

FINAL REPORT

Slovakia Local Economic Development Project
Local Government Assistance IQC
Contract No. EEU-I-00-99-00011-00

Submitted by:
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May 23, 2003

SLOVAKIA LOCAL ECONOMIC DEVELOPMENT (SLED) PROJECT

I. BACKGROUND

After 10 years of operations, the USAID main office of the Slovakia Mission ceased operations on September 30, 2000, reflecting the confidence of the USG in Slovakia's commitment to reform. Effective October 1, 2000, USAID opened a program office in the American Embassy in Bratislava and through this post-presence program, USAID contributed \$1,500,000 for discrete activities, including economic development.

In June 2001, Chemonics International, Inc., and its subcontractor, the Berman Group of Prague, Czech Republic, were awarded a competitive task order under the Local Government Assistance (LGA) IQC for an 18-month local economic development project ("SLED") funded in the amount of \$499,055. The SLED objectives were:

- (1) To prepare economic development strategic plans for four pilot cities in the Slovak Republic;
- (2) To provide a model for all Slovak cities to improve their investment climates through collaborative public-private partnerships;
- (3) To assist in the preparation of projects to attract investments and co-funding through the European Union;
- (4) To disseminate pilot city best practices and lessons learned to a large number of Slovak cities; and
- (5) To train Slovak consultants to deliver economic development and strategic planning services to municipalities on a sustainable basis.

The level of effort allocated was 642 person days, which included 87 days of short-term assistance by a US-based specialist (Norton L. Berman) and 555 days of short-term assistance by Czech-based specialists from Berman Group/Prague.

A key strategy of the SLED Project was to select and train a Slovak partner, with the goal of institutionalizing a local economic development resource in country and creating a market demand for their consulting services. To this end, SLED set out to create awareness among municipalities of the benefits derived from local professional consulting services and to develop a willingness to pay for such value-added services beyond the end of the project.

It is also noteworthy that SLED occurred at a critical juncture in Slovakia's history. Slovakia will join NATO in 2004 and is one of ten new countries invited to join the European Union's expansion in May 2004. In order to help the countries that have applied to become members of the European Union to carry out the reforms required, the Union provides financial assistance in different areas, including institutional building measures through the "Phare" program; environment and transport investment support under the "ISPA" program; and agricultural and rural development support by means of the "SAPARD" programme. SLED sought to prepare

municipalities to meet EU accession requirements while offering insights into how EU accession funding could be leveraged to help achieve local economic development goals.

II. TASKS

The project was implemented in two phases. In the **first phase**, the consultants facilitated the development and adoption of community-based, economic development strategic plans and action plans for four pilot cities with populations of 20,000 - 100,000. The **second phase** focused on implementation of action plans, including the provision of direct technical assistance in implementing public-private partnerships, marketing strategies, evaluation of the potential for industrial parks, tourism, foreign direct investment, and the establishment of permanent economic development departments in pilot cities. Two national dissemination seminars were conducted at which the lessons learned during the first phase were shared with municipal officials and business leaders from a broad spectrum of non-pilot cities. In addition, a wrap-up seminar was held with the four pilot cities at the conclusion of the project to develop economic development roadmaps for the continuation of local economic development activities beyond project closeout.

Task 1 – Selection of Partner Organization

To provide day-to-day administrative/logistical support and to institutionalize local economic development expertise, a competitive procurement was held to select a Slovak subcontractor/partner. Ten profit and non-profit organizations competed during the solicitation process. Academia Istropolitana Nova (“AI Nova”), a well-respected, non-profit educational institution located in Svatý Jur, was chosen based on their extensive knowledge of the Slovak municipal environment and their capacity to provide consultancy services and support the efforts of the Berman Group.

Task 2 – Selection of Pilot Cities

USAID invited cities of over 10,000 population (65 in all) to submit expressions of interest to be considered for SLED. Responses were received from 28 cities representing diverse sizes, economic conditions and geographic locations. All candidate cities faced serious economic problems, including high rates of unemployment and the dissolution of former large, state-subsidized employers. Key selection criteria were the presence of dedicated mayors and active private sector leaders who understood the importance of economic development, public-private partnerships, and the need to commit to the economic revitalization of their cities. The four cities selected for SLED participation were:

- ◆ *Trnava* (population 75,000) is a city located in western Slovakia close to Bratislava and the Austrian border (Vienna airport). Although many of the former large employers substantially reduced their operations, a qualified workforce, together with favorable location and available sites, had attracted major foreign investors. Trnava’s ambition was to become the flagship of the Slovak economy and to attract at least one new strategic investor to its existing industrial zone.

- ◆ *Šal'a* (population 25,000) is an industrial city in an agricultural area with a strong Hungarian minority. It is located in southern Slovakia and built around the massive DUSLO chemical plant. Although DUSLO is among the Slovakia's "Top Ten" firms, the SME sector was rather weak and the unemployment rate exceeded 15%.
- ◆ *Prešov* in eastern Slovakia (population 90,000) is the third largest city in Slovakia. However, its industrial base depends primarily on textiles and recent increases in population did not respond to new job opportunities. The traditionally strong educational sector provided a great potential for the future development of Prešov's economy.
- ◆ *Humenné* (population 32,000), in eastern Slovakia, close to Polish and Ukrainian borders, had the highest unemployment rate (24%) of the four pilot cities at the beginning of the project. Despite the successful privatization of Chemlon, a major producer of industrial yarns which is now entering Western European market, several thousands of jobs had been lost in the last five years.

The challenges of structural change facing Slovak cities were similar to those that were faced by many Czech cities three to five years ago. For example, as the direction of foreign direct investment (FDI) moves from Western Europe to the East and industrial investments focus away from steel production and coal mining towards cleaner, higher technology industries, the demand is growing for a more flexible, dynamic service sector with appropriate labor skills.

Task 3 – Community-Based Economic Development Strategic Planning Process

Slovak cities, as well as other Central and Eastern European cities, require a "bottom-up" approach to municipal economic development strategic planning. "Community-based" planning recognizes that the community is the primary source of municipal empowerment. Community leaders, both governmental and private, must reach consensus on policies and programs that allow a municipality to adjust to economic change by improving their competitive position in the critical factors of production: human resources, information and technology, capital, and infrastructure. "Strategic planning" can be defined as the creative process to identify critical issues and to agree on credible goals, objectives, and strategies that, when implemented, will address those factors.

In each of the four pilot cities, a Strategic Development Commission (SDC), consisting of leaders from both the public and private sectors, was organized to begin the planning process. A Community Profile was prepared utilizing a Business Attitude Survey conducted by business leaders who volunteered to interview their peers. After reviewing the information from this environmental business scan, the SDC identified critical issues and agreed upon a Strategic Vision for each city. The analytical part of the process was culminated by a strengths/weakness/ opportunities/threats (SWOT) analysis. Task forces, focusing on each of the critical issues, were organized to develop action plans consisting of goals, objectives and specific tasks. Finally, the SDCs reviewed and prioritized the objectives of the action plans and created final versions of strategic plans to be delivered to their municipal councils for adoption. In each of the cities, the councils voted to adopt their plans and to provide the political support for local economic development implementation.

Task 4 – Assistance in Implementation of Priority Tasks

The Berman Group and AI Nova consultants assisted in the implementation of economic development tasks in all four cities, including the preparation of databases of sites and buildings for investors, the review and preparation of marketing materials, negotiations with potential investors, assistance in establishing business incubators, and the organization of tourism associations.

To ensure sustainability of implementation activities, Implementation and Monitoring Commissions (IMCs) were formed in each pilot city. IMCs were composed of the most active SDC members and led by the former SDC chair from the private sector; they meet regularly and reviewed implementation progress. In addition, professionally-staffed local economic development units were created in city halls (economic and strategic development departments) and at Regional Development Agencies (RDAs); they were responsible for achieving the economic development objectives. Innovative, state-of-the-art, web-based implementation monitoring systems (the software is known as “WISP” - designed for economic development administration and project management) was installed in all four cities. As a result, the implementation progress can be monitored at dedicated web sites, such as <https://presov.certicon.cz>.

Task 5 – Dissemination Seminars

The dissemination component of the project was a means of sharing with mayors, council members, city managers, department directors, business leaders and entrepreneurs the experiences and benefits of community-based economic development strategic planning as realized in the four Slovak pilot cities. Experiences from neighboring Czech cities were also incorporated into the dissemination seminars.

The first seminar was a two-day seminar in Trnava in June 2002. It was focused on representatives of nine regional capitals, and was attended by 25 city hall and RDA representatives. The second seminar (three days in length) was organized in October 2002 in Jasná and was attended by 50 representatives from more than 30 Slovak cities. Two weeks before the end of the project, in late November, a one-day seminar in Svätý Jur focused on implementation of strategic plans for representatives of all four pilot cities.

Several training manuals were prepared and distributed, including Winning Cities – Handbook for Local Strategic Planning and Economic Development Casebook. The manuals provided a detailed description of the strategic planning process and successful examples of best economic development practices in European municipalities. Copies of completed strategic plans were also provided.

III. Results

The concept of local economic development strategic planning was enthusiastically accepted by local elected officials and representatives of the business community in all four pilot cities. The use of Czech consultants proved to be successful as (1) there was no need for translation from Czech to

Slovak, and Czech experts were able to facilitate all meetings in all cities for the duration of the project; and (2) since Czech cities are considered to be successful in economic development from Central and Eastern European points of view, the Slovak cities were very interested in Czech experiences.

The Berman Group/AI Nova team (always consisting of at least 2 Czech and 1 Slovak consultant) participated in all meetings of the four Strategic Development Commissions, their sub-commissions and task forces. Berman Group and AI Nova consultants also attended and participated in meetings of the Municipal Council when the strategic plans were considered and adopted. Berman Group mentored and trained representatives of AI Nova throughout the SLED project. AI Nova was an active participant in presenting training, implementing action plans, and disseminating best practices; through those ongoing activities with Berman Group, AI Nova gained critical skills and expertise to become an economic development consulting resource to Slovak cities.

A. Short-Term Impact

1. Strategic Planning

Each city developed its own economic development strategic plan through a community-based process, and the Municipal Council adopted the plan, so that it became the official policy of the city. The critical issues, which provided direction to the planning process, included support for small and medium-sized enterprises (SME's), attraction of large investments, and improvement of transportation infrastructure. The larger cities (Trnava and Prešov) also focused on quality of life issues. However, as the cities differed in pre-conditions and problems, their plans used different approaches in addressing similar issues.

Industrial zones represented an example of different approaches across the cities. Construction of industrial zones has proved to be a useful tool in attracting foreign direct investment, especially in the Czech Republic and in Hungary, and all pilot cities considered industrial zones to be a necessary part of their plans. However, only Trnava was committed to building a municipal industrial zone to host large investors and thus create new jobs. Prešov is in the process of preparing a small industrial park, and will rely on cooperating with private industrial zones developed by existing companies with available land. Humenné is building the smallest industrial zone (only 5 hectares) but also intends to find new owners for its brown fields. As a precursor to an forming an industrial zone, Šal'a intends to improve its technical infrastructure, namely its waste water treatment facility.

Three of the pilot cities created economic development departments (EDDs) and hired staff committed to economic development work. The fourth city, Humenné, was able to revitalize its Regional Development Agency (RDA), making it responsible for implementing economic development projects in the Humenné plan. These institutions (EDD and RDA) are now dealing with ongoing economic development issues, including:

- ◆ Industrial zone preparation
- ◆ Marketing
- ◆ Small- and medium-sized business development
- ◆ Business calling programs

- ◆ Establishing public-private partnerships among businesses and schools to insure that students are being trained for real jobs
- ◆ Tourism and image marketing campaigns
- ◆ Creation of Business Development Centers and business incubators

A major benefit of the strategic planning process was exposure to the importance of cooperation between City Hall and business leadership. In all pilot cities, some form of a public-private partnership responsible for local economic development was created.

2. Donor Contact

Each city contacted donors and presented projects from their plans. Several projects were approved for external financing. For example, EU PHARE agreed to finance development of Humenné's Gutmanovo Industrial Park and Prešov's sewage system upgrade. National authorities will provide financing to Trnava's Industrial Zone, Šal'a's transportation system, and Humenné's Regional Educational Center for SMEs. Many other projects were submitted to various ministries, and it is expected that funding will become available in early 2003 when the Slovakia National Budget is approved.

B. Long-Term Impact

1. Institutionalization of Local Economic Development Strategic Planning

The goal of institutionalizing the concept of local economic development strategic planning in Slovak municipalities was achieved through SLED activities with pilot cities and dissemination seminars. Cities and regions attending SLED seminars in Jasná and Trnava expressed interest in undertaking strategic economic development planning on their own behalf, including Martin, Skalica, Prešov region, Pezinok, and Bratislava. AI Nova representatives are in contact with these cities and are preparing proposals to meet their needs.

2. Investments and Business Relocations

In October 2002, Chemonics fielded a short-term expert in foreign direct investment (FDI), Mr. Patrick Gallagher. He made a presentation at the second dissemination seminar and visited all four pilot cities to help facilitate local FDI initiatives. Mr. Gallagher's extensive experience with the Irish Development Agency was particularly appropriate and well received by the pilot cities and seminar participants, because Ireland's early FDI situation closely parallels the present situation in Slovakia.

As mentioned above, several cities received grants for investment projects and are implementing them. All cities have ongoing contacts with potential investors, with Trnava being a national leader in FDI attraction. However, smaller cities have contacted several perspective businesses and negotiations are underway for business relocations to Humenné and Šal'a. By the end of 2003, pilot cities are anticipated to finalize negotiations and new jobs will be created.

IV. Conclusion

As a result of SLED, east-to-east consulting expertise developed through USAID-sponsored activities in the Czech Republic have been brought to bear on Slovakia's need for economic development at the local level. Slovak municipalities have begun to use community-based, economic development strategic planning to create public-private partnerships, generate employment, and enhance quality of life for their citizens. Slovak municipalities now realize the value of economic development planning, and SLED's sustainable local partner – AI Nova - has begun to offer consulting services in response to that newly-created demand. The timing of the recent announcement that Slovakia will be joining the EU has also bolstered the emerging market for economic development consulting and increased the interest in SLED planning models. It is anticipated that the demand for AI Nova's paid consulting services will be strong in the future.