer. Wolfgang Helmstädter represented the Federal Ministry for Transport, Building and Urban Affairs, "Aufbau Ost" and chaired the workshop. Manuela Wehrle from Regionomica/Berlin managed all preparatory work 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

This OECD review of entrepreneurship development in Marzahn-Hellersdorf focuses on how to increase the start-up rate of new firms, support the growth of existing small and medium-sized enterprises, and attract small and medium sized inward investors to this particular district of Berlin. As a part of the greater Berlin agglomeration, Marzahn-Hellersdorf cannot be considered a self-contained local economy. The borough's borders are more administrative than functional, and its local government authority lacks the policy levers to make a major impact with only its own resources. A key message of this Paper is, therefore, that the economic and policy linkages between the Marzahn-Hellersdorf borough and the wider city and Land within which it sits must be recognised in any assessment of policy needs and opportunities. The wider Berlin economic strategy makes an important start in this direction, for example by identifying two economic sectors (health industry suppliers and the automotive industry) in which Marzahn-Hellersdorf is seen to have comparative advantages and which will be a particular focus of policy efforts.

For these sectors, and for small business development more generally, Marzahn-Hellersdorf offers some valuable assets, including an abundant supply of available industrial sites and a mix of business facilities with attractive rental rates and adequate infrastructure, a large pool of young adult workers with academic qualifications and job skills, and a local business community that comprises companies of different sizes and specialisations. However, Marzahn-Hellersdorf must also address the problem of occupying a peripheral location within a depressed city economy and the need to compete with other city districts for available investment. This suggests that much of the business development required will have to be generated domestically and address specialised markets in the broader city, national and international economy.

Policy is likely to have the greatest impact on promoting small business development in the district, by taking a strategic approach to entrepreneurship policy that emphasises building an entrepreneurial culture in the general population, creating new start ups and growing existing enterprises focused on promising markets.

The main chapters of this Discussion Paper will focus on different aspects of such an entrepreneurship strategy for Marzahn-Hellersdorf. Having such a strategy will enable the local institutional actors to take a systematic approach to identifying key priorities and thus establishing clear views on the prioritisation of sectors, businesses, places and properties, and social groups. Building such a strategy will need to bring together the full range of actors 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 industry, commerce and crafts, business associations, and vocational and professional training organisations. Proper mechanisms are required to ensure that all of these actors can input into policy design and delivery in such a way as to maximise synergies.

The chapters of this report are each structured in three parts: an initial discussion about strengths and weaknesses; a set of recommendations for further expert discussions at local, Land

and federal level; and international learning models, selected as good practice examples, illustrating the recommendations given and offering ideas and inspiration for policy innovation. The international learning models constitute a core component of the discussion paper. They aim to bring to light: new local approaches that could better exploit opportunities or overcome barriers to the development of innovative and growth enterprises, through the utilisation of science and technology assets; 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.

The discussion is not intended to provide an exhaustive picture of the local situation, 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 and selected non member countries.

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.

FOSTERING ENTREPRENEURSHIP IN MARZAHN-HELLERSDORF

By Jonathan Potter and Andrea R. Hofer, OECD

The district economy in Marzahn-Hellersdorf is characterised by a number of important strengths, including good quality infrastructure, developed industrial areas, relatively cheap rents for industrial and commercial accommodation, and a youthful population capable of economic activity. The presence of health care facilities offers employment opportunities and might have the potential to further add to economic development in the borough in other ways. However, a number of weaknesses can also be identified in the creation of economic activity locally. These relate to the strength of commuting to the centre and other parts of Berlin and its surrounding area, the relative lack of established businesses, a very weak pattern of small business growth based on new business registrations net of de-registrations, a high level of unemployment, a declining population (which is at a much higher rate than Berlin as a whole), and only few higher education institutions within its boundaries. Retail and consumer services are growing economic sectors. Currently, however, most local retail and consumer services businesses serve local markets and are therefore dependent on local income levels and purchasing power rather than acting as generators of additional income. Furthermore, the overall level of demand in the Berlin economy is insufficient to sustain output per head at levels as great as those for Germany as a whole, and Marzahn-Hellersdorf itself is not well placed within the Berlin region to do much on its own to address this issue. The borough is also exposed to a "go East" trend in FDI that is making it harder to attract and retain this type of business venture. On the other hand, improvements in the general business climate in Germany and proactive behaviour from Berlin authorities in changing its current image as being an administrative centre performing typical functions of a European capital metropolis rather than a centre for manufacturing investment can increase the chances of Marzahn-Hellersdorf to attract new job-creating investment.

Marzahn-Hellersdorf, as a part of the greater Berlin agglomeration, cannot be considered a self-contained district economy. Strengthening entrepreneurship development in Marzahn-Hellersdorf is a policy task that regards Berlin as a whole, and, because of the wider economic region, it also touches upon parts of the neighbouring Land of Brandenburg. In suggesting measures to boost small business and entrepreneurship in Marzahn-Hellersdorf, the regional situation, and the circumstances of the borough within the region, set the context for what is practical and might offer real improvements. These factors determine the choice of approaches that are recommended for consideration for implementation in the borough.

Three main areas of intervention, which build on local strengths, are suggested for increased entrepreneurship development in Marzahn-Hellersdorf:

- Making best use of the existing policy delivery framework in supporting entrepreneurship development and business growth;

- Strengthening entrepreneurial attitudes and motivations amongst employees and SME managers and developing skills for successful entrepreneurship and growth businesses; and,
- Attracting investment through customising premises and services.

These key issues are discussed in turn below.

Making best use of the existing policy delivery framework

Fostering endogenous development and inward investment are policy priorities for the borough administration in Marzahn-Hellersdorf and the Berlin Senate. Decisions concerning the creation of favourable framework conditions for the smooth and dynamic functioning of markets are made by the Senate. This includes infrastructure and property development, regulatory reforms, and provision of strategic information. To achieve these priorities, a range of local development actors and organisations have been involved in policy design and delivery. The borough administration has taken on a co-ordination role, but it lacks the policy levers to make a major impact with only its own resources. The borough administration, however, takes the lead in stimulating interactions and knowledge exchange between the various local organisations.

In order to increase the effectiveness of the policies developed by the various actors in the district, it is recommended that, in close co-operation with relevant institutions at Berlin city state level, a local strategy to boost small business activity should be drafted with strong participation from the borough and other local actors. Other stakeholders should be recruited as partners in the delivery of the strategy. Further discussion is needed on whether the strategy should focus on the borough itself or the wider “Berlin Eastside” area of which it forms part. It might be also relevant to include the area’s role in the Berlin Brandenburg capital region. Translated into an action plan, clear priorities and roles for partners, timescales, and resources can be defined. Such an entrepreneurship strategy will enable the local institutional framework to take a systematic approach in identifying key priorities, thus establishing clear views on the prioritisation of sectors, businesses, places and properties, and social groups.

Systematic evaluation of the activities developed in the enterprise strategy will provide valuable information to help policy makers and programme developers to integrate lessons learned in new programme development. Linking target and objective setting in different programmes and initiatives is further a key ingredient of building sound local development strategies. With regard to the range of local development organisations and actors active in the borough, 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 to date and help to align different strategies and action plans.

Experience from OECD member countries shows that clustering processes have often been initiated through the establishment of forums, platforms and regular meetings of firms and organisations related to a particular network of production in the local value chain. Such activities may be important in helping to develop sectors – such as healthcare and automotive – in which the district has comparative advantages. The access to strategic information will often be the incentive to meet. Technology foresight studies and strategic cluster studies can be prepared locally, or with local input. Business support organisations, ideally in partnership with each other, will have to investigate what makes local clusters in the area successful. Some of the most important factors include: availability of venture capital, critical mass, technical infrastructure, presence of higher education and research institutions, entrepreneurial drive,

influence of champions, presence of anchor firm(s), networks and quality of linkages, social capital, and diversity. Here, the role of *Regionalmanagements* could be revisited with regard to introducing cluster development and management as new objectives of *Regionalmanagements*.

The existence of two separate *Regionalmanagements* for the neighbouring boroughs of Marzahn-Hellersdorf and Lichtenberg also suggests that more can be done towards joining resources and efforts. Indeed, a general organisational rearrangement could be considered to better reflect common needs of entrepreneurship development in "Berlin Eastside".

The establishment of an enterprise agency could accompany the development of the entrepreneurship strategy and help to increase efficiency and effectiveness of public support programmes, provide potential beneficiaries with information on existing programmes to increase science-industry linkages, and contribute to a further tailoring of policy interventions to local needs and streamline procedures. It is important that the agency, as a one-stop shop, is familiar with the specialisations of local SMEs, and that the agency can build on long-standing formal and informal relationships with business support organisations and the local business community. The observed lack of strong leadership in small business and enterprise issues in the borough can be seen as a reason for introducing an impartial agency that might be able to enhance the partnering of different business support organisations, local government and central institutions.

Small businesses often face difficulties with the integration into clusters, and/or production chains of large companies. In Marzahn-Hellersdorf, a range of business associations, along with the Chamber of Commerce and Trade and the Chamber of Crafts, are active in establishing contacts and communication channels that local small firms can use to enhance their position in locally, regionally, or internationally based value chains. Often SMEs, and especially small firms, prepare themselves for firm growth through participation in public procurement. The borough of Marzahn-Hellersdorf is active in ensuring that public sector practices do not disadvantage small businesses. Special training seminars have been organised in co-operation with the chambers to address the potential disadvantages for small businesses that can occur due to a lack of awareness of available opportunities. The borough is working towards improving its procurement processes and aiming to ensure small businesses are better able to find out about, and bid for, public procurement opportunities. This also includes a review of the costs involved in assessment and selection systems which might unfairly disadvantage small companies. Here, the examples of local authorities in OECD member countries adopting small business charters can help to streamline procedures and the regulatory framework. Similar to the SMEs skills and capacity building initiatives started by the borough administration, procurement outreach programmes are run alongside the adoption process of a small business charter in order to remove obstacles for SMEs and in turn to ensure that the public sector benefits from best value and efficient, innovative suppliers of goods and services. Often these programmes make use of on-line training facilities as a supplement to face-to-face training.

Overall, it is important to foster a more proactive, future-orientated approach to entrepreneurship promotion and to seek ways to increase policy co-ordination and local tailoring of policy and programmes. A principal area for intervention to achieve this is the development of a local entrepreneurship development strategy. This should be supplemented by efforts to simplify the interface between business support organisations and SMEs through partnerships between the relevant organisations and clearly visible entry points into the system.

The experiences of other OECD regions, discussed in the learning models section of this Paper, demonstrate concrete examples of how public agencies have sought to introduce these types of initiatives. The types of approaches that can be taken include:

- Establishment of a local entrepreneurship development strategy with clear priorities, based on an assessment of evidence on local business development needs and policy gaps, prepared through an extensive consultation process and implemented by a local business support network. Rethinking the scale at which entrepreneurship policy is designed, developed and delivered might be required: if the district level is too small, then cross-district integration and joint working possibilities need to be explored (as in North East England, UK);
- Establishment of an organisation dedicated to fostering and assisting enterprise, staffed by experts in small business support, that disseminates strategic information and contributes to a further tailoring of policy to local needs (as presented in the examples overview of Enterprise Agencies from the UK and the US);
- Fostering a proactive approach to assisting small businesses through the adoption of a small business charter (as presented in examples from the UK);
- Improving public procurement processes in order to allow for a wider participation of small firms (as presented in examples from the UK).

Strengthen entrepreneurial attitudes, motivations and skills

In strengthening the local economy in its envisaged key economic sectors of the health and automotive industries, the borough can draw on the assets of a large pool of qualified young adult workers with academic qualifications and job skills, and with a local business community that comprises companies of different sizes and specialisations.

The large labour commuting flows from and to Marzahn-Hellersdorf, however, underline an understanding that the remaining inactive local labour force is not always prepared for new challenges. There appear to be strong elements of an employee culture, in which people tend to seek dependent employment rather than to set up and successfully run and grow their own businesses. Avoiding or escaping from unemployment often constitutes the rationale for new business creation. However, such necessity-based enterprises tend to be less successful in competition than opportunity-based enterprises and it is the latter that people should be encouraged to create and grow. Improving entrepreneurial attitudes thus implies creating a greater awareness of the opportunities and benefits of entrepreneurship, which encourages more people to start a business or to grow the new business, rather than emphasising entrepreneurship as a means simply of escaping unemployment.

For local SMEs, it seems that a narrow conception of markets and growth opportunities negatively influences growth aspirations and innovation capacities. In addition, staff development and training are often not among the priorities of SME managers, who need most of their time to deal simultaneously with a variety of pressing issues. To address this issue, efforts are needed to work with both managers and staff to promote strategies through which companies aim for growth. Increasing investment readiness and facilitating access to financing services are likely to be important in supporting those SMEs that focus on growth. Experience with investment readiness programmes in OECD countries has shown that tailored training can improve the position of SMEs.

It is important that training offers, including coaching and counselling, are subject to regular quality checks that take into consideration local business needs and requirements. The various pilot initiatives designed and conducted by a coalition of Chambers and business associations can be named as good practice that should be further mainstreamed. Most of the current training and awareness raising activity, however, seems to be focused on vocational training and adult education, which leaves little margin for fostering entrepreneurial attitudes in schools and motivating students towards considering entrepreneurship a valuable alternative to dependent labour. Entrepreneurship promotion activities should therefore be extended to new audiences.

Key activities recommended for further promoting attitudes, motivations and skills for successful entrepreneurship, innovation and business growth include: enhancing co-ordination, transparency and quality checks on counselling, training and coaching services; running public campaigns to strengthen SME interest in and demand for these services; and enhancing entrepreneurial attitudes amongst the general population and amongst SME managers and employees.

Examples of programmes developed in other OECD countries include:

- Changing people's attitudes to entrepreneurship and fostering a culture of entrepreneurship that includes students, employees, entrepreneurs and the public sector (as promoted by the "Entrepreneurship Action Plan for Wales", UK);
- Making use of modern technology to detach entrepreneurship training from specific training locations (as in the "DIEPES" programme in Finland);
- Promoting entrepreneurial attitudes amongst employees and provoking creative and innovative approaches to problem solving (as in "Creating Transformation Agents", Sweden);
- Bringing together demanders and suppliers of small business finance to address the investment finance readiness of small firms and accessibility restrictions in finance provision (as in the "Investment Readiness and Access to Finance Programme" in London, UK)

Investor attraction through customising premises and services

An abundant supply of available industrial sites and a mix of business facilities with attractive rental rates and adequate infrastructure can be seen as strengths of the borough. In urban areas, where demand for land and buildings for new and expanded economic activities needs to be met initially by the existing space, characteristics like the quantity, quality and relevance of this space, as well as its flexibility to diversify according to changing needs, are relevant for investment location decisions. Marzahn-Hellersdorf has strong assets in these areas.

However, it does not have the monopoly on attractive business locations and premises, as other locations in Berlin and the surrounding districts of Brandenburg offer similar premises under comparable conditions. The centralised pricing policy of the Land Berlin does not allow the district simply to overcome this problem by reducing price. Instead, the borough administration, the *Regionalmanagements*, and central institutions like Berlin Partner, need to closely work together to promote the area through marketing initiatives and to add value to the property on offer.

Some promising marketing initiatives have already been developed, such as "Berlin Eastside", jointly initiated by Marzahn-Hellersdorf and the neighbouring borough of Lichtenberg, which seeks to label and promote the Eastern boroughs of Berlin as profitable business locations. Such marketing initiatives should consider giving greater emphasis to the promotion of the healthcare industry and automotive sectors, which have been identified by the borough as key economic opportunity sectors.

An enterprise strategy, as mentioned above, could be used to identify and promote what makes Marzahn-Hellersdorf and "Berlin Eastside" an attractive business location. To better understand their needs, detailed surveys of existing SMEs should be regularly conducted. The work done so far by the borough administration, the Chambers and the business associations is a good starting point for further evaluation of different aspects of local cluster competitiveness, such as market strengths, technological leadership and capacity for renewal. Policy can play an important catalyst in the development of a local cluster. A next step should be to discuss possibilities for further adapting available premises, including services, to the needs of business clusters.

The substantial vacant rates of publicly-subsidised business facilities suggest there is an oversupply of property relative to demand. A consequence of this oversupply is a reduced engagement of private developers, leading the public sector to make investments that may not be necessary and potentially depriving development of private knowledge of market needs. Ways should therefore be found to increase private involvement in any future property developments, as well as private sector involvement in helping customise existing premises and properties towards the needs of current and future tenants and owners. An early consultation with private high-tech facility developers and operators would help in designing spaces that could attract more private investment.

Key activities recommended for further customising premises and services in order to attract companies and inward investment to Marzahn-Hellersdorf include: continued co-operation with central level institutions and other boroughs in the attraction of inward investors; encouraging a greater private sector involvement in site development with the aim of improving the flexibility of property markets; examining the transferability and adaptability of Tax Increment Financing schemes to Germany and Berlin; strategically identifying specific SMEs for the development of local clusters and supply chains; and establishing programmes to increase strategic connectivity to the wider region, including Eastern Europe.

The experience of other OECD regions illustrates how the public sector has sought to introduce these types of initiatives:

- Attracting private investment through early consultation with private high-tech facility developers and operators (as with "Prague 11", in Prague, Czech Republic);
- Overcoming the reluctance of the private sector to invest by financing public sector trigger investments through Tax Increment Financing (TIF) zones in blighted areas (as in the TIF zones of Chicago, USA);
- Providing a tailored joint service as a strategic advantage that attracts companies to settle in a developed industrial area (as in "Macro-lotto No. 1" in Prato, Italy);
- Enhancing the potential for local cluster building through the services of an associative business support centre (as in the example of the "CSM" consortium in Siena, Italy).

INITIATIVES TO STRENGTHEN SMALL BUSINESS DEVELOPMENT

By David Walburn, UK

Introduction

The suitability of programmes to support small business should always be considered in the context of the wider economic and commercial circumstances of a region. Whilst it is true that there are examples of market failure which are common in virtually all western economies, such as the problems of delivering financial services to small firms, the tools which might be employed by public policy to tackle them can only be effective if they are designed to meet the special needs of beneficiaries taking into account the local and regional context.

There is a paradox in local economic development which it is important to bear in mind when comparing one region to another. The paradox is that policies of intervention to address market failures have much more to offer in regions which are already successful than those struggling with problems of decline. In a region with a strong, growing economy it is likely that the rate of new business formation and numbers of businesses with the potential to grow will be high. The existence of the "equity gap" will therefore adversely affect the prospects of a large number of firms so that effective programmes of public policy will have a beneficial effect for them and for the regional economy as a whole. In regions with depressed levels of economic activity the numbers of small businesses with growth potential will be low and the existence of well funded, quality programmes to support such firms will therefore have only a limited aggregate effect. From the point of view of entrepreneurship policy (i.e. not including infrastructure spending or inward investment activity), therefore, the European model of transferring resources from richer to poorer regions may not achieve much for the latter and may depress the growth potential for national economies as a whole. There are numerous examples of poorer regions which stubbornly remain in this state despite years of receiving regional aid (with Ireland being perhaps the most notable exception). This dynamic appears particularly relevant to the situation in Marzahn-Hellersdorf.

It is also important to recognise the limitations of local economic development programmes in all circumstances when developing a strategy for any region. The political imperative for problems to be addressed by government is to think in terms of solutions. Politicians may feel that the use of language which offered less might make it difficult to achieve a consensus for the deployment of resources. Yet regional economies are driven by markets which, for the most part, operate independently of public policy. Because market dynamics are often very powerful the extent of the ability of intervention programmes to influence them is usually limited. This means that economic development interventions are only likely to influence overall economic performance by a few percentage points.

The development of entrepreneurship in the borough appears to be a very difficult undertaking. Significant change will depend on events in the overall Berlin economy, and there may be benefit in further pursuing the borough's position within Berlin's economic development strategy. Local programmes to support enterprise in Marzahn-Hellersdorf should be expected to take a long time to have effect. Levels of deal flow will be low and there will be few promising prospects, particularly in the beginning. It will be important to manage expectations and that there should be a preparedness to persist with the programmes for the medium term. Experience shows that programmes which go with the grain of market forces, such as by creating incentives to increase an already beneficial pattern of commercial activity, are much more likely to produce favourable results than those which seek to change market fundamentals, ignoring existing patterns of supply and demand. Simply because the benefits of interventions are limited does not mean that they might not be of great value.

However, in any process which involves government it is essential that expectations are well managed to avoid early disillusion, and practitioners should always maintain a rigorously realistic view of their territory.

Excursus: Entrepreneurship and social inclusion

Helping unemployed people to start their own businesses where employment is the more difficult option, is a feature of programmes in many regions. Such programmes are more likely to flourish in regions which are growing economically and where there is an overall strong level of demand. This is not the case in Marzahn-Hellersdorf, and the problems facing early-stage one person enterprises were mentioned by a number of respondents during the interviews. The programmes of support for the unemployed which were presented during the interviews contained a number of schemes to encourage people to pursue setting up small businesses. Although changes are taking place in the content of these programmes, the encouragement of enterprise will remain an important feature. A number of comments made during the interviews indicated that there is scepticism about the effectiveness of these arrangements, and that there may be a failure on the part of public policy to appreciate how difficult it is to succeed in business. There are indeed no easy solutions. Starting up a small business is very hard and requires a level of dedication and motivation which will be beyond the capacity of many unemployed people. However, one of the problems inhibiting success in Marzahn-Hellersdorf may be a lack of expert, easily available support. Delivering programmes to provide such support are mainstream activities for enterprise agencies. Setting up an enterprise agency might be useful addition to the borough's development infrastructure. Also, access to a programme to help people to find finance in addition to their welfare-based funding might also improve the success rate of the start-up businesses.

Strengths and weaknesses

The borough profits from its favourable geographic location and Berlin's connectivity to Eastern Europe, its proximity to the city centre, good public transportation, and good quality infrastructure. There are developed industrial areas with relatively cheap rents for industrial and commercial accommodation. The borough's population is youthful and capable of economic activity. Several large and modern hospitals add to economic development in the borough. Also, the local authority is a major employer and purchaser of goods and services which gives the potential for leverage in the local economy.

However, in terms of economic development, Marzahn-Hellersdorf can be considered on the periphery of the larger Berlin agglomeration. The prospects for small business development

in Marzahn-Hellersdorf are clearly influenced by the borough's relationship with the rest of the Berlin region. Although it might be considered as a city in its own right by virtue of the size of its population, such claims by local champions are unhelpful. In simplistic terms the Berlin region is characterised by a declining population and poorly performing economy in comparison to other German city regions. The history and local conditions of Marzahn-Hellersdorf make it one of the weaker parts of the Berlin region economically, benefiting very little from metropolis effect of being part of a capital city.

Although these may be perceived as negative factors when considering the prospects for programmes to boost entrepreneurship and small business development (and they *are* negative factors) the more important conclusion is a requirement to reflect the issues facing Marzahn-Hellersdorf in a Berlin-wide strategy for economic development. The borough itself lacks the policy levers to make a significant impact from within its own resources. Since Marzahn-Hellersdorf is a major area of housing for Berlin then a large proportion of its residents might be expected to work elsewhere in the conurbation, with measures adopted to address unemployment from within the borough having a relatively limited impact. The overall level of demand in the Berlin economy is insufficient to sustain output levels as strong as those for Germany as a whole, and Marzahn-Hellersdorf itself is not well placed within the Berlin region to do much on its own to address this issue.

Despite the large number of individuals and organisations having an interest and concern for small business development in the borough, there appears to be no overall strategy to guide priorities and activities, or to define how the key players might work together towards common objectives. It is important also to bear in mind that representative organisations pursuing small business issues on behalf of their members often have a different agenda and priorities to promoting start-up businesses and entrepreneurship generally, and this pattern was apparent with a number of respondents during the interviews. Of all the organisations interviewed during the study visit, it is probably only the local authority which is in a position to credibly take on this leadership role. In some circumstances it might be expected that the Chamber of Commerce might also be a contender, but although the Berlin Chamber has created a Regional Co-ordinator for Marzahn-Hellersdorf, it does not appear to have anything like the level of local commitment necessary. Other local organisations do not have the standing or breadth of interest required.

There is only one University of Applied Sciences (Alice Salomon) in Marzahn-Hellersdorf, and another nearby institute of higher education is shortly going to be re-locating. Furthermore, it was notable that respondents made very little reference to wider regional circumstances which might be exploited to the benefit of Marzahn-Hellersdorf, like the quality of transport links which enables residents to access jobs or training opportunities elsewhere; or a demand for a greater contribution from regional government to address the borough's problems. This could become barriers to the growth of technology-based small businesses in the borough.

The challenge in the formulation of public support to small business development is to identify programmes of activity which exploit strengths to boost local economic development in Marzahn-Hellersdorf. In suggesting measures to enhance small business development and entrepreneurship in Marzahn-Hellersdorf, the regional situation, and the circumstances of the borough within the region, set the context for what is practical and might offer real improvements. These factors determine the choice of programmes which are recommended for consideration.

Recommendations

The recommendations in this report have been made on the basis that they could be implemented without significant increases in public expenditure and yet are highly relevant to addressing some of the serious problems of small business development and employment in Marzahn-Hellersdorf. They involve changes in the way things are done currently, and, with the local authority taking more of a leadership role, creating much more effective partnership working than appears to exist in the borough at present. If these changes are attempted it will be important for all concerned to be aware that they will not achieve a speedy transformation. The following recommendations have been demonstrated to be effective in different jurisdictions and over a period of time could make a worthwhile improvement in levels of entrepreneurial activities in the borough and also in strengthening overall attitudes towards entrepreneurship. Improvements in partnership working amongst the key stakeholders might also bring other worthwhile benefits outside of the entrepreneurship agenda.

Consider the establishment of an Enterprise Agency. The creation of an organisation dedicated to fostering and assisting enterprise in the form of small, early stage and start-up businesses has proved to be successful elsewhere. The local authorities of Marzahn-Hellersdorf and Lichtenberg, could take the leadership/initiating role in discussing and establishing such an enterprise agency. Experienced local judgement is needed in the decision whether to form an agency around an existing organisation rather than starting something new. A successful agency would require the active support of local and regional stakeholders such as the Chambers, the larger private and public sector employers, including the hospitals, and financial institutions whose services are key to small business development. Assembling such stakeholder support is likely to be a difficult task without a previous record of co-operative working. Therefore strong leadership from the local authority, with both a political and practical dimension, would be important.

Adopt a "Small Business Charter" by the local authority. The adoption of a "Small Business Charter" seeks to introduce changes to the administration's internal arrangements which would directly support the small business community in the borough. It is not about giving small firms preferential treatment or discriminating against larger enterprises. The process involves all the departments of the council in evaluating current procedures, in order to design a regime conducive to business, not by bending the rules, but by attempting, as far as possible, to make their procedures reflect the business needs of their small firm clients. Implementation also requires extensive internal consultation and training within the local authority to achieve commitment and increased understanding of how to meet small businesses needs. Strong political leadership is required to both introduce and maintain the effectiveness of a "Small Business Charter".

Make the existence of a "Small Business Charter" widely known among the local business community. To achieve most effect, the existence of the "Small Business Charter" needs to be made widely known. There may be involvement of representative business organisations in drawing up the terms of the Charter and reviewing its effectiveness periodically. Including a reference to the existence of such a Charter in international marketing efforts might increase the attractiveness of the borough as business location by highlighting the local administration's commitment to working effectively with small business.

Review procurement policies of the local authority in order to open up the possibility of more small firms tendering to supply goods and services. The conditions which apply to eligibility to bid for local authority contracts often make it hard for small firms to qualify. Experience

in a number of jurisdictions has shown that the introduction of restrictions for risk protection can be unduly cautious, and deny public policy a valuable tool in boosting the small business sector. There needs to be promotional activity to bring the changes and opportunities to the attention of small businesses, and training of officers to ensure that conditions of tender meet small businesses needs. It may also be beneficial to offer training and support programmes to the small firms themselves to help them make effective bids for contracts. Initiatives that have already been started in the borough should therefore be continued.

Increase investment readiness and access to finance. The circumstances in Marzahn-Hellersdorf suggest that benefits might be obtained from a programme to assist small firms in investment readiness and access to finance. Such a programme should be primarily concerned to help firms to better access existing sources of funding, rather than creating new funds, which could keep programme expenditure relatively modest. The aim should be to include any funding which is there to be accessed. Experiences with such programmes elsewhere have proved their success in assisting firms ranging from one person start-ups to expanding firms requiring equity investment.

International learning models

The local authority is a major player in its own right, but also has the legitimacy and capability to be able to take the lead on the proposals set out in this paper. It is true that the borough lacks formal powers, a dedicated budget and expert staff to work in economic development, but there is political leadership and some staff resource available. The important principle is to make the best use of the resources and tools which are available. The borough is well placed to do this. The local authority could develop and promote a strategy for Marzahn-Hellersdorf to boost small business activity, recruit other stakeholders as partners, and encourage the implementation of programmes to fulfil the strategy. It could also make changes to its own internal arrangements which would directly support the small business community in the borough.¹

Before considering the wider leadership role, the following two learning model examples show how the borough might run its affairs to support small businesses. The two proposals suggested have the benefit of demonstrable effectiveness from a number of jurisdictions, whilst costing virtually nothing to implement. They are about doing certain things differently to achieve a public policy objective. As such they could be applied within the constraints which face the local authority in Marzahn-Hellersdorf, and their adoption would be a boost of its leadership potential for other programmes of small business support in the borough. If the borough were able successfully to adopt programmes such as a small business charter and a review of public procurement, it might be possible to establish partnership working with the hospitals in Marzahn-Hellersdorf to introduce similar measures there.

Adoption of a "Small Business Charter": Examples from UK

Local authorities have a very broad interface with small businesses through their roles in planning, regulation, procurement, their ownership of real estate, and sometimes in taxation. Looking at experience in the UK, it is not unusual for a local authority to have an economic development department working on programmes to support small businesses alongside other departments whose ways of working have an inhibiting effect on local enterprise. This may be

¹ A reference for what is possible might be the London Borough of Wandsworth, with further details at: www.wandsworth.gov.uk/Home/CommunityServices/Businesssupport/default.htm.

apparent through excessive delays, onerous bureaucratic procedures or the high cost of the provision of services. The way in which a borough operates in these areas can have an important effect on business retention and attraction and whether a particular authority is seen as 'business friendly'.

A small business with growth potential might need to expand its premises which could mean obtaining planning permission, satisfying regulatory authorities and altering its requirements for local services – or it might need to move premises. A poor service from the local authority could result in expansion plans being delayed, scaled back or abandoned, or the firm seeking to move elsewhere. A number of local authorities in the UK have sought to address this problem by adopting a "Small Business Charter" to apply to all its administration. This involves all the departments of the council adopting a regime which is designed to be as helpful as possible to small businesses – not by bending the rules but by attempting as far as possible to make their procedures reflect the business needs of their small firm clients. The evaluation procedures for the work of each department major on performance against these objectives. To achieve most effect, the existence of the "Small Business Charter" is made widely known within the business community and there may be involvement of representative business organisations in drawing up the terms of the Charter and reviewing its effectiveness periodically.

It would normally be the case that strong political leadership is required to both introduce and maintain the effectiveness of a "Small Business Charter". Implementation of a charter scheme also requires extensive internal consultation and training within the local authority to achieve a commitment from all the members of staff involved and to ensure that they understand the needs of the small businesses with which they are dealing and how to respond to them. A sponsoring department or team within the local authority is required to devise and lead the project, identifying all the points of possible contact between small businesses and the council and bringing the individuals concerned into the programme.

It should also be emphasised that adopting a "Small Business Charter" is not about giving small firms preferential treatment or discriminating against larger enterprises. It is simply about ensuring that small firms are not disadvantaged by bad or insensitive administration, which may put the convenience of the local authority and officers above that of its clients, undermining other strands of public policy to boost employment through the existence of a thriving small business sector.

The practice of focusing organisational attention on small businesses is not confined to local government. A Google search of "Small Business Charter" will show a broad range of governmental organisations as well as other public and private sector service providers taking steps to ensure that they effectively engage with small firms. In the UK the national government has taken an active lead through its Small Business Service at the Department of Trade and Industry to encourage and assist local government to be more supportive of small firms. It has launched "The Small Business Friendly Concordat Good Practice Guide,"² with over a hundred local authorities signed up to the guidance document by August 2006.

² Further information on "Small Business Friendly Concordat Good Practice Guide", www.emce.gov.uk/documents/publications/SME%20local%20concordate%20April%202005.doc

Relevance to Marzahn-Hellersdorf – issues for success and problems of implementation

The large role of the local authority relative to other organisations and its potential to influence what happens to small businesses makes this a policy option which should be considered for Marzahn-Hellersdorf, particularly within the context of a concern in public policy to boost local enterprise. The costs of implementation are insignificant and it should be possible to cover them within the overall overhead of the council. As indicated above, a clear political commitment from elected members of the council is essential. It is also important to identify all the points within the council administration which interact with small businesses and ensure that they are part of the programme. Maintaining quality of delivery is important with "mystery shopper" tests being run to check performance across the council. It is also important to publicise the programme amongst the local business community to encourage a greater level of small business engagement with the council.

The chief problems to achieving an effective programme centre upon maintaining both enthusiasm and the required service standards – and continuing to effectively monitor performance against the Charter's stated goals.

Websites for further information

Small Business Service	www.sbs.gov.uk/sbsgov/action/layer?topicId=7000022345
Small Business Friendly Concordat, Oxford City Council	www.oxford.gov.uk/business/smeconcordat.cfm
Small Business Friendly Concordat, London Borough of Barking and Dagenham	www.barking-dagenham.gov.uk/5-work/regeneration/business-dev/bus-concordat.html

Public Procurement and Small Firms: Examples from UK

A related action to the adoption of a "Small Business Charter" could be a review of the procurement policies of the local authority to see if it might be revised to open up the possibility of more small firms tendering to supply goods and services. This could have a particular relevance in Marzahn-Hellersdorf, bearing in mind the comments about the lack of demand facing small businesses which came from the interviews. The conditions which apply to eligibility to bid for local authority contracts often make it hard for small firms to qualify. In order to protect the local authority from risk the rules may exclude companies below a certain size or capitalisation, or require a financial guarantee which would be beyond the means of many small firms. There may also be exclusion clauses for entrepreneurs who may have had financial difficulties previously. Whilst these restrictions may appear to be common sense, experience in a number of jurisdictions has shown them to be unduly cautious and deny public policy a valuable tool in boosting the small business sector. Creating an effective programme based on public procurement is not just a matter of changing the regulations; there needs to be promotional activity to bring the changes and opportunities to the attention of small businesses, and training of officers to ensure that conditions of tender meet small businesses needs. It may also be beneficial to offer training and support programmes to the small firms themselves to help them make effective bids for contracts. In the US, where the use of public procurement as a tool of economic development is well developed, the New York City Department of Small Business Services operates the Procurement Outreach Programme (POP)³ to help small firms in this way.

³ For further information on the Procurement Outreach Programme (POP), please see www.nyc.gov/html/sbs/html/contracts.html.

The UK Small Business Service has a programme with similar objectives featuring "the supplier route to government" with a dedicated web site.⁴

Relevance to Marzahn-Hellersdorf – issues for success and problems of implementation

It is understood that progress is already being made in increasing the level of goods and services being sourced with small businesses in Marzahn-Hellersdorf. There is a clear relevance with a large organisation like the local council able to have a major impact on the trading of local suppliers. It is important that the rules for tendering are revised with the circumstances of small business in mind. Training for officials covering not only revised procedures, but an explanation of the importance of the scheme is also essential. The scheme also needs to be promoted effectively to the local small business community. Some firms may need training and support to take the most advantage of the scheme.

Even if the council makes all the changes necessary to increase the potential for small business to become its suppliers, it will only be effective if small businesses engage in the process. The success already being achieved in Marzahn-Hellersdorf suggests that this is not a problem, however, careful monitoring should take place to see that effective demand is maintained. It should be the council's responsibility to connect effectively with local businesses.

Websites for further information

Procurement Outreach Programme (POP) <http://www.nyc.gov/html/sbs/html/contracts.html>
UK Small Business Service <http://www.supply2.gov.uk>

Enterprise Agency – a glance on models in the UK and US

Some key issues which emerged from the interviews included the lack of an organisation which was fully dedicated to boosting enterprise and small businesses in the borough, and a similar lack of expertise in suitable tools in public policy which could be used to make a difference. There seemed to be no means by which the concerns for a wide range of stakeholders about enterprise could find practical expression – and the interviews did indicate that such concern exists. As even the most cursory computer search will show, enterprise agencies are ubiquitous in developed western economies and there is no particular example of best practice which might be recommended. The enterprise agency model can be developed to serve the enterprise needs of different groups within an area, who may have particular problems in getting into business: women, people with disabilities, ethnic minorities and immigrants, and social enterprises, often by establishing a separate, dedicated agency for each target group. Such organisations should be fit for purpose and reflect the requirements of their locality.

The following characteristics are generally common to the more effective agencies:

- An organisation dedicated to fostering and assisting enterprise in the form of small, early stage and start-up businesses.
- They should be relatively independent, stand-alone organisations supported by a range of stakeholders from the public, private and third sectors with governance

⁴ For further information on the initiatives of the UK Small Business Service, please see www.supply2.gov.uk.

arrangements to reflect this. The support of stakeholders may be difficult to maintain if one organisation or sector dominates the agenda.

- Staffed by experts in small business support, sometimes with a combination of permanent staff and secondees from stakeholders.
- Often running on a small overhead financed through the sponsorship of stakeholders, and supplemented with revenue generated by running business support programmes for third parties. This means that enterprise agencies often operate like small businesses themselves, which may help them to relate well to clients.
- Because of the focus of its activity and the partnership links provided by stakeholders, enterprise agencies should be organisations which are effective in contacting and communicating with its potential clients.

The typical enterprise agency model would be an organisation governed by a public-private partnership. The prime mover in establishing the agency could come from either sector. In the UK, when many enterprise agencies were set up during the 1980s there was encouragement for enterprise agencies from central government and the corporate sector often took the lead role, almost invariably with the support of local authorities and the third sector. In the U.S. agencies tend to have a more varied provenance, with community-based organisations often taking the lead, but recruiting the support of businesses and high net worth individuals to develop the agencies. For the UK a broad picture of the work of enterprise agencies can be found from the National Federation of Enterprise Agencies.⁵ Also of relevance from the UK would be the example of the East London Small Business Centre⁶ which operates in areas of east London not dissimilar in many of their characteristics to Marzahn-Hellersdorf.

A good example of practice in the U.S. would be the Harlem Small Business Initiative set up in 2004 on the initiative of former U.S. President Clinton with the specific purpose of boosting enterprise in this economically deprived locality.⁷

Why the approach is relevant to Marzahn-Hellersdorf

As an area with high levels of unemployment, an absence of potential major employers and an underdeveloped small business base, Marzahn-Hellersdorf fits the criteria for having most need of such an organisation to address the problems of economic exclusion and helping individuals to engage in economic activity through self-employment or micro business activity. The presence of a local focus and the participation of local stakeholders in the running and sponsoring of an enterprise agency are crucial factors for success. There may be a feeling that business advice is available at the Berlin city-wide level and that such local provision would simply mean wasteful duplication. However, experience in other jurisdictions suggests that people who have been economically inactive for long periods and who feel excluded from the mainstream in this respect are not very good at accessing support outside their local area. It is a

⁵ For further information on the National Federation of Enterprise Agencies, its members and activities, please see www.nfea.com.

⁶ For further information on the East London Small Business Centre, its members and activities, please see www.goeast.org.

⁷ For further information on the Harlem Small Business Initiative, its members and activities, please see www.clintonfoundation.org/sbi.htm.

vital function of a local enterprise agency to reach out to the local community with its service offering in a way that a city-wide service could not.

Considerations for adoption of this type of approach

In considering the potential for establishing an enterprise agency in Marzahn-Hellersdorf, the suggestion is that the leadership/initiating role should be taken by the local authority. Caution is advisable in making recommendations on the basis of the necessarily superficial picture gained on a two-day study visit, but there seem to be no other obvious candidates with the necessary policy commitment. It may be possible to form an agency around an existing organisation, such as the Marzahn-Hellersdorf Business Union, rather than starting something new, but this would depend on experienced local judgement. A successful agency would require the active support of local and regional stakeholders such as the Chamber of Commerce, the Chamber of Crafts, the larger private and public sector employers, including the hospitals, and financial institutions whose services are key to small business development such as the Berlin Investment Bank. The existence of a Commissioner for Marzahn-Hellersdorf within the Berlin Chamber of Commerce may provide a lever for obtaining the Chamber's commitment to an agency.

Assembling such stakeholder support is likely to be a difficult task without a previous record of co-operative working. It is for this reason that strong leadership from the local authority, with both a political and practical dimension, is needed in Marzahn-Hellersdorf. However, it would be important that the local authority did not dominate the agency either in policy terms or in its staffing and financing as this would undermine the commitment of others. The work and survival of the agency would have to be seen to depend on everyone involved in the venture. It therefore helps if the agency is constitutionally and financially independent with its own governance arrangements. Through its Chair Person it is helpful for its overall credibility if it is seen to be led by the business community.

Experience demonstrates that enterprise agencies can operate very effectively on quite modest budgets. Stakeholders may donate benefits in kind such as accommodation and office support services as well as secondments of staff for periods of time. Such secondments might be seen as training placements by banks, for example. Stakeholders can also assist by promoting the work of an agency through their normal business networks. The running costs of an agency may therefore be limited to a very small number of permanent posts, finance for which would need to be raised locally from supporters of the agency. The Chief Executive will clearly be the most important of these, requiring a person with expertise in small business support, a thorough knowledge of existing programmes of support, an ability to work with and maintain the commitment of stakeholders and the entrepreneurial skills to run the agency itself as a small business.

Websites for further information

National Federation of Enterprise Agencies	http://www.nfea.com
East London Small Business Centre	http://www.goeast.org
Harlem Small Business Initiative	http://www.clintonfoundation.org/sbi.htm

Investment Readiness - Access to Finance Programme, London, UK

Description of the approach

A key task of any enterprise agency is to help firms to access finance for setting up or expansion. The circumstances in Marzahn-Hellersdorf suggest that benefit might be obtained from a programme to assist small firms to become investment ready and gain access to finance which was devised in London three years ago. The main problem of transferability to Marzahn-Hellersdorf would probably be the requirement of a budget to remunerate the financial intermediaries which play a key part in delivering the programme. One solution might be to examine the potential for European funding. However, since the programme is concerned only to help firms to better access existing sources of funding, rather than creating new funds, such expenditure might be relatively modest. It might also be possible to achieve some of the intermediary contributions through sponsorship and use of the resources of an enterprise agency.

The chief objective of the programme, known as "Access to Finance" has been to assist small businesses in some of the most deprived parts of the London region (it was partly financed under Objective 2) to access funds to finance their expansion. The programme is not sector specific, but was devised to boost companies located in London's Objective 2 areas and thus also to address problems of social and economic exclusion. Its success has led to attempts to extend its coverage to other parts of London.

The aim has been to include a broad range of business finance types: micro loans, bank loans, loans and equity from publicly funded programmes and specialist products such as leasing and mortgages – in principle, any funding which is there to be accessed. It has proved very successful in assisting firms ranging from one person start-ups to expanding firms requiring equity investment. The programme contains no elements of creating new funding streams for SMEs and is intended to assist them to take advantage of the sources of funds which already exist.

The programme is promoted to small firms by organisations offering financial services, with a particular emphasis on the clearing banks which are the most likely to have target companies as existing clients. It operates through a network of intermediaries, chiefly firms of accountants specialising in serving small business clients, selected by the agency running the programme, who give intensive training and guidance to participating firms. Remuneration of the intermediaries is based on the achievement of performance indicators, which is chiefly measured by the success of firms participating in the programme in actually raising funds. The success of the programme thus depends crucially on detailed and effective work being done with each client company by the contracted intermediaries.

The programme includes various capacity building activities to ensure quality across participating organisations. A diagnostic tool is used to determine whether client companies could benefit from the programme, which is administered by the intermediaries. The content of the diagnostic tool can be varied to suit particular circumstances. A method of remuneration incentives is the selection of appropriate companies. The assessment of the effectiveness of the programme is based on the objective measure of finance actually raised for companies. Experience in London indicates that worthwhile leverage is obtained on the relatively low costs of running the programme, especially after its start-up costs have been met.

The "Access to Finance" programme was developed out of specially commissioned research into why small firms fail to obtain appropriate funding. The research showed that the

problems centred upon a lack of information about the types of finance available, and thus what would be suitable in any particular circumstance, and an inability to present a good case to finance providers.

The programme has sought to overcome these barriers by:

- Providing information and advice to small firms and start-ups using a broad range of marketing approaches such as intermediaries, banks, the internet and a series of knowledge-building seminars and workshops; and,
- Providing a subsidy to help clients obtain the professional advice they require to get them "finance ready". This means helping them to produce a credible business plan and finance plan, sourcing appropriate types of finance and even coaching in presentation skills. The programme is also designed to provide post-investment mentoring to help the businesses achieve their objectives once funding has been secured.

The scope of the support given depends very much on the business and the stage of its development. Subsidies are used to help pay for commercial organisations to deliver the services. These include accountants, business consultants, enterprise agencies and other business support organisations. In the London model businesses going into the programme contribute between 10% and 35% of the cost of the support. The providers of services are required to discount their normal charges by 15%. This charging regime is not an essential part of the model and the principle could be adapted to suit circumstances in Marzahn-Hellersdorf, but if public funds are available to assist businesses it may well be reasonable for some to be devoted to this service by the recipients of such funds.

Why the approach is relevant to Marzahn-Hellersdorf and reasons for its success or failure

A version of the "Access to Finance" programme for Marzahn-Hellersdorf would probably be introduced on a much more limited scale in terms of both operation and budget than was the case in London. However, the London figures indicate the effectiveness of the programme and a significant leverage on the public funds committed. The programme has been funded by the European Regional Development Fund, the London Development Agency and Business Link for London to a level of GBP 7 million (EUR 12 million). By May 2006 the programme had assisted more than 400 owners and/or managers to raise over GBP 24 million (EUR 41 million) from already existing sources of finance.

The "Access to Finance" programme was designed to give targeted support for small businesses in areas experiencing deprivation and economic exclusion to help people access existing sources of finance in order to start a business or further develop an existing enterprise. Lack of sophistication in dealing with finance is a particular problem with such groups. Bearing in mind the objectives of increasing levels of economic activity in Marzahn-Hellersdorf such a programme should be useful. Although the local focus is essential to facilitate outreach to potential clients, the scheme might also have a wider application in Berlin, including areas with a high level of small firm activity. After establishing the success of the programme in Objective 2 areas of London, the next step has been to broaden its application.

Securing the participation of existing financial intermediaries both to deliver the service and as a source of deal flow is a vital component in making such a scheme effective. The support of banks is also an important means of bringing clients to the service. This process is also assisted

by the presence of other organisations working with small businesses which can also promote the service.

Websites for further information

Business Link for London: www.businesslink4london.com
London Development Agency: www.lda.gov.uk

PROMOTING ENTREPRENEURIAL ATTITUDES AND SKILLS

Holger Kuhle, Germany

Introduction

Similar to other Länder in East Germany, Berlin has an economy that is geared towards small and medium enterprises, which can be found in all branches and sectors. With regard to the entrepreneurial skills base of these companies, it can be assumed that they have little previous experience in enterprise development. The entrepreneurs, who emerged rather rapidly from the introduction of the market economy, were able to make use of the opportunity structures in a flexible and quick way. This helped to create jobs. However, the emerging entrepreneurial activities have been founded less on a prepared entrepreneurial skills base, but rather managed through 'trial and error'. As a result, entrepreneurial abilities, experience and the knowledge of these 'pioneers' seem to be rather limited. Often, firm crises are not recognised in time, and furthermore, entrepreneurs then seem to be of the opinion that they can and should do everything by themselves. The challenge is therefore to enhance the entrepreneurial skills base in terms of increased growth aspirations of and development perspectives for SMEs. Entrepreneurship-related preparation is one side of the coin, but attention also needs to be paid to a wider spread of entrepreneurial attitudes and the recognition of entrepreneurial behaviour and the societal functions of entrepreneurs. Independent of their size, companies need to constantly develop their entrepreneurial attitudes and skills in entrepreneurship.

The significance self employment will have in the future is demonstrated through the present situation of young people in Berlin: almost one fifth is unemployed. The state of Berlin is far away from the employment policy goal of offering employment opportunities for young people. According to the so-called Hartz-IV Employment Market Laws it is of "absolute priority" that work opportunities be offered to all young people "immediately" after they register as unemployed. Over the last few years, according to statistics of the *Bundesagentur für Arbeit* (the National Public Employment Service), only 60% of the 31 000 unemployed persons under the age of 25 have been offered employment – amongst which are the so-called "One-Euro-Jobs". The job centres were unable to offer anything to the remaining 13,000 young people. Job centres generally do not have secure job offers. Since 2005, 250 young people in Marzahn-Hellersdorf were provided with jobs with obligatory social insurance; a further 2 200 had to accept "One-Euro-Jobs".

Self-employed persons or founders of a company are not the only entrepreneurs. Ideally, each member of a company should have an entrepreneurial mindset. The total result of a company is influenced by the work of each individual. In this respect every department, and the company as a whole, profit from the entrepreneurial attitudes of the individual company members. Often the igniting spark of intrapreneurship is generated by creative, flexible analytical thinking. Companies which continue to operate as they always have and do things without seeing beyond the immediate task, only recognise the challenge of dynamic and aggressive competition at a very late stage, often when it is already too late for an effective

response. It can however come to pass that companies which reflect, research and think do become acutely aware of the impending changes, but do nothing in order to counter the emerging threat. The real skill consists in producing a balance between three major fields of activity that characterise intrapreneurship. These are (i) the creation and spreading of an entrepreneurial spirit in the whole organisation, (ii) start-up of new projects, and (iii) start-up of new companies (internally or externally).

The entrepreneurial attitudes and skills of entrepreneurs, SME managers and their employees can be fruitfully developed in a continuous process which is divided into four segments: i) the development of a positive attitude towards entrepreneurship and employability; ii) the promotion of interest in activating a start-up company amongst employees; iii) the improvement of survival rates; and, iv) the performance and growth readiness of existing small and medium firms.

Strengths and weaknesses

The borough of Marzahn-Hellersdorf is part of a wider labour market that includes Berlin and parts of Brandenburg. A great variety of training offers for SMEs is provided by public and private sector institutions. Over 500 job training centres provide further training for those without third-level qualifications. In addition, the Chamber of Crafts and the Chamber of Industry and Commerce offer company training and courses that are tailored to the needs of the company. This can be either on-the-job or off-the job training.

Traditional methods of knowledge inculcation in the form of passive learning do not foster knowledge application and creative problem solving. The “e-Learning Marketplace” initiative of the German Chamber of Industry and Commerce can therefore be mentioned as a good practice example of introducing multi-media in learning processes. It further helps to overcome the barrier of separated training and work places.

The borough has a large pool of qualified young adult workers with academic qualifications and job skills. However, there are a limited number of workers for highly specialised technical jobs. Furthermore, skilled workers have experience primarily in the auto services industry, which is in decline, and in trades, which do not create substantial numbers of jobs. Some workers have experience in the chemical industry but their skills may be outdated given the non-recent decline of this industry in Berlin. Consequently, many workers are not a good fit for current labour markets. Furthermore, many unemployed workers lack advanced education and vocational training.

Training and counselling are often limited to early stages of business development. Public subsidised offers are free of charge and their attendance is obligatory to qualify for certain support programmes. The discrepancy between offer and demand increases at a later stage of business development as cost and time factors become more relevant.

The entrepreneurial skills of new entrepreneurs with recent academic and engineering backgrounds tend to be limited. The acquired specialist knowledge often does not prepare for thinking beyond the field of studies, something which is of crucial relevance for entrepreneurial action in terms of marketing and sales concepts. Young technology-oriented companies often have difficulties with the diagnosis of and the reaction to end-user needs profiles, as well as tending to underestimate cost and time requirements for market entry and survival.

Necessity entrepreneurs very often do not have a sufficient level of entrepreneurial skills to run a business. Various training offers exist, although these are being progressively reduced. Their attendance is financially supported by the local agencies of the Federal Agency for Employment and co-funded by the ESF and the Land Berlin. As evaluation results show, the predominant format and content of training offers seem to be unsuccessful in enhancing employability.

Professional reorientation, widely spread in East Germany, needs to be adapted to the needs of the local labour markets. Out-migration and the changing career wishes of young people make it difficult for companies to locally recruit appropriate staff. The existence of individualised training scheme development and a close co-operation between training providers can be considered a good practice.

Various schemes and providers of training and coaching are offered to improve the survival, efficiency rates and growth rates of existing companies. Subsidised services are available for firms not older than five years. A joint initiative of the Chambers, the *Investitionsbank Berlin* and the *Kreditanstalt für Wiederaufbau* (KfW) provides the interested entrepreneur or company with financial support and offers access to a database of accredited and regularly assessed consultants. In addition, SME associations organise mutual advice and counselling in the form of “Help for Self-Help” amongst their members. Apart from these offers, the limited equity and liquidity of many companies reduces the interest of using cost liable coaching and consulting services.

In addition to a company’s need to fill gaps in specific knowledge and management skills, the need to be innovative is one of the major challenges. Innovations can be understood as first-time or improved problem solving measures of a technical and/or organisational type that improve a company’s performance. Innovative behaviour requires the development and application of entrepreneurial competence as well as an intersection of knowledge between innovation resources, abilities, willingness and know-how in dealing with innovation environments (competitors, partners). It is a process which can be facilitated by long-term individual consulting. A look at existing training offers shows that a focus on innovation seems to be limited to training offers for technology-oriented companies. The need for innovation, the generation and application of innovation potential and competences, can be met neither by attending standard training programmes, nor by making use of temporary consulting. Furthermore, existing offers for companies that are not technology-oriented are not particularly focusing on fostering innovation competence.

What matters with regard to the development of a positive attitude to entrepreneurship and employability is the generation of an entrepreneurial mindset. The development of a positive attitude to entrepreneurship begins at school. It can be stated that entrepreneurship education at schools, being an integrated part of curricula, is still underdeveloped.

In summary it can be said that a great variety of training offers for SMEs is provided by public and private sector institutions. However, maintaining an overview and selecting the best suitable option is time intensive and not without difficulty. Most companies rely on the training offer of the Chambers and business associations in which they are members. These are at low fee, or in some cases even free of charge to the companies, but their content is often limited to general and basic knowledge. Issues like tax law, employment law and company law are of relevance to young companies. However, the time needed to attend a course far away from one’s own company puts many off. Furthermore, traditional methods of knowledge inculcation in the form of passive learning do not foster knowledge application and creative problem solving.

In cases where interested companies want to benefit from consulting services tailored to individual needs, they have to pay themselves. Often, these are provided by members of the respective association or Chamber. The Chambers cannot redirect companies to other providers or offer the consulting services free of charge, because the business consultants who are their members make their living from this. Although there is a multitude of offers and providers of training consulting, no real market exists for the companies. Where a company recognises a need for consulting and further training, there seems to be a tendency to refrain from cost liable individualised business-specific coaching. The share of consulting providers that are not tied to certain business associations and Chambers and who are subsidised for a certain period (such as company founder coaching) is rather low compared to other offers. Individualised coaching is mainly offered by private providers and is often not affordable for young companies and older companies that lack capital. Public financial support for tailored coaching is limited to early stages of business development and cannot be accessed by companies older than five years.

Good practice in Marzahn-Hellersdorf

For companies with a specific interest in financial issues, the "*Berliner Institut für Bankunternehmensführung*" (BifBU, Berlin Institute for Bank Management), developed a course which aims at reducing the distance and barriers between the banking sector and enterprises. The course, which has been initially designed for bank employees, can be considered an interactive platform for normally distant actors.

Recommendations

Enhance co-ordination, transparency and quality checks of counselling, training and coaching services. The creation of a genuinely transparent market in training and consulting offers and providers is recommended. Existing offers should be subject to strong evaluation, quality control and benchmarking exercises. Information should be transparent and easily accessible. This information should be used to support SMEs and public agencies in the selection of the most appropriate training providers. Publicly supported consultancy and training offers should consider economies of scale and scope, which means that these services can be implemented on a wider basis, for instance within a business cluster. This requires on the one hand a high level of co-ordination between the authorities responsible for general and career training, as well as between regional authorities and companies. On the other hand, this presupposes a working-out, innovation and adaptation of the training offer and its methods.

Reconsider the setup and the orientation of existing counselling, training and coaching services. Flexible interactive learning schemes of appropriate durations with standardised introduction courses followed by sector- and company-oriented training should be developed. Working with business games, simulations, setting up of practice firms or mini-companies and the introduction of project jobs and secondments proved to be successful elsewhere. Close co-operation between training providers and recipients is crucial to identify the needs of the recipients in the best possible way and to design approaches which close existing skill gaps. Professional training opportunities and apprenticeships for school graduates should be fostered to strengthen the local labour force and to align its characteristics with requirements of key local economic sectors. The design and continuation of existing programmes for entrepreneurial education at school will also help to strengthen entrepreneurial attitudes and behaviour from an early age.

With regard to knowledge and entrepreneurial abilities, it seems that these are not distributed equably. The decisive point however is learning. In the economic world the actors and

organisations involved should have opportunities to learn quickly, parallel to working and oriented towards existing needs. The individual and more long-term accompanying advanced training measures should be extended on a wide scale. Standard courses and the inculcation of knowledge should merely serve as a beginning and introduction. The inculcation of information and seminars are good as an introduction, but subsequently, further training and consulting should become a company's priority as soon as possible. The methods of standard courses for entrepreneurs and the career-accompanying advanced training for the increase of intrapreneurial attitudes should take a problem- and action-oriented approach. On this basis the learner takes on more responsibility for his own learning, in order to support the mastering of his everyday learning demands in a meaningful way. Lessons 'on' a problem have no significant effect on the ability of a company to apply new knowledge and solve problems. The learning method and the learning rhythm are key elements. Advanced training and consulting should enable participants to recognise opportunities and look for ways to make use of them.

Run public campaigns to strengthen interest in and demand for SME training and counselling services. The use of successful training schemes and participating companies as role models should be discussed as a way to increase the interest of SMEs in participating in training and counselling services. Such initiatives may also help to enhance co-ordination between training providers, chambers, business associations and the labour office and could offer additional incentives for quality increase. The effectiveness of the training offers raises their value in the eyes of the companies and encourages the providers to check their offers in terms of suitability and utility. As a result of this process the relationships between providers and the 'real world of employers' should be improved.

Enhance entrepreneurial attitudes from an early stage onwards. Offering opportunities for entrepreneurial activity at schools and during the education stage is a decisive aspect of life-long learning. Entrepreneurial training should be part of professional training. The aim of professional training is to give young people the opportunity to acquire a general, technological and professional education, and in this way to prepare them for business life. In light of the fact that only few young people find a job directly after finishing their professional training, the task is to prepare young people for pursuing own initiatives or even starting their own business. As professional training provides for the constant contact of young people with the world of work and the economy, it enables an easier and swifter access to self-employment. Numerous persons and organisations possess an individual piece of the puzzle of strategic entrepreneurial preparation. It would be overhasty to claim that an entrepreneurial education programme will have immediate or rapid effects on the emergence or birth rate of companies. But it will contribute to a higher general awareness of the idea of changing oneself in the medium-term and consequently to the desired cultural transformation which could result in a significant growth of start-up firms. This recommendation is derived from the international learning model in the Marco Polo Programme, which was designed by the Chamber of Industry, Commerce and Agriculture in Padua (Italy).

Enhance intrapreneurship. Intrapreneurs are extremely important and are yet hardly perceived. Formalised staff development in small and medium enterprises is not widespread in Germany at the moment. According to a study by RKW from 2002, only 15% of all SMEs develop the skills and competences of their staff and managers systematically. Intrapreneurs can become agents of transformation and are capable of creating a business environment which favours the development of initiatives. The generation of intrapreneurial attitudes amongst company managers and staff is an important ingredient in the process of raising a firm's innovation potential and readiness. Increasing responsibility, engagement and the recognition of co-workers is linked to processes of cultural and organisational changes within companies.

Chambers, business associations and others can provide valuable assistance to companies. Training methods should be enriched by interactive learning approaches and case studies based on role models and personal experience.

International Learning Models

"Distance Education Programme on Entrepreneurship Studies" (DIEPES), Finland

Description of the approach

Making use of modern technology to detach entrepreneurship training from specific training locations was the rationale for launching the "Distance Education Programme on Entrepreneurship Studies" (DIEPES) in 1998. The Small Business Institute at the University of Turku, together with the Finnish National Board of Education and the Finnish Ministry of Education, developed an entrepreneurship training programme for delivery through internet and the use of radio programmes. Being part of a wider initiative for distance education at upper secondary schools for adults, the overall objective of DIEPES has been to enhance the opportunities for upper secondary distance learning. The distance learning initiative started with 12 educational institutes and has grown today to nearly 90 upper secondary distance learning institutes participating with approximately 3 200 distance students. The radio programme is transmitted by four radio stations. The programme has been financed by the European Social Fund and the Finnish Ministry of Education.

A requirement for all students was the enrolment at a formal upper secondary school for adults. DIEPES has fewer students than the other distance learning programmes, but numbers of students are increasing. DIEPES' primary target group is entrepreneurs and employees of SMEs, which in general is a harder to reach group for training. Using multimedia, like internet and radio, as communication means following the courses and interaction with other students is easier, especially in Finland, where long distance learning methods help to overcome long distances in the accessibility of training institutions. In 2003, 198 students had completed the 25 exams in the programme for entrepreneurial studies.

DIEPES does not aim to facilitate the start-up of companies, but to generate overall entrepreneurial attitudes and to increase know-how on entrepreneurial activities, both related to start-ups and to the development of the skills base in existing companies. The programme is structured in five modules with five sub-modules each. Students can freely choose the sequencing.

Each sub-module is presented by a 30-minute radio programme and further reading material available on the internet. Exams are completed by students without immediate supervision through the teachers, and are submitted via e-mail. The pupils do not receive marks for the exams: the assignments are either passed or failed. The students do however receive feedback on each assignment. This immediate feedback on each assignment is the most important instrument of DIEPES. The role of the teacher is however more that of a tutor and supervisor, not that of a communicator of information. The role of the teacher as a tutor or supervisor leaves the pupils with more responsibility. From a specific point of view, the correspondence course, as it is not tied to time and place, forces the pupils to acquire knowledge, instead of learning information by heart.

DIEPES Modules

Module 1 <i>Entrepreneurship at individual level</i>	Module 2 <i>Business activities</i>	Module 3 <i>Business dynamics</i>	Module 4 <i>Production and marketing</i>	Module 5 <i>Entrepreneurship in the society</i>
Characteristics	Business idea and financing	Intrapreneurship	Innovations	Companies in the economy
Motivation	Strategic choices	Life-cycle	Production and technology	Entrepreneurship and employment
Values	Company forms	Growth crisis	Networking	Companies and public sector
Culture	Business plan	Leadership in different companies	Planning and focusing marketing	International competitiveness
Networks	Budgeting	Running a small business	Marketing mix	Trends in entrepreneurship

Source: Hytti Ulla (2000): "Entrepreneurship in the Cyberspace", conference presentation, adapted by Kuhle 2006.

Reasons for the success of the approach

DIEPES was first evaluated in December 1999 after approximately one year of existence. Students were asked through an internet-based questionnaire for an evaluation of the programme. Respondents were all between 17 and 50 years old and had different educational and professional backgrounds and careers. The overall assessment of the programme was positive: students appreciated the freedom they had in choosing the sequencing of modules and sub-modules, and underlined the importance of using internet and radio programmes for knowledge inculcation. Enrolment was easy and distance learning offered advantages, as students were able to follow the courses from any place that had an internet connection and a radio.

With regard to entrepreneurship, the evaluation made clear that DIEPES students were either pushed into a more entrepreneurial direction because of unemployment and the risk of losing their jobs, or they were about to develop a business idea of their own. Having such a diverse group of students puts high requirements on the diversity of teaching methods and pedagogical materials. Hence, the methods used to deliver the programme offered students an opportunity to choose the content and pace of their learning exercise.

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

There were no obstacles faced with regard to the technical delivery of the programme. What needed further attention was the tailoring of the programme to the different needs of students. Hence, a questionnaire was circulated to ask students about what would influence them to become an entrepreneur. The most important factors listed were "the belief in one's own abilities, own expertise and an opportunity for self-fulfilment", whereas as least important factors listed were "transfer of ownership, traditions in the family and examples of other people".⁸ Suggestions for an improvement of the programme included the involvement of more entrepreneurs in programme development, and in the teaching process. Also, more practical information was required regarding starting and running a business.

⁸ Hytti Ulla (2000): "Entrepreneurship in the Cyberspace", conference presentation, online available at http://www.tukkk.fi/pki/julkaisut/konferenssit/Entrepreneurship_in_the.pdf

As a response to this, the Institute of Small Business, who was mainly responsible for the content of DIEPES, intensified their co-operation with business organisations and public agencies engaged in business support and development. DIEPES' aim is not the immediate support of business start-ups, but it prepares for more entrepreneurial mindsets and attitudes that support entrepreneurial activities, be it those of an entrepreneur or of an employee.

Why the approach is relevant to Marzahn-Hellersdorf?

The reluctance to engage in career accompanying further education offers in Germany may suggest that adults need a specific reason to engage in further learning activities. The qualifications received have to correspond to the change in working life, and have to develop and strengthen personal entrepreneurship. These are considered as key factors by the DIEPES programme.

Entrepreneurship interests people in different life phases and conditions. Many want to know how to become an entrepreneur (or an intrapreneur), others are interested in researching into what entrepreneurship is. Interestingly, both groups were satisfied with the content of the evaluated programme. Most consider entrepreneurship a valid career alternative, even though only few really become entrepreneurs. Entrepreneurship has probably become a phenomenon similar to protecting the environment – we tend to see it as an important option in principle, but in practice we do not change our behaviour. This applies in particular to transformation societies where people are forced by economic transformation into pursuing completely new business strategies. In public, e.g. on the radio, accessible correspondence courses with active feedback and a sufficient number of learning supports seems to offer a good opportunity to be constantly (and not only occasionally) confronted with the questions of self-employment and of gaining qualifications for entrepreneurship.

The transformation society of eastern Germany is undergoing an ever-faster progressive change, and the business world is demanding new abilities and knowledge on behalf of employers. The area of training for entrepreneurship/running a company is very heterogeneous at the present. The Finnish example shows how a specific bundling of various aspects towards preparatory training and further training can take place with the use of modern media. DIEPES emphasises the understanding of training for entrepreneurship as a concept which encompasses a range of different kinds of programme. A further important aspect is the use of up to date training methods. The rapidly progressing development of new technologies has made correspondence teaching and learning possible.

Conditions for successful adoption of this type of approach in Marzahn-Hellersdorf

The correspondence course, with its emphasis on the activities and motivation of those learning, can also be seen as a way of promoting supporting the entrepreneurship of individual people. Apart from this it is relatively easy to transfer this praxis to other fields of application – also, indeed, to Germany. Such a correspondence course on the radio requires not only the willingness of companies and training providers, but also the willingness of company federations, Chambers, and the education system to support and financially safeguard the course objectives.

A successful implementation of this approach asks for a close co-operation of the (further) training provider with the respective companies involved. On the one hand this involves gaining insight into the life of a company with the aid of concrete examples. On the other hand it means examining one's own knowledge with the aid of concrete cases and promoting the entrepreneurial attitude. Correspondingly, for a successful cooperation both the company and the

(further) training provider must develop more willingness to be open and, at the same time, companies and other organisations must be ready to invest time and other resources.

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"Support to the Innovation Structure (SINO)", Lithuania⁹

Description of the approach

The main aim of the project "Support to the Innovation Structure" (SINO) is to strengthen the Lithuanian innovation support infrastructure network, and to increase the competitiveness of Lithuanian enterprises in local and international markets via theoretical and practical training in creativity, risk management, and fund raising. The project is a partnership between the Danish Technological Institute and the Lithuanian Innovation Centre. SINO is supported by the Danish Agency for Enterprise and Housing and the Lithuanian Ministry of Economy.

Since the 1990s, Lithuania has striven intensively to consolidate the existing inherited capacities of technology-oriented companies under the conditions of the market economy, and to subject the existing, as well as newly-founded companies, to a permanent process of innovation. In light of the merely restricted market in Lithuania – a consequence of its size – the companies are strongly dependent on their presence in international markets. Innovation and internationalisation of technology-oriented companies, mainly SMEs, are crucial to maintaining the competitive advantage of companies. There is awareness that in the open EU-market, the Lithuanian companies will be faced with strong competition from multi-national companies which have been dealing with market-economy for decades. Therefore Lithuania must put focus on innovation and strengthen the companies' ability to innovate. Innovation is both the process where innovation is formed and the product of the innovative process. Innovation can be targeted new products, new technologies or new ways of designing the working organisation.

To be successful, the innovative process must present results that will strengthen the economic sustainability of the company. The SINO project should increase the competitiveness of Lithuanian enterprises by stimulating thinking on innovation management. The SINO project should bring together visionary parties of the innovation support system and prospective enterprises in order to secure a long-term strengthening of the innovation framework. Interest in the enterprises was supported by advanced and creative use of media, e.g. TV, radio, newspapers and internet. The link between innovative enterprises in Denmark and Lithuania has been strengthened.

The following elements were part of the training courses:

⁹ The information is based on interviews that the author conducted with staff of the LIC and information available on the website.

- *Innovation Management Diploma* includes cutting edge knowledge of creativity, risk and opportunity management, financing and partnering
- *Innovation Management Software* includes content management and templates for the description of innovative ideas
- *Innovation Management Competition* is introduced to increase the commitment of the participants and select the best ideas for a partnering trip to Denmark

The participants from Innovative Companies must bring an idea or problem to the classroom, and should have:

- Commitment
- Well established position in organisation
- English as a working language
- Willingness to participate all the way, also in teamwork

The participants are selected from Kaunas, Klaipeda and Vilnius. The teams are created so that participants come from the same region. 10 participants are selected from innovative companies, 20 from innovation support organisations, and 5 participants from companies and organisations supporting innovation, e.g. financial institutions.

Training Programme:

- Management of Innovation and Entrepreneurship: 3 days of training and 1 day workshop;
- Creativity tools and Technology Assessment: 3 days of training, 1 day of general workshop and 1 day of workshop on each project idea;
- Risk Management and Innovation Financing: 3 days of training;
- Partnering, Domestic and International: 3 days of training, 3 days of database search for each project idea and 3 days of workshop; and,
- Implementation of Innovations - Business Trip to Denmark: 3 day visit.

The Diploma was free for participating organisations. If, however, the employee did not participate in all training activities, the organisation agreed to pay an amount of LTL 2 500. Transport and accommodation was the responsibility of the participant's organisation.

Why the approach is relevant to Marzahn-Hellersdorf.

The example shows how international experiences of coaching and further training can be integrated in a regional innovation strategy. In May 2003, the Danish Technological Institute, in co-operation with the Lithuanian Innovation Centre and selected partners from Vilnius, Kaunas and Klaipeda regions, successfully started implementing the SINO Project. 35 participants from 3 Lithuanian regions (Vilnius, Kaunas and Klaipeda) were selected to participate. 10 of them re-

present innovative Lithuanian companies, 5 financial institutions, and 20 innovation support institutions. Project participants received theoretical and practical training in creativity, risk management, fund raising, partnering, etc. The training was implemented by Danish and Lithuanian experts. At the same time, project participants worked in innovative teams, preparing an Innovation Plan. Based on the Innovation Plan, 3-5 groups had the possibility of going to Denmark for partnering. The SINO Project would be of interest to the area investigated for a number of reasons. Firstly, it would be a useful contribution to the creation of a real market in further education and coaching offers and for the securing of benchmarking. The existing network of providers should be added to in order to generate a stronger dynamic as a whole and a willingness to innovate amongst the providers of coaching and further education. There have been numerous innovations abroad with regard to the didactic imparting and the methods of individually tailored corporate coaching. If these methods could be extended more strongly in Berlin-Marzahn/Hellersdorf, this could also lead to success in forcing the local providers in both investigated areas to react and subject their methods to innovation. On the other hand, the direct integration of foreign further training and coaching offers, even if only temporary in the form of projects as in Lithuania, gives rise to a push towards internationalisation for the participating companies. With the foreign providers, an easier access to the pool of potential cooperation partners would be possible. Coaching should be arranged as to contribute to this.

Reasons for the success and conditions for successful adoption of this type of approach in Berlin-Marzahn-Hellersdorf

There exists a need for a relevant institution, which on the one hand identifies the suitable provider abroad, but is also able to meet all necessary preparations and accompany cooperations. On the other hand, being closely anchored in the environment of the regional entrepreneurship in order to secure its collaboration is of crucial importance.

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Creating "transformation agents": CELEMI Sweden¹⁰

In a further, more long-term consulting and training programme, the Lithuanian Innovation Centre is cooperating with the Swedish company CELEMI International Headquarters. Of most

¹⁰ The information is based on interviews that the author conducted with staff of the LIC and information available on the website.

interest here is its method, which makes possible a sustainable development of consulting companies. It addresses the individual needs of the companies. CELEMI has been working for over 20 years across all industries, including large global companies as well as NGOs and public sector organisations, helping to implement large-scale change and create teams of transformation agents who deliver the results they want. This includes the following activities: improving financial literacy, building an understanding of business operations, and generally enhancing working performance. It provides a full range of consulting and coaching services, and tailored learning solutions, as well as ready-made business simulation, delivered in the format that best meets the needs - from electronic and print media to workshops and large events.

The training and consultancy approach addresses five critical elements necessary to create "transformation agents" - people who will work together to produce the (new) results. These five elements form the basis of the so-called "Power of Learning" Programme. The five-step process is supposed to make learning easier and shows how to get trainees more involved. It shows trainers, managers and employees how individual learning can contribute to a stronger, more successful organisation through different approaches to learning. It is based on the idea of helping people understand how relationships, know-how, competence and image - all "knowledge" assets - are directly linked to financial results.

The five steps are:

1. *Dialogue*: Create discussions around your vision or goals to promote understanding.
2. *Consistent messages*: Leave no room for misinterpretation or distortion – no matter who your messenger is or how many there are.
3. *Discovery*: Give people the opportunity to experience the impact of the change and reflect on its outcomes.
4. *Visualisation*: Help everyone visualise complex networks and relationships so they, too, can take the right actions automatically and independently.
5. *Action*: Create a “cascading” knowledge-sharing process so change quickly filters throughout your target audience.

Over the course of two days, teams of participants compete for key employees, key customers and market share, while managing capacity, price, budgets and more. In the end, everyone emerges with a new dual perspective and learns practical strategies for managing a knowledge company. Every custom solution is seen differently, but each one begins with a careful assessment of the situation and the overall "readiness for change" - within an organisation or throughout the target network. Working tools are business simulations, e-learning, films and events. In every case, the solution will be designed to work within the existing company's framework in order to limit disruption of normal activities and to foster natural, organic change. Typically, the companies can expect the entire development process to take anywhere from a few weeks to a few months. This process includes pre-study, conceptual design, development and graphic design, pilot tests with revision rounds, finalisation and production.

It should be emphasised that the coaching involves preparing for change. The coaches help to assess the organisation's internal culture, processes and other conditions to make sure they are ready to support the changes people will need to make. Prior to roll-out, the trainers help to prepare the managers, business leaders or representatives for their roles in leading the change effort. These delegates often act as facilitators and create a “cascading” process of knowledge

sharing as the programme filters out through the target audience. By taking an active role in the learning process, business leaders model behaviour and demonstrate support for the change. In addition, the coaches are available as needed during and after the implementation phase in order to help sustain change.

The emphasis of the coaching and training measures lies on engaging people in creating custom learning solutions that help to communicate, educate, motivate and transform. The hands-on nature and personal experience inherent in the learning solutions create true understanding and lasting knowledge. The basic principle is that people will be able to take the right actions and make the best decisions to deliver the results wanted within the organisation - quickly and efficiently. Whether companies need to launch a new product, build a strong corporate culture, or merge two diverse companies, some needs are unique. They require people to understand and act on messages, concepts and best practices specific to respective business challenges. In these instances, the consultants and learning design experts assess the companies' needs and environment and develop custom learning solutions. These solutions spark dialogue and create discovery processes proven to get people to break with old traditions, beliefs, customs and habits so they can *think* differently and *act* differently.

The thematic emphasis of the coaching is on marketing and securing the project success, amongst other things:

Marketing: Help people understand how to adapt corporate marketing strategy to local market conditions without jeopardising the message or market niche. In a hands-on simulation, teams of participants compete for market share between the local outlets of four highly competitive companies. In just one day, they quickly learn the importance of coordinating local marketing with head office strategies and policies, monitoring customers and competitors and adjusting the strategy as needed. This is ideal for people holding direct responsibility for strategic marketing decisions in organisations with widespread sales and distribution networks.

Securing project success: Help the project team get it right from the start! An engaging, competitive simulation challenges teams of participants to run a critical internal project, creating the highest possible business value - on time and under budget. In just one day, participants run a simulated project through the pre-study, design, development and implementation phases, and learn to deal with unexpected events and changing project conditions - just as in real life. Participants should experience the way to kick-off a new project, jump-start a stagnant one, build team relations, and provide critical insight for everybody involved - regardless of previous project experience.

The key points of the approach are: increase staff involvement and commitment; set up and prepare an effective project team; secure the understanding of critical success factors of project work; increase the involvement in and the value of project kick-start; manage limited resources to create the highest business value possible; establish a proactive behaviour among project team members; and secure a successful outcome of an upcoming project.

It is, above all, the programmes described in brief below, which make the approach of CELEMI relevant for companies which are ripe for development and growth:

Preparing people for the challenges of project work

The "Cayenne Programme" aims at preparing people for the challenges of project work. This teaching programme helps people be better prepared to deal with unexpected events and changing project conditions. During the simulation, teams of 3-4 people monitor and manage a project. The participants are challenged by problems and events in the different project phases. The performance of the teams is monitored on a range of key performance measures. Key points are: increase staff involvement and commitment; set up and prepare an effective project team; secure the understanding of critical success factors of project work; increase the involvement in and the value of project kick-start; manage limited resources to create the highest business value possible; establish a proactive behaviour among project team members; and secure a successful outcome of an upcoming project. After the simulation, the participants discuss their own projects. They prepare themselves and assess their project conditions in terms of leadership, alignment, teamwork and strategy.

Factsheet: <http://www.celemi.com/site/simulations/simdesc/documents/FSCayenneEN.pdf>

Developing a company's intellectual assets

The "Tango Programme" aims at boosting a company's profitability by developing the intellectual assets. This programme intended to create a practical understanding of the key to success in knowledge companies. The starting point is that all companies have assets which are both visible and invisible – or tangible and intangible. These assets must be managed and developed based on a distinct strategy. The Tango programme focuses on: the promotion of understanding the importance of measuring, assessing and taking into account intellectual assets; identification and management of critical factors in knowledge companies; the attraction, development and retention of top employees; the attraction of profitable right clients and winning their loyalty; and the conversion of personal skills into company-owned tools and processes.

Factsheet: <http://www.celemi.com/site/simulations/simdesc/tango.php>

Making business in competitive markets

The "Livon Programme" aims at attracting and retaining profitable clients in extremely competitive markets. This programme helps employees to see the need to create a consistent and distinct company image and marketing. The programme includes a tool called "the preference profile", helping participants to convert client requirements into practical action plans and more stringent positioning. Key points of the programme are: firmly establish central marketing strategies on every level, i.e. in retail organisations; further employees' customer and marketing focus and sharpen the company's competitive edge; and gain market shares.

Factsheet: <http://www.celemi.com/site/simulations/simdesc/documents/CelemiLivon.pdf>

Why the approach is relevant to Berlin Marzahn-Hellersdorf

There is one central reason for this: the example shows how coaching and further training which are individual and tailored to given entrepreneurial needs can be carried out in a methodologically innovative way. This example shows how coaching and further training themselves are based on the foundation of entrepreneurial activity for the use of the entrepreneurial skills of other companies.

Reasons for the success and conditions for successful adoption of this type of approach in Berlin Marzahn-Hellersdorf

The reasons for the success lie in the methods of the providers and, at the same time, in the openness of the companies involved. A precondition for adoption, analogous to the cooperation projects between Lithuania and Denmark would be, to begin with, to carry out a project in which

these or other foreign providers are introduced in Berlin-Marzahn/Hellersdorf. With this, a pilot would be created so that the existing companies could learn from their experiences. Acting alone they would probably never look for these providers – to say nothing of those located further away. What matters here above all is creating an opportunity to learn new innovative methods of learning which would otherwise never have been available. The precondition for this would be that it does not involve a pilot which is too small, but rather involve a sufficient number of companies to increase the demand for similar innovative providers and, with this, force the local providers into a corresponding adaptation of their offers.

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PROPERTY AND INFRASTRUCTURE DEVELOPMENT AND ENTREPRENEURSHIP

By Petr Adámek, Czech Republic

Introduction

Healthy local economies provide ample opportunities for new firm creation and growth. If these primary private sector development activities are complemented with export orientation and innovation leading to productivity gains, increased international competitiveness and generation of productive inter-firm collaborative initiatives, we talk about *private sector growth activities*.

The implementation of smart economic development policies at local and regional level will always be aimed at supporting and encouraging *private sector growth activities*. This is because they result in increased attractiveness of the economy for external investments, increased local firm formation levels, the retention of existing jobs as well as the generation of new jobs, rising disposable income, and the generation of new resources that enhance local standards of living.

Private sector operations are influenced by a wide range of external forces. Besides economic, social and technological development influences at global level, firms are influenced by regulations and policies at regional and national levels. But ultimately private sector activities occur in certain locations and therefore local operating conditions can be considered key enablers or barriers to private sector growth.

Access to labour, capital, land, and knowledge and information are among the key sets of local factor conditions that impact the ability of private firms to engage in productive and competitive activities. Over time, the significance of different factor conditions changes. For example, in *labour*, quantity has been superseded by quality and skills, in *capital*, the mere existence and availability of financing is expected, but it is the relevance of capital to certain sizes of firms, phases of development and/or particular requirements of different sectors that matter and differentiate communities and their business environments.

In the case of *land* as a resource for business growth, functioning local and regional property markets are essential to accommodate, quickly and predictably, the expansion plans of local firms, the entry strategies of external firms and last, but not least, the formation plans and activities of business start-ups. Functioning property markets are characterised by reasonable levels of demand for business property, adequate and corresponding supply of business space, and active intermediaries that enable seamless transactions of property ownership titles and execution of lease contracts. In an ideal situation, the role of the government is merely to regulate, serve as an arbiter in property disputes, and also act as any other property market actor – i.e. buyer, seller, developer and speculator.

In general, the property market is imperfect, as every property is different in location, and properties in close proximity differ on various characteristics. Imperfections can derive from an insufficient or inadequate supply of property (end-user businesses and developers are interested but there are no sites or buildings capable of accommodating their needs), insufficient or non-existent demand for business property (there are abundant vacant buildings and sites, however there are no buyers or developers interested), and imperfect market intermediary mechanisms (these include, but are not limited to, lack of information about property, low number or quality of agents, construction and facility service providers, existence of desynchronised information that encourages property speculators etc.). The preferred market self-regulatory mechanism is price; however, it only has a limited influence on the demand and supply. If price is regulated and set as minimal above the equilibrium, it can cause deadweight loss to the community. Property market failure, especially in the case of property for business, can significantly hinder the economic development of communities, discourage private sector growth activities, and lead to deprivation, decline and loss of jobs and income.

New economic activities in urbanised areas generate demand for land and buildings that must be initially met from the existing stock. The characteristics of the existing stock of space help determine how successfully changing patterns of demand can be accommodated. Stock characteristics include: aggregate quantity of space, quality of space for business activities, relevance – or the mix of space suitable for a relevant diversity of needs, flexibility of the existing buildings and space – or ability to accommodate varied and changing needs.

This chapter aims to discuss property and infrastructure development and entrepreneurship in the Berlin district Marzahn-Hellersdorf in terms of local approaches to stimulating entrepreneurship development, start-ups and firm growth.

Strengths and weaknesses

Marzahn-Hellersdorf has a functional role within the greater Berlin agglomeration, which includes the territory of the capital city and nearby communities in the surrounding Land Brandenburg. The district profits from its favourable geographic location and connectivity to Eastern Europe, its proximity to the city centre, and good public transportation. However, in terms of economic development, Marzahn-Hellersdorf can be considered an internal periphery of the larger Berlin agglomeration. Major economic development concentrates in the centre and in neighbouring territories of the Land Brandenburg where costs are lower and the perceived bargaining power of investors is higher. There is therefore significant competition to fill available sites and premises.

Marzahn-Hellersdorf cannot be considered a typical local economy with its own distinct business environment. Inevitably, its business environment is an integral part of the greater Berlin agglomeration's business environment; therefore the borders of the district have an administrative rather than economic purpose. Any local actions related to business property provision and locally constructed incentives need to take this fact into consideration.

Current major economic functions of the district within the greater Berlin agglomeration include:

- Living: Most of the 250 000 inhabitants of Marzahn-Hellersdorf work elsewhere;
- Public services: administrative – government offices, health – hospitals, health care facilities;

- Retail and consumer services: by definition these services have little export orientation and are local or limited to a small action radius.

The district cannot be analysed separate of the developments in the whole of Berlin and East Germany. The two major economic development indicators that alert policy-makers are long-term population changes and unemployment rates. 29 469 unemployed were registered in Marzahn-Hellersdorf as of April 2006, i.e. 21.1% compared to the average of 18.2% in Berlin and East Germany). These figures do not show any significant discrepancy; therefore the hypothesis that the district is undergoing a more severe depression than the rest of the city, or the other Lander of former East Germany, is not valid.

Continued population decrease due to outward migration (18% decrease between 1995 and 2004), however, indicates a significant difference between the district and the city of Berlin. The negative population change in Marzahn-Hellersdorf was slowing down between 2000 and 2004, but the city of Berlin as a whole was gaining population in the same period. The assumption is that the district is a less attractive residential location, and that people are moving to live elsewhere in Berlin. The outward migration of population, change of household structure, the continued process of suburbanisation etc. are impacts of economic and social changes relevant to all communities in Central Europe. It would be a mistake to target economic development policies towards opposing these natural changes and ignore the potential and realistic future role of this neighbourhood in the greater Berlin agglomeration. It would be a mistake to envision Marzahn-Hellersdorf as a community that is self-sustainable and independent of external communities and activities taking place within these territories.

Premises and infrastructure for business development in Marzahn-Hellersdorf

An abundant supply of available industrial sites and a mix of business facilities with attractive rent rates and adequate infrastructure can be seen as strengths of the district. In urban areas, where demand for land and buildings for new and expanding economic activities needs to be met initially by existing space, characteristics like aggregated quantity, quality and relevance, and flexibility to diversify according to changing needs, are relevant for location needs.

However, the high vacancy rate of industrial estates is further evidence of Marzahn-Hellersdorf's economic underperformance. Although the level of new business registrations is above average in Marzahn-Hellersdorf compared to East Germany and Germany as a whole, these are mostly self-employment, sole trader type firms, usually with the aim of getting the owner out of unemployment. The potential of these newly formed businesses to create further jobs in the first years of development and use the available business space for productive activities is therefore often limited. According to the *Regionalmanagement* Marzahn-Hellersdorf, the area offers over 1 000 hectares (530 ha in Marzahn-Hellersdorf) of vacant sites, halls, warehouses and office space. Development experience in Central and Eastern Europe suggests that the new job creation potential of these combined sites is between 25 000 – 35 000 jobs (on average 30 jobs per hectare), depending on the different uses and tenants. This roughly corresponds with the current pool of available labour of over 29 000 registered unemployed in Marzahn-Hellersdorf.

Another aspect of the demand for business property side of the market is the district's economic structure. The largest employers in the district are public administration and health care – hospitals and large health care institutions. The public sector acts on real estate markets as a developer and user of property; public sector activities create new jobs. A large part of

economic development is thus based on public investment and expenditure and less on private activity, which in turn might be less sustainable.

Because Marzahn-Hellersdorf's economy is not and cannot be considered as autonomous, one strategic scenario could be developed on the basis that productive economic activities will happen elsewhere and the district will continue to perform other functions (administrative, residential and healthcare) for the neighbouring areas. However, there are several drawbacks associated with this scenario. First, public investment and management decisions are rarely made locally and therefore they cannot be expected to address local economic development issues. Second, the administrative functions of external service character are traditionally and more likely to be located in the central districts of Berlin, not in Marzahn-Hellersdorf. Third, if the major strategic role of the neighbourhood is to be mostly residential, it would have to provide superior living conditions and be an appealing address. This is currently not the situation, as shown by the ongoing (although decreasing) outward migration.

The economic structure of the remaining non-public sectors is mostly local or regional market oriented – retail and trade associated with serving citizens and dependent on their income levels and purchasing power. There are only 43 manufacturing enterprises currently operating with more than 20 employees in Marzahn-Hellersdorf. Even if these companies double their operations in the next several years, they do not have the potential to take up all the vacant industrial and manufacturing space and create enough jobs to make a difference for the 29 thousand unemployed. This means that more sustainable economic development results can be expected from strategies that focus on encouraging competitive, export-oriented, private sector activities. This also means that while the demand for currently underused property could be generated by public sector investments or residential projects developed for citizens, it will most likely come from external private sector activities that will seek to generate outward oriented value in Marzahn-Hellersdorf.

Marzahn-Hellersdorf's infrastructure is of good quality. It offers a large amount of high-quality office, commercial, and industrial space available at costs much lower than similar space in central Berlin. Subsidised rent is also available for some SMEs. The supply of ready-made property for business activities in Marzahn-Hellersdorf, in the form of industrial yards and others, can be considered abundant. The Berlin-wide *Gewerbesiedlungs-Gesellschaft mbH* (GSG) company operates rental business premises in Marzahn-Hellersdorf that are suitable for a range of activities from office operations to pre-made light manufacturing activities. These premises are modern (late 1990s) and include in-house business services operated by GSG. Of all 50 premises operated by GSG in Berlin, the largest facility is in Marzahn-Hellersdorf with over one hundred thousand square meters of available floor space for business (*GSG-HOF Wolfener Strasse*). Business and facility services provided in GSG facilities in Marzahn-Hellersdorf include: business advisory services, 24 hour security service, conference, postal, fax and copy services, internet, etc. These services usually do not include outsourced book keeping due to low demand. Other business locations include business space available at *Georg Knorr Business Park*, and 3 hectares of free industrial sites (out of 9 hectares) offered by *Körber Schleifring GmbH*. In total, the district offers approximately 500 000 m² of business space in its 8 business parks and business yards.

Besides this pre-made and existing business space targeted at accommodating new and expanding local businesses, there are also proposed greenfield commercial and industrial sites suitable for mid-sized or larger incoming investors. A typical landowner in these cases is the State of Berlin and the sales price is regulated (58 hectares). The price is higher than the sales price for comparable land in the neighbouring state of Brandenburg; therefore a lot of

commercial development is seen on the border of the two states and manufacturing companies also tend to locate in nearby communities in the Brandenburg state. The price disparity is widely believed to have been a factor in the lower demand for industrial property, however, even as the price declined¹¹, development has not occurred.

The level of demand for business property is constantly low and thus insufficient to generate a higher and sustainable number of jobs. Local authorities initiated several policies to improve the borough's image. There are a number of policies being conducted by Land and local authorities, including private public co-operation efforts among more actors and more districts to stimulate entrepreneurship and attract job creating investment into the neighbourhood.

Amongst these policies, the programmes and initiatives of the Labour office and the Job centre are rather targeted towards encouraging people to engage in self-employment with less relevance for larger scale job creation and use of property, because it typically generates one-person firms with little expansive potential.

At Berlin Land level the organisation *Berlin Partner* is responsible for marketing, management and channelling business leads into particular locations. They are in charge of promoting the whole Berlin area as a business location and do not provide special treatment for proposed locations in Marzahn-Hellersdorf. In this respect *Berlin Partner* functions as any other investment promotion agency and respects the location preferences of their clients.

"Berlin Eastside" is a joint marketing initiative of Marzahn-Hellersdorf and the neighbouring district of Lichtenberg that seeks to label and promote the Eastern districts of Berlin as profitable business locations. The district administration has little financial resources of its own available for such activities, but contributes in-kind with staff time. With *Regionalmanagement*, a support service has been established that closely works with the district administration and other actors to enhance local development activities. The *Regionalmanagement*, carrying out some basic functions of a local development agency, is in charge of analysing, planning, marketing and promoting the Berlin Eastside area, mainly as a place to do business. The agency was established within the framework of a federal programme and is co-funded by the district. So far, several activities have been undertaken, including SWOT analysis, marketing brochures and initiatives for Marzahn-Hellersdorf. *Regionalmanagement* is believed to be able to play a key role in generating the interest of businesses and investors to develop property and operate businesses in the area. Current efforts of *Regionalmanagement* focus on a thorough supply analysis and the selection of a marketing and communication strategy. If successful, *Regionalmanagement* will increase demand for business activity in the area, stimulating property take-up, job creation and economic development. A workforce development programme is offered by the public employment service that enables companies to employ unskilled or partly skilled staff at a subsidised wage rate. On-the-job training and additional external training are part of the programme.

Urban regeneration programmes have been launched by the district administration, with the aim of revitalising the physical appearance of the area and improving the image and perceptions of Marzahn-Hellersdorf both internally (for citizens and existing firms) and externally (for visitors and potential investors). The centre of the Hellersdorf area has been regenerated with the ambition of creating a new, modern and vibrant centre of the district that will be attractive for residents and visitors, including high quality hotels, restaurants, retail and commercial space.

¹¹ According to the representatives from the Senate administration Berlin the overall price development over the last 15 years shows decline.

Because these initiatives are rather new and the expected impact is long term, it is difficult to track their success as yet.

There are factors and forces external to Marzahn-Hellersdorf that have, however, influenced the way in which the district has developed to date and are also likely to have an impact in the future. These forces cannot be changed from the level of the district and/or Land, however, they need to be considered when evaluating further development potential of the district. The following is in no way a complete list, just an overview of the major demographic, economic and technological trends that represent opportunities, threats or both to the development efforts of the district:

The process of suburbanisation or urban sprawl. The general trend of people leaving densely populated urban residential districts is evident in cities across Europe and especially in post-communist countries where large prefab housing estates were developed in the 1970s. This trend will continue and can partly be slowed down by the extensive population gains of the capital city. However, major residential development can be expected outside the city borders, where new modern and higher cost individual housing will attract people with higher income and education levels.¹²

Business Climate in the wider region and in Germany. The general business climate of Germany and the economic situation at national level create the macro-conditions for the competitiveness of private sector operations regardless of their location within the country. Improvements in the national business climate can increase Marzahn-Hellersdorf's chances of attracting new job creating investment. The market positioning of Marzahn-Hellersdorf should be that of a capital city location with lower rent rates than the city centre, yet superior transportation access, attractive address (Berlin) and a large and diverse pool of labour.

The "Go East" trend in FDI. The European cross-border investment map has undergone some dynamic changes since the collapse of the Berlin wall in 1989 and the introduction of free market economies in most of Central and Eastern European countries. With the rise of FDI flow of mobile manufacturing investment into Central Europe starting in the late 1990s and moving further East after 2001, the structure of FDI that "remained" active in Western Europe has been heavily skewed towards the service sector, while the efficiency seeking manufacturing investors have been exploring countries such as the Czech Republic, Hungary and Poland in the first wave and Slovakia, Romania, Bulgaria and recently also Ukraine in the later wave. While East Germany has been successful in attracting some of this flow, especially in the high value added segment (such as AMD), the overall performance has not been as good as in the competing countries that had, from the outset, the advantage of substantially lower operating costs (this gap has been diminishing over the years). Berlin itself has not positioned itself as a centre for manufacturing investments and has instead built an image of an administrative centre performing the typical functions of a European Capital metropolis. These past developments have caused difficulties for Marzahn-Hellersdorf in attracting large manufacturing investments and it is unrealistic to expect that the situation would be different (more favourable) nowadays.

¹² This is certainly the case of Prague, Czech Republic or Bratislava, Slovakia and it poses a major challenge to large residential areas within these cities that face population decline, change of educational structure, age structure and population income structure. The case of Prague South residential district is further illustrated in the section International learning models.

Recommendations

In conclusion, there are some key areas for further and continued action. These include (i) marketing and (ii) encouraging private sector involvement in development activities. Marketing responds to the fact that there is currently an abundant supply of business property but insufficient demand. Marketing must therefore be concentrated on delivering key value proposition messages to potential job creating businesses; the greater private sector involvement in development aims at improving the operations of a currently sub-optimal property market that hinders the economic development potential of the area. In addition (iii) urban regeneration efforts, and (iv) new internal image building for the neighbourhood as a safe, pleasant and attractive place to live, work and do business-in.

Solutions to Marzahn-Hellersdorf's economic development problems are most likely to come from a combination of efforts at two levels: Firstly, at Berlin level priority should be given to attracting firms to the prepared and available business premises in Marzahn-Hellersdorf, otherwise this is just money buried in land. Further costs might be caused by a deterioration of the sites as well as by public expenditures on the unemployed, which should justify further investment. And, secondly, at local level, current initiatives are worth continuing, however, the ad-hoc, on-demand approach to the implementation of economic development projects should be replaced by a better thought-out, longer term economic development strategy that will seek to utilise external development resources to support its implementation rather than be created by them.

External factors such as the business climate in Berlin, the wider region, and the whole of Germany, as well as the development of the attractiveness of the Eastern parts of Germany for business activity, will certainly play an important role and will determine the level of success that Marzahn-Hellersdorf can achieve from its economic development efforts.

Concentrate marketing efforts on delivering key value proposition messages to potential job creating businesses. Marketing needs to respond to the current abundance of property supply and insufficiency of demand. More emphasis is therefore needed on the health and automotive industries as identified key strategic economic development areas. It is also important to continue current activities of urban regeneration and internal image building. Focus on marketing the district as a place to do business that is currently undertaken by the *Regionalmanagement* agency is the right focus and it directly responds to the weaknesses of lower demand for industrial space by the private sector. These marketing efforts need to be more aggressive than in other parts of Berlin where the demand and interest of the private sector might currently be higher. Marzahn-Hellersdorf should continue its pro-active approach, co-operate with Land administration and launch a campaign-type of marketing activity, visit investment trade fairs, and work with local firms on contacting their partners with propositions to locate in the district. Closer and more intense cooperation with Berlin Partner is a must. The marketing strategy for Marzahn-Hellersdorf must derive from and build upon the Berlin strategy that identified key strategic competence fields where Berlin offers superior local factor conditions.

Create local support teams for potential investors. Property pricing policy for publicly owned property cannot be as aggressive as to go below market prices because this would constitute a case of disallowed state aid. At the same time, the sale of publicly owned property is complicated by the centralised agenda with the Trustee of all property (*Liegenschaftsfonds Berlin*). To investors, these relationships might sometimes appear as complicated and discouraging. Local representatives need to act as a support team that can co-ordinate and

facilitate the investment process and assist the company in making the investment. At the same time, such a team is necessary to follow up on leads generated by the new marketing activities.

Design a local development strategy. In close co-operation with relevant institutions at Berlin City and state level, and local actors, a local strategy to boost small business activity should be drafted with the strong participation of the borough. Other stakeholders should be recruited as partners in the delivery of the strategy. Further discussion is needed on whether the strategy should focus on the borough or the “Berlin Eastside” area. It might be also relevant to include the area’s role in the Berlin Brandenburg capital region. Translated into an action plan, clear priorities and roles for partners, timescales and resources can be defined. A broad economic development strategy would need to include both a focus on self-employment, business start-up, and small business development support, as well as marketing the territory to attract larger firms. Marzahn-Hellersdorf will need to further strengthen the selection criteria basis for new business support activities. Criteria would include, but might not be limited to, contribution to export, higher added value and generally activities that are not local market led but outward oriented. This will reduce the local economy’s dependence on external resources and public transfers and will create a basis for endogenous economic growth.

Encourage private sector involvement in development activities. It is important to encourage a greater private sector involvement in site development with the aim of improving the flexibility of currently sub-optimal property markets. Ways should be found to include private developers in the take over and/or management of existing business premises. Private property developers and real estate agents typically have informal networks and more focused marketing mechanisms that can generate customer interest more efficiently than the public sector. This was the case of Prague 11 where private sector developers were competing for the improvement of plots and sites to be offered on the class A office market (see international learning model).

International learning model

Property development and entrepreneurship in Prague 11, Czech Republic

Description of the approach

Prague 11 – Southern City is the largest prefabricated housing estate in the Czech Republic. It is situated in the South-eastern part of Prague along the highway to Brno, the second largest city in the Czech Republic. The district has 80 thousand inhabitants and over 2 600 houses with over 31 000 apartments. The housing estate was developed in the 1970s to accommodate young families and the original idea was that of self-sufficiency – large residential area with commercial, retail, trade and administrative functions and also jobs for the majority of the residents. However, only the residential part of the plan reached an advanced stage before 1989.

The administrative structure is similar to Marzahn-Hellersdorf in that the most important decisions about the district (physical master plan) and the budget are controlled by the city administration, which leaves the local administration with the responsibility for implementation and delivery, including some involvement in setting urban development priorities such as urban regeneration.

In terms of transportation, development potential of property and the local labour market, Prague 11 had a number of assets to offer:

- *Transportation*: Easy access to the city centre by subway (4 stations in the district), good connectivity by car and public transport means.
- *Development potential - property*: Vacant undeveloped plots of land, most of the area taken by housing blocks.
- *Labour*: Above average educational level (as in any capital city); however, skills not profiled towards industry but rather towards administration, trade and service sectors.

At the City of Prague level a comprehensive strategy was developed in an intense community and expert development process in 2000 – 2001. Of the many critical issues on which the strategy concentrated, the most relevant one for Prague 11 was the focus on spatial multi-centre development. Spatially, Prague was divided into zones such as inner-historic city centre, inner city and outer city, with identification of development nodes and axes where financial, service, commercial, retail and other business functions were to be developed. The strategy was prepared in concert with local administrative units and these units were invited to assist with its preparation and implementation.

The development challenge faced by Prague South in the beginning of the 1990s was the same as in many comparable communities in capital cities in post-communist countries: the physically unattractive living environment of the prefabricated buildings, yet high prices for purchase and rent; many houses owned by the public sector or co-operatives; a slow privatisation process; lack of resources and responsibility for renovation works, as well as an old-fashioned urban development concept. There were few production facilities as the area was not meant to perform industrial and greater retailing functions; existing companies in these sectors were therefore surviving at a low operational level. The public transportation system functioned well, thus commuting to work was a well-established concept, which helped to keep unemployment rates significantly below the national average.

Suburbanisation was working in Prague too. People with higher income tended to relocate from this area, which traditionally had a bad image. Sociologists forecasted a deteriorating social structure of the district, the creation of slums and ghettos with high crime, etc.

Jobs in the district were mostly in retail, trade associated with housing needs and in the public sector. The proportion of jobs to residents was very low and Prague 11 was perceived as a "bedroom community". Local firms were smaller firms. Better paid jobs existed in the city centre or even in manufacturing factories in the larger Prague agglomeration. The first commercial and retail developments occurred outside the city borders along the major highways (the *Průhonice-Čestlice* commercial zone can be seen from the border of the Prague South district) due to more attractive and easier development options (price, bargaining power over local authorities, etc.).

First of all, it is important to note that the solution to the social and economic problems of a capital city's suburb described above does not rest within the administration of that suburb. Local administration can help but co-operation with higher-level administration is necessary, as well as positive economic trends for the economy and society as a whole.

It can be assumed that a combination of the following activities conducted at different levels in response to general trends in the global economy and changes in social and demographic patterns has been critical in the success of the Prague South turnaround and the rapid development that it is going through today.

The role of CzechInvest

At the national level, the Czech Republic adopted a strategy in the late 1990s of attracting foreign direct investments to revitalise the national economy. While manufacturing firms tended to locate outside the capital city in other urban agglomerations, service firms were not yet as eager to come to Eastern Europe and they were only scanning the environment. In 2000, CzechInvest, the national investment promotion agency, conducted a study of the conditions and position occupied by the Czech Republic in the international market for mobile strategic service sector investments. *Strategic services* were defined as activities with high value added, high export potential, linkages with the key industries of the Czech Republic (automotive, electronics) and the potential to upgrade existing skills and infrastructure necessary for firms to be competitive in the age of the New Economy. The study showed that service sector investors would only be interested in the city of Prague as a potential location in the first phase and the range of activities that could be attracted included customer contact centres, HQ operations, expert solution centres, shared service centres, back office operations, specialised repair centres, high value added logistics, etc. A special incentive package (including tax breaks, training subsidies, etc.) was designed at the national level to encourage investors in strategic services, and marketing started to concentrate systematically on Western European and North American firms considering service function and activity expansions in Central and Eastern Europe.

Role of the local administration

A strategy was also created at the local level, followed by a 10-year urban regeneration plan. The public sector focused mostly on orchestrating the key stakeholders, providing pilot examples of regeneration on its own property and encouraging private developers to prepare property for business. In terms of economic development, the local administration was rather passive. It recorded and reported on activity, it streamlined processes to enable smooth registrations, licensing and permitting but it had little resources to act as a developer or provider of direct business support. Its role was in encouraging private sector productive growth developments in accordance with reserved areas in the physical master plan and discouraging residential development projects offering more attractive rates of return for the developers. Achieving the balance of functions was the primary focus of the local administration and therefore any sustainable job creating activity was welcome in the district. No public-sector-financed business facilities (such as incubators or speculative manufacturing halls / space) existed in the neighbourhood. This could have discouraged private developers from action.

Role of private developers

Private developers on the other hand were critical in setting in motion the development and location of new businesses of Prague 11. Larger-scale office complexes were designed and planned, land was purchased by developers and construction permits applied for and granted in co-operation with local and city level administration. This was happening in response to the demand and build-up of space in the inner city – especially Pankrác, where Czech and foreign private office developers were able to implement high-yield office development projects. Private developers were responding to the demand by foreign companies particularly who discovered Prague as an ideal location for their European or global operations for service-type activities as a result of CzechInvest's marketing and business development efforts.

According to CzechInvest, between June 2001 and July 2006, as a result of the strategic services investment incentives scheme, private firms invested 220 million EUR in establishing strategic service operations in Prague and created directly 6 200 new jobs there. Of the 16 firms

that invested with CzechInvest assistance – the two most important investors are located in the Prague 11 territory – Accenture - shared service centre (1 000 highly qualified jobs) and DHL information services (866 jobs). In addition, nation-wide companies such as the T-Mobile cellular network operator have built their headquarters in the Prague 11 territory.

These new jobs are not predominantly designated for or filled by residents from Prague 11. The district will remain part of a much more complex economic system where the requirements for public transport will continue to be critical. Nevertheless, these new jobs and investments are important for Prague 11 in trying to overcome its past mono-functional destiny; it brings life into the district during the day and further commercial and service activities, new attractive urban solutions with wildlife such as ducks and ponds improve the physical appearance of the district as well as the residents' mental image about the area in which they live.

Why the approach is relevant to Marzahn-Hellersdorf

Prague 11 and Marzahn-Hellersdorf have very similar internal characteristics (see above) and the nature and extent of problems and challenges they face are also similar (relative to size of the capital cities of which they are parts). Prague 11 did not have the resources to act as a developer on the property market and Marzahn-Hellersdorf is in a similar situation. The negative external forces such as suburbanisation and urban sprawl influence the population development in both districts. Marzahn-Hellersdorf weaknesses can be directly addressed by this approach because private developers have better marketing skills and possibilities.

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

The important difference between Prague 11 and Marzahn-Hellersdorf is that in Prague there was a high demand for private job creating business activity that was spotted by the developers and met by providing new facilities. As mentioned before, Prague 11 City Hall actions were facilitative and therefore no major obstacles and risks were encountered.

Considerations for adoption of this type of approach

Adoption of this approach in Marzahn-Hellersdorf will not be easy because, besides encouraging private developers to participate in property provision, measures will have to be implemented to stimulate demand for property in the district. Marketing activities that were already started by Marzahn-Hellersdorf Regional Management will play a key role and will need to be intensified rather than abandoned. The model of *Knorr Bremse* that rents business facilities can be used in a wider scale.

Reasons for the success of the approach

There were several reasons why this approach worked for Prague 11. First, the public sector did not risk its own resources in this case. Second, when demand for premises existed, the private sector developed these premises and offered them on the market. Third, if Prague 11 had not had property available or if it had not known its strategy in urban development, it would have been difficult for the private sector to develop the facilities so quickly.

Contact details and website for further information.

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Physical Development Department

Regeneration of the Southern City
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Czech Republic
Website: <http://www.praha11.cz>

Some examples of private developers in Prague 11:

The Park – Chodov:

Developer: AIG Lincoln (<http://www.aiglincoln.cz>)
Anchor tenants: Sony, Dell, DHL, Accenture, Computer Associates
Further information: <http://www.aiglincoln.com/czech/en/successstory/69>;
<http://www.thepark.cz>

T-Mobile Centrum Administrative Complex, Prague 11

Developer: Sekyragroup (<http://www.sekyragroup.cz>)
Tenant: turnkey development project for a single tenant
Website: <http://www.sekyragroup.cz/en/sekyra/nase-projekty/>

Opatov Centrum Administrative Complex, Prague 11

Developer: Sekyragroup (<http://www.sekyragroup.cz>)
Tenants: completion planned mid 2007, space on offer in all major real estate agencies
Website: <http://www.opatovpark.cz/lang/en/home.html>

Prague Gate Project

Developer: Mayfield
Tenants: Česká pojišťovna, Eurohotels
Website: <http://www.praguegate.net/uindex.htm>

OPPORTUNITIES FROM INWARD INVESTMENT

By Rod Shrader, US

Strengths and Weaknesses

Borough officials are highly motivated and enthusiastic about economic development and voice a “nothing is impossible” attitude. However, since there are no borough taxes, finances to support developments that would attract businesses from other parts of Berlin or beyond must come entirely from federal and city government agencies. The borough’s budget for economic development covers only administration and staff. No additional funds are available to provide incentives for inward investment.

All public economic support programmes are centralised within the city and federal governments. There are no mandates or directives to use resources in specific geographic areas. Therefore, allocation of resources for Marzahn-Hellersdorf is subject to the political process.

The local government provides businesses seeking to relocate in the borough with assistance finding space as well as assistance dealing with the bureaucracy related to building permits, business licenses and other regulations. However, other districts provide similar services, thus mitigating the potential advantages created by these services.

Most highly-qualified workers who live in the borough commute to other parts of Berlin to work partly because of a stagnant manufacturing sector and no larger manufacturing firms. It appears, however, that many of these workers would prefer jobs closer to home, which indicates that a business starting or expanding in the borough should be able to attract some of these employees away from commuter jobs.

Semi-skilled workers seem to be willing to work for five to six euros per hour, which would greatly reduce the cost of business for firms relying on large numbers of semi-skilled labourers relative to many other parts of Germany. However, federal incentives to hire trainees or apprentices have been reduced, which may make businesses more reluctant to hire low-skilled or unskilled workers, whilst employment regulations are also tighter than in other nearby European countries.

There are few large companies in the borough, which makes it less attractive to SMEs that function as suppliers to large companies. However, there are large hospitals in the borough, which may provide some opportunity.

Recommendations

Explore and apply for Land, federal and EU sources of funding for programmes and incentives to attract firms. Given the limited resources of the borough, officials should continue aggressively to explore and apply for Land, federal and EU sources of funding for programmes or incentives that can help attract investment by direct or indirect support to firms. Such

programmes could include specialised job training to update the skills of workers specifically for targeted industries. It could also be used to assist businesses with the customisation of commercial and industrial indoor spaces to make the spaces more suitable for the needs of those businesses, thereby differentiating the borough from other districts with similar empty space.

Examine the transferability of Tax Increment Financing. To enhance the ability of borough officials to influence the local economic situation Tax Increment Financing (TIF) schemes, which have been highly successful in Chicago, should be examined to determine their transferability to Germany and specifically to Berlin. Even if not entirely transferable, some aspects of the schemes may prove useful.

Strategically identify specific SMEs for the development of a local supply chain. Given the scope and scale of the health-care industry in the borough, specific SMEs that supply local hospitals and other health-care facilities should be strategically identified and marketing pitches targeted directly to them to attempt to entice them to relocate or open facilities in the borough. To better understand their needs detailed surveys of existing SMEs should be regularly conducted. The borough would be more likely to attract a cluster of these suppliers to its business parks since there is significant a customer base nearby.

Enhance business networks. Programs should be established to connect businesses in Marzahn-Hellersdorf to networks of businesses that are potential customers, suppliers, or strategic partners in Poland and other Central and Eastern European countries. The borough should offer specialized export assistance and growth assistance and track the success of such initiatives.

Co-operate with Berlin government and other boroughs in the attraction of big businesses. In co-operation with other boroughs and the Berlin government efforts should be made to attract larger businesses to Berlin as a whole. This would naturally stimulate the start-up or relocation of SMEs to supply the needs of those major businesses.

International learning model

Chicago's Tax Increment Financing Zones, US

Description

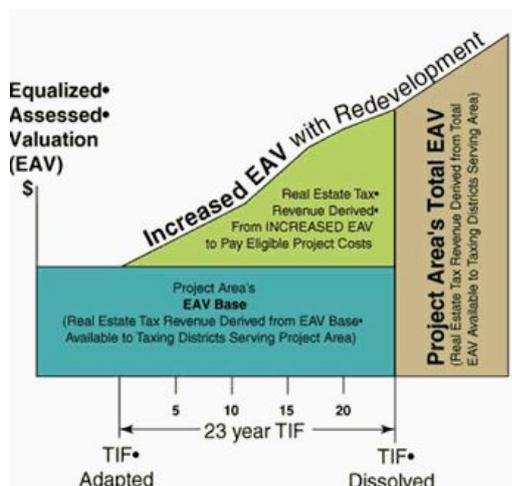
Tax Increment Financing (TIF) zones played a critical role in the urban renaissance that the city of Chicago has experienced since the mid 1990s. TIF zones are established for 23 years and allow the city to focus resources on improving “blighted” areas over the long term. City officials have the exclusive right to designate which geographic areas are blighted and, therefore, qualified for TIF zone status. Within designated TIF zones the city provides numerous benefits to the community beyond the investments that it normally would make throughout the city. The city provides increased public infrastructure improvements such as roads and sewer system additions and upgrades. Extra improvements to the public transportation system are also made, such as the addition and or renovation of commuter rail stations. The city frequently subsidizes commercial development within TIF zones, for example, by helping finance the first condominium development, the first retail mall, or the first manufacturers in the area. The city provides interest rate subsidies of 3% so that businesses are allowed to finance commercial development in the TIF zones at reduced rates. For businesses that start up, expand in or transfer into a TIF zone the city may help with land acquisition, environmental cleanup and other site preparation, or, in some cases, building rehabilitation. In addition businesses in TIF zones are

given priority consideration for all municipal programs including, for example, limited micro loans. The intent of TIF zone designation is for the city to invest heavily at the early stages of redevelopment in the area and thereby “get the ball rolling.” Once a certain critical mass of redevelopment has occurred, private investment flows into the area and the TIF zone is lifted out of its “blighted” condition.

Tax Increment Financing is based on the division of property tax revenues generated within the designated zone. In Chicago property taxes are typically divided among the city, the county, the school district, the park district and other governmental bodies. Figure 1 illustrates how TIF works. TIF zones are established to assist regions where economic activity is stagnant and no real economic growth is expected in the long-term future. As a result, property values would be expected to remain constant or, in some cases, decline. If this assumption were true, revenues from property taxes in that zone would also remain stagnant during that time period and government agencies that share those tax revenues would expect no increases from that zone. The area labeled “EAV Base”¹³ in Figure 1 illustrates the assessed value of properties over a 23-year period in a specific region if property values in that zone remained stagnant over time. However, if the city intervenes with specific programs designed to promote development in that zone, then doing so would lead to increased property values and, as a result, property taxes would be expected to rise along with redevelopment. The area illustrated in Figure 1 by the increased EAV curve minus the EAV base represents the increased property valuations that might be expected as a result of this intervention. During the 23-year period that the TIF zones is in place, tax revenues generated as a result of projected stagnant property values (the area called the EAV Base in Figure 1) continue to be split as they normally would have been between the city, the county, the school district and the park district. However, tax revenues generated as a result of increased property values resulting from the city's intervention (represented in Figure 1 by the increased EAV curve minus the EAV base) go exclusively to this city during the entire 23 year time period. The city issues bonds as the means of financing its investments in TIF zones, and the increased property tax revenue stream are pledged to pay for that debt over the 23 year time period. At the end of 23 years property values in the targeted zone are expected to be much higher than they otherwise would have been, and they are expected to continue to grow once a growth curve has been established (the Project Area's Total EAV in Figure 1). Property taxes at that time would be split among the various government agencies with claims to that revenue just as they would have been without TIF.

¹³ EAV = Equalized Assessed Valuation

How TIF works



Source: <http://www.ci.chi.il.us/PlanandDevelop/Programs/TIFzones.html>

If this scenario unfolds as predicted, everyone is better off as a result. After the 23-year time period, property taxes split among the city, county, school district, and park district would be much higher than they would have been had property values in that zone remained stagnant. In addition, the county, the school district, and park district would be no worse off during the 23 year time that the city takes all increased property tax revenues, because those revenues would not have been generated had the city not invested in economic redevelopment.

For this win-win situation to unfold, however, three critical assumptions must be met. First, it is assumed that the designated zone would remain stagnant for 23 years if it were not for the city's intervention. Second, it is assumed that increased property values are a direct result of the city's investments. Third, it is assumed that development is not simply diverted from another part of the city.

Relevance to Marzahn-Hellersdorf

TIF schemes cannot be transferred to Marzahn-Hellersdorf in exactly the same form as used by Chicago because Marzahn-Hellersdorf does not directly share in property taxes and cannot, therefore, use fiscal policy in the way Chicago does. However, given the dramatic success of TIF zones in Chicago, the program should be studied for potential adaptation in Marzahn-Hellersdorf. Lack of financial resources to stimulate economic development is one of the toughest challenges facing Marzahn-Hellersdorf and other local governments throughout Germany. The TIF model clearly demonstrates that, in the long run, investment in economic development can be a net generator of revenues and, as such, is beneficial to governments. In order for a similar scheme to work in Marzahn-Hellersdorf, Marzahn-Hellersdorf officials would need to convince land and federal government officials to adopt a similar approach.

Reasons for success

TIF zones have been successful because they represent a mindset that recognizes that government *investment* in economic development is a net generator of tax revenues and is not simply an expense. Investment in the community is seen as exactly that—investment. Like any investor, the city hopes to realize a positive return on their investments. While this investment

clearly has altruistic benefits in terms of helping blighted communities become less blighted, it also has directly discernable financial benefits for the city, county, park district, school district and other stakeholders. In other words, all interested parties benefit from TIF zone designation, which helps alleviate potential resistance to use of the scheme. Another reason TIF schemes work is that they give primary responsibility for economic development to local officials who best know how to manage and stimulate development on the micro level of neighborhoods or even parts of neighborhoods. It would be impossible for state or federal governments to understand local conditions and needs as well.

Obstacles

Resistance to the use of TIF zones has been relatively modest in Chicago because city and state officials have been quite adept at convincing other stakeholders of the program's merits. While the city takes the lead and incurs the majority of financial risk for development programs financed via TIF programs, all the other parties have the potential to benefit.

Nonetheless, several criticisms of the TIF program have been advanced. The process by which TIF zones are designated lies at the heart of most criticism. It is this city's sole discretion to designate TIF zones and it is also the city that stands to potentially gain the most from such designations, given that the city benefits solely from increased property assessments for the entire 23-year life of the TIF. If the city designated a TIF zone based on an erroneous assumption that the particular area would remain stagnant for more than two decades, the city would benefit from that error, while the county, school district, and park district would lose the additional tax revenues they might otherwise have received over 23 years. Further complicating matters, TIF zones are meant to target blighted areas and the city of Chicago has defined blighted as an "area not living up to its potential." Critics contend that such a loose definition leaves considerable room for interpretation and manipulation by city officials. Furthermore, cynics argue that growth areas could sometimes intentionally be designated TIF zones as a means for the city to increase its revenues at the expense of the other government agencies with rights to share property taxes. One of the most troubling downsides of gentrification, especially in TIF zones where efforts are specifically designed to increase property values and property taxes, is that the poorest residents and business owners often relocate to other neighborhoods with lower property values and lower taxes, potentially causing widespread displacement in TIF zones.

It has also been noted that cities with TIF zones have demonstrated slower short-term growth than cities without TIF zones. This perhaps indicates that there is an opportunity cost associated with inefficient resource allocation. That is, these same cities might perform better if they invested resources in supporting high potential areas of the city and thereby "get more bang for their buck" instead of investing in areas with less potential. An additional criticism suggests that TIF growth comes primarily from intracity relocations, whereby businesses relocate to TIF zones in order to take advantage of all of its benefits but these relocations represent no real growth. Finally, critics claim that the benefits to businesses in TIF zones leads to unfair competition.

Considerations for adoption in Marzahn-Hellersdorf

As mentioned previously, in order for TIF schemes to assist Marzahn-Hellersdorf, local officials would need to convince land and federal governments to change the current system of property taxation. In order to directly replicate the Chicago TIF model, the system would need to change so that local governments would receive a direct share of property taxes, which they

could then use to justify investments similar to those made by Chicago. Alternatively, Marzahn-Hellersdorf officials could attempt to use the Chicago model to convince land and federal governments to see economic development as a long term investment that will positively increase tax revenues in the long term. Even if land and federal agencies make the investments and reap the rewards, local governments should select the specific areas and types of investments.

Reference:

<http://www.ci.chi.il.us/PlanandDevelop/Programs/TIFzones.html>

ANNEX

Entrepreneurship Action Plan for Wales (EAP)

(by Dylan Jones-Evans, UK)

Description of the approach

The Entrepreneurship Action Plan for Wales (EAP) stems from the "Pathway to Prosperity" document published by the Welsh Office in 1998. A key element of this document was the development of an entrepreneurship culture in Wales.

To achieve this, three key elements were recognised as being important: Recognising the Opportunity – creating a greater awareness of the opportunities and benefits of entrepreneurship in order to encourage more people to start a business or to grow the business they are in, and to develop a greater entrepreneurial culture within our institutions, communities and businesses; Creating Enterprises - Creating a greater number of sustainable start-up businesses in Wales with potential for further growth, particularly by under-represented groups of society such as women, the young, Welsh language speakers, ethnic minorities and retired workers; Going for Growth - Increasing the number of businesses in Wales that grow, thereby creating greater wealth, employment and opportunity.

At the beginning of the process, a private sector led steering group was established to deliver the Entrepreneurship Action Plan (EAP) for Wales. The group brought together entrepreneurs, educationalists and business support professionals to guide the development phase and oversee the appointment of consultants to carry out the work.

The steering group met on a monthly basis and consultants produced desktop research that resulted in a set of six initial themes to explore and develop further. These were: (a) fostering a culture for entrepreneurship (b) unlocking the potential (c) enterprising communities (d) investing in knowledge and experience (e) bridging the funding gap and (f) reaping the rewards. This first stage of drafting was completed and launched as a public consultation document in November 1999. The Steering Group then appointed consultants to facilitate the next round of public consultation, to develop detailed and costed action plans and to draft the final document for submission to the National Assembly for Wales. To further develop the key themes, a series of four open workshops were held across Wales with the aim of canvassing for and collating the 'entrepreneurial ideas, projects and issues' of the Welsh public. The bulk of attendees were from public sector organisations keen to continue or expand existing provision, although each event did attract a number of individual entrepreneurs. The main role was to consider new project ideas as they arose through the consultation process. Judgement was needed to decide on inclusion (with appropriate costs) of these ideas in the EAP if they were found to be practical and appropriate. A major issue was also to identify where the institutional capacity existed in Wales to develop the programmes identified in the Action Plan so as to ensure efficient delivery and to further identify possible gaps in the institutional capacity that existed.

Whilst the strategy of the programme was guided by the private sector led steering group – the Entrepreneurship Implementation Panel – the operational part of the project was managed by a special enterprise team established within the Welsh Development Agency. Their main role was to commission work from a range of different organisations to ensure the delivery of the programme. Through co-ordinating the role of different organisations and providing the funding for activities, a more coherent approach to the development of entrepreneurship across Wales was established. Millions of euros of funding were made available through European structural funds to ensure the delivery of all aspects of the EAP.

The key measures of the success of the strategy - as shown by the Global Entrepreneurship Monitor for Wales - have been a change in the attitudes of the people in Wales towards entrepreneurship and a public sector that increasingly and explicitly supports entrepreneurship across all its activities. Its success has also resulted in an increase in new successful business start-ups within the nation.

Why the approach is relevant to Marzahn-Hellersdorf/East Germany?

According to the data presented in the Local Diagnostic Report for the District Marzahn-Hellersdorf (Berlin), business registration activities in the District of Marzahn-Hellersdorf are significantly less dynamic than either the Berlin or the German average. In addition, the proportion of self-employed people in the region (7.5 per cent) is well below the rate for Berlin as a whole (14.5 per cent). This is exactly the position Wales found itself in prior to the development of the EAP. However, during the last five years, it has closed the gap in terms of entrepreneurial activity with the rest of the UK, which can be largely attributed to the development of the different aspects of the EAP.

Another key issue relates to that of demographic trends. For example, there has been a decrease of population, loss of families, scholars and young professionals, and an increase in an ageing population in the District of Marzahn-Hellersdorf. Again, developing programmes which focused on less represented groups in entrepreneurial activity – women, young people, ethnic minorities, older citizens – was a key development in ensuring the success of the EAP.

Reasons for the success of the approach

The Entrepreneurship Action Plan for Wales has, had at its heart, a simple set of outcomes by which its success can be measured. In essence, in achieve its aims, the EAP needs to bring about a significant change in the attitudes of the people of Wales to entrepreneurship. The starting point, in an economy dominated by the public sector, has been the need for a more general acceptance of the issues outlined in the plan and a consensual approach to economic development that includes the desire to tackle the very specific needs of the SME sector.

Whilst the EAP presented little that was new in terms of the individual initiatives that make it up, that was never the point of the exercise. What is new is that Wales has developed a coherent, structured approach to addressing entrepreneurship as part of a national strategy. This approach was the first of its type in Europe, with only Finland's decade of entrepreneurship national programme as a close comparator. As a result, there is no reason why other regions in Europe could not adopt a similar approach.

The advantage is clear. By designing a relevant, contextualised series of actions that address the specific needs of a particular region, the many different barriers to entrepreneurship which exist in different areas can be targeted. The approach also allows local initiatives to have a sense of place within a wider scheme of national economic development. Since many initiatives are specific to particular groups in particular locations, the EAP gathers them together and illustrates their relevance to a wider constituency.

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

Strategies on paper are all well and good, but the plan can only work if there is effective implementation by all the organisations responsible for delivering the EAP. This process should facilitate activities, build on good practice and drive changes where necessary.

More importantly, the strategy has required significant extra financial resources – through European Structural Funding - and a great deal of individual effort. There have been no 'quick fixes' to achieve the gradual change in entrepreneurial culture in Wales as changing the culture is a long-term challenge, but a challenge and an opportunity that has to be seized.

Effective delivery and implementation of successful initiatives has required new approaches to education and training, community enterprise, business start-ups, development funds and the many other areas for action which this strategy has embraced. Success has depended on developing effective innovative partnerships across both the public and private sectors, and on targeting resources

more effectively.

The one issue which was never addressed was the top-down approach of the programme which resulted in a number of counties, where entrepreneurial activity was low, not gaining any additional support. This should be addressed in any future programme.

Considerations for adoption of this type of approach in Marzahn-Hellersdorf/East Germany

In the context of Wales, the vision was to generate one of the most entrepreneurial nations in Europe. The aim of the EAP therefore is for "A bold and confident nation where entrepreneurship is valued, celebrated and exercised throughout society and in the widest range of economic circumstances."

This is clearly a major challenge and one that requires a fundamental cultural change throughout society. Therefore, in Marzahn-Hellersdorf, a situation must be created where more people recognise business opportunities and are then sufficiently motivated and skilled to turn their ideas into action. To help achieve this, an enterprise strategy must lay out how business support services should be co-ordinated and coherent; simple to access through one contact point; demand led rather than programme driven; credible and able to relate to the needs of entrepreneurs and based on best practice. Strategies on paper are all well and good, but the plan can only work if there is effective implementation by all the organisations responsible for delivering the EAP.

In Marzahn-Hellersdorf, there are a range of organizations that must work together, including to achieve the required results. These include the Association for Industrial Settlement (Gewerbesiedlungs-Gesellschaft GSG), Business Union Marzahn-Hellersdorf (Marzahn-Hellersdorfer Wirtschaftskreise.V.), WIKONET Business Cooperation Network (Wirtschaftskooperationsnetzwerk WIKONET e.V.) and the Development Association of Local Companies (Förderverein lokaler Unternehmer e.V.).

This process should facilitate activities, build on good practice and drive changes where necessary. More importantly, the strategy will require significant extra financial resources and a great deal of individual effort. There are no 'quick fixes' to achieve this entrepreneurial culture in Wales as changing the culture is a long-term challenge, but a challenge and an opportunity that has to be seized.

Effective delivery and implementation of successful initiatives requires new approaches to education and training, community enterprise, business start-ups, entrepreneurial zones, development funds and the many other areas for action which this strategy embraces. Success will depend on developing effective innovative partnerships across both the public and private sectors, and on targeting resources more effectively. To develop this kind of step-change, significant new funding will be required, possibly from European structural funding.

There should be consideration of whether the EAP would work better on an all-Berlin basis. However, this could result in a replication of one of the major weaknesses of the EAP in Wales was the 'top down approach' adopted by the Welsh Development Agency which resulted in many localities not receiving the type of specific support they required to generate greater entrepreneurial activity. For example, one county may not have a problem with encouraging female entrepreneurs whilst another may.

As a result, a national programme for women led businesses may not therefore focus on the appropriate geographical locations for raising female entrepreneurial activity. One solution to this problem – and one in which Germany could evolve the principles of this programme - is for any enterprise strategy for Berlin to determine what can be done efficiently at a city-level and then what specifically needs to be achieved within each administrative district.

Contact details and website for further information

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A local enterprise strategy for North East England¹⁴

(by Andy Pike, UK)

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

Following an extensive consultation process concluded in 2001, the focus and geographical scale of operation and institutional architecture of the entrepreneurship policy delivery framework has been reorganised in North East England. A clear five-year regional strategy has been established by the Regional Development Agency (ONE North East) and is being implemented by the North East Business Support Network, with focused activities and clearly established priorities. Operating as a broadly-based entrepreneurship policy, the vision seeks to create a more entrepreneurial society with a diverse mix of new and developing businesses. The strategy aims to develop the region's enterprise culture, increase new business start-ups, encourage business survival and address the specialised needs of the region's high growth businesses. Drawing upon an evidence-based approach, and in recognition of the particular issues in the North East, it also aims to increase the numbers of women and people from disadvantaged communities starting new businesses. The strategy connects with the priority given to enterprise support in the RDA's Regional Economic Strategy and the national Small Business Service's emphasis upon business competitiveness. The enterprise strategy forms part of the Entrepreneurial Culture priority theme within the Regional Economic Strategy, comprising a programme budget of GBP 24 million (EUR 35 million) (9.5% of total RDA expenditure) for 2004-05. The strategy provides a framework for the co-ordination and direction of enterprise support activities in the North East region. Reorganisation of the policy delivery framework aims to expand the pool of people positively disposed to entrepreneurship, increase the new business start-up rate, develop more effective mechanisms to support business survival and enhance support for high-growth businesses. Mobilising the collective resources of key regional and local agencies is central to the strategy, including Business Links, Enterprise Agencies, banks, business associations and the education sector. Formal partnerships are used to embed co-operation between key regional institutions.

Reasons for the success of the approach

A key drive has been the need to integrate and co-ordinate business support more effectively to reduce fragmentation and competition between providers, improve the quality and consistency of service provision and remove actual and perceived administrative barriers. A common regional approach is being developed to segment the market for business support and tailor services to the diverse range of new and existing businesses. The shared regional focus is considered necessary to achieve the required step change in performance. The North East Business Support Network was established in 2004 to develop the new business support delivery model and simplify routes to business support in the region. The governance and funding of Business Links has passed from the Small Business Service to the RDA, and has shifted their geographical policy delivery focus from the local to the sub-regional level, mirroring the RDA's four sub-regional partnerships in Durham, Northumberland, Tees Valley, and Tyne and Wear. The previous local focus led to fragmentation and duplication. Business Link acts as a broker and provides a 'One Stop Shop' single entry point and seamless connection to a wider network of service providers.

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

The new policy delivery arrangements have received a positive assessment. However, the continued limited degree of success in promoting entrepreneurship – the North East still lags behind

¹⁴ Source: Discussion Paper "Entrepreneurship in the Districts Mittweida and Altenburger Land", OECD LEED Programme, October 2006, adapted.

the national average across key entrepreneurship indicators – has encouraged consideration of a wider range of routes into enterprise, including intermediate labour markets and social enterprise, and a focus upon reducing or removing barriers to participation. Linking with the national policy framework, growing social businesses to meet local community needs and, with public subsidy, to provide training opportunities, has achieved some success, for example in child and elderly care, environmental improvement and recycling. In policy delivery terms, the drive for integration and simplification has struggled to reduce the number of organisations and programmes. Many entrepreneurs and new firms still claim the system is complex and confusing.

Considerations for adoption of this type of approach in Marzahn-Hellersdorf/East Germany

The North East England experience suggests a number of issues for Marzahn-Hellersdorf that echo the main recommendations, including:

- a systematic review of the evidence base to define problems and review the existing policy delivery framework;
- echoing the strategy and vision sensitive to particular local and regional needs, the development of a clear strategy and priorities based on region-specific problems;
- enhancing institutional co-ordination and integration through the reorganisation of the institutional architecture, creating a focal and lead institution responsible for co-ordination and integration through formalised partnerships to embed co-operation;
- following the policy cycle model, rethinking the scale at which entrepreneurship policy is designed, developed and delivered (especially if the district level is too small, then cross-district integration and joint working may need to be explored); and,
- recognising that conventional business entrepreneurship may yield only limited results given the particular local contexts and histories, and the need for innovation and greater openness to the wider range of routes into entrepreneurship, especially social enterprise, that may be necessary.

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Macro-lotto No. 1, Italy

(by Andrea Manuelli, Italy)

Description of the approach

Macro-lotto No.1 is a privately owned industrial area developed in 1975 in Prato, Italy with a surface of 1 500 000 m² (150 ha). More than 300 SMEs, most of them active in the textile industry, are located in the area, generating employment opportunities for about 3000 workers, at an average of 10 employees per company.

The role of local authorities was crucial in the establishment of Macro-lotto Nr. 1. The associative management form has always been preferred by the local government as it makes delivery of public support for enterprises easier and more effective. Public financial support was made available for a number of important investment projects (e.g. industrial water treatment, transport infrastructure, etc.). Macro-lotto Nr. 1 has been developed in a way that favours the settlement of SMEs ahead of larger companies.

The industrial area is privately managed by "CON.SER" (**Con**sorzio **Servizi**), a consortium of 240 companies located in the area. In addition, there are a number of "service-specific" consortia in charge of delivering certain services. Examples are "IDRA" for industrial water delivery treatment, and recycling (with a 60 km industrial water pipeline) and "ENERGIA LIBERA" for purchase and production (co-generation) of energy and electricity. These consortia are founded and run by those companies who are in need of the services provided.

The industrial area Macro-lotto No. 1 is known as best practice for its specific design and management, adapted to the needs of micro-enterprises and SMEs. At forefront is the common provision of services with great relevance to the companies, such as waste water treatment, telecommunication and power provision, as well as services of common interest to companies and their employees, like car pooling and sharing services, joint postal and secretary services, grocery and laundry (all with delivery and pick-up services to and from the companies), "inter-business" nursery, etc. These services help located companies to reduce costs, increase competitiveness, and contribute to the area's economic, social and environmental sustainability, which is often used for city marketing and the attraction of new companies.

From the late 1990s, the Eco-Management and Audit System (EMAS) has been actively implemented in Macro-lotto Nr. 1. "CONSER" acts as EMAS co-ordinator and is in charge of the common part of the area's EMAS, monitoring all environmental impacts associated with power generation, waste management and transport. Further, "CONSER" also provides training and counselling to companies and thus supports and supervises them in developing their own policies and internal control systems. This joint approach of addressing environmental impacts at individual firm level with a central co-ordinating and monitoring body led to greater overall environmental benefits. The existence of a co-ordination and expertise centre, like "CONSER", can also be seen as a key driver for the generation of firm participation and commitment. Being able to exchange with environmental engineers working for "CONSER" means having direct access to expert knowledge that potentially increases a company's competitiveness as compared to outside the industrial area located competitors.

Why the approach is relevant to Marzahn-Hellersdorf/East Germany?

International assessment describes "CONSER's" double role as infrastructure provider and

EMAS co-ordinator as complementary and crucial for the success of the territorial approach.

The approach is relevant for Marzahn-Hellersdorf for the following reasons:

- This district is well endowed with industrial areas, real estate supply and a good infrastructure development. There are first signs of cluster formation in the automotive and health industry, and there is a political will to focus on these economic sectors as key areas of local economic activity. Further, programmes to foster inter firm co-operation and cluster formation are on-going in the borough. Nevertheless, the demand for location, expansion and investment in the borough is low.
- The Macro-lotto Nr. 1 approach could be a way to escape from the vicious circle around unattractive location and low number of companies, by systematically developing highly specialised industrial areas and service provision based on the needs of companies. Local companies in the above mention key economic sectors could form a consortium to manage such an industrial area.
- It is important that SMEs in areas that are economically lagging behind develop a more participatory and co-operative attitude towards improving local business conditions and services. Examples are joint training programmes, life-work balance programmes, joint childcare facilities, community involvement programmes. Such initiatives would also help to attract and retain talented people, and to raise the employability of selected target groups. The Macro-lotto Nr. 1 approach could thus on the long run also be a way of favouring company growth.
- Regarding the provision of industrial premises for SMEs, the adoption of a private, but associative and participatory management model can lead to a greater efficiency and financial sustainability from which both the public and the private sector could benefit. This kind of approach could be more cost efficient than a business incubation scheme with subsidised rents and services provided for individual companies.
- Making such specialised sites an integral part of city and borough marketing efforts could also increase the attractiveness of an area for companies to locate in or to expand their activities there.

Reasons for the success of the approach

The main reasons for the success of the approach can be summarised as follows:

- Firstly, the private but collective management of the area helped to bring forward a constant process of identification and assessment of companies' needs and interests. This allows the associative management, in form of "CONSER", to address these needs and thus contributes to the area's attractiveness for companies;
- Secondly, the joining up of companies in the area's consortia helped to pool public investment and increases private co-funding of projects. This was a great incentive for the public sector to pilot innovative programmes, such as EMAS; and,
- Thirdly, as the example of EMAS shows, companies can both gain competitiveness over outside located firms and contribute to the overall environmental sustainability of the area. Hence, this generates a capability of combining collectives interests with profit or cost saving.

Generally, the provision of joint services, the proximity to others and the inter-company exchange are considered by companies as concrete advantages that speak for a location in the Macro-lotto Nr. 1 industrial area.

- Private companies invest only if they have a return, constant need to prove concrete

advantages for them;

- SMEs are financially constrained, their main aim is to save on costs, so any investment needs to yield.

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

The lack of a culture of inter-firm co-operation and the existence of a general expectation for a substantial and long-term public support can become serious obstacles when trying to adopt this kind of approach, which is based on joining up private and public efforts and investment, associative management and co-ownership.

The preferential targeting of public support measures towards business associations, networks and clusters instead of a delivery to individual companies is a prerequisite for encouraging a more co-operative attitude amongst companies. The latter, however, needs time to emerge and to become an integral part of the local business environment.

The Macro-lotto Nr. 1 model presents how a self-sustained growth for SMEs with limited and specialised public support can gradually be achieved on the long-term. The availability of public support at individual firm level might make inter-firm co-operation at present rather uninteresting for companies. However, with regard to likely upcoming changes in public financial support schemes for individual companies, it is important to encourage inter-firm cooperation at an early stage. Bringing forward smaller and less committing initiatives, like for example joint training schemes for staff and management for different companies, might be a good start and preparing the ground for an initiative like Macro-lotto Nr. 1.

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http://ec.europa.eu/enterprise/environment/events/sme_conference/presentations/best_report_en.pdf

Associative business support centre, Italy

(by Andrea Manuelli, Italy¹⁵)

Description of the approach

The example or learning model described here refers to the 'Consorzio Sperimentale del Mobile' (CSM). CSM is a business support centre that provides strategic and sector-specific services to local SMEs in the wood and furniture value chain. Founded in 1982 and located in Poggibonsi (an area, close to Siena, that hosts a furniture cluster that recently also specialised in the furnishing of caravans), CSM is organised in the form of 'consortium' (association of companies, usually SMEs, which, in Italy, is quite diffused and well-regulated by law). CSM enjoys a strong institutional support: its members are not only the associated companies but also key local actors (i.e. business associations and local governments). Briefly, CSM provides services in 3 main functional areas:

- R&D, innovation and technology transfer;
- Professional and technical training;
- Promotion and Internationalisation.

These 3 areas of services can be considered as strategic for SMEs' growth. Because of various constraints (i.e. in management and finance) SMEs tend to limit their commitment on internal innovation, on training and also on internationalisation (i.e. market scouting, new business partner search), and this causes significant weaknesses for local SMEs and it significantly reduces their growth potential. Also, SMEs do not find, especially in the area of technological innovation, qualified and sector-specific services that may compensate for their limited internal effort on innovation, training and internationalisation.

Overall, the rationale for CSM existence is to compensate for these SME constraints and weaknesses by playing the role of a development agent in a specific cluster or sector (i.e., the wood and furniture value chain). In this respect, CSM is a particular sort of business support centre, in that:

- it does not provide all kinds of services but just focuses on those considered as strategic for SME growth (i.e., in the area of innovation, training and internationalisation), services which are not sufficiently provided by the market;
- its core activity and its organisation are based mainly on projects and *una tantum* initiatives and less on standardised services supplied to companies on a regular basis;
- its funding is entirely covered by public resources: from the local, regional and national level and from the EU; with its ideas, initiatives and projects, CSM has a significant capacity of fund-raising; in this way, SME association to CSM is encouraged; SMEs do not have to pay either membership fees or charges for services and benefits.

CSM key figures and facts can be summarised as it follows:

- 34 SMEs formally associated to CSM, but about 200 SMEs in the whole of Tuscany that benefit from CSM activity; CSM also involves in its projects non-member SMEs, given a

¹⁵ Davide Agazzi, trainee at the OECD LEED Centre for Local Development, provided valuable input for the preparation of this learning model.

framework agreement (between Regione Toscana and Consorzio Casa Toscana) that authorises CSM to work and involve companies in all provinces of Tuscany;

- In 2005, total costs amounted to € 1,755,820, revenues accounted for € 1,740,782, while the balance sheet total was € 1,054,387; note that the relatively low cost of CSM (as compared to the activities carried out) and the capability of covering costs with revenues stems from the limited incidence of overhead and fixed costs;
- CSM innovation projects: it is worth to mention the 'Green Home' project which has developed a number of industrial prototypes concerning ecological furniture; 'Design-network' which links professional designers with SMEs and various other applied research projects, also in the segment of caravanning (furniture and furnishing); CSM has the ability to connect R&D poles (University and other R&D centres) with SMEs generating advantages for both sides; this ability appears to be a very important asset, also because in Tuscany, as well in the rest of Italy, the relation between R&D institutions and companies (especially SMEs in traditional sectors) suffers from a pronounced weakness and/or sterility in terms of innovative outputs; besides, the co-operation with the Tuscan consortium representing the producers of wood-working machines (TWT, www.twt.toscana.it), reinforces CSM's capability to support innovation, technology transfer and applied industrial research;
- CSM promotion and internationalisation support: finally, apart from innovation, design improvement and technology-related projects, the support in the area of promotion and internationalisation is also very much demanded and appreciated by SMEs: organised participation in international specialised fairs, market scouting and market studies (also with focus on emerging design trends), foreign partner search and business match-making are some of the main activities carried out by CSM in the area of internationalisation.

Finally, it should be noted that CSM is financially self-sustainable, though it does not charge companies for the services provided or for their membership. Nor does CSM get 'generic' subsidies for merely financing its existence. CSM self-sustainability is mainly due to its:

- intense activity of fund-raising through a continuous submission of project proposals to a 'diversified' portfolio of donors (EU, Italian Government, Regione Toscana, all local governments in Tuscany, etc.);
- low overhead costs and very flexible organisation in terms of human resources; this means that general costs (i.e. rent) and staff expenses are entirely recovered through the funded projects; also, CSM makes extensive use of consultants who are employed and paid only when needed.

Why the approach is relevant to Marzahn-Hellersdorf/East Germany

First, CSM may represent a model that approaches and re-shapes SME support according to a collective and cluster-like policy action. As compared to a model of company support managed on an individual basis, this approach has the advantage of supporting larger numbers of companies. Also, supporting innovation, internationalisation and technical capacity by means of collective projects and specialised business support centres, is a way of making company support more strategic and integrated with local industrial development policies.

Second, CSM experience shows that innovation (including product innovation and industrial design) is also crucial for a mature and traditional industry such as furniture-making. But, in order to foster innovation in a sector like this, it is necessary to collect externally (and from public funds) the necessary financial resources. It is also equally important to help create productive co-operation between SMEs and R&D institutions in the framework of specific innovation projects. To sum up, CSM experience with its support of furniture-making clusters may inspire the following policy implications for

eastern German districts:

- SME development in traditional clusters or sectors should not be overlooked; in other words, this means that a massive SME development cannot be achieved by focusing exclusively on innovation-driven sectors;
- SMEs in traditional sectors or clusters may also benefit a lot from innovation projects and from the link with R&D institutions; actually product and process innovation makes them economically sustainable, and this may work, despite the well-known delocalisation trends and the strong pressure for reducing costs and prices in certain traditional sectors;
- co-operation between SMEs (in traditional sectors) and R&D institutions is valuable but it is far from being a totally spontaneous phenomenon; in order to appear and become productive, this kind of co-operation needs a specialised body that fund-raises and acts as a facilitator between SMEs and R&D institutions;

Third, the adoption of a CSM-like learning model can fit within – and not substitute for - the ongoing policy actions supporting SME promotion; adopting a cluster strategy in supporting SMEs can help achieve 'economies of scale' in policy and project management.

Reasons for the success of the approach

- Local governments and institutions prefer to support consortia rather than individual companies, because of multiplying 'cluster-like' effects, economies of scale, less restrictions in funding associative bodies rather than individual companies (see EU norms) and, last but not least, because it would be impossible for local governments and institutions to 'keep in touch' with (and support) each small company (there are too many small companies, even just those with growth potential);
- Sector specific and value added service delivery: it is a concrete response to some of the most important company needs, the associated companies themselves define what they need, which services and how they should be delivered;
- Economies of scale; otherwise small companies alone would not be able to take certain important initiatives;
- Powerful source of entrepreneurial experience and sector/cluster news.

The obstacles that were faced

Enterprise co-operation is always vulnerable, it needs to be constantly motivated and associated companies should always perceive a reasonably equal and fair distribution of advantages among themselves. Anyway, enterprises were strongly encouraged to become CSM members and to be actively involved in projects, because they were not charged (no membership or service fees). SMEs and R&D institutions, especially university, are different in their aims, in their work approach, in the evaluation of results, and even in the language used. Facilitating their co-operation is thus not an easy task. Finally, a low level of 'automatic' subsidies exerts pressure on keeping a very low level of overhead costs, on continuously looking for funds and on covering internal staff costs with project contributions.

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Action Plan

(This "Action Plan" builds on the recommendations given in a draft summary report on Marzahn-Hellersdorf (Berlin), September 2006, presented at a workshop on 28 September 2006 in Berlin, Germany)

INITIATIVES TO STRENGTHEN SMALL BUSINESS DEVELOPMENT

What

How

Who*

Consider the establishment of an Enterprise Agency

The creation of an organisation dedicated to fostering and assisting enterprise in the form of small, early stage and start-up businesses has proved to be successful elsewhere. The local authorities of Marzahn-Hellersdorf and Lichtenberg could take the leadership/initiating role in discussing and establishing such an enterprise agency. Experienced local judgement is needed in the decision whether to form an agency around an existing organisation rather than starting something new. A successful agency would require the active support of local and regional stakeholders such as the Chambers, the larger private and public sector employers, including the hospitals, and financial institutions whose services are key to small business development. Assembling such stakeholder support is likely to be a difficult task without a previous record of co-operative working. Therefore strong leadership from the local authority, with both a political and practical dimension, would be important.

Regional managements, Chambers of Commerce and Trade and Crafts, business associations, public and private banks, venture capital companies and schemes, business angels, technology and innovation support agencies, district administration, relevant Land government ministries and agencies, relevant Federal ministries and agencies

Adopt a "Small Business Charter" by the local authority

The adoption of a "Small Business Charter" seeks to introduce changes to the administration's internal arrangements which would directly support the small business community in the borough. It is not about giving small firms preferential treatment or discriminating against larger enterprises. The process involves all the council departments in evaluating current procedures, in order to design a regime conducive to business, not by bending the rules, but by attempting, as far as possible, to make their procedures reflect the business needs of their small firm clients. Implementation also requires extensive internal consultation and training within the local authority to achieve commitment and increased understanding on how to meet small businesses needs. Strong political leadership is required to both introduce and maintain the effectiveness of a "Small Business Charter".

District administration, Regional managements, Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, public and private banks

Make the existence of a "Small Business Charter" widely known among the local business community

To achieve most effect, the existence of the "Small Business Charter" needs to be made widely known. There may be involvement of representative business organisations in drawing up the terms of the Charter and reviewing its effectiveness periodically. Including a reference to the existence of such a Charter in international marketing efforts might increase the attractiveness of the borough as a business location by highlighting the local administration's commitment to working effectively with small business.

District administration, Regional managements, Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, public and private banks, HEIs, vocational and professional training institutions and providers, Public Employment Service, venture capital companies and schemes, business angels, technology and innovation support agencies, relevant Land government ministries and agencies

Review procurement policies of the local authority in order to open up the possibility of more small firms tendering to supply goods and services

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The conditions which apply to eligibility to bid for local authority contracts often make it hard for small firms to qualify. Experience in a number of jurisdictions has shown that the introduction of restrictions for risk protection can be unduly cautious, and deny public policy a valuable tool in boosting the small business sector. There needs to be promotional activity to bring the changes and opportunities to the attention of small businesses, and training of officers to ensure that conditions of tender meet small businesses needs. It may also be beneficial to offer training and support programmes to the small firms themselves to help them make effective bids for contracts. Initiatives that have already been started in the borough should therefore be continued.

District administration, relevant Land government ministries and agencies, relevant Federal ministries and agencies, Regional managements, business associations, business support organisations, Chambers of Commerce and Trade and Crafts, professional guilds

Increase investment readiness and access to finance

The circumstances in Marzahn-Hellersdorf suggest that benefits might be obtained from a programme to assist small firms in investment readiness and access to finance. Such a programme should be primarily concerned to help firms access better existing sources of funding, rather than creating new funds, which could keep programme expenditure relatively modest. The aim should be to include any funding which is there to be accessed. Experiences with such programmes elsewhere have proved their success in assisting firms ranging from one person start-ups to expanding firms requiring equity investment.

Business associations, business support organisations, public and private banks, venture capital companies and schemes, business angels, Chambers of Commerce and Trade and Crafts, professional guilds, Regional managements, district administration, relevant Land government ministries and agencies

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

PROMOTING ENTREPRENEURIAL ATTITUDES AND SKILLS

What

Enhance co-ordination, transparency and quality checks of counselling, training and coaching services

How

The creation of a genuinely transparent market in training and consulting offers and providers is recommended. Existing offers should be subject to strong evaluation, quality control and benchmarking exercises. Information should be transparent and easily accessible. This information should be used to support SMEs and public agencies in selection of the most appropriate training providers. Publicly-supported consultancy and training offers should consider economies of scale and scope, which means that these services can be implemented on a wider basis, for instance, within a business cluster. On the one hand, this requires a high level of co-ordination between the authorities responsible for general and career training as well as between regional authorities and companies. On the other, this presupposes a working-out, innovation and adaptation of the training offer and its methods.

Who*

Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, technology and innovation support agencies, Public Employment Service, vocational and professional training institutions and providers, Regional managements, relevant Land government ministries and agencies

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Reconsider the setup and the orientation of existing counselling, training and coaching services

Flexible interactive learning schemes of appropriate durations with standardised introduction courses followed by sector- and company-oriented training should be developed. Working with business games, simulations, setting up of practice firms or mini-companies, and the introduction of project jobs and secondments proved to be successful elsewhere. Close co-operation between training providers and recipients is crucial for a maximal needs identification and the design of approaches to close existing skills gaps. Professional training opportunities and apprenticeship for school graduates should be fostered to strengthen the local labour force and to align its characteristics with requirements of key local economic sectors. The design and continuation of existing programmes of entrepreneurial education at school will also help to increase entrepreneurial attitudes and behaviour from an early age.

Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, technology and innovation support agencies, Public Employment Service, vocational and professional training institutions and providers, Regional managements, relevant Land government ministries and agencies

With regard to knowledge and entrepreneurial abilities, it seems that these are not distributed equitably. The decisive point however is learning. That is, in the economic world the actors and organisations involved should have opportunities to learn quickly, in a way that accompanies work, and which is oriented to existing needs. The individual and more long-term accompanying further training should be extended on a wide scale. Standard courses and the inculcation of knowledge should only merely serve as a beginning and introduction. The inculcation of information and seminars are good as introduction, but subsequently further training and consulting should become a

company's priority as soon as possible. The methods of standard course for entrepreneurs and the career-accompanying further training for the increasing of intrapreneurships should be adapted to a problem-, action-oriented approach. On this basis the learner takes on more responsibility for his own learning, in order to support the mastering of his everyday learning demands in a meaningful way. Lessons 'on' a problem have no significant effect on the application-ready problem-solving ability in a company. The learning method and the learning rhythm are key elements. The further training and consulting should create opportunities for their 'clients' and evaluate their uses. This involves helping the participants to recognise development chances, which they then have to implement. The benefit that this stage brings consists of acquiring the tools and techniques for the identification of the opportunities and the adequate implementation.

Run public campaigns to strengthen interest in and demand for SME training and counselling services

The use of successful training schemes and participating companies as role models should be discussed as a way to increase the interest of SMEs in making use of training and counselling services. Such initiatives may also help to enhance co-ordination between training providers, chambers, business associations and the labour office and could offer additional incentives for quality increase. The effectiveness of the training offers raises the value of the offers for the companies and encourages the providers to check their offers for their suitability and use. The outcome of this should be that the connections between providers and the 'real world of employers' be increased.

Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, technology and innovation support agencies, Public Employment Service, vocational and professional training institutions and providers, Regional managements, relevant Land government ministries and agencies

Enhance entrepreneurial attitudes from an early stage on

The enabling of an entrepreneurial employment at the school and education stage is a decisive aspect of life-long learning. The providing of entrepreneurial training education should be introduced in professional training. The aim of professional training is to give young people the opportunity to acquire a general, technological and professional education, and in this way to prepare them for business life. Its task, especially in light of the increasingly rare direct securing of a job following the completion of one's education, should be the promotion of independent initiative, indeed even of setting up one's own company. As professional training provides for the constant contact of young people with the world of work and the economy, it enables an easier and swifter access to self-employment. Numerous persons and organisations possess an individual piece of the strategic entrepreneurial preparation puzzle. It would be overhasty to claim that an entrepreneurial education programme will have immediate or rapid effects on companies' emergence or birth rate. But it will contribute to the general awareness of the idea of changing oneself in the medium term and that this will at a given time lead to

Schools, vocational and professional training institutions and providers, HEIs, Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, technology and innovation support agencies, Public Employment Service, Regional managements, relevant Land government ministries and agencies

the desired-for transformation in culture the consequence of which could be a significant growth of start-up firms.

Enhance intrapreneurship

Intrapreneurs are extremely important and are yet easily overlooked. Formalised staff development in small and medium enterprises is not widespread in Germany at the moment. Only a total of 15% of all small and medium businesses regulate the corresponding competences in their companies. This was shown in a study of rationalisation curators of the German economy from 2002. Intrapreneurs can become agents of transformation and are capable of creating a business environment which favours the development of initiatives. The generation of intrapreneurial attitudes amongst company managers and staff is an important ingredient in the process of raising a firm's innovation potential and readiness. Increasing responsibility, engagement and the recognition of co-workers is linked to processes of cultural and organisational changes with companies. Chambers, business associations and others can provide valuable assistance to companies. Training methods should be enriched by interactive learning approaches and case studies based on role models and personal experience.

Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, technology and innovation support agencies, Public Employment Service, vocational and professional training institutions and providers

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

PROPERTY AND INFRASTRUCTURE DEVELOPMENT AND ENTREPRENEURSHIP

What

How

Who*

Concentrate marketing efforts on delivering key value proposition messages to potential job-creating businesses

Marketing needs to respond to the current abundance of property supply and insufficiency of demand. More emphasis is therefore needed on the health and automotive industries as identified key strategic economic development areas. It is also important to continue current activities of urban regeneration and internal image building. Focus on marketing the district as a place to do business that is currently undertaken by the Regional management agency is the right focus and it directly responds to the weaknesses of lower demand for industrial space by private sector. These marketing efforts need to be more aggressive than in other parts of Berlin where the demand and interest of private sector might currently be higher. Marzahn-Hellersdorf should continue its pro-active approach, co-operate with Land administration and launch a campaign-type of marketing activity, visit investment trade fairs, work with local firms on contacting their partners with propositions to locate in the district. Closer and more intense co-operation with Berlin partners is a must. The marketing strategy for Marzahn-Hellersdorf must derive and build upon the Berlin strategy that identified key strategic competence fields where Berlin offers superior local factor conditions.

Regional managements, Chambers of Commerce and Trade and Crafts, professional guilds, business support organisations, technology and innovation support agencies, business associations, district administration, relevant Land government ministries and agencies

Create local support teams for potential investors

Property pricing policy for publicly owned property cannot be as aggressive as to go below the market prices because this would constitute a case of disallowed state aid. At the same time, sale of publicly owned property is complicated by the centralised agenda with the Trustee of all property (*Liegenschaftsfonds Berlin*). To investors, these relationships might sometimes appear as complicated and discouraging. Local representatives need to act as a support team that can co-ordinate and facilitate the investment process and assist the company in making the investment. At the same time such a team is necessary to follow up on the leads generated by the new marketing activities.

Regional managements, Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, technology and innovation support agencies, business angels, venture capital companies and schemes, public and private banks, district administration, relevant Land government ministries and agencies

Design a local development strategy

In close co-operation with relevant institutions at Berlin city and state level and local actors, a local strategy to boost small business activity should be drafted with strong participation from the borough. Other stakeholders should be recruited as partners in the delivery of the strategy. Further discussion is needed on whether the strategy

Regional managements, district administration, relevant Land government ministries and agencies, Chambers of Commerce and Trade

should focus on the borough or the “Berlin Eastside” area. It might be also relevant to include the area’s role in the Berlin Brandenburg capital region. Translated into an action plan clear priorities and roles for partners, timescales and resources can be defined. A broad economic development strategy would need to include both a focus on self-employment, business start-up, and small business development support, as well as marketing the territory to attract larger firms. Marzahn-Hellersdorf will need to strengthen further the selection criteria basis for new business support activities. These would include - but might not be limited to - contribution to export, higher added value and generally activities that are not local market-led but outward-oriented. This will reduce local economy’s dependence on external resources and public transfers and will create a basis for endogenous economic growth.

and Crafts, professional guilds, business associations, business support organisations, technology and innovation support agencies, Public Employment Service, vocational and professional training institutions and providers, business property developers

Encourage private sector involvement in development activities

It is important to encourage a greater private sector involvement in site development with the aim of improving the flexibility of currently sub-optimal property markets. Ways should be found to include private developers in the takeover and/or management of existing business premises. Private property developers and real estate agents typically have informal networks and more focused marketing mechanisms that can generate customer interest more efficiently than the public sector.

Relevant Land government ministries and agencies, district administration, Regional managements, business property developers, Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, technology and innovation support agencies, Public Employment Service

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

OPPORTUNITIES FROM INWARD INVESTMENT TO MARZAHN-HELLERSDORF

What

How

Who*

Make use of Federal, Land and EU funding opportunities

Given the limited resources of the borough, officials should continue aggressively to explore and apply for federal and EU sources of funding for programmes and incentives to attract investment to Marzahn-Hellersdorf. Such programmes could include specialised job-training to update workers' skills specifically for targeted industries. It could also be used to assist businesses with the customisation of commercial and industrial indoor spaces to make the spaces more suitable for the needs of those businesses, thereby differentiating Marzahn-Hellersdorf from other districts with similar empty space.

District administration, relevant Land government ministries and agencies, relevant Federal ministries and agencies, Regional managements, Chambers of Commerce and Trade and Crafts, professional guilds, business support organisations, technology and innovation support agencies, business associations, vocational and professional training institutions and providers, Public Employment Service, business property developers, HEIs

Examine the transferability of Tax Increment Financing

To enhance the ability of borough officials to influence the local economic situation Tax Increment Financing (TIF) schemes, which have been highly successful in Chicago, should be examined to determine their transferability to Germany and specifically to Marzahn-Hellersdorf. Even if not entirely transferable, some aspects of the schemes may prove useful.

District administration, relevant Land government ministries and agencies, relevant Federal ministries and agencies

Continue efforts to simplify bureaucratic requirements for businesses

Marzahn-Hellersdorf officials should continue their efforts in reducing regulations and simplify bureaucratic requirements of businesses.

District administration, relevant Land government ministries and agencies, relevant Federal ministries and agencies, Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, technology and innovation support agencies, business property developers

Conduct regular survey of local business needs

To understand better its needs Marzahn-Hellersdorf should conduct a detailed survey of existing SMEs. Given the scope and scale of the health-care industry in Marzahn-Hellersdorf, borough officials should strategically identify specific SMEs that supply local hospitals and other health-care facilities and target marketing pitches directly to them to attempt to entice them to relocate or open facilities in Marzahn-Hellersdorf. The borough would be more likely to attract a cluster of these suppliers to its business parks since their customers operate nearby.

Regional managements, district administration, HEIs Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, technology and innovation support agencies, venture capital companies and schemes, business angels, public and private banks, business property developers

Enhance business networks

Programmes should be established to connect businesses in Marzahn-Hellersdorf to networks of businesses that are potential customers, suppliers, or strategic partners in Poland and other Central and Eastern European countries. The borough should offer specialised export assistance and growth assistance and track the success of such initiatives.

Regional managements, district administration, Chambers of Commerce and Trade and Crafts, professional guilds, business associations, business support organisations, technology and innovation support agencies, venture capital companies and schemes, business angels, business property developers

Co-operate in the attraction of businesses

In co-operation with other boroughs and the Berlin government, efforts should be made to attract big businesses to Berlin as a whole. This would naturally stimulate the startup or relocation of SMEs to supply the needs of those big businesses. Given its close proximity, special effort should be made to promote German-Polish relations to attract Polish firms to settle in Marzahn-Hellersdorf.

Relevant Land government ministries and agencies, district administration, Regional managements, Chambers of Commerce and Trade and Crafts, business associations, business support organisations, technology and innovation support agencies, Public Employment Service, business property developers venture capital companies and schemes, business angels, HEIs

* 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 Marzahn-Hellersdorf, 26 – 28 June 2006, in alphabetic order)

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Mr	Andreas Dix	Marzahn-Hellersdorfer Wirtschaftskreis (MHWK)		
Mr	Norbert Eyck	Mittelstands- und Wirtschaftsvereinigung der CDU - Kreisverband Wuhletal		
Mr	Grüner	SET up Handels GmbH		
Mr	Jens Haudel	Regionalmanagement Lahmeyer Berlin-ORE	Marzahn-Hellersdorf	ARGE
Ms	Karin Heckel	JobCenter Berlin Marzahn-Hellersdorf		
Mr	Helbig	Entrepreneur		
Mr	Hans-Hennig Hermann	District Administration Marzahn-Hellersdorf, Amt für Stadtplanung und Vermessung		
Mr	Wolfgang Köppe	Senior-Firmenkundenberater Rossastrasse 14/15	Berliner Volksbank Neue	
Mr	Krüger	Entrepreneur		
Mr	Winfried Leitke	Agentur für Arbeit Marzahn-Hellersdorf		
Mr	Bertold Lepold	Berliner Volksbank Existenzgründungen, Förderkredite		
Mr	Svend Liebscher	Chamber of Crafts, Berlin, Stadt- und Regionalplanung & Wirtschaftsverkehr Stabsstelle Volkswirtschaft		
Mr	Peter Martens	VISUCOM GmbH Unternehmerverband Berlin e.V. Regionalbüro Marzahn-Hellersdorf		
Ms	Diana Müller	District Administration Marzahn-Hellersdorf, Wirtschaftsförderung Leitstelle für Wirtschaftsförderung und EU-Angelegenheiten		
Ms	Dagmar Pohle	District Administration Marzahn-Hellersdorf, Bezirksstadträtin für Wirtschaft, Soziales und Gesundheit Marzahn-Hellersdorf Bezirksamt Marzahn-Hellersdorf		
Mr	Jan Pörksen	Chamber of Commerce and Trade Berlin		

Mr	Andreas Prüfer	District Administration Lichtenberg
Ms	Kathrin Rüdiger	District Administration Marzahn-Hellersdorf, Wirtschaftsförderung und EU-Angelegenheiten
Mr	Jens Schilde	Marzahn-Hellersdorfer Wirtschaftskreis (MHWK)
Mr	Bernd Schönitz	GG.U.T. Consult, Gesellschaft für Umwelt- und Territorialplanung mbH
Mr	Prof. Klaus Semlinger	FHTW Fachhochschule für Technik und Wirtschaft, Berlin, Kompetenzzentrums Start-up - Existenzgründung und selbständiges Unternehmertum
Mr	Heinrich Staudigl	Chamber of Crafts, Berlin
Mr	Klaus Stechert	Sparkasse
Mr	Harald Stephan	WIKONET e.V. Wirtschafts-Kooperations-Netzwerk c/o FNS Personal- u. Informationssysteme GmbH
Mr	Rolf Tille	Förderverein örtlicher Unternehmer e.V.
Mr	Rainer Wirsig	Berliner Volksbank
Mr	Jörg Wolf	Bundesverband der mittelständischen Wirtschaft
Mr	Gerd Woweries	Chamber of Commerce and Trade Berlin
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