

STRATEGIC PLANNING FOR LOCAL DEVELOPMENT

CASE STUDIES FROM SMALL AND MID-SIZED EUROPEAN CITIES



Edited by Ligia Ramírez and Gulelat Kebede

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LIGIA RAMIREZ and GULELAT KEBEDE

UN-HABITAT SIRP–Belgrade
and
Local Government and Public Service Reform Initiative
Open Society Institute–Budapest

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SIRP Belgrade



Local Government
and Public Service
Reform Initiative

Acknowledgments

This book charts the experiences of citizens, decision-makers, and professionals who attempted to find innovative paths to achieve integrated local development. They used a strategic planning process to explore and guide their journey in search of better lives and for the future of their cities, towns, and communities.

The people who should be thanked for their contribution to this book are many and difficult to list. Though they are not mentioned by name, we acknowledge all those who contributed to the success of the conference where the case studies were first presented, and also those who contributed to the publication of this book.

Although they all approached local development through a strategic planning process, the scope, degree, and nature of its application in the different case studies vary with the local context. The case studies also differ in the scope and magnitude of financial and technical support they managed to attract. But in each case, the experience described in the book has behind it a large number of persons, stakeholder groups, and their representatives, who believed in change and gave their best to make it happen. There are men and women, who as champions of change, played the crucial role of leading, mobilizing, and steering the process.

Finally, we want to dedicate this book to Claudia Degli Esposti, who returning from a mission to South America, perished in the Air France plane crash that happened over the Atlantic Ocean last year. Claudia participated in a number of local development initiatives as a territorial marketing expert. Her paper is included among the case studies of this book.

Ligia Ramirez and Gulelat Kebede
Rome, Nairobi, 2010

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To Claudia



Introduction

Introduction

*Ligia Ramirez and Gulelat Kebede*¹

The concept of integrated local development has gained popularity over the recent years as a remedy to often sporadic and haphazard city and regional growth and development. The traditional, sectoral approach has become ineffectual due to the complexity of development issues, the move towards decentralization, the disconnection between administrative jurisdictions and economic and environmental territoriality, and the multilevel governance structure impacting decisions on resource allocation and investments. Moreover, communities, cities, and regions are increasingly seeking the ways and means to take advantage of economic opportunities created by globalization, and at the same time, to protect themselves from negative global environmental externalities. But how far can strategic planning effectively enable this? What triggers strategic planning in different local contexts? What does a typical strategic planning process look like? What are the key

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Gulelat Kebede, an economist by training (Ph.D.), has over 15 years of experience in local government capacity building and sustainable urban development. He currently heads UN-HABITAT's Training and Capacity Building Branch. He has contributed to over 20 capacity building publications, including many on strategic planning and local economic development that are currently in use by policymakers, urban planning and management practitioners, and trainers. He advises governments and learning institutions on capacity building, and trains and teaches on a range of sustainable local development themes and issues.

ingredients for a successful strategic planning process? How can learning and capacity building be integrated in the process? What instruments do we have to implement local development strategies, so that strategic plans do not remain on paper and become mere rhetoric? Can a planning process be both strategic and participatory?

In December 2007, UN-HABITAT's Settlements and Integration of Refugees Program in Serbia (SIRP), in a conference entitled "Cities Facing and Promoting Integrated Local Development" (as part of the "Cities in Dialogue" conference series), brought together practitioners on local development and strategic planning to shed light on the above and other questions, and share their knowledge through their countries and cities experiences. The case studies and discussions were organized around two main themes, namely: (i) the strategic planning process and (ii) implementation instruments. Under the first theme, participants discussed and pondered the architecture of strategic planning: the process, the mobilization of stakeholders, the resolution of diverse interests and priorities, and the preparation of a strategic plan that is locally owned and implementable. Under the second theme, participants sought the most effective tools, ways, and means to translate the strategies into action. The papers and the discussions offered a wealth of knowledge and insight into strategic planning practice. This book brings together 11 case studies that were presented at the conference, structured around the same two themes – the strategic planning process and implementation instruments.

The purpose of the book is to document and share these experiences, and stimulate sound and effective strategic planning processes. Given the challenging transition context they are in, we believe the lessons of experience highlighted in this book will be timely and useful for most local governments and local development practitioners in Central Europe.

A Strategic Plan: What Is It?

Strategic planning in the context of integrated local development brings together the theory and practice of stakeholders' participation, negotiation, and decision-making. It emphasizes a territorial approach, local ownership, partnership, and horizontal and vertical coordination. In a typical strategic planning process, stakeholders ask and work through four basic questions: (i) where are we? (ii) where do we want to go? (iii) how do we get there? and (iv) how do we know if we have arrived there? It involves understanding the current situation, dreaming the future, analyzing strategic options, setting

priorities, and making hard choices. As the case studies in this book highlight, a key feature or focus of the discussion is not the “plan,” nor the tools and steps of a planning process and their mechanical application, but the journey and capacity of stakeholders to shape together a vision for development and to mobilize resources to pursue it, through their innovations and social and political energy, and the possible changes they would bring about in institutions and governance structure. The process creates a platform that would allow local governments and citizens to work together and to more effectively pursue their shared values, aspirations, and strategic goals. Where successful, strategic planning breaks the barriers between institutions and sectors, forges integration, and marshals resources to commonly agreed development priorities.

Local Ownership and Contextualization Are Fundamental

A fundamental principle of a good strategic plan is local ownership. Strategic plans are supposed to reflect and embody the aspirations of a community, their shared values and vision. In many situations, strategic plans, that otherwise look impressive on paper, remain shelved, because major stakeholders were not involved, or their views were not fully heard, or key political and social forces did not lend their support.

In contrast, where there is a robust participatory process that offers space to key stakeholders and actors, the chance for a successful strategic planning is high. The case studies on Ada, Serbia (Chapter 1) and Horezu, Romania (Chapter 2) underscore this point. Both Ada and Horezu represent small, and relatively less-endowed communities, and municipalities with weak capacity. But this did not stop them from embarking on an inclusive strategic planning process. In the case of Ada, a remarkable local initiative by an enlightened group of citizens kicked off the process, whilst in the case of Horezu, a combination of economic distress that compelled the local leadership to seek solutions, and an opportunity for modest but critical technical support that offered itself, triggered what became a successful planning process. The hallmark in both cases is a locally driven process with motivation to change an existing situation and commitment to stick to the plan. Whilst Ada continues to largely depend on its own local resources for implementing its projects, Horezu is actively seeking and – to an extent – succeeding in attracting external resources. These case studies illuminate the dynamic of local processes in the context of small communities, but also invoke questions

as to how far such communities can go, with their limited internal capacities.

The case of Niš, Serbia (Chapter 3) also highlights a similar principle. Though much bigger in size than Ada and Horezu, the critical role of local ownership is underpinned by the experience of Niš as well. In the case of Niš, however, a significant amount of external technical support that included advisory expertise and capacity building was mobilized and availed to support the strategic planning process. An important element of the Niš case is that, due to robust political support, the entire process was fully anchored in the municipality's legislative and budgetary processes, and fully backed by a dedicated local professional staff. The case of Niš that combined a locally driven process and a well-calibrated external support is an ideal situation, but is not always replicable, nor is it immune to the pitfalls of dependence on external inputs and its long-term consequences.

Through a comparative presentation of four distinct city cases, the paper from Croatia (Chapter 4) illustrates the importance of the contextualized application of a strategic planning process, but also the role of national legal and institutional framework. The author uses the cases to highlight what is called the "Tuesday morning syndrome," an euphemism coined to express a situation of an euphoric planning process with weak follow-up on implementation. Building on the four cases, the paper teases out some of the key variables that determine the success of a strategic plan: a bottom up approach contextualized to the local and national institutional set-up, a strong connection with the municipal budget, and a visionary local leadership.

Drivers of Strategic Planning Evolve

In many cases there are distinct contextual triggers or motivations behind a strategic planning process, but these can later evolve or transform into something else, or be taken over by other forces. Understanding this dynamic and framing the process to respond to these motives, but using them only as entry points to address the broader development issues and perspectives, is important. The case of Ljubljana, Slovenia (Chapter 5) highlights a case where entry to the European Union and the related drive for economic competitiveness and openness was a trigger to strategic planning. However, this process was shaped and influenced by, and had to adapt to, the rapidly evolving national legislative and institutional frameworks that were meant to address gaps in spatial planning and regional administration. In the process, the stakeholders in Ljubljana had to confront the dilemma between promoting

a competitive global city and retaining their local identity embedded in the city's long history, culture, and traditions, and to find an equilibrium between different strategic objectives such as competitiveness and environmental and social sustainability.

In the case of Venice (Chapter 6), the drive to reverse its economic decline, and restore the decaying structure of the city, was the trigger for strategic planning. The process that began with a master plan consisting of projects soon evolved into a strategic planning process that enabled the city to set out a broad vision, and to devise innovative management tools and governance structure created to ensure a sense of ownership among the stakeholders and to build solid links among implementing bodies, public institutions, economic actors, and civil society.

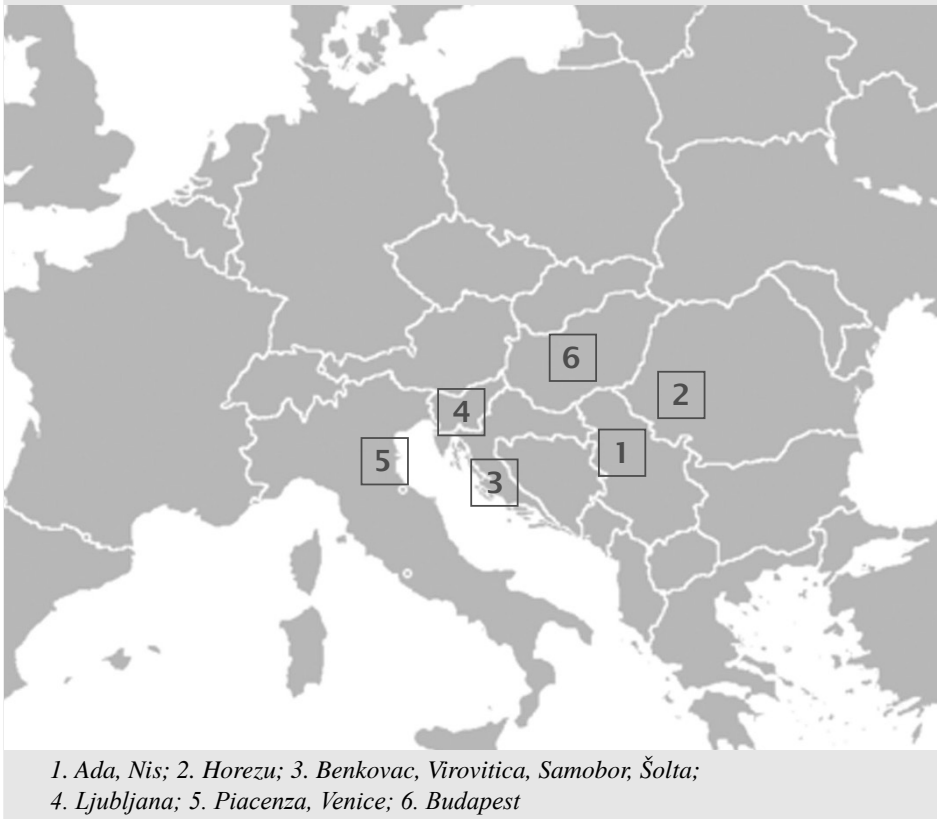
Strategic Plans Should Be Living Documents

Making strategic choices to pursue strategic goals involves complex decision-making. It involves important trade-offs, reconciling different priorities and interests, anticipating the future, and balancing risks, often in the face of uncertainties and lack of information and sufficient analytical capacities. An intelligent and robust strategic planning process therefore should integrate a continuous learning element to be able to adapt, cope, and respond to the changing realities and contexts. The case study from Piacenza, Italy (Chapter 7) highlights exactly that. The first strategic plan was more of a collection of sectoral projects, with weak stakeholder representation, management structure, and political support. Soon this weakness was realized, and the lessons were used to update the strategic plan with an invigorated new process that rectified the shortcomings and pitfalls of the first strategic plan. That is one of the reasons why the process becomes more important than the “plan.” When people refer to their strategic plan as a “living document,” they are referring to the virtuous cycle of “learning by doing” and “doing by learning.”

A Strategic Planning Process Is Not Linear

All these novelties and challenges are the soul of the strategic planning process; however, this may not be obvious by looking at the step-by-step planning process that we find in textbooks and capacity building tools.

Figure 1. Location of the Case Studies



Behind the analytical and elegant framework of strategic planning, there is a complex social and political dynamic that shapes and determines the nature and outcome of such a process. The unique context of each territory defines the key protagonists, and dynamic. This dynamic is different: in some situations decentralization has rooted but in others devolution has not yet begun. Some local institutions are mature, open, and accountable, while others are weak or in flux. Depending on the political and institutional landscape, a strategic planning process could take many twists, turns, and setbacks, before becoming accepted or firmly established and internalized as a tool for making the hard choices, setting priorities, and allocating resources. The case study on Budapest, Hungary (Chapter 8), which narrates a decade-long sinuous process of many turns, opportunities, challenges, and setbacks, involving the haggling and compromises between the political leadership and the management team in city hall, illuminates this point. The lessons from the case study cautions against applying a simplistic one-size-fits-all strategic planning approach, as well as against any hasty move to produce a plan,

before the institutional issues are sorted out and an effective and supportive governance and management system is put in place.

From Vision to Action: Choosing, Calibrating, and Using the Most Appropriate Implementing Tools

A major critique of strategic planning questions why so many strategic plans fail to be implemented. At the conference in Belgrade, this central question was addressed through four papers, including case studies from Italy, France, and Croatia. One of these case studies focus on Local or Regional Development Agencies, one of the most common institutional instruments to coordinate the implementation of strategic plans in a multilevel governance context. The other two case studies focus on attracting investments and mobilizing financial resources through territorial marketing and a range of municipal financing tools and innovations.

Local and Regional Development Agencies

Regional Development Agencies (RDAs) and Local Development Agencies (LDAs) are established to coordinate and harmonize a range of actors, their roles, and the implementation instruments in a territory. They are created to address the failure of governance and coordination that often face communities, cities and regions, due to the existence of multilevel governance structures, powerful global economic development forces, and complex formal and informal institutions shaped by the unique socio-cultural settings of a territory.

As illustrated in Chapter 9, the models of RDAs and their experiences are quite diverse, ranging from economic development bodies, mostly focused on supporting small and medium-size enterprise development, to organizations with a wider mandate, aimed at promoting broader territorial development, developing and applying territorial marketing tools, and promoting territorial partnerships. RDAs can have an effective role in tackling the institutional problems stemming from multilevel governance, and facilitating the implementation of strategic plans, including the use of territorial marketing. By identifying the competences of the various national and local actors, understanding their overlapping responsibilities and their particular incentives, RDAs and LDAs can design and implement processes that harness mutual trust, benefits, and synergy, and overcome institutional bottlenecks.

Territorial Marketing

In Chapter 10, the rationale and essence of territorial marketing and how it works is explained. Territorial marketing articulates the territory's unique assets, both tangible and intangible, in such a way that it portrays and communicates the competitive strength of the locality and the community, in the most effective way. By using innovative approaches to target, tailor, and communicate the core messages, priorities, resources, facilities, and services a territory has to offer, territorial marketing effectively supports the realization of the strategic goals and projects contained in the plan. Territorial marketing is used to improve social cohesion in a territory, attract new investments, and promote business and trade exchanges.

Municipal Financing Approaches

The case study from Croatia that is presented in Chapter 11, through a narrated experience of three municipalities, highlights different innovative financing solutions. These include: (i) public-private partnerships with shared risks and benefits, (ii) cash pooling that allowed them to tap into existing surplus financial resources, and (iii) municipal bonds. These experiences are still relatively new in South Eastern Europe, but they show the possibilities available for those local authorities with vision and leadership. One of the key points underscored in the Croatian example is the critical role of the regulatory framework that must be transparent, efficient, and enabling.

Although they represent diverse and specific local and national contexts, the case studies in their totality offer a broad vision of the practical application of key principles, of the lessons learnt, and of the perspectives offered by strategic planning. Most of the countries in the case studies share a common experience of making the transition to a market economy, deep institutional reforms, and a gradual process of integrating their economy and society into the EU, and therefore face similar socio-economic, governance, and institutional challenges and constraints. This makes the book particularly useful to the local and national policymakers, and urban and regional development practitioners in the region. The book could also be a useful resource for teaching students of local and regional development and strategic planning.



1

Local Ownership: A Cornerstone of Successful Planning. The Case of Ada in Serbia

Šandor Koš, Velimir Šećerov, and Ratka Čolić¹

Introduction

The Municipality of Ada has been recognized as an example of a strong impetus for the process of democratic changes. Local initiatives and knowledge in Ada have resulted in the formulation and implementation of one of the first and most successful strategic development plans in Serbia.

This paper illustrates the process of a strategic plan that was not triggered or stimulated by the assistance of donors or international organizations. Instead, it was a process initiated by local advocates and citizens. This plan was implemented primarily with funds from national and local budgets, as well as from private resources.

The Municipality of Ada is located in the northern part of the Republic of Serbia, and in the center of the Autonomous Province of Vojvodina (APV), on the right bank of the Tisa River. It occupies an area of 229 km², and has a population of about 19,000. The municipality does not have significant functional influences outside of its administrative borders. It is linked to some extent to three cities in the region that are the development centers for northern Vojvodina (Zrenjanin, Kikinda, Subotica). Novi Sad, an important international urban center, is also located within the area. The municipality's relative proximity to a branch of the pan-European transport corridor X (Ten

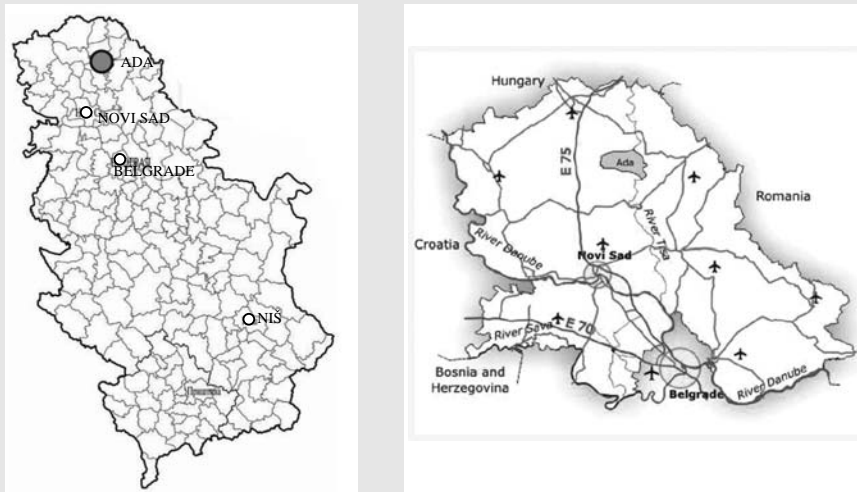
1. *Šandor Koš* serves as Ada's Municipal Manager and has been a main supporter of the Ada Strategy since the beginning. He has 21 years of work experience.

Velimir Šećerov is a spatial planner with wider experience in spatial planning practice. He is assistant professor at the Faculty of Geography of the University of Belgrade.

Ratka Čolić is an architect and planner, and has worked for several years for the Serbian Ministry of Urban Planning and Construction. She filled the role of municipal support coordinator for the implementation of the UN-HABITAT SIRP program in Serbia.

B), located midway between the capital Belgrade and Szeged in Hungary, determines a geostrategic position with close proximity to the EU border, and good accessibility in terms of other forms of multimodal transport. A regional road from Novi Sad to Horgo, the state border with Hungary, passes through Ada. The municipality is located on the Tisa Plain, an extremely fertile alluvial expanse typical of the Pannonian Plain region.

Figure 1. The Position of the Municipality of Ada in Serbia
Figure 2. The Municipality of Ada in the Autonomous Province of Vojvodina



Similar to other municipalities in Serbia, particularly in Vojvodina, this area is characterized by a drastic decline in its population (due mainly to economic migrations to Germany, Austria, Hungary, and Canada). According to the 1971 Census there were 22,611 inhabitants living in Ada; in 2002, there were 18,994—a decrease of about 16 percent in 30 years. The municipality’s 18 different ethnic groups are a great asset (Hungarians are the dominant group, accounting for 76 percent of the population; Serbs make up 17.5 percent). A third of the municipality’s population (31.13 percent) works in agriculture, which is considered an unfavorable structure (in Vojvodina this average is around 22.6 percent).

The Municipality of Ada has a long tradition of private entrepreneurship and is particularly strong in metalworking and the textile industries. High unemployment rates (more than 20 percent) and socioeconomic distress resulting from economic restructuring and privatization characterize the local economy. Ada’s capacity to institutionally manage and cope with the transition

to a market economy is weak, and well-designed and targeted development programs are lacking. Urban services are modest and the municipality does not have a long-term development plan or strategy.

Initiating the Process of Formulation of an Ada Development Strategy

The decision to formulate the municipality's Development Strategy was made in September 2004 during the local election campaigns, where the citizen group "With Knowledge and Heart for a Successful Municipality" completed its most important task – formulating the concept of development for Ada through their slogan, "Cornerstone of the Future":

We, the council candidates representing the citizens' group With Knowledge and Heart for a Successful Municipality, live stable family lives, in keeping with the moral standards of this environment and with strong ties to this municipality. Most of us are people with a great deal of life experience, but still young enough to have goals and the strength to achieve them. We are financially secure and are thus by no means motivated to work for the municipality for personal and financial gain. We are open to others and are willing to listen to and understand other people's ideas. We believe that the distinguished individuals from the local community cannot be divided into good and bad. Every man can have faults, but we are convinced that, with patience and good intentions, any two people can find common ground with mutual tolerance and respect, regardless of their nationality, political views, religion, gender, or age.

It was recognized that among the key obstacles to Ada's development was the lack of development plans. In order to solve development problems and lay "the foundation for future generations," it was necessary to start formulating a vision for the future development of Ada.

Strategy Formulation

The strategy formulation process began in December 2004 with the establishment of a five-member core team of local experts. They were later joined by a larger operational team, which had 50 members organized into 10 groups whose task it was to carry out a context analysis. Each group covered one of the following thematic areas: demography and population; economy;

local self-government; public companies; education, healthcare, and culture;² communal services; tourism and the environment; pensioners; urban planning and cadastre; and the media.

An integral part of this analysis was also a public opinion poll that was conducted via a household survey. The survey³ was administered to a sample of 452 households from March 9 to March 15, 2005, and was organized by an expert team and nine interviewers.⁴ After the survey was completed, the data was processed and analyzed.

In addition to local experts, about 30 more partners joined the process in the phase of formulating the context analysis. These included public companies (housing-communal services, construction, urban planning, land), sub-municipalities, high schools, primary schools and preschools, business entities, healthcare institutions, sports and cultural organizations, nongovernmental organizations, (Orthodox and Catholic) religious communities, social welfare institutions, the employment service, and national statistical and geodetic institutions.

The context analysis began in January 2005 and lasted eight months. The draft strategy was then prepared and completed in December 2005. The document was submitted and discussed at public hearings and citizens' forums over the course of six months. Citizens' comments and inputs were incorporated into the draft plan. Concurrently, external experts gave input on how to improve the plan's technical aspects and presentation. The Assembly of the Municipality of Ada finally approved and adopted the plan in June 2006.

2. Analyses of the situation with youth, nongovernmental organizations, religious communities, and amateur societies are also an integral part of this analysis.

3. The questionnaire (in Serbian and Hungarian) contained basic questions concerning the indicators of the situation in the municipality, as well as questions about how the citizens rated the priority development goals of the local community and whether they were willing to participate in their realization. The questionnaires were grouped into 11 smaller samples, put together based on electoral rolls, and according to the criteria of education, ethnicity, age, gender, and place of residence.

4. The following development priorities were identified: employment and creating new jobs (49.3 percent); developing economy, agriculture and SMEs (39.8 percent); solving the problem of sewerage and water drainage (34.1 percent); maintaining and building roads and sidewalks (23.0 percent); improving the quality of healthcare services (20.35 percent); building a new telephone exchange (17.0 percent); introducing a youth entertainment program (10.6 percent); developing sports and recreation (8.6 percent); improving the quality of drinking water (7.7 percent); expanding the natural gas network (7.3 percent); environmental protection (6.4 percent); developing tourist potential of the Tisa River (6.2 percent).

The entire process lasted 17 months. The key aspect was that the process was fully owned and funded by local stakeholders. All activities were coordinated by the municipal manager and the strategy formulation team was in charge of organizing the work groups and the public discussions and soliciting new ideas and inputs.⁵

The formulation of the Ada Development Strategy saw the participation of local experts from relevant fields, citizens, interested community members, and local politicians. The goal was to generate a sustainable and realistic development plan. One of the key tasks was to mobilize all institutions and nongovernmental organizations in the community and to raise citizen participation to the highest possible level. The most significant citizen participation in the strategy formulation phase was achieved through surveying citizens in order to gauge public opinion, and by holding citizen forums at sub-municipalities, which was continued through the implementation phase as well.

External expert support was provided during the public hearings and citizens' forums, and during the formulation of the draft plan. The local team recognized the need to facilitate the public discussions, and to seek out expert input in order to ensure the creation of a technically sound and coherent plan.

Steps in the Process

The formulation of the Development Strategy followed a methodological framework that included context analysis, a SWOT analysis, visioning, goal setting, and the defining of sectoral objectives and priority projects.

Context Analysis

A comprehensive overview of the current situation in the municipality included an objective account of the following: demographic structure, economic capacities, situations in public companies and local government, the capacities of communal and social infrastructures, the position of pensioners and the state of urban planning, and cadastre. The conducted analysis gave a general impression of the municipality and generated a basis for the preparation of the next phase of the process in which the developmental prospects for Ada were analyzed.

5. The handbook, published in 2002 by the Settlement Development Office of the Hungarian Ministry of the Interior entitled "Instructions for the Formulation of the Settlement Development Concept" ("Útmutató a településfejlesztési koncepció készítéséhez"), was a useful resource. During the planning phase some technical assistance was also received from the Standing Conference of Towns and Municipalities of Serbia.

SWOT Analysis (Developmental Prospects)

The basic aim of the SWOT analysis was to identify and examine the strengths and weaknesses of the local community, and its opportunities and threats, in order to determine the starting point for establishing guidelines for the development strategy. A basic potential was recognized in agricultural land development, metal-working, and textile industries, the underutilized tourism potential of the municipality, the proximity of Ada to the European Union (bordering with Hungary), highly-qualified personnel, inventive new local self-government, and the willingness of the population to embrace new developmental ideas.

The most significant weaknesses identified in the SWOT analysis were the poor traffic connection with the immediate and wider surroundings, a high percentage of unemployed inhabitants and agricultural workers, negative demographic trends, incomplete or, in some cases, unsuccessful privatization of public companies, no branding and marketing of the municipality, fragmented farms, and poor and underdeveloped communal infrastructure.

The opportunities that opened up in the future conception of the territory's development relied on the highlighted potentials, primarily within the following domains: continuation of traditional production activities, tourism development, transborder cooperation, and joint efforts with neighboring municipalities and regions, setting up a new industrial zone, and investing in education and capacity development to enhance the quality of leadership and human capital of the area.

As well as having opportunities, the municipality also faces threats that have been identified as an obstacle to the successful development of the entire community. The most significant threats involve the continued demographic aging of the population, the unstable political setting and slow decentralization process, the endangered environment, and other negative trends.

Definition of the Vision

Building on the results of the SWOT analysis, the stakeholders participating in the process articulated the vision for Ada as follows:

“A modern, economically developed municipality, with a fully established communal infrastructure and developed human resources.”

The vision presented the envisaged future of the Municipality of Ada in 2012 (see Box 1). It is based on tradition, geographical position, available resources, and above all, citizens who are ready to restore the former status and prosperity of Ada and make it even stronger. The stakeholders also agreed on common values (see Box 2), that should strengthen and guide the planning process.

Box 1. Vision Statement (Excerpt from the Official Document)

A modern, responsible, efficient, and service-oriented administration; work that is carried out using modern IT technology (e-governance) and with constant monitoring and improvement of the performance of public servants; services accessible to the client in terms of both space and time are provided in a “one stop shop” and electronically; acceptable prices, amiable and motivated employees, simple procedures and clear and understandable information; citizens who are satisfied with solutions concerning communal services, which are based on competitiveness, constant monitoring of service quality, and public-private partnerships; a redefined and reorganized system of sub-municipalities and offices; in economic terms, the accentuation is on the development of entrepreneurship, agriculture, and tourism and, thanks to different funds and loans, many entrepreneurs should receive their first loans, as well as benefit from training and education opportunities; the issue of environmental protection will be resolved over the long term by the construction of a sewerage network in the settlements Ada and Mol, as will be the problem of waste disposal; the formation of strategic and regional partnerships will lead to the unification of the tourist office and a successful marketing campaign, which will produce significant results; reconstructed roads and infrastructure, new accommodation capacities, and eco-food in hospitality facilities will attract numerous domestic and foreign tourists; they will attend local events, hunt in nearby hunting grounds, etc.; young people will not leave Ada, but rather be proud of it, because there they can find work and have a secure future.

The agreed common values served as a basis for defining the *Steps towards Realizing the Vision*. The basic axes of development were defined and guided by three basic *components* of sustainable development: economy, society, and environment. Accordingly, the following axes were formulated:

- *Development of tourism* – preparation of the general tourist office of the municipality; development of a recreational center;
- *Development of agriculture* – agro-business center; educating and informing farmers; bringing rural areas closer to the local community;
- *Revitalization of industry* – industrial zone; economic development fund; education in the field of small and medium size enterprises (SMEs);
- *Environmental protection and development of communal infrastructure* – provision of gas supply in urban settlements; regional waste disposal site; water supply and sewerage; street lighting; education of stakeholders;
- *Better use of the favorable geographical position* – a bridge on the Tisa River; connection with the pan-European Corridor X; a ring road around the town;
- *Technical equipping of the local government* – service center for citizens; education and modern equipment, workers’ Olympics; opening up to the region;
- *Strengthening of human resources* – education and participation; support and scholarships for the youth; development of education.

Box 2. Agreed Common Values (Excerpt from the Official Document)

- Leadership – implies a responsible government, flexible about new ideas, motivated and open to the public.
- Strategic approach – based on a realistic assessment of the comparative advantages of the municipality, tackle the dangers head-on in an organized and planned manner in order to achieve the desired goal and overcome the obstacles.
- Participation – manage changes through a broad consensus and include all the citizens from the local community in the decision-making process.
- Objectivity – in the process of providing services to citizens, public servants should treat everyone equally regardless of gender, age, race, nationality, ethnicity, disability, regional or national origin, marital or social status, and political or religious affiliation.
- Service-oriented – make the beneficiaries/citizens happy, work for them and because of them.
- Legality/legal security – respect for the Constitution, law, and human rights is one of the classic values on which the work of public service is based.
- Openness/transparency – the functioning of the local government should be public and should strive to enhance public access to information and insight into all the processes and activities in all institutions.
- Efficiency – providing services to beneficiaries in a quick, inexpensive, and high-quality manner
- Effectiveness – providing the kind of services that the beneficiary expects, in the form he wants, where and when it suits him.
- Responsibility – officials and public servants from the local government are responsible for their work and attitude towards the citizens and this responsibility is monitored and evaluated not only at election time, but also on a daily basis.
- Education updating opportunities – local government must be willing to offer professional development education opportunities and use modern informational technologies to the fullest.

Development of Priority Projects, Implementation Measures, and Instruments

Priority projects were designed to conceptualize the axes of development. The Strategy envisions 42 projects organized into seven thematic areas. The Strategy did not specify development measures, or instruments and policies, but instead provided a framework for the implementation, through which the projects were developed in more detail. Each project/program had a defined timeline (in months for smaller projects and in years for capital projects) and project coordinators. Some of the projects also defined general financial resources, concept designs, and ideas for ways to provide financing. The projects elaborated reflected precisely identified sources of financing (Table 1) and were in accordance with the documentation required for competitive bidding. Project coordinators coordinated the exercise.

Table 1. Sources of Financing

<i>National</i>	<i>National Investment Plan Ministry of Finance and Economy Ministry of Education and Sports Ministry of Agriculture and Water Management Ministry of State Administration and Local Self-government</i>
<i>The Autonomous Province of Vojvodina</i>	<i>APV Capital Investment Fund Provincial Secretariat for Sports and Youth Provincial Secretariat for Agriculture, Forestry and Water Management Provincial Secretariat for National Minorities Provincial Secretariat for Local Self-government and Intermunicipal Cooperation</i>
<i>Local community</i>	<i>Municipal budget Citizens' contribution</i>
<i>Foreign sources</i>	<i>EU Programs</i>

Realization/Implementation

In the period beginning July 2006 through June 2009, a significant number of Strategy projects worth a total of approximately EUR 22 million have been implemented. A coordinated effort in resource mobilization and the creation of a business and development environment attractive to investors are among the key catalysts responsible for these impressive results. The most significant capital projects that have been or are being implemented include:

- the revitalization of the industrial sector through the establishment of an industrial zone that cost EUR 500,000. The project was realized with funds from the National Investment Plan (NIP). After the implementation of the first phase, greenfield investments (investments in physical company-related structures in areas where no previous facilities exist) worth approximately EUR 8,000,000 were realized;
- the revitalization and renovation of all sports facilities at a cost of EUR 1,200,000. The project was realized with funds from the Ministry of Finance and Economy, the Ministry of Education and Sports, and the Provincial Secretariat for Sports and Youth;
- the construction of a bridge on the Tisa River with the investment cost of EUR 6,700,000. The project was realized with funds provided by the Ministry of Infrastructure, NIP, and the Capital Investment Fund of the Autonomous Province of Vojvodina (APV);

- the construction of a ring road costing EUR 2,500,000 was realized with funds from NIP and the APV Capital Investment Fund;
- the construction of a sewage system estimated at EUR 10,000,000 is in progress, and so far EUR 2,000,000 have been invested from the funds of NIP and the APV Capital Investment Fund;
- the expansion and development of the gas supply, estimated at EUR 1,000,000, is in progress; EUR 300,000 have been spent on the project so far, with funds from citizens' contributions and from the municipality's budget.

Figure 3. Bridge on the River Tisa



Built to connect Ada with the municipalities of Coka, Novi Becej and Kikinda - recognized as a prerequisite for economic development of Ada (official document).

Figure 4. Sewage System



First phase construction between Ada and Mol, two kilometers in length (official document).

While the Strategy defined a total of 42 projects, another 100 projects were conceived and designed during the course of the implementation period. These were projects stimulated by or resulting from the direct and indirect impact of the strategy projects, and were proposed and implemented through the collaboration of various institutions (educational, cultural, NGOs, civil associations, and others), or through the private sector.

The investment effort was facilitated and coordinated by the local autonomous government. The following are examples of such projects:

- a poverty reduction project, which generated new projects after the opening of the local Poverty Reduction Office, which was engaged in

the strategic planning of social policy, adult functional education, step by step inclusion of Roma children in preschool institutions, public works projects, etc.;

- the construction of the road infrastructure which included five projects: main road, ring road, bridge access road, roundabouts, signposts;
- the revitalization of sports grounds and facilities (around 20 individual projects);
- other projects related to education, culture, civil associations, and nongovernmental organizations.

While the overall implementation of the projects and the level of investment realized through the implementation of the strategies are commendable, the rate of implementation and completion of projects varied. Also, these investments seemed to focus heavily on infrastructure projects and other priority projects. Projects related to healthcare, education, inclusion of the youth in public life, and similar projects did not attract the same level of interest and funding.

Innovation and Revision

During this period, Ada's local government focused on creating the preconditions for the sustainable development of the local community, the promotion of team work, and the establishment of good relations with all the ministries of the Republic of Serbia and the secretariats of the Executive Council of the Autonomous Province of Vojvodina. One of the most important goals during the process of developing the Strategy, and during its implementation, was to build municipal capacity, initiate branding efforts, and establish a coherent profile of Ada and its mission. A process, that four years ago was launched as an initiative by committed and enlightened individuals who understood the importance of strategic direction for the development of a community, has now been accepted and adopted by a broad circle of stakeholders and citizens.

The strategy incorporated the most important issues and priorities, but also less obvious ones. The strategy was flexible enough to adapt to and accommodate diverse needs and priorities. Building on the success and lessons of this experience, current preparations are underway for the development of a second generation Strategy.

The Key to Success

After a four-year experience of developing and implementing the Strategy, key leaders involved in this process believe that opportunity, desire, and knowledge were the most important preconditions for the success of this process:

- The formulation of this strategic plan was not stimulated by the assistance of donors and international organizations, but rather by the local initiative of a citizen group with a strong will to move forward and bring about change.
- In the participatory process, local knowledge and experience was tapped to the fullest extent, while external technical assistance was used for the purposes of facilitation and to assist with the preparation of the final document. The citizens groups and advocates did not use parallel structures to initiate a planning process, but rather worked within the framework of the municipal infrastructure. While this should be, in principle, maintained, future models should seek to enhance the role of external by making better use of their expertise in knowledge sharing, skills transfer, and capacity building.
- The process has offered a learning by doing opportunity and raised awareness for both decision-makers and citizens regarding the virtues and practice of local governance.
- There was a high level of political support for and during the process, as well as for the implementation of the strategic plan. The continuity and active participation of the municipal leadership and the establishment of local teams representing different departments to oversee project completion will be important in the future.
- The approved funds for the implementation of priority projects, which the municipality of Ada succeeded in securing, were impressive within the Serbian context and far more than any other “small” municipality has been able to secure to date.

A local administration’s capacity is a key prerequisite for any successful strategy development process and its effective implementation, especially for complex projects. Assessment of an administration’s capacity, and the integration of necessary capacity-building support, is vital for successful strategy planning and implementation.





2

Common Challenges, Common Solutions

The Experience of Participatory Planning Processes in Romania

*Ana Vasilache*¹

Introduction

This is the story of a small Romanian community that embarked on a participatory strategic planning process to overcome the socioeconomic distress it underwent during the transition from a centralized to a market economy. This transition was further complicated by a lack of municipal capacity to address these challenges. The town of Horezu did not have any prior experience with a participatory process or community engagement, but the community managed to not only successfully develop a strategic integrated development plan, which was approved in 2004 by the municipal council, but since then has also managed to mobilize EU Structural Funds and implement 80 percent of its plan. Further, Horezu's success became an inspiration to neighboring communities and to two surrounding counties, which led to the cooperation of 10 communities in a regional strategic planning effort. It also led, for the first time in Romania, to the creation of county level socioeconomic development plans through participatory processes. Among the key factors to this achievement was the hands-on, continuous, professional facilitation provided by a Romanian NGO² that methodically promoted a

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2. Professional facilitation was provided by FPDL, a Romanian NGO established in 1994 to enhance the democratic processes of governance through capacity building of public administration and civil society representatives in Romania and the CEE/SEE region. For more details on the participatory planning processes or to download training manuals and handbooks, visit <http://www.fpd.ro>.

learning-by-doing approach, and mobilized technical support inputs from different sources, notably the University of Architecture and Urban Planning in Bucharest. The case study presented here reflects the author's experience as part of the team involved in the process.³

The central theme of this paper is to demonstrate how professional facilitation and training inputs support the quality, substance, and outcomes of participatory strategic planning processes. First, the baseline situation of Horezu and the triggers behind the process will be explained briefly. Second, the key steps of the strategic participatory planning process in Horezu and the facilitation/training approaches underlying them will be highlighted. The next section will focus on the strategic plan implementation and the extension of the participatory planning processes to larger territories. Finally, a conclusion will highlight the key lessons learned.

Baseline Situation and Triggers

The Participatory Planning Process in Horezu started in 2004 with the intention of building the capacity of trainers from Central and South Eastern European (CEE/SEE) countries to facilitate the participatory elaboration of strategies for Local Economic Development (LED).⁴ The LED training was designed to field test the manual before it was published and distributed.

Like other countries in CEE, in Romania the transition from an authoritarian to a democratic political system and from a centralized to a market economy, resulted in economic hardship and social distress for many communities. Before 1990, Horezu was an industrial processing center, as a result of public investments made in the furniture, food, and textiles industries. But after the 1990s, industrial activities witnessed a significant decrease, the level of unemployment increased, youth started to leave the town, and those who stayed behind had to go back to their traditional way of subsisting from agriculture, animal breeding, and small trade.

3. The initiation and successful implementation of the participatory planning processes described in this paper were made possible due to the professionalism and commitment of the FPDL team of trainers/facilitators: Ana Vasilache, Ancuta Vamesu, Daniela Plugaru, Doru Bularda, Olivia Baci, and Andreea Buzek, lead by Nicole Rata, FPDL Deputy Director. In this paper, the FPDL team is referred to as "the facilitators."

4. The process started with the support of the Local Government and Public Service Reform Initiative (LGI) of the Open Society Institute. The training was based on the United Nations Human Settlements program (UN-HABITAT) training manual on Local Economic Development (LED).

The town of Horezu was selected as the live laboratory for this LED Training of Trainers (TOT) for a variety of reasons: it has a manageable territory of only 7,000 inhabitants; was going through a difficult economic situation, had little prior experience in strategic participatory planning for economic development, and therefore had an appreciative need for it.

Figure 1. The Monastery of Hurez and Traditional Ceramics



The name of Horezu is also linked with the neighboring Monastery of Hurez, a monastic complex built at the end of the seventeenth century and registered in the UNESCO World Heritage list, visited by more than 70,000 tourists each year.



It was also selected because, in addition to its challenges as a small, economically depressed community with weak access to information and funds, Horezu has untapped economic potential: it has a wide reputation as an ethnographic center for age-old folk ceramics, has a beautiful geographical location where the traditional occupations of fruit-growing, animal breeding, ceramics, and wood-processing are still present, and is a traditional commercial center for the neighboring communities for farming products and household utilities. Last but not least, at the time it had an active female vice-mayor interested in collaborating with the facilitating NGO to begin the planning process in her community.

The Strategic Participatory Planning Process in Horezu

Getting Started

Obtaining Commitment and Building Trust

The process began by focusing on obtaining a broader endorsement from Horezu's elected officials and local leaders, building trust between the stakeholders and the facilitators, and transferring basic knowledge about both strategic planning and local economic development to these groups. The facilitators identified local supporters and secured the support of the mayor and vice-mayor. To raise awareness in the larger community about the LED process, two other parallel events were organized: a children's contest with drawings about how they imagined their city as adults, and the contestants' artwork, exhibition, and awards ceremony took place in the town hall on the evening prior to the LED Planning Conference. The second event, a youth contest and awards ceremony for the best and most innovative business idea that utilized local resources, took place on the last day of the LED Planning Conference.

Forming a Core Planning Team and Defining "Local" in LED

A core group including experts/facilitators, municipal officials/staff (such as the vice-mayor, councilors, head of the tax department, head of the planning department), and local leaders (bank executive, high school official, television executive) was formed. The facilitators provided them with more detailed training on participatory strategic planning and local economic development. Although the economic and market boundaries exceeded the local administrative boundaries, it was pragmatically agreed to by the group that for the LED planning process the "local area" should be defined as the area over which the municipality had jurisdiction, i.e., the administrative territory of Horezu.

Identifying Stakeholders and Involving Them Early in the Data Collection Process

First, the facilitators targeted the business community by developing a specific survey for this group. To incorporate the general public, they organized public meetings to both alert the public about the strategic planning process for LED, and to solicit their input through a survey. This was the first time the community had been solicited for input on public policy and local development.

Establishing the stakeholders Partnership Group

For the three-day planning conference held in April, a more detailed stakeholder analysis was undertaken and a “Partnership Group” was established. The focus was on identifying the main stakeholders in four activity areas: public administration, agriculture and forestry, traditional crafts and tourism, commerce and industry. More than 40 people from all four groups participated in the LED planning conference.

Preparing the Planning Conference

A team of experts in urban planning and economic development from the University of Architecture and Urban Planning, Bucharest, was contracted to produce a situation assessment of Horezu’s economic development potential. The results were compiled in a report (provided in Romanian and English) and shared prior to the LED Planning Conference with members of the Partnership Group (as well as with the group of 10 trainers who were selected to attend the regional LED TOT). A summary of the results was also presented at the planning conference to set the context and build a common understanding of the existing situation and trends. The data collection included reviewing already existing documents, statistics, and research, and collecting new data through:

- conducting a business and local residents’ attitude survey, including perceived problems and opportunities;
- analyzing the situation with regard to existing local resources and their potential; and
- developing a SWOT Analysis (Strengths, Weaknesses, Opportunities, Threats), in collaboration with the core planning team members.

The three-day LED Planning Conference was designed to be preceded by a regional TOT with participants taking part in the planning conference as a group of experts providing inputs. The TOT was attended by trainers from five CEE countries and the representatives of two supporting international organizations.

LED Planning Conference

Building Common Understanding for the Existing Situation

At the beginning of the conference participants were given a presentation of the Situation Assessment, including the SWOT analysis. In that way organizers ensured that they were all beginning with a common basis and would make better-informed decisions during the planning process.

Developing a Common Vision for Horezu

Participants developed a vision for Horezu through drawings. During presentations the facilitators captured key words, then put their vision into a text during the lunch break, together with the core planning team members. They presented it after lunch in a plenary session, and modified it on the spot, based on participants' comments.

Identifying Problems and Opportunities to Achieve a Vision

In the afternoon, groups of participants identified the obstacles as well as the opportunities they can encounter or use in achieving their vision, which they presented in plenary sessions.

Figure 2. Photographs from the LED Planning Conference



One participant's feedback at the end of the conference: "The first day I came because my boss asked me to do so. The second day I came out of curiosity, and now on the third day, I am sorry it is over!"

Breaking Vision into Strategic Objectives and Cluster Problems/ Opportunities

The evening was used by the facilitators to organize and cluster the problems and opportunities under the vision's four main areas, which also formed the four strategic integrated objectives:

- Tourism: Develop tourism around effective use of Horezu's natural and cultural resources.
- Associations: Establish associations that can support local partnerships for the benefit of the community.
- Agriculture, industry, crafts: Increase value added products in the areas of agriculture, forestry, crafts, and small industry.
- Local Government: Increase capacity of the local government to take a leading and proactive role in local economic development.

Strategy Development

The next morning, participants generated strategies by answering the question: “What can we do to overcome the major problems we face, and use key opportunities to achieve the objective?” Participants assigned themselves to work on the objective they wanted to achieve. The four groups developed alternative strategies, which were presented in plenary. During the evening, the facilitators organized ideas on flipcharts to be used on the last and third planning day to prioritize the most important strategies and to decide on the timelines and responsible organizations/people to implement them.

Implementing the LED Strategic Plan and Extending the Process

Since 2004, the team of trainers/facilitators continued to offer support to Horezu for the LED strategic plan implementation through different projects financed by other sources of funding.⁵ During these years, the integrated development planning process was extended to the whole region of the “Oltenia sub-mountainous area,” including neighboring communities with similar features, challenges, and strengths. Below is a synthesis of the main implementation steps.

Approving the LED Strategic Plan in the Horezu Local Council

In collaboration with the planning team members, the facilitators put together the Horezu strategic plan document including the Planning Conference results. In June 2004, local elections were held. The LED strategy document was deliberated and approved by the local council shortly after the local elections, having the support of the newly-elected mayor, who was involved in the planning process in his former position of local councilor.

Projects Developed by the Horezu Local Government

A training event on project development was offered by the trainers who trained the Horezu local government representatives. As a result, two of the project ideas were further developed and the Horezu local government successfully applied and received two EU grants, one to modernize the city hall’s IT equipment and one to rehabilitate the road that links Horezu with one of the poorest villages, inhabited mostly by Roma. Based on the ideas developed by participants in the summer school, the Horezu local government also applied, in close collaboration with the Institute for Tourism Studies

5. Such as the Global Opportunity Fund of the UK Embassy in Romania, PHARE program, and the Norwegian Fund for Civil Society.

from Bucharest, for EU funds for a large rehabilitation project focused on the town center.

Building Local Actors' Capacities through Training

The facilitators organized a course on entrepreneurship for youth titled “How to Start a Business”⁶. Extending the process to neighboring communities, they also provided *Leadership and Management Skills Training (L&M)* in order to improve the basic knowledge and skills of the community with regard to the most important factors involved in the LED process, and also to help them understand and better perform their new task of developing or implementing local economic development strategies. Further, some of those who attended the L&M training were selected as LED promoters, and were provided with the *Change Agents Skills Training* to build their capacity to facilitate problem-solving processes, to identify funding opportunities, and to elaborate and manage EU-funded projects for LED. Also, experts in ecological farming and rural tourism were invited to share their knowledge and skills necessary to enhance performance within these economic activities, and in order to meet EU criteria and develop their businesses. Research visits to the northern part of Romania were organized to learn from various best practices.

Figure 3. Offering Expertise through a Summer School for Architecture and Urban Planning University Students



In July 2004, a 10-day Summer School was organized in collaboration with the University of Architecture and Urban Planning for 40 of their students. They generated concrete project ideas and sketches to implement the five formulated tourism strategies.

6. In cooperation with the Center for Economic Development in Bucharest – Shell corporate program “You Can”.

Figure 4. Trainings



Some feedback from participants:

- “The specific topics of this training program and the way it was designed clarified our role as a planning team and helped us understand how to work and to communicate both within the team and with the community.”

- “What I gained through this training is useful both on a personal as well as professional level, and I am sure that this will impact me positively and will become visible during my activity.”

Expanding the Process to Neighboring Communities

While continuing to support Horezu in implementing its LED strategy, the facilitators succeeded in extending the process to seven other towns from the same region – the Romanian South-West Development Region. Besides training, they coordinated the development of economic potential diagnostic studies for each community. The vital information was collected interactively through data guides completed by the local planning teams and disseminated to each of the communes in the respective counties of Gorj and Valcea, where they would be completed. The exercise involved 279 interviews and 110 questionnaires, completed with the support of the 2005 summer school program titled, “Let’s Talk with Local Actors,” and attended by architecture, urban planning, and sociology students.

A participatory process was designed and facilitated in each of the seven communities for the establishment of local economic development strategies. The process involved 163 people—elected officials (mayors, vice-mayors, council members), public servants, NGOs, private sector representatives, and others (teachers, doctors, priests, citizens).

Meetings were organized to facilitate knowledge exchange among community members and other local, county, or central government representatives. Common projects were designed involving communities from both Gorj and Vâlcea counties. The Gorj County Council initiated the establishment of the “Gorj Mountain Region Communes Association” and the Horezu mayor established the Association “Depresiunea Horezu” to enhance the collaboration among the communities involved in the project.

A Regional Strategic Planning workshop for the Oltenia sub-mountainous area was organized and attended by 47 representatives from

eight communities (including Horezu), Romanian experts from county and central levels, and foreign experts from the international organization UN-HABITAT.⁷ The regional workshop was aimed at building a common understanding on the integrated economic development concept, elaborating ideas for tourism service packages through collaboration of different local actors, as well as facilitating experience exchange. Following the workshop, the project for a physical development plan for the Oltenia sub-mountainous area was included in the design curricula of the Urban Planning Faculty of the university. Students' projects were displayed at the exhibition organized by the facilitators at the Faculty of Architecture and Urban Planning and they were handed over to the communities through their representatives.

For a new project, initiated by the Depresiunea Horezu Association with PHARE program support, called, "Ten for a Modern Public Administration, Horezu Micro-Regional Development," the facilitators focused on building the capacity of local public administration from ten neighboring communities, strengthening their partnership through the creation of a Center for Micro-regional Development and the Network "Rural +" formed by the local development promoters. They elaborated a common strategy at the micro-regional level, which included programs and projects developed for accessing European Union structural funds. In a continuous outreach effort, Horezu local government experts, working for the newly-created department for European integration, established close collaboration with experts from Finland who participated in this project. In 2010, the association will implement two new projects⁸ focused on the rehabilitation of historical patrimony and on building the capacity of local professional associations (farming, forestry, and ceramics production) to create social enterprises.

Besides marketing its own community, the Horezu local government has created and continues to host a regional website devoted to the whole region of "Sub-mountainous Oltenia." It has also received the first prize in a national contest among local government websites dedicated to local development.

Expanding the Participatory Planning Process to County Level

For the first time in Romania, FPDL facilitators designed and conducted participatory planning processes for socioeconomic development in two Romanian counties, one initiated in collaboration with Gorj County and one initiated by Valcea County as a partner.

7. UN-HABITAT.

8. The Association, in partnership with FPDL, the facilitators, and supported by the Norwegian Fund for Romania and EU Structural Funds.

Figure 5. Expanded Planning Conferences



Both projects were supported by EU PHARE funds in 2006–2008. New challenges faced facilitators, such as:

- Identifying the multiple stakeholders from the public, private, and civil society sectors at the county level*
- Motivating stakeholders to be actively involved in the process and at the same time building their capacity to participate in an effective way*
- Accessing the necessary data to conduct the diagnostic studies that analyze counties' economic, social, and environmental situations and potential.*

In both counties and processes, the design included:

- Embedded capacity building/training events for public and civil society sector representatives;
- Data collection using participatory tools, involving business and civil society sector representatives as well as citizens, through surveys, questionnaires, public meetings;
- Expert studies to build a common and informed view on the existing situation, interpreting both statistical data and citizens' perceptions, the results of which were disseminated before the planning conferences to key stakeholders;
- The two- to three-day planning conferences were attended by 65 to 100 participants, representing the majority of towns and cities, the main public institutions, and the NGO and private sectors (among the 100 participants, 48 mayors attended the Gorj planning conference);
- Securing strong commitment from county leadership through their active participation throughout the entire process;
- Strategic Planning Conferences wherein plenary sessions alternated with group work to produce visions, strategic objectives, and the strategies to achieve them;
- Strategic planning documents structured with strategic fields/directions by the facilitators, synthesizing planning conference results;
- A series of meetings organized to further detail and expand the strategies in each specific field/direction, by expanding the range of experts involved in the process;
- Special planning meetings for elected council members to build ownership,

deepen their understanding about the planning document content and the participatory process through which it was developed (this step eased the formal approval of the planning document);

- Creation of implementation structures, through the secretariat in the county councils and implementation committees involving all sector representatives; and
- Involvement of teams of students from the Urban Planning Department of Bucharest University, who took the strategic plans as terms of reference and crafted alternative physical development plans for the county. The plans were presented at the final evaluation conferences, together with the County Social and Economic Development Plan documents.

Disseminating Information

The case of Horezu is incorporated in the International Organization's LED manual.⁹ Two training handbooks, to be used in the facilitators training and training of trainers programs, were elaborated and printed: *What is Participatory Planning*¹⁰ and *What is Local Economic Development*, in English and Romanian. Many university students were involved and benefited from the practical learning opportunities created in the summer schools. The concepts of participatory planning and local economic development were introduced in the Integrated Urban Planning and Urban Management courses, as well as in sociology courses at the University in Bucharest.

Figure 6. Presenting the Case Study at International Events



FPDL representatives were invited as panelists at the "World Urban Forum 2004" in Barcelona, where the Horezu experience, as well as the Regional Program "Working Together," were presented.

9. UN-HABITAT and also in the UN-HABITAT planning brochure which has been circulated at the fourth session of the World Urban Forum held in 2008, in Nanjing, China. The English version is available in pdf format at: <http://www.fpd.ro>.

10. In collaboration with UN-HABITAT SIRP, Belgrade, available in English, Romanian, and Serbian.

Lessons Learned

The following are the main lessons the facilitators learned during these processes in the last five years:

- People understand the logic and advantages of participatory planning only through having the experience of being involved in all its steps - from identifying the common challenges to identifying the common solutions.
- Data collection is the first step of the process and should be based on the broad participation of key stakeholders.
- People have to make informed decisions when planning their future, and therefore need to have a common understanding of their present situation.
- Physical planning should be preceded by strategic planning.
- There is a tension between the scope and openness of the participation process and the quality of its results, and the key question was: What is better, an excellent strategic plan developed by a small group of experts or a less perfect one, developed and owned by a larger group of people? The answer was that it is better to have a plan elaborated by those who have to implement it, a plan that does not end up on a shelf, but in real-life changes.
- And it was also understood, as James Surowiecky demonstrated in his book *The Wisdom of Crowds*, that we should not fear a less than perfect plan, because it was demonstrated that if you put together a large enough and diverse group of people and ask them to make decisions, that group will, over time, be intellectually superior to the isolated individual, no matter how smart or well-informed he/she is. This does not mean that well-informed, sophisticated analysts are of no use in making good decisions. It means that, however, no matter well informed and sophisticated an expert is, his/her advice and predictions should be pooled with those of others. If with most things, the average is mediocrity, with participatory decision-making, the average is often excellence, as if we have been programmed to be collectively intelligent.
- The facilitator's role is to get the process going on a methodical path, and on the basis of shared quality information, analysis, and deliberation. The facilitator must also bring the necessary expertise to the process. The facilitators did this by involving university students and professors in the planning process, which proved to be beneficial for all sides, local authorities and the universities. This allowed for high-quality expertise at a relatively low cost and was also a benefit to the university, supporting students and professors "to get out of the university walls" and applying the theory into practice.

- Participatory planning is contagious if successful: in the Horezu experience, neighboring communities and higher-level public authorities asked for its replication.
- Last but not least, skilled facilitators and trainers are crucial to the success of the participatory planning process, but in the end, all the credit should go to those making it happen.





3

The City of Niš Development Strategy

The Implementation, Updating, and Fine-tuning Process

*Miroljub Stanković, Nenad Popović, and Dejan Milosević*¹

Introduction

A city development strategy's formulation process has many common features applicable to different cities. These features are formulated and codified in various books on strategic planning. The literature formalizing the stages of strategy formulation also recognizes that the implementation strategy almost never goes as planned. Through the implementation process, a strategy starts its life independent from its initiator's intentions. As a result, the implementation of a strategy is a unique endeavor for each particular city. This paper presents the case of a city in which a strategy was formulated under one local government while its implementation started after new leadership took office.

The formulation process of the Development Strategy of the city of Niš was carried out during the 2007. Shortly thereafter, local elections brought a new administration into office, following a different party's coalition. However, this did not stop the strategy from being internalized and implemented. Despite the change in local leadership, by the end of 2009, the assembly approved three documents based on the original strategy that now determines the

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Dejan Milosević participated in the formulation and updating of the Development Strategy for the city of Niš. He was in charge of the communication plan as director of the NGO Protecta.

city's future development. These documents are the Operational Program for 2009–2012, the City Development Program for 2010, and the 2010 Budget. The adoption of these documents as a follow-up to the strategy document approved by the previous administration in essence represents the continued commitment of the local government to promote and implement the original strategy.

The Strategy Formulation Process

The Development Strategy for the city of Niš was adopted by its city assembly in December of 2007. The document was a result of a year-long process during which more than one thousand civic leaders and representatives of a range of stakeholders contributed to its formulation. It was a participatory process based on the “learning by doing” approach.

Thousands of the city's inhabitants, young and old, participated in the process of shaping their city's future by taking part in civic initiatives and children's drawing competitions, expressing their hopes and wishes in face to face interviews, and answering questions in a survey about their needs and aspirations. All these contributions became ingredients of the vision of Niš at its best.

The City of Niš Development Strategy Vision Statement

A crossroads and a meeting point for people, ideas, cultures, and traditions; a leading city in the region, in economy, education, sport, and tourism; a center of sustainable development where high quality of life for all citizens is achieved.

Hundreds of Niš's citizens took part in public hearings and round tables discussing, drafting and commenting on the document. These discussions and public input sessions substantially improved the quality of the document as it was drafted by local working teams with the support of international experts.

Dozens of officers, public servants, representatives of local businesses, representatives of political parties and various interest groups, members of NGOs, and local experts, participated in workshops organized to accomplish two principal goals: (1) assessing the territory of the city of Niš, highlighting its strengths and weaknesses, and (2) choosing priorities and formulating strategic development goals. All workshops were organized in two modules: the “how to do” module consisting of learning workshops around participatory planning skills, and the “do it” module in which participants actually applied

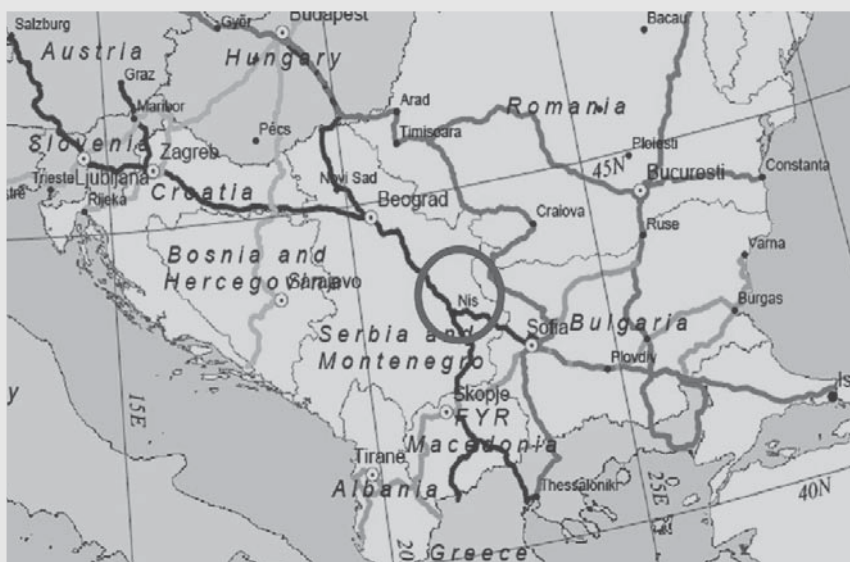
what they had learned in the previous module. In this way, the process of formulating the development strategy became a capacity building process as well. A sizeable number of participants developed their communication skills, analysis skills, and management skills, thereby improving the city's human resources for planning, strategic thinking, and governance.

A working group consisting of twenty municipal staff members did most of the technical footwork of collecting and assembling data and information. Without their engagement obtaining the empirical information needed for situation assessment would have proven difficult. Later, a team of eight local consultants carried out most of the technical analysis and drafting.²

The Main Challenges and Goals of the Strategy

The main goals of the strategic analysis for the city of Niš were: (1) to *assess* the potentialities and weaknesses within its territory, (2) to *reexamine* its position within the local, national, regional, and European context, and (3) to *draft* development alternatives.

Figure 1. Niš and Pan-European Road Corridors



2. Indispensable technical support was provided by UN-HABITAT, through its project office in Belgrade, and international experts from ERVET, the Development Agency of the Italian Emilia-Romagna region.

*Table 1. Snapshot of the City of Niš's Strategy:
Priorities and Strategic Goals (from the Strategy Document)*

OVERALL GOAL	
<i>Improvement of the quality of the local system of Niš, including job creation, business development, institutional capacity upgrading, and a general improvement of the quality of life in accordance with principles of environmental and social sustainability, which can satisfy the needs of present and future generations.</i>	
Axis 1	<i>Territory, infrastructure, and environment</i>
<i>General objective</i>	<i>The infrastructural and sustainable development of the territory is coordinated with environmental capacities considering the geostrategic and traffic position of Niš at European, national, and regional levels, while improving urban accessibility within the entire city territory.</i>
<i>Specific objectives</i>	<i>1. Balanced spatial and demographic development of urban, suburban, and rural areas</i>
	<i>2. Improvement of environmental protection, including pollution, above all solid waste and wastewaters</i>
	<i>3. Valorization, sustainable development, and the improvement of natural resources and cultural heritage</i>
	<i>4. Quality development of ICT structure</i>
	<i>5. Advancement of the system of still, dynamic, and public transportation (rail, road and air transportation)</i>
	<i>6. Ecological and technological improvement of the existing industrial/business zones and centers</i>
Axis 2	<i>Economic and business development</i>
<i>General objective</i>	<i>Creating a favorable business climate for investment, developing entrepreneurship, increasing employment, and strengthening the competitiveness of the economy of Niš; strengthening territorial marketing initiatives in order to improve the image of the city as an economic center.</i>
<i>Specific objectives</i>	<i>1. Establishing and promoting a financial and institutional support model for the development of entrepreneurship (SMEs and farms)</i>
	<i>2. Strengthening of regional and local economic development</i>
	<i>3. Improvement of tourist impressions of Niš</i>

Axis 2		Economic and business development	
<i>Specific objectives</i>	4. Supporting liaisons between the university and the local economy with a view to improving economic development		
	5. Promoting entrepreneurial, self-employment, and personal development initiatives		
Axis 3		Social development	
<i>General objective</i>	Creating an encouraging and safe social environment in which all citizens can express and fulfill their needs for belonging and identity, socialization, and personal growth.		
<i>Specific objectives</i>	1. General increase of safety and decrease of risk to life and health, property, social safety, and housing		
	2. Creating conditions for personal and social development		
	3. Creating conditions to foster a rich and eventful social life		
	4. Strengthening community through the inclusion of all citizens, improving solidarity, and developing the identity of “the citizen of Niš”		
Axis 4		Governance	
<i>General objective</i>	Strengthening vertical and horizontal governance and participation of citizens and stakeholders, implementing an efficient system for planning, formulation of policies, monitoring and evaluation.		
<i>Specific objectives</i>	1. Integration of institutions and competences and cooperation with municipalities and regions		
	2. Rationalization of instruments for the analysis of the city territory (databases, GIS)		
	3. Reform of local self-government, public services, economic institutions, and their coordination to increase territorial attractiveness for investments		
	4. Upgrading performance of public services in the planning and management of the development of the city territory		
	5. Reform of the local self-government system and development of institutional capacities		

The territorial assessment was done using a thorough stock taking and hard data analysis combined with reflective and SWOT analysis. Positioning the city in a new national and international context was a somewhat more intricate task.

Niš, once considered a regional center in the former Socialist Republic of Yugoslavia and a leader in the electronic industry, lost its position over the past two decades. Losing its competitive edge and its place in the market soon resulted in the loss of its talented and educated young work force.

Now Niš is part of a much smaller national market (the Republic of Serbia) with aspirations to keep its status as the center of Serbia's Southeast region. For this region and its more than one million inhabitants, the city provides important services including healthcare, education, cultural events, informational services, regional market hosting, and so on. The realization of this ambition is constrained by the loose and fluid territorial organization of the country, weak institutional links between local communities, and limited decentralization and municipal capacity, which result in heavy dependence on central government. On the other hand, the city lies on one of the main transport lines of Europe (Corridor X, see Figure 1), and it has well-established connections with a number of European cities and international organizations. This makes Niš not only a Serbian, but a Balkan and European city as well. In defining the city's identity and future, both local and European facets of the city had to be taken into account.

The core of the strategy consists of an overall goal and four strategic axes leading to that goal. Each of the four axes is defined by its own general objective and by a set of specific objectives as shown in Table 1.

The strategy and the process of its formulation was widely shared in international conferences and considered to be good practice.

The New Political Leadership and the Niš Development Strategy

Unfortunately, implementing the strategy was not resumed immediately. The whole of 2008 went by without much progress due to the change in city administration after the 2008 local elections. By the end of 2008, however, the *City Development Program for 2009* was prepared and formally adopted by the city assembly. This program explicitly referred to the city's development strategy, adopting some of its programs and organizing its activities following objectives set out in the strategy. The implementation of some of these projects started in 2009 and some projects were fully completed by the end of the year.

However, the implementation of the strategy had more hurdles to overcome. As can be expected, the new local government was reluctant to adopt as its own an agenda formulated under the previous administration. Using the argument that strategic development should reflect the city's immediate situation, the city's mayor insisted that new initiatives, new partnerships, and new projects should be included in the official strategic documents, in order to reinforce the agenda as their own creation. This was put forth as justification for the formulation of the *Operational Program 2009–2012*, a document expected to elaborate the strategy into a mid-term implementation plan, with clear indication on funding sources.

Working on the new operational program was also used as an opportunity to update the original strategy. Changes included correcting factual errors, updating statistical data, and removing activities that had already been completed by 2009. Overall, the changes were marginal and the form won over substance: the strategy document was reissued with a new cover page and a foreword by the new city mayor (Figures 2 and 3).

Figure 2. The Original Cover of the CNDS

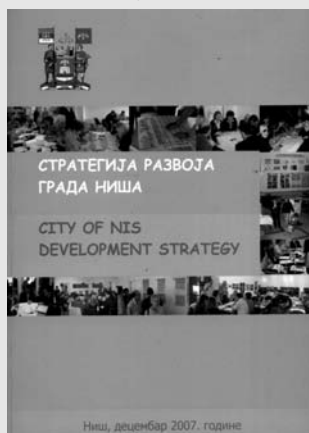


Figure 3. The New Image of the CNDS



An important part of the operational program was a detailed communication plan. The three main purposes of the communication plan were to increase the strategy's visibility, to familiarize the local population with the strategy (its main objectives and axes) in order to involve them in the implementation process, and to inform potential investors and/or donors regarding opportunities offered by the city. The communication plan included the new graphic standard designed to improve the visual consistency of all publications related to Niš's strategy development.

Implementation of the Strategy

Concerning strategy implementation, three key issues were raised. The first issue concerns the institution *or mechanism* for implementation, the second concerns *financing*, and the third refers to the *sequencing* of activities and projects.

Regarding the *mechanism* for implementation, one of the “ready to go projects” listed in the original strategy was the “Establishment of a Special Local Development Unit,” the main task of which was to manage local development through formulation, updating, and implementation of the development strategy. The unit was supposed to operate under the supervision of the city development council nominated by the city assembly. Some of the members of the body were supposed to be involved in the formulation of the strategy.

However, the new leadership took a different stance. They delegated the task to the existing local economic development office under the justification that the development of economy should have priority over all other development issues. The local economic development office is organizationally linked to the city council that in fact works as the mayor’s cabinet. However most of those working in the office have not participated in the strategy formulation. Further, delegating implementation and coordination to this office meant excluding the city officials and public servants who were engaged in the formulation of the strategy. In this way, the strategy became tightly connected to the local executive, but lost its bonds to the citizens and their representatives in the city assembly.

As for the issue of *financing*, the low revenue base of the city was found to be a key challenge. The strategy relied heavily on external sources of financing for its implementation. Among others it counts on the National Development Fund, National Investment Plan, foreign sources of financing such as IPA (the EU’s Instrument for Pre-Accession) and other EU Programs, loans from international financial institutions (such as the EBRD, EIB, and World Bank), as well as private investments. The problem is that such sources are not easy to access and when accessed, they involve conditions that local governments cannot easily meet. For example, the national government (which is in control of some of the above funds) has its own priorities and often allocates significant resources for projects of national importance but not necessarily of high priority to the Niš Development Agenda. This is illustrated by the pending construction of a 9,000-seat capacity sports center which is to be built

in Niš as part of preparations for the 2012 European handball championship hosted by Serbia. The value of this investment amounts to more than EUR six million. At the same time, projects that are of high priority on the local agenda have yet to receive funding from the National Investment Plan.

Another example is the establishment of a logistic and cargo center in Niš. The cargo center is one of the central projects for the development of the city economy. The project is worth more than EUR 60 million and the city of Niš has found a partner willing to invest in it. The contract was signed but its implementation was delayed for more than a year because the laws regulating the necessary paperwork were not passed in the National Assembly on time.

Finally, *sequencing* the strategic implementation is also determined by circumstances beyond the control of the local government. In principle, the implementation steps have been set out by the three-year operational program, the annual city development program and the budget. These three documents form the city's bylaws; however, unplanned and emerging opportunities frequently demand quick responses from the city's leadership. Although their responses do not affect either development objectives or the list of projects planned, they do change the priority of implementation by boosting projects with secured external funding, while delaying implementation of projects without it.

The Politics of Strategy Implementation

The Development Strategy of Niš enjoyed wide support from all sides during the process of its formulation. However, the implementation process could be expected to cause some disputes on the local political scene. The debate surrounding the local budget for 2010 in the city assembly was the first instance of such a dispute. In spite of a general agreement and support of the priority development projects identified in the strategy document, there has been heated debate over allocation of public funds for their financing.

Similar debate could be expected outside city hall as well. Broad participation in the strategy's formulation inspired high expectations from many stakeholders. Political parties, NGOs, inner-city municipalities, and private companies are still proposing projects that more or less fit the strategy's objectives and they continue to expect local governmental support - financial and otherwise - justifying their claims by citing correlation between their proposals and the strategy document. Of course, not all projects can expect support, which may fuel further argument regarding the priorities.

Dissemination of Strategic Thinking

The strategy's formulation revealed that in many areas and aspects of community life there had not been a clear idea about what the city's development goals could be and how those goals should be achieved. The strategy document offered the community an opportunity to clarify and fill those gaps. Yet there remains work to be done. Some of the strategic axes need further development and elaboration regarding sector strategies. At the moment, several task forces are at work on specific strategies for security, social policy and protection, culture, youth, waste management, tourism, health and sport, as parts of the implementation of Niš's territorial development strategy. In addition, there are many references to the strategy within recent official documents and during the public appearances of local appointed officials. This illustrates the successful penetration of the strategy into the political and public spheres.

Lessons Learned

The change of political power can hinder the process of a strategy's implementation. It is recommended to formulate a strategy and to build the mechanisms of its implementation well before elections.

If the change of power happens before the strategy takes root, it is possible that the new leadership will initiate its own new process or change priorities. In such an instance, it may be more important to win the new leadership's support for the strategy's general objectives than to preserve the original strategy in its entirety. In the case of Niš, because of the broad popular and political support the strategy enjoyed, the new leadership tried to assert its own agenda through a process of programmatic elaboration, while being careful to keep the core of the original strategy intact.

Strategic thinking, civic engagement, and local capacity are among the key outcomes of the process of strategy formulation and implementation.

Finally, developing strategies has proven to be a self-generating process. Once strategic thinking is introduced to a community, it tends to spread into all spheres of life.

Reference note

This article is the product of the authors' own research and documentation. It is based on the original material produced for strategy formulation and updating. Further information can be found at: <http://www.ni.rs/city-strategy.html> and in Ramirez, L. et al. (eds.) 2008. *SIRP BOOK*. Belgrade. UN-HABITAT SIRP.

4

Learning from Croatian Comparative Cases

Strategic Programs in Virovitica, Šolta, Samobor, and Benkovac

*Irena Đokić*¹

Introduction

Croatia's transitional period, marked by its conversion from a socialist to a market economy, led to changes that have influenced development planning in the country to a certain extent. Often, fragmented local planning was the norm, but the transition required a shift in perspective toward an integrated way of thinking, and a more holistic approach to development. During the last decade, participatory methodologies, which promote an integrated approach to local development planning, have been used in a number of cases in Croatia.

This paper explores the specifics of four Croatian cases where the participatory methodology was used during the creation and/or implementation of strategic programs for development. The paper will draw conclusions that illuminate both the negative and positive aspects of the applied methodology. The four selected cases were chosen based on their different circumstances:

- The town of Virovitica was chosen as a war affected area that primarily utilized a “*top-down*” approach which resulted in a feeling of a lack of ownership, and led to an implementation failure.
- The island of Šolta was selected because of a specific regulatory framework that refers to the Islands Act. A combination of a “*bottom-up/top-down*”

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approach generated wide implications for Croatian development planning practices, and had a critical positive impact.

- The town of Samobor started preparing its own program and requested methodological assistance. The town's approach is considered "bottom-up" and is characterized by local ownership and local links to implementation.
- The last case refers to the town of Benkovac, which had stable political conditions, a mayor with a clear vision, and leadership that enabled a smooth process of program preparation, followed by well-managed and controlled program implementation. The four cases are summarized in Table 1 and located in Figure 2.

Table 1. Selected Cases and their Particularities

VIROVITICA	ŠOLTA	SAMOBOR	BENKOVAC
- war-affected area	- island municipality (special regulation - Island Act)	- developed town in the vicinity of Zagreb	- area of special state concern
- top-down approach	- mixture of bottom-up / top-down approach	- bottom-up approach	- bottom-up approach
- change of leadership with negative impact on the development planning process	- change of leadership with positive impact on the development planning process	- changing political circumstances with impact on stability (and dynamics) of the process	- clear vision and a strong leadership in a stable political context
- low capacity in participatory planning practice	- low capacity in participatory planning practice	- moderate capacities including internal institutional capacity assessment	- low capacity for program elaboration
- implementation failure	- implications for Croatian development planning practice	- establishment of a responsible body for program development	- parallel adoption of budget and strategic program
- lack of ownership	- low to moderate degree of participation	- moderate degree of participation	- steered program implementation
- low degree of participation			- moderate to high degree of participation

Experience shows that preparing strategic development programs is less demanding and more feasible than program implementation. One of the frequent problems encountered during implementation is described as "Tuesday morning syndrome." City/town council meetings in Croatia are often held on Mondays. On Tuesdays, the council is expected to take the first implementation steps, but unfortunately this doesn't often happen. Practice in the selected cases demonstrates how this syndrome can be overcome and cities can improve the preparation of the strategic development documents, among other things, as tools for receiving EU funds.

The Planning Framework in Croatia

The word “planning” is common and well-known from socialist times, (centrally planned economy, physical planning, production and/or manufacturing planning). As part of the ex-Yugoslavia, Croatia was centrally planned, managed, and controlled for years, and this has left its traces. In 2000, the Vice-Prime-Minister’s office, supported by an international organization,² initiated the implementation of a project to strengthen the capacity for regional development. This project defined the framework for regional development and for planning in Croatia, and laid the first foundations for a modern local and regional development planning system in accordance with EU regulations.

Within this planning framework, a set of documents (laws, strategies, programs, plans, etc.) determining local development directions were adopted at different governmental levels. Table 2 depicts the set of Croatian development documents at different levels.

In order to be effectively managed, this complex planning framework requires a good deal of exertion and structural capacity. Table 2, though not fully exhaustive, clearly shows the different institutions directly or indirectly in charge of local development. Such environments often impede the process of successful planning and implementation.

The Tradition of Spatial Planning

“Planning” in Croatia primarily refers to spatial planning. The practice of spatial planning has existed for decades; spatial plans have been used as planning tools at the national, regional, and local levels. However, spatial planning is static and does not actually involve a development dimension. Rather, it is a tool that helps to manage space in an efficient way and does not encompass the other aspects of a complete planning process.³

Local Development Planning in Croatia

Local development planning is a strategic process and a management tool for public administration that has been utilized in Croatia over the last decade for the allocation of existing resources (internal and external) in a more effective, coherent, and transparent way. Development planning ensures that working partnerships with major partners (government, relevant ministries, implementing bodies) achieve their objectives and goals.

2. The German International Cooperation Office, GTZ.

3. See more in Healey (2007).

*Table 2. Development Documents and
Corresponding Governance Responsibility for Implementation*

<p align="center">DEVELOPMENT DOCUMENTS</p> <p align="center">By sectors: economic, social, environmental, spatial, public administration, etc.; or integrated</p>	<p align="center">GOVERNANCE RESPONSIBILITY</p> <p align="center">Political and administrative</p>
<p><i>International and EU-related programs:</i> -Integrated pre-accession program – IPA -Sectoral Strategies -Strategic Coherence Framework -Transnational Cross-border Operational programs</p>	<p><i>International and national level</i> - Government offices and ministries</p>
<p><i>National development strategies, programs, plans:</i> -Strategic Development Framework, -Law on Local Self-government and Government, -Law on Financing Units of Local Self-government -National regional development strategy, -National spatial planning strategy, -National Environmental Action Plan, - and more than 100 other documents</p>	<p><i>National level</i> - Ministries, agencies, institutes - State offices</p>
<p><i>Regional development strategies, programs, plans:</i> -Operational programs to be implemented on NUTS II regional level;</p>	<p><i>National and regional level</i> - Government office, ministries, and groups of counties</p>
<p>-Regional operational programs or county development strategies on NUTS III level; -Cross-border Operational programs on NUTS III and IV level</p>	<p><i>Regional level</i> - County authority (Local Self-government Units - LGUs)</p>
<p>- County spatial development plans</p>	<p><i>National and regional level</i> - County authority and planning institutes, ministry</p>
<p><i>Subregional development strategies or programs:</i> - Sustainable island development programs</p>	<p><i>National, regional, and local</i> - Ministries, counties, LGUs</p>
<p><i>Local development strategies, programs, plans:</i> - Local socioeconomic development strategies, - Local spatial plans and physical planning documents - Programs of comprehensive development</p>	<p><i>Local level</i> - at first stance – local authorities, but: - higher level approvals necessary for implementation of programs, plans and projects - need to be coordinated with all responsible institutions from higher governance levels (county, ministries, etc.)</p>

Source: Adapted from Đokić and Sumpor, 2007.

In compliance with EU regulations endorsed by the national government, all 52 bodies of the state administration have to prepare their strategic plans for a three-year period.⁴ The plans outline developmental needs, detailed objectives, and expected outcomes, including a brief indication of the resources available for achieving the stated objectives. The priorities indicated in each strategic plan are the inputs for the so-called “Strategy of Governments’ Programs” which is adopted by the government and serves as a basis for the preparation of a yearly budget.

In terms of strategic planning at the regional level, a number of regional operational programs have been prepared in the last several years. The programs adhere to the European regional development planning methodology and principles.⁵ These documents have an impact on local development planning in Croatia in that they affect the balance of priorities, objectives, measures, and, ultimately, the resources that will be allocated for different activities.

At the local level, a number of local governments have prepared local development strategy documents, but it is still unclear to what extent these methodologies are organized and how successful their implementation has been. Recently, courses on regional and urban development (including planning at all levels, urban economics, and urbanism have become a part of the university curriculum in Croatia. There is still a shortage of planners with a broader and integrated picture of development. The acquired practice has yet to be understood, especially in terms of resources, tools, methods, and evaluation with system indicators.

Evolution of Croatian Participatory Planning Practices within the EU Multilevel Governance Environment

The concept of multilevel governance is a product of the EU integration process. EU access requires that numerous prerequisites be met, such as the organization of the regulatory framework that impacts Croatian planning practices. Programming, as one of the instruments of a transparent and sound funding stream, requires compliance with the development documents at different levels. The possibility of accessing EU funds to finance development projects at the local level requires a larger number of local

4. Budget Act, Articles 22–24, *Official Gazette*, 87/08. During the spring of 2009, the triennial plans were prepared for the first time according to the organized methodology proposed by the Ministry of Finance.

5. Regional Operational Programs have been prepared for 20 counties (lower tier of government in Croatia). The city of Zagreb, having a dual status (city and county are one unit) has yet to prepare the document.

strategic documents to be produced, even if they are not based on the analyses of true needs. Documents are prepared merely as a reference to higher level programs in order to ensure smoother and easier access to EU funds. This leads to a distorted approach to development planning. A balanced set of selected projects in terms of integrated approaches (sustainable development encompassing different levels, sectors, and areas) should be the result of a complete planning process in which the identified and relevant stakeholders have actively participated, rather than a set of projects based on short-term financial benefits.

As the democratic process has evolved across Eastern Europe in the last decades, so has the role of community participation in the planning and implementation processes of community projects. This is evident in the following Croatian case studies.

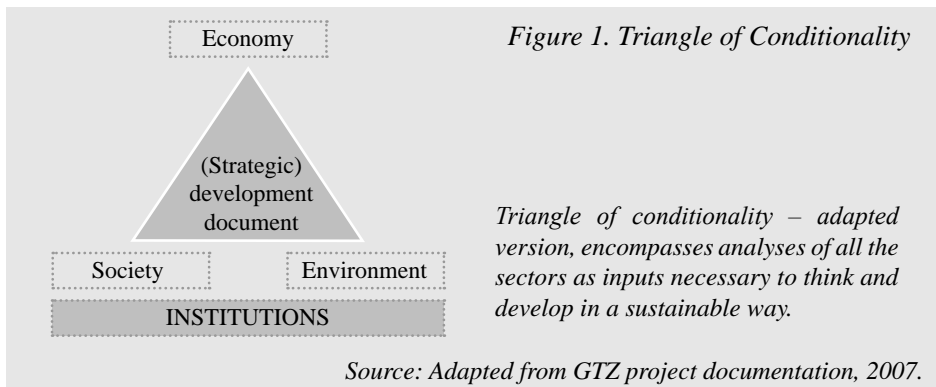
The Participatory Methodology in Strategic Planning at the Local Level: Four Croatian Case Studies

The four cases analyzed in this paper used the common methodology of the “Goals-Oriented” planning model (approved by the government and the supporting international organization,⁶ that together also selected the cities/ areas studied here). In all cases, the following steps were taken:

- Preparation phase (assessment of readiness of the potential beneficiary, establishment of development boards and development teams, kick-off seminar) that varied from case to case depending on where the initiative was undertaken.
- Analytical phase (conducting SWOT analyses of economy, environment, and society sectors, see Table 2; participatory workshops; combination of measures and the integration with existing political programs), including external or internal analyses of the capacities of each local government. Problems were identified based on the possibility of transforming them into achievable objectives, and were identified during workshops with stakeholders.

6. Three cases, Virovitica, Šolta, and Samobor, were promoted by the Croatian government, supported by the GTZ, the German International Cooperation office, in collaboration with the experts from the Institute of Economics, Zagreb (EIZ). The development of the Benkovac program was independently carried out by the EIZ with the same methodology.

- Development phase of the plan of objectives/results, strategies, programs and a yearly action plan for the first year of the annual strategic plan (indicating objectives, resources needed, priority, roles, and responsibilities for implementation).
- Public hearings. This phase varied from case to case and was done depending on the level of interest of the staff in charge, and the availability of time and resources.
- Adoption of the strategic program by the development board, city board, and/or city council depending on each case.
- Preparation and adoption of the budget (including financial allocations necessary to finance the activities of the first year). The simultaneous approval of the strategic document and the budget was not always achieved in all four cases.
- Implementation of the first year activities. This was the critical phase; true and complete implementation occurred in only one case.
- Monitoring and evaluation (internally), updating and further consulting (externally). This phase was not set-up completely in any of the cases and it is something that should be fostered because experience in this area is lacking.



The result of the process in all four cases is a document containing the local administration's objectives for overall development, including all information gathered and assimilated in all steps.

The Town of Virovitica

Virovitica was selected as the first pilot project in which the development planning participatory methodology described above was applied. This case is considered in this paper as a *top-down approach* since it came from an external initiative. As explained in the introduction, Virovitica and its territory

have been impacted by the war but still have good developmental potential and are suitable for a pilot project.⁷

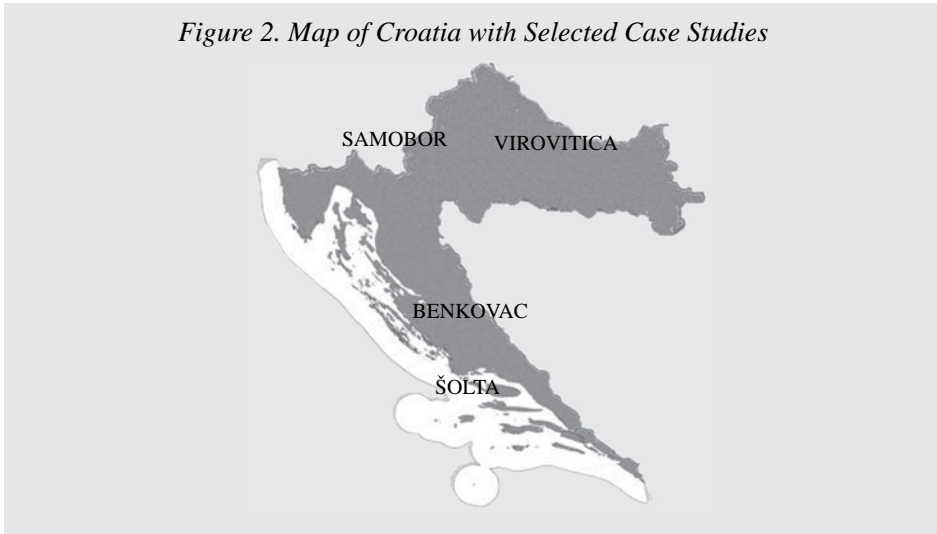
The *top-down approach*, overestimating the readiness of the potential beneficiary, proved to be applicable only to a certain extent in the preparation phase. Most of the analyses were carried out by external experts. The teams were established and they undertook the analyses of five different sectors (economy, social sector, environment, spatial planning, and institutions). Results were discussed intensely at the City Board session. Possible contradictions and conflicts between categories were avoided as long as mutual understanding of the meaning of the statements was reached. During the elaboration phase, the political structure changed (the mayor was replaced), which slowed down the process, but in the end led to the adoption of the strategic document.

Achieved results

The applied participatory methodology reflected an improvement in the local government's decision-making process, and raised awareness of problematic local issues. But it was contrary to consultants' opinions (Starc 2004) that: (i) implications of participation are especially recognizable when it comes to the question of ownership and the commitment to changing traditional ways of thinking; (ii) the inappropriate level of participation and incomplete selection of interest groups, as well as predominance of external assistance, can have serious consequences during the implementation phase; and (iii) ownership and commitment are more likely to occur if people have the option to be involved in the decision-making process during the project. Virovitica demonstrated that an unclear understanding of the process, and the loss of a sense of active participation, resulted in *a lack of ownership* and lead to an *implementation failure*. As far as the implementation phase is concerned, there are no significant outcomes and the document has not been recognized as a powerful political decision-making tool in the town of Virovitica. In this particular case, the *top-down* approach did not prove to be an adequate development planning instrument at the local level, especially with the political sensitive environment in Virovitica at that time.

7. At that time, the town of Virovitica did not have any experience in similar projects and the international organization had already prepared some projects that could have been part of a development strategy. Additional criteria for the selections were: the vicinity to the Hungarian border and thus with cross-border cooperation opportunities; relatively good infrastructure connections; important regional historical center and a strong willingness for cooperation from the local administrative staff.

Figure 2. Map of Croatia with Selected Case Studies



The Island of Šolta

In April 2001, the same pilot program was initiated on the island of Šolta in Split-Dalmatia County. The pilot site was chosen among 26 islands and island groups, for which the Sustainable Island Development Program (SIDP) was prepared based on the Island Act.⁸ Due to the complex regulatory framework, local development on islands depends much on the smooth functioning of bottom-up/top-down relations, which develop gradually in Croatia.

Article 4 of the Island Act states that: “The Croatian government prescribes the mandatory content and the methodology for preparation of sustainable island development program as proposed by the Ministry.” However, the Island Act and the Act on Local and Regional Self-governments⁹ could collide if a municipality located on an island is not interested in preparing programs in a collaborative way. Furthermore, the Ministry (Sea, Transport, and Infrastructure, MSTI) does not have many instruments to mandate the municipalities to prepare such programs, but will still assist the local autonomous governments during the preparation of their program, and together with the local administration, propose the SIDP to the government for approval.¹⁰

8. In August 2001, the Croatian government adopted the Decree on Mandatory Content and Methodology for the Preparation of Sustainable Island Development Programs (*Official Gazette* 94/02).

9. *Official Gazette*, 33/01

10. Article 6 of the Island Act: “The Ministry shall in cooperation with responsible bodies

The first contacts and discussions in Šolta led to the conclusion that the municipality (the only one on the whole island) needed support for program elaboration, since development attempts in the past have been sporadic, uncoordinated, and the municipal administration had difficulties with development management. After several meetings and frequent communication, the readiness of local actors for participation in the work of development councils was positively assessed. During the preparation of the program, close and continuous cooperation with the mayor and with the existing political parties was maintained in order to assure a sense of ownership among participants, even through post-election administration changes.

Achieved results

Putting in practice the *bottom-up/top-down* approach for the preparation of the Development Strategy for the Island of Šolta assumed the cooperation of the Department for Island Development of the MSTI and with other ministries responsible for the implementation of some sectoral measures.

The prepared program document, adopted by the Municipal Council in January 2002, was sent to the MSTI for adoption in August 2002. After the second round of consultations, the Program for the Sustainable Development of Šolta was adopted by the government of Croatia in November 2003.

Even though an unexpected lengthy time gap between the adoption at the local and national levels occurred, it did not hinder the municipality of Šolta from initiating implementation of their SIDP before official government adoption. As an example of sound and transparent resource management, this process served as a model that led to the elaboration of SIDP on all the other Croatian islands and island groups, thus generating significant influence on the islands' development planning practice.

This first example of a broadly coordinated development strategy, despite the long wait for central approval, provided a good example of the *bottom-up/top-down* approach for all of the stakeholders, ministries, local governments, and local consultants involved. It also provided the basis for some preliminary observations regarding the methodological approach, which can be summarized as follows:

of coastal-insular counties and coastal and coastal-insular cities and municipalities prepare drafts of programs for sustainable island development...,” and Article 7: “The government of the Republic of Croatia adopts Programs of sustainable island development as proposed by the Ministry and local self government unit....”

Table 3. Evaluation of SIDP Methodology Following the Case of Šolta

ADVANTAGES OF THE SIDP METHODOLOGY	DISADVANTAGES OF THE SIDP METHODOLOGY
<ul style="list-style-type: none"> - Clear structure for all necessary steps - Flexible approach to the development process - Participation was fruitful and well accepted - Tolerance and democratic discussion can be enhanced through good guidance - Creation of a coherent local government management tool - Involvement of local experts gives better insight into current circumstances and problems. 	<ul style="list-style-type: none"> - Long-lasting adoption procedure by the Croatian government - Many miscalculations in the operational plan due to lack of know-how of local government officials and professionals - Lack of synchronized adoption procedure of strategic and operational plan with the local government budget - Top-down (or external) initiative of Local Development Strategies (by the Ministry) caused difficulties in accepting ownership of the development document.
<p>Source: GTZ and Consultants Project documentation, 2007.</p>	

The Town of Samobor

At the end of 2001, a few ambitious people from the Samobor Town Board initiated the preparation of a strategic development program for a 10-year period with a *bottom-up*, or internally driven initiative approach. They approached experts from the cooperating partner institutions¹¹ that offered their assistance and proposed the participatory model. It turned out, during the preparation, that the *bottom-up* initiative was relevant for the initial implementation activities. As witnessed by the Samobor townspeople, documents that had not been asked for, but were produced “externally,” had never been implemented.

At the beginning of 2002, the Samobor Development Council was established. It assembled competent and highly motivated individuals, whose expertise covered a variety of professional fields, important for the conduction of situation analyses. They agreed to prepare and supervise all necessary steps, ensure technical and administrative back up from higher administrative levels, and report on the ongoing processes. The Development Council, advised by the experts, organized a kick-off meeting and gathered teams that undertook the SWOT analysis. Joint involvement of local and external experts from the very beginning secured the path for further participation and obtained the consensus on primary development issues.

11. GTZ and EIZ.

The Samobor Development Council expressed a positive attitude towards conducting the SWOT analysis. Besides the economic sector, the social, environmental, spatial planning, and institutional/government sectors were examined. This last sector was a completely new experience. During the socialist era, the functioning and performance of institutions was not to be questioned by default. Nevertheless, the administration of Samobor, becoming aware of its own disadvantages and was brave enough to cope with this new way of thinking and observing (an introspective view of its own “health” was not an easy task for those insiders dealing with the analyses).

From the very beginning, even if not entirely familiar with the idea, the administration was very supportive of developing a strategic document. In the mind of some politicians though, the support was due to the idea that the elaboration of a development program assumes actual development. This would implicitly encompass the implementation of their political programs leading up to the following electoral period. This is just perhaps the foundation, since the implementation of a strategy requires much more engagement than printing pages of well-written documents.

Achieved Results

During the elaboration phase, as in all previous phases, program measures were discussed with stakeholders and politicians until the local government approved it. The draft program document, including the communication strategy, was presented at a number of public hearings and obtained a wide and positive public response.

Table 4. Achievements of Samobor Pilot Program

ACHIEVEMENTS OF SAMOBOR PILOT PROGRAM	
- <i>bottom-up approach</i>	- <i>high quality of public hearings</i>
- <i>political consensus</i>	- <i>high level of participation</i>
- <i>internally-based institutional capacity assessment</i>	- <i>high degree of ownership</i>

The Town of Benkovac

The emerging need to create strategic local development documents in order to access the EU’s financial resources, led to increasing requests for technical assistance from potential beneficiaries. Simultaneously, each new engagement strengthened the capabilities of the experts involved,¹² as in the case of the

12. Primarily this refers to the EIZ staff.

town of Benkovac, which is considered an example of a *bottom-up* approach and internal initiative. The mayor of the town, from the beginning, had a *clear vision* for future development. He also had all the necessary leadership characteristics and thus played one of the most important roles in the process. Furthermore, a clear division of responsibilities and tasks among the staff and a stable political environment ensured a smooth process for the preparation and subsequent implementation of the overall strategic development program for Benkovac.¹³

During the course of developing the planning documents, it is important to consider the existing policies, budget, programs, and plans. If not, the result is overlap, the wasting of resources, and policy and institutional conflicts that can derail and undermine the whole process.

Achieved Results

The new strategic program was detailed in a table of long-term measures and projects, and an operational plan in which the resources for implementation were estimated. A key element was the link established between the budget and the operational plan. Sufficient time was allocated for both the budget and the operational plan to be discussed, separately and in conjunction. The resources needed for the implementation of the operational plan were incorporated into the budget. This ensured that the projects were not wish lists, but doable and feasible initiatives with clear links to the local budget.

Based on group discussions, the identified objectives, measures, and projects were prioritized and organized. For each project, a responsible institution, the degree of priority, the implementation period, and expected expenditures were determined and summarized in a table covering the planning period between 2006–2010. The table included priority actions that were supposed to be undertaken beginning in 2006. This was used as a guide for budgetary planning and to attract co-financing investors, and also as a tool for citizens to track and gauge the performance and delivery of their local and regional governments.

The citizens of Benkovac have shown strong interest and motivation, and have actively participated in prioritizing the projects, and integrating them with the budget. Soon after the adoption of the document, a workshop was organized to prepare a consolidated program budget that incorporated the prioritized projects. The council in one session deliberated over the strategic

13. The full name of the document is: *Strategic Development Program for the Town of Benkovac and the Municipality of Lišane Ostrovičke*. The term “development” in the document refers to the development of economy, society, space and environment, and institutions, and thus is comprehensive.

plan and the budget, one after the other, and adopted them both. The linking of resources needed for the implementation of the program with the budget demonstrates a new approach to program based budgetary planning.

Lessons Learned from the Four Croatian Comparative Cases

A key challenge to planning in Croatia has been poor implementation. Often, otherwise well-developed plans are not implemented for various reasons. Once the documents are prepared, the enthusiasm and effort fizzles out. Since city/town council sessions as a rule take place on Mondays, this phenomenon of hyper-planning followed by no or weak implementation is referred to as “*Tuesday morning syndrome*.”

The reasons behind weak *implementation* include the low participation of interest groups during the whole process, or during the phases where a high degree of participation has to be ensured, the poor linking of projects to the municipal budget, inadequate assignments of tasks, and an unclear division of responsibilities among the staff. The experience highlighted in this paper sheds light on the crucial role of linking strategic projects with municipal budgets. Though the strategic program and the municipal budget are still separate processes and not consolidated into a single framework, the links created through the process underline a step in the right direction.

A strategic program disconnected from the budgetary process is unlikely to be implemented. Also, if such a document is perceived (and prepared) merely as *a tool for receiving EU funds*, the opportunity for mobilizing local resources and capacities, and exploiting development potential of a territory, is missed.

Croatia is still in the process of gaining EU accession. The requirements for regional policy and programming, and the participatory methodology, will have a positive influence on the current development-planning framework in Croatia on all levels of government. Because of the central planning legacy left from the socialist period, progress toward modern and integrated participatory planning is naturally a slow process. Adopting *strategic local planning as a tool for achieving sustainable development* requires a paradigm shift from a top-down to a bottom-up approach, involving community engagement. It also requires local leaders and advocates with commitment and vision.

Prior to initiating the preparation of a development document, applicability of the *participatory methodology should be “tested.”* Those who are initiating the process should assess the local capacity and context

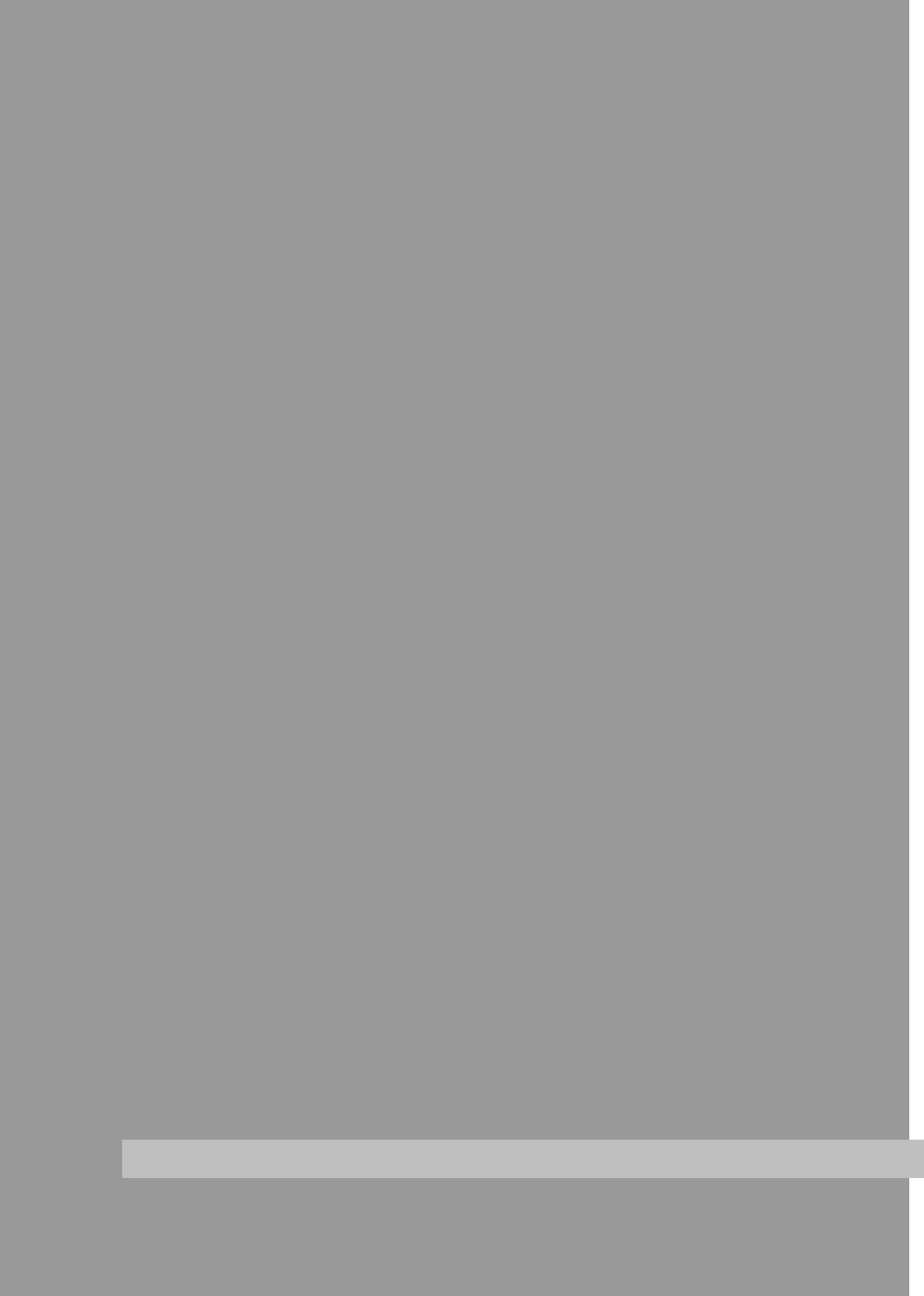
and adjust these findings to their actual situation. This is especially important since local development planning does not happen in a policy and institutional vacuum; and there is always an interplay with national policy, and legal and institutional contexts. As is obvious from the case of Šolta in Croatia, the need for coordination and the organization of policies, key players, and activities from the bottom-up and vice versa is crucial for successful implementation.

Ensuring the readiness of the communities to take part in the plans elaboration and implementation process is critical. It should be a demand driven and locally owned process. Otherwise, whatever plan's is prepared will remain disconnected from reality and remain on the shelf. The same will be the result if a planning document is perceived as the articulation and fulfillment of formally set or imposed regulations, laws, or decrees.

Vision and leadership are also key elements of success. Even though people's level of motivation and energy could fluctuate during the process, committed and charismatic leaders will keep it moving. Clear vision and a dedicated leader, who is capable of managing the process in a constantly changing environment is equally critical.

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5

Ljubljana: Strategic Development for Competitiveness and Sustainability

Nataša Pichler-Milanović¹

Introduction

Ljubljana, Slovenia's capital city, has transformed significantly in the last two decades; this transformation is primarily driven by internationalization and Europeanization following Slovenia's accession to the Europe Union. The planning system, partly due to the stigma attached to it from the socialist period and partly due to market reform and liberalization that followed the collapse of the socialist system, was in flux throughout the 1990s. Under a new planning act and institutional framework, Ljubljana embarked on preparing its Urban Development Strategy and Spatial Development Plan in 2002, and much of the work was completed by the end of 2007.

This paper highlights the competing development objectives that the new spatial-strategic plan had to address, the salient features of the planning process (or lack thereof), and the changing role of the local government in the new socioeconomic and political context. It also highlights the challenges of intersectoral and intermunicipal integration and the vertical coherence of development plans, arising from dynamic national policy changes and lack of regional administrative structures.

The first part of the paper highlights the economic, social, and political significance of Ljubljana, and its rapid spatial, economic, and demographic transformation in the wake of Slovenia's accession to EU. The second part outlines the key policy, legislative and institutional changes that characterized

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planning system. Part three narrates the story of the spatial strategic plan that Ljubljana pursued and highlights the tensions between the different development objectives encapsulated in its vision for smart growth. To conclude, the paper outlines the outlook for the future and scenarios regarding the feasibility of Ljubljana's spatial plan. It ends with suggestions on how to keep the spatial development strategy document a living document through continuous monitoring, learning, and improving.

Formation of the Capital City and its Internationalization

Ljubljana, home to approximately 250,000 inhabitants, located at the crossroads of Central Europe, the Mediterranean and South Eastern Europe, is the "beloved city of the nation" and historical cultural capital of Slovenia, a country of two million inhabitants. Two major events have transformed the city and influenced its development over the last two decades: independence from Yugoslavia in 1991 and EU accession in 2004.

The processes of political, economic, and institutional reform in Slovenia began with independence from the former Socialist Federal Republic of Yugoslavia in 1991, which rendered Ljubljana a political capital and an international city. Ljubljana's capital city status is apparent visually through new ministries, government offices, and embassies, and the presence of international organizations and foreign companies. The processes of political, economic, and institutional reforms in Slovenia have shaped the transformation of the inner and outer urban development of Ljubljana and its territory.

But the overall spatial development of Ljubljana over the last two decades was not the result of the urban development strategy adopted in 1986, but due to (i) macroeconomic reforms and sectoral development policies in the 1990s leading up to full-fledged EU membership in 2004, (ii) the relocation of economic activities and public services in the capital city of Ljubljana, and (iii) *ad-hoc* development decisions of "investment-led" public authorities in the city of Ljubljana and its urban region.

Ljubljana's integration into the world economy has been reinforced not only by economic links, but through membership and cooperation within global networks, European organizations and institutions, and regional and cross-border associations. Internationalization has also meant further development in transport infrastructures (new motorways, the Adriatic port of Koper, Ljubljana's international airport), telecommunications, and the introduction of the information society (e.g., commerce, banking, governance, etc.).

Box 1. Socioeconomic Data on Ljubljana and its Territory

Almost 40 percent of Ljubljana's inhabitants are employed in production services (such as trade, catering, transport and infrastructure, financial, real estate, and business services) and 30 percent are employed in consumer services (public administration, education and research, health services) – and less than 30 percent are in industry. More than 40 percent of all jobs in consumer services in Slovenia are located in the Ljubljana urban region, which houses less than 25 percent of the total population. Key employment features are the concentration of services in the city while secondary activities, especially manufacturing, still dominate in municipalities outside the urban agglomeration. The most important companies in Slovenia by sales, exports, number of employees, capital, and net profit are based in or near to the city of Ljubljana. The Ljubljana urban region (LUR) with 13 percent of national land and 25 percent of the total population represents the most important location of economic activities, generating 35 percent of the country's GDP. GDP per capita in LUR was 30 percent higher than the national average. LUR accounts for 27 percent of exports and 37 percent of imports, 40 percent of the total value added, and almost half of all foreign investments in Slovenia. Productivity (e.g., value added per employee) is more than 25 percent higher than in the rest of Slovenia, while the average salary is 20 percent above the national average, mirroring the concentration of employment in higher value added activities (banking, insurance, public administration, pharmaceuticals, etc.), and showing a rather successful transformation from a “socialist industrial city” to a “service and knowledge-based European capital city” (for more information, see Pichler-Milanović [2005] and <http://www.rra-lur.si>).

EU membership in 2004 further reinforced the position of Ljubljana as a capital city in different European urban networks, deepening the city's role with respect to other nearby cities in the cross-border Alps-Adriatic region, especially Zagreb, the capital of Croatia, Trieste (Italy), and Graz (Austria).

Before 2001 Ljubljana internationalized as a result of the new state's engagements, participation in public and private institutions, companies, social groups and individuals, networks and associations – not as a result of an explicit internationalization strategy (Pichler-Milanović 2002).

The effects of the development process reflected on the city's structure. During the last two decades the population growth concentrated in Ljubljana's urban region while population decline characterized the city center as a result of intensive suburbanization and urban sprawl. Total employment in Ljubljana's urban region declined during the 1990s, with job growth mainly in public administration and financial services in the city center. In the 1990s, housing construction was delayed in the city of Ljubljana due to poor maintenance. Furthermore, differing property prices between the city and its

surrounding areas, and wage differences between Ljubljana and Slovenia (better paid jobs in the city for an educated and well-qualified labor force), resulted in an increase in the daily commuting for those in the administrative, service, and commercial sectors.

Nationally, Slovenia is notable for its dispersed population structure. Only about 60 urban settlements are officially “towns,” with Ljubljana the largest, but containing only 15 percent of the total population. This relatively low primacy rate is related to the specificities of the urban and settlement system and the polycentric urban and regional development policies in Slovenia from the 1960s onwards. Ljubljana has developed into a medium-size city, avoiding the more pronounced urbanization seen in Belgrade and Zagreb.

Key Policy Reforms and Institutional Changes

During the last two decades, an important set of reforms at local and central levels accompanied the Slovenian transformation process from independence to EU accession. The following paragraphs outline the key policy, legislative, and institutional changes that influenced planning. This planning took place in a context determined by the outdated frameworks, lack of regional administrative structures, and weak regulatory and planning practices of the previous period – practices that created urban sprawl, congestion, and poorly serviced suburban areas.

Local Government Reforms

From 1955 until 1994 the urban agglomeration of Ljubljana, comprising 902 square kilometers and 321,607 inhabitants, was divided into five administrative “communes.” The division into communes was intended to foster a balanced redistribution of resources (services, housing, industrial investments, etc.) despite the disadvantages for urban planning and management systems. In December 1994, the Local Self-government Reform Act changed the local administrative division of the whole country with the introduction of the EU nomenclature of territorial units for statistics, NUTS (from the French: *Nomenclature d’Unités Territoriales Statistiques*).

The introduction of the NUTS division and related local government reforms transformed Ljubljana administratively and spatially. The territory of the city was reduced to 272 square kilometers, the administrative division of five communes was abolished and the municipality of Ljubljana was established (as NUTS 5 unit with nine surrounding small NUTS 5

municipalities). In this way, Ljubljana became the largest Slovenian local authority. The Central Slovenian NUTS 3 region, also called the Ljubljana Urban Region (LUR) is the largest region in Slovenia, with a population of approximately 500,000 inhabitants, equivalent to 25 percent of the total population and 12.6 percent of the country's territory.

Government reforms also introduced democratic local elections (1994, 1998, 2002, and 2006) with directly elected mayors and municipal councils.²

Recent years have seen intense efforts to transform Slovenia's NUTS 3 (statistical) regions into administrative provinces as in other countries in Europe. In 2007, the government of Slovenia proposed 14 new administrative regions. This proposal was evaluated by a referendum in June 2008 but it was not successful. Politicians, professionals, and the public continue to debate the number and functions of provinces.

For the purpose of analytical-statistical and policy documents alone – i.e., with no political representation – 12 NUTS 3 (statistical) regions have been used since the mid-1990s and two NUTS 2 or European cohesion regions have been used since January 2008 (the more developed western Slovenia, which includes Ljubljana, and the less developed southeastern Slovenia).

Due to the lack of administrative regions and provinces, it is very difficult to effectively coordinate cooperation between the city of Ljubljana and the other 25 municipalities in LUR and implement strategies, programs, and projects formulated at the international, national, regional, or municipal levels.

Key National Policies

Slovenia regained economic momentum after independence in 1991, but it was not until 1994 that economic and institutional reforms came under the direct influence of the EU – meaning improved export competitiveness and harmonization of legislation, standards, norms, and policies – meeting requirements for full-fledged membership in 2004. During this period a series of important strategic documents steered the development of the country towards important changes and reforms, both at the national and local levels, and oriented it to the accession of EU funds:

- *The Strategy for the Economic Development of Slovenia: Approaching Europe – Growth, Competitiveness and Integration*, published in 1995, set out the factors influencing economic development, long-

2. In 2009, the municipality of Ljubljana counts with a directly elected mayor and with four deputy mayors appointed by him. The city council has 45 directly elected local politicians and

-term goals, development scenarios, and the main guidelines for state activities in particular areas. The strategy took into account social, spatial, environmental, regional and sectoral potentials, limitations and conditions. It defined the long-term objectives of economic development towards EU accession and the role of regional policy for successful implementation of sustainable development.

- The *Slovenian National Program for the Adoption of the Acquis Communautaire* of 1998 followed the Accession Partnership of 1997 and became the most important policy document outlining the country's pre-accession strategy.
- The *National Development Program*, an annex of the previous document, adopted in 2001, was the basis for identifying financial resources in accordance with the priorities of the pre-accession strategy.
- The *Strategy of Economic Development and the Strategy of Regional Development*, both adopted in 2001.
- The new *National Development Strategy*, an umbrella document embracing all sectoral development strategies, adopted in 2005 by the Slovenian Government as the principle strategic development document, followed by the *National Development Program 2007–2013* with the *National Strategic Reference Framework 2007–2013* and *related Operational Programs*.

The Planning System and the Reforms

During the 1990s, spatial and physical planning (mainly dedicated to land use) were in flux following the planning documents of the 1980s.³ In 1993, the government divided the existing regional planning system into regional economic development and spatial planning, assigning them to two different ministries.⁴

the city management authority has more than 20 different departments and offices, 17 local city districts, and other legislative, management, or advisory bodies. More information can be obtained at <http://www.ljubljana.si>.

3. With some exceptions, such as the Spatial Planning Act in Transition (1993 and 2000), the Settlement Planning Act (1993 and 1997), the Building Land Act (1997), and the Construction Act (1999 and 2000).

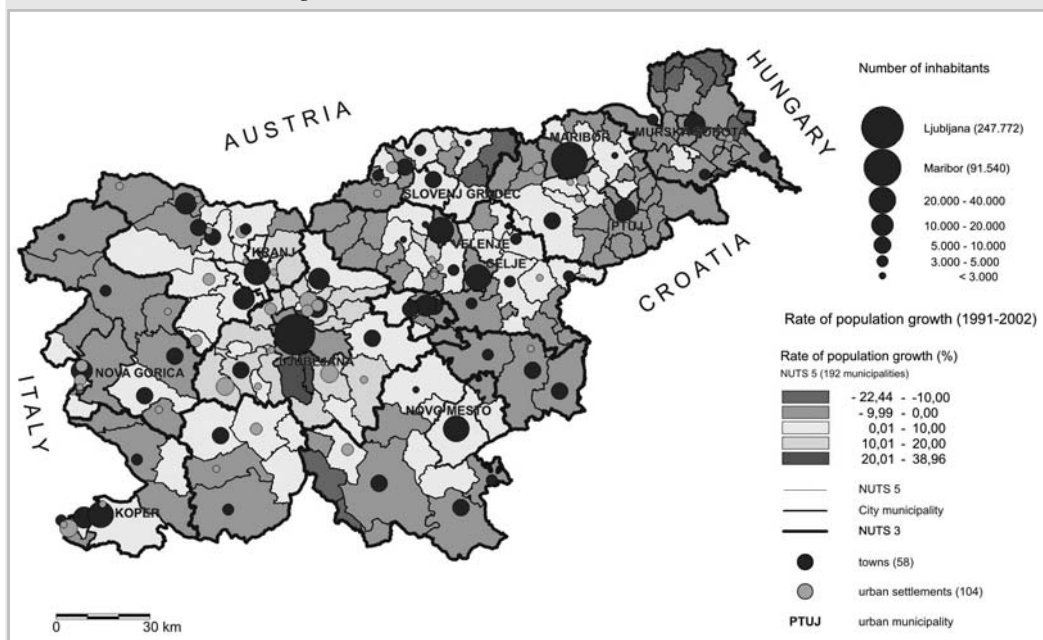
4. Macroeconomic development and regional policies are in the hands of the Office for Macroeconomic Analysis and the Development Office for Structural Policy and Regional Development, while spatial planning policies are under the jurisdiction of the Ministry of Environment and Spatial Planning.

In 2002 and 2004, two important documents introduced a new legal system and a market economy, these were:

- The new Spatial Planning and Management Act (together with the Construction Act and the Spatial Management Policy) that determines responsibilities and procedures and defines types and contents of the spatial documents at the national and local levels. It also introduces the Regional Spatial Development Concept, which allows municipalities and other local communities to have the opportunity to coordinate their strategic development issues at the regional level.
- The Spatial Development Strategy of Slovenia (2004) that further promotes polycentric urban development (Ljubljana, Maribor and the Koper-Izola-Piran conurbation at the Adriatic coast) with equal accessibility to public goods, administration, jobs, services, and knowledge. Polycentric urban development corresponds to balanced regional development and development of infrastructures and services in Slovenia.

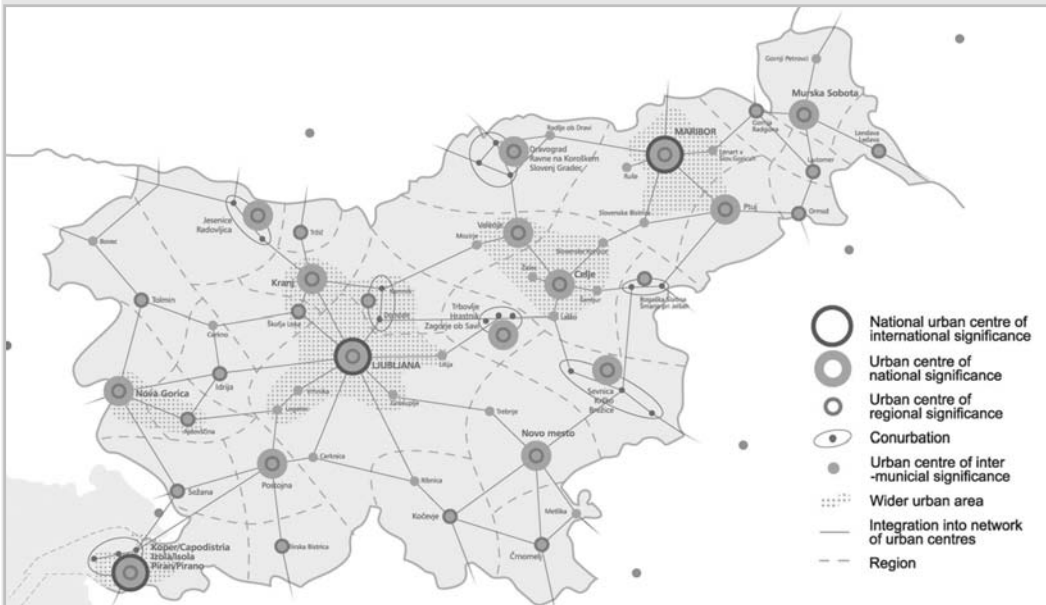
In April 2007, the National Assembly adopted the new Spatial Planning Act with new hierarchy and content of spatial planning documents (e.g., bringing detailed land use plans back to the legislative agenda) at the national and local levels.

Figure 1. Suburbanization Trends in Slovenia



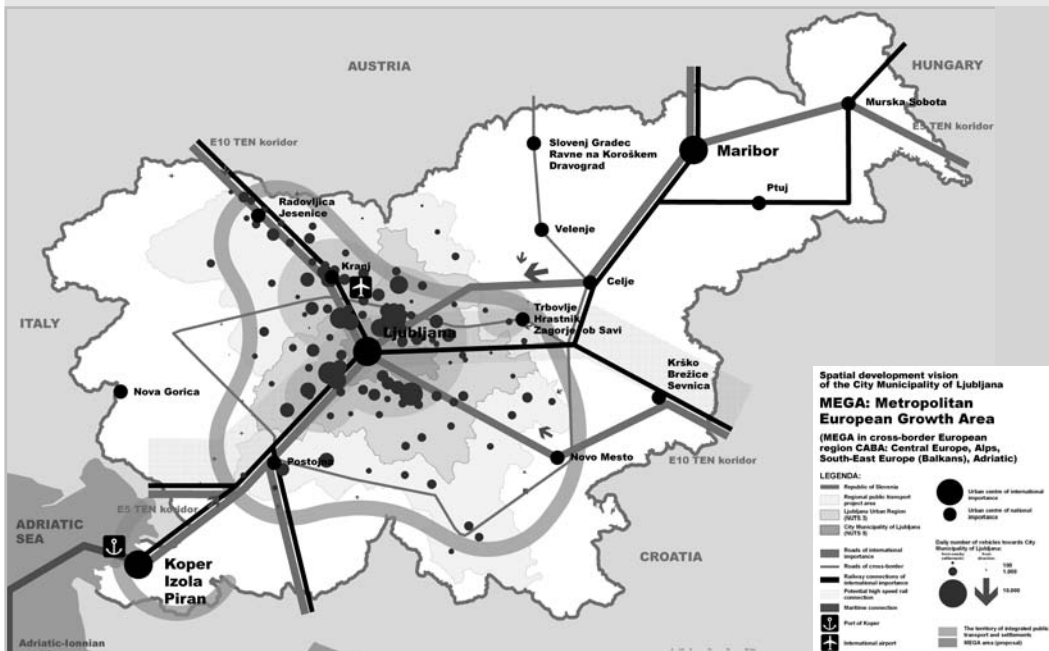
Source: Department of Geography, University of Ljubljana 2007.

Figure 2. Polycentric Urban System and Development of Wider Urban Areas in Slovenia



Source: Spatial Development Strategy of Slovenia 2004.

Figure 3. Ljubljana: “Metropolitan European Growth Area” (MEGA)



Source: City Municipality of Ljubljana: Department for Urban Development 2007.

Ljubljana Spatial Development Strategies

Urban planning and strategic spatial development was neglected during the 1990s because priorities were given to macroeconomic reforms. “Planning,” at that point, was still a term with socialist connotations.

Market forces prevailed until the end of the 1990s, when the need for planning and regulation became necessary to control and direct spatial development at the central and local level. The instruments for control that were available included the 1966 Master Plan and another long-term comprehensive development document for 1986–2000 called *Ljubljana 2000*. The latter was partly revised in 1995 in line with a market ideology and property rights reforms (i.e., restitution, privatization, abolishment of compulsory purchase, etc.). The revision proposed densification and recycling of the existing urban built-up area and renewal or rehabilitation of the built environment from the 1950s and 1960s. The greatest deviation from the original master plan surrounded illegal and semi-legal construction of individual family houses with neither plans nor building permission on land not designed for such use, with insufficient infrastructure (water supply and sewage) and social services (schools and kindergartens) and related transportation problems.

Since the adoption of the Spatial Planning Act (2002 and 2007) and the National Spatial Development Strategy (2004), Ljubljana has been preparing a new generation of local spatial development documents while updating and revising the land-use and site plans. The first ones were the new *Sustainable Urban Development Strategy* and the *Spatial Development Concept of Ljubljana* adopted in June 2002.

In 2007 the new *Vision of the City of Ljubljana by the Year 2025* was adopted, giving priority to 23 strategic projects (out of approximately 100) to be implemented by the year 2025. The vision links the three principal urban development aims of Ljubljana:

- *An ideal city with optimal city size for living, working, and recreation*
- *A sustainable city and territory with its natural and urban environment preserved*
- *A Slovenian metropolis and competitive European capital city*

The latest planning document (based on its predecessors and following the new Spatial Planning Act of 2007) is the (draft) comprehensive *Spatial Development Plan of Ljubljana*. The principle goal of this strategic spatial development document is “smart city growth,” emphasizing the

Box 2. Sectoral Strategy for the Development of Tourism in Ljubljana

The Center for Tourism was established in Ljubljana in 2001, and the first Strategy for development of tourism with actions plans and programs 2001–2004 was approved enhancing the role of Ljubljana as the capital city of Slovenia. In 2005, a partnership agreement was signed between the Center for Tourism and the Ministry of the Economy for the coordinated promotion of Ljubljana at the local, national, and international levels. The new strategy and program for 2007–2013, approved in 2006, is known as the official “city marketing strategy.” The internationalization of Ljubljana did not enter the policy agenda until 2007, when it was explicitly stated in the new spatial development strategy of Ljubljana. Before, internationalization had been in the shadow of the “capital city formation” as well as other political and private interests.

The number of overnight visitors in Ljubljana increased from 200,000 in 2001 to 350,000 in 2006. Most foreign visitors come to Ljubljana for business meetings, conferences, summer festivals, weekends, and holidays. Ljubljana has become a hub for South Eastern European countries. The municipal government also prepared two publications *Ljubljana – Where Europe Meets* and *Ljubljana 2025: the Capital City in Dialogue with Creative People, Urban and Natural Environment, and the Future*, as a city promotion and marketing activity for tourists, foreign residents, and students visiting and/or living in Ljubljana (source: <http://www.ljubljana.si>).

internationalization of the capital city through urban revitalization: *a city of art, culture, and knowledge, a safe and healthy city*. The plan also emphasizes the quality of life for local citizens, preservation of local identity, enhancement of city competitiveness, use of information technology, while at the same time solving the city development constraints such as: suburbanization and urban sprawl, decline of the city center, inadequate maintenance of cultural heritage buildings and housing estates, and loss of urban identity with expansion of market forces and globalization of the cityscapes.

The *Detailed Spatial Development Plan of Ljubljana* is also being prepared with revisions or adaptations of the existing land-use development plans. The environmental impact assessments have been prepared including the expecting impact of the new spatial development plan that is in the process of its final public hearing (2010) before the adoption by city council and approval by the Ministry of Environment and Spatial Planning.

This spatial development plan for Ljubljana takes into account both vertical and horizontal integration, and conforms to documents at the EU, national, regional, and local levels. The next important phase will be implementation of these demanding strategies, development goals, programs, and projects at the local level – especially challenging at a time of economic and financial crisis.

At the national level, Ljubljana's polycentric urban region must be made innovative, competitive, and attractive. Ljubljana's geo-strategic position must be enhanced by strengthening links and networks within Central and South Eastern Europe and the Mediterranean in order to become a strategic location within the new European "potential integration zone" known as *Alpe-Adria-Pannonia*. Capital investment projects in the city of Ljubljana that have been approved are: a new sports center, a university and technical library, a new medical center, improvements to transport infrastructure; and in the urban region: waste collection plants, integrated public transport, a logistics center, enterprise zones with technology parks, flood protection, and establishment of natural public parks.

The Ljubljana Urban Region

The *Regional Development Agency of the Ljubljana Urban Region* (LUR) was established in 2002, with its main task being the preparation of *Regional Development Programs* for 2002–2006, 2007–2013 and related operational programs including priority projects of regional importance that are eligible for EU funding. The LUR strategy's overall development goal was stated as follows:

Figure 4. City Municipality of Ljubljana and the Ljubljana Urban Region



Source: Regional Development Agency of Ljubljana Urban Region, 2010.

“The Ljubljana Urban Region is a conurbation intertwined with nature. The region will achieve a high level of global competitiveness and high quality of life through encouraging creativity and cooperation. The entire region will benefit from Ljubljana’s status as a European capital (LUR 2010).”

To achieve this goal, the main activities are: (i) development of relationships between the public and private sectors at the local, regional, national, and international levels to promote development initiatives and enhance coherent regional development, (ii) acceleration of integrated regional development, (iii) planning and implementation of regional and other development programs, and (iv) acquisition of domestic and foreign financial support. The most important development programs are: a high quality of life that is accessible, preservation of its heritage, efficient high-quality spatial planning, efficient municipal utility services, equal opportunities, contribution to the region’s competitiveness and culture, competitive advantage of the region, e-administration, and a supportive entrepreneurial environment.

The LUR Regional Development Agency coordinated the preparation of the first *Regional Spatial Development Concept* between 2008 and 2010, following the new Spatial Planning Act of 2007. It was a joint venture between the city municipality of Ljubljana and the other 25 municipalities within LUR; it must be approved by stakeholders before the end of 2010.⁵

Towards Competitiveness and Sustainability: A Success Story?

From 1918 to 1991, Ljubljana was the principal city of the Socialist Republic of Slovenia, the most economically developed republic in the former Yugoslavia. Due to polycentric development policies in the 1970s and 1980s, Ljubljana developed into a medium-size city – unlike Belgrade and Zagreb. In 1991, Ljubljana became the capital city of independent Slovenia and in 2004 an EU capital city. Since the end of the 1990s Ljubljana has been one of the most competitive cities in Central and Eastern Europe, reinforced by the process of internationalization following EU accession. As a result of successful macroeconomic policies and comprehensive and a relatively

5. More information on the LUR development agency and its programs can be found at: <http://www.rra-lur.si>.

well-coordinated top-down governmental sectoral policies during the last fifteen years, Ljubljana and its urban region have become the most important location for economic activities in Slovenia, with relatively high economic and social cohesion, environmental quality, and quality of life for its citizens.

The lack of coherent strategic planning policies between the national, regional, and city levels due to the transition reforms of the 1990s and the investment-led response by public leadership in the “planning vacuum” of Ljubljana and its surrounding municipalities, coupled with day-to-day urban problems and side-effects of transition (e.g., privatization, restitution, decentralization, etc.) have transformed Ljubljana in many ways (i.e., suburbanization and increased urban sprawl, de-industrialization, tertialization, deferred maintenance of some buildings in the city center and housing estates, loss of urban identity, traffic congestion, etc.). Many projects were developed not according to the spatial development strategy of 1986 or detailed land-use plans, but according to the needs and demands of the market economy and new public and private investors. Due to the lack of regional (or provincial) administration, cooperation between the municipalities in the Ljubljana urban region is weak, while competition is strong. The city of Ljubljana, the largest urban municipality in Slovenia, has a strong central position with respect to the other 25 municipalities of LUR. Nevertheless there has been some cooperation between Ljubljana and its surrounding municipalities during the formulation of the regional development programs for 2004–2006 and 2007–2013 and in the implementation of some infrastructure and environmental projects.

The successful implementation of the new *Urban Development Strategies* of Ljubljana depends upon the ability of local leaders to encourage the active involvement and participation of stakeholders, professionals, social groups, and local communities, as well as an efficient role of the city authorities in the implementation of activities. A strong political leadership, along with the cooperation and partnership between different public and private institutions and other stakeholders that was often lacking in the 1990s, are critical for the progress and essential for the implementation of the comprehensive national, city, and regional strategies in the future. It is also essential to keep the strategy document a living document through continuous monitoring, learning, and improving.

The most important urban development activities need to be focused on improving the international position, the role and identity of Ljubljana within European urban networks, marketing the city’s competitive advantages through implementation of flagship projects, while at the same

time improving economic and social cohesion and preserving quality of life through sustainable development. The city has defined a new development vision, new strategies, programs, and individual projects aiming to achieve its goal – *Ljubljana, competitive and sustainable, with its own identity in national, cross-border, European, and global networks*.

Ljubljana may never become a Central European metropolis – competing for global status with Vienna, Berlin, Prague, Budapest, or Warsaw. Yet, as a result of its cultural heritage, stable political and economic conditions, social cohesion, quality of life, city identity and geo-strategic location in Europe, the city of Ljubljana has the opportunity to become an attractive meeting place and tourist destination between two global cities in Europe: Venice and Vienna.

Strengthening the political, cultural and transport links to support well-established economic relations with cross-border cities and regions in Austria, Italy, Germany, the former Yugoslavia, and other Central and Eastern European countries, are of critical importance for the future role of Ljubljana in Europe. At the same time Ljubljana needs to preserve the quality of life for local citizens – keeping at bay the problems that plague many European cities, such as homelessness, urban decline, social and spatial polarization, crime, vandalism, and excess traffic congestion.

Implementation will depend on today's priorities and financial constraints, especially due to the global economic crisis, the lack of capital investments, as well as the new demands on the city and the necessary respect for climate issues and mitigation policies at the global, national, and local levels.

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Relevant Websites

City Municipality of Ljubljana: <http://www.ljubljana.si>

Ministry of Environment and Spatial Planning of the Republic of Slovenia: <http://www.gov.si/mop>

Regional Development Agency of the Ljubljana Urban Region (LUR): <http://www.rra-lur.si>

Office for Macro-economic Analysis and Development of Republic of Slovenia: <http://www.umar.gov.si>



6

From Physical Planning to Strategic Planning

The Case of Venice

*Roberto D'Agostino*¹

Introduction: First Plans and the Complexity of the City's Layout

Being a particularly complex urban organism, Venice started the redesign of its development strategies in the mid-1990s.

The contrasting worlds that compose the city – the historic island city, the industrial complex of Porto Marghera, the sprawling city on the mainland, the lagoon, the islands, and the coastal areas – were often in conflict with each other. This entailed not only redesigning the system of relations between the various parts of the city and their functional organization, but also creating specific projects for embodying this design, formulating procedures, and identifying the resources and players in the process of urban transformation.

This design was originally completed and guided by the new urban development plan for Venice and, subsequently, as a natural continuation of town planning, through the creation of a strategic plan for the city's entire metropolitan area.

The previous general urban development plan for Venice had been developed in the late 1950s. For the next forty years, the leaders of Venetian society remained incapable of envisioning a comprehensive plan to shape a new “town concept.” Their inability to do so had many consequences – all negative.

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The Venice we see today – consisting of the historic center and its island-studded lagoon, the city on the mainland which, along with its municipalities, holds about half a million inhabitants, and an industrial complex extending over roughly two thousand hectares – is the outcome of the last great town concept. This was conceived during the first decades of the twentieth century when the city chose to break out of the insular dimension inside of which it had developed its own form of modernity during the nineteenth century.

The conquest of the seafront, with the creation of the seaside resort of the Lido, and the conquest of the mainland, with the creation of the industrial port, the garden city of Marghera, and the gradual formation of the great Mestre conurbation, all brought Venice a European dimension. Prefiguring a regional model that would become extraordinarily successful, these aspects contributed to creating a city of exceptional complexity, rich with opportunities and diversity, one that continued to develop for almost a century.

For a number of reasons this model underwent a crisis in the late 1960s. The main causes were the supersedence of the types of industries and industrial processes in Porto Marghera; the obvious inadequacy of the urban structure on the mainland; the profound transformation of the use patterns and lifestyles in the lagoon city; and the sudden development of mass tourism.

The predominant reaction of the city was to combat the crisis by trying to preserve what already existed; or by putting forward impromptu initiatives more to please special interests than general needs; or even worse, by imagining a return to some imaginary pre-industrial equilibrium.

This hindered the introduction of a new town concept capable of rising to the competitive challenges of modernity. Not surprisingly, no new general urban development plan had been formulated since the late 1950s, which exacerbated and ultimately precipitated the crisis.

Its effects were felt at all levels: demographic weakening (in 2009, the population of the island city was half the number of the 170,000 people who lived there in the 1950s); loss of employment (the industrial complex dropped from 40,000 employees in 1970 to 13,000 in the 1990s); impoverishment of the social, economic, and cultural complexity due to an economy based solely on tourism (22 million tourists in 2009); physical and environmental deterioration; and a sense of separation from the greater metropolitan area and a loss of the very reasons for urban solidarity, i.e., the sense of belonging to the same community.

The creation of the new urban development plan for the city, along with its discussion and approval, represented the opportunity for Venice to reflect

Figure 1. Aerial View and Map of Venice and its Territory



Box 1. Synthetic Data



- The total area of the municipality of Venice is 413 km²; the surface of the lagoon is 253km².
- The population of the municipality of Venice is 270,000.
- Currently employed commuters to the City of Venice are 400,000.
- Workers commuting to the historical center: 47,000 plus 16,000 students.
- About 40,000 tourists visit Venice each day.
- The metropolitan area is composed of 25 municipalities and has a population of 600,000.

The city's crisis:	Historic Center:	inhabitants in 1951	172,000
		inhabitants in 1995	65,000
	Porto Marghera:	employees in 1970	40,000
		employees in 1995	15,000

		Tourists in 1996:	3,000,000
		Tourists in 2009:	22,000,000

on its outcomes and to put forward a new town concept capable of meeting the challenges of the new millennium.

Recognition of the Two Urban Polarities

The new urban development plan is based on a town concept whose objective is to provide the city with a new role, one that is active and productive, thereby reversing the negative cycle that remained in action over the previous few decades. To reach this goal, three lines of action aimed at defining a new urban organization, a new functional complexity, and new institutional arrangements were followed.

In the wake of globalization, with its extreme consequences for all the processes involved in restructuring the existing economic, political, and physical orders, along with the loss of differences, the simplification and standardization of cultures, all of which have affected the national and international positioning of cities, Venice stands out as one of the few Italian cities capable of competing with major European and world cities. This is thanks to its extraordinary historical heritage, its preeminence in terms of cultural structures, but also in terms of its infrastructural resources and potentialities.

Venice lends its name to an urban system with the greatest concentration in the world of historical and artistic assets located at the center of an ecosystem that is still largely preserved, unique on the planet, where four highways and five railways converge, and where major port systems and airport complexes exist (the third largest Italian airport with five million passengers, the busiest tourist port with 1.7 million passengers, and the enormous port and logistics platform of Porto Marghera whose industrial area extends over 2000 hectares). It is a place where internationally renowned scientific and cultural research institutes prosper, especially in contemporary fields (two universities with 25,000 students, the Biennale, the Guggenheim Foundation, the Pinault museums) where industrial areas of the highest standards are in operation, where regional offshoots remain in the lagoon, on the coasts, on the islands, on the mainland, abounding in organizational potentialities.

But in order for these resources to act as a system, functional, organizational, and cultural unity between the various parts of the city must be created, giving life to a “virtuous circuit” that leads to greater levels of integration and, thus, enhances their respective potentialities.

The new urban development plan was laid out entirely with the aim of connecting into a single system the mutual affinities and synergies of the various parts of the city that until then had been separated, at times even in conflict with each other. The goal was to create a stronger, broader urban organism with a sufficient critical mass in terms of population: a metropolitan city with six hundred thousand inhabitants.

The role of the urban development plan in reaching this result was clear, since the plan made it possible to redefine the urban layout of the city as part of a wider process of democratic participation and shared choices.

More specifically, the plan recognized the historically determined reality, namely, that Venice was not composed, like the majority of Italian and European cities, of a historical center and a suburban hinterland, but rather, of two integrated yet autonomous urban polarities: the island city and the mainland city.

These two cities grew within the same administrative boundaries and with advanced forms of functional integration, but they developed almost in conflict, turning their backs to each other, using the lagoon that they both looked onto and which should have united them as a factor of division. Not surprisingly, unpopular developments (so-called NIMBY projects like landfills, industrial operations, and car parks) have been located on the lagoon edges facing Mestre and Venice.

The slogan that has defined the concept of the plan and the new *forma urbis* is “the bipolar city.”

This concept has been developed in practical terms by creating a new centrality through metropolitan functions (new university campuses, the Science and Technology Park, court offices, regional offices, a new public park, administrative offices) located at the two ends of the bridge (the areas between the Mestre and Venice train stations). The accessibility and mobility system has been redesigned (with plans for two new land/water terminals to the north and south of Mestre and the construction of metro lines running above ground and under the lagoon). The quality of residences, the environment, and services has been raised throughout the urban organism to make the quality of life substantially similar in the various parts of the city. The overhanging areas and the settlements located there that create a bridge between the two urban poles have been transformed. A strong policy will be set in motion to recover brownfield areas and disused buildings so as to prevent more agricultural land from being built on. Finally, large parks are being planned and created on the mainland and on the islands in the lagoon.

Innovation: Action Based on Strategies

To tackle such complex issues, using the urban development plan as a tool in such a complicated city, and starting from a stalemate, required innovative planning procedures and methods.

The Venice Urban Development Plan is composed of various partial and limited plans (for the historic center, the mainland, the islands, the industrial area, the lagoon) and a large number of detailed plans, bound together by a “preliminary project” to ensure necessary coordination and consistency.

While this procedure was a necessary and perhaps inevitable consequence of the nature of the urban organism itself, the methods that were put into play during town planning were completely innovative, at least in the Italian context.

For decades, the urban development plan had been considered an instrument for issuing increasingly restrictive and specific rules in response to regional transformations, arising primarily from demographic and economic forces. This traditional vision of planning was countered by a notion of planning understood as a way of governing the region so as to promote and organize the forces for transformation in the desired directions.

From this perspective, transformations are viewed as something to be encouraged rather than restricted, since they are the only path available for preserving and developing the city and its territory.

In this approach, planning is interpreted as a complex process that goes from formulating the general concept of the city to transforming this into design and regulations, clarifying the concept by means of implementation plans and architectural projects, forming operational tools, finding the resources, and identifying and organizing the people who will be implementing and managing it.

This view of planning gives rise to a new, much more complex role for municipal government, which becomes an active player and takes on entrepreneurial characteristics through the formation of its own companies (the city of Venice formed Immobiliare Veneziana, which is entirely publicly-owned and whose purpose is to promote and implement regional transformations) and investee companies, acting as a major economic player in agreement (or in competition) with other economic players. This entails innovative ways of operating, such as the formation of interdisciplinary groups, or acting through memorandums of understanding with other public or private bodies, or other operational forms, aimed at fulfilling objectives within determined timeframes and using new domestic and European procedures along with their related funding opportunities.

Each of these policies – on residences, employment, and industrial activities, on the natural and man-made environment, on culture, public services, social services, on mobility and infrastructures – have been provided with corresponding plans, projects, financing, and works.

The most successful approach to emerge is “action based on strategies,” activating a process that has keeps the cycle together, entrusting it to a single organisation, something that was previously in the hands of various entities and implemented according to a hierarchical timeframe.

The system of town planning tools formulated between 1994 and 1999 continue to bring about substantial change and improvement to the city.

Implementation and Urban Renewal Projects

It needs to be stressed that the schemes set out in the General Urban Development Plan, prepared between 1994 and 1998, along with the town planning tools associated with them, are being implemented systematically. This is thanks specifically to the method of managing transformations through positive action promoted or coordinated by the local government.

With new building possibilities available in public and private areas and an acquisition initiative on the part of the city through the public company, Immobiliare Veneziana, a residential real estate market has been relaunched, one in which supply and demand are finally able to meet up. This residential initiative has activated urban renewal programs and special projects along with the many design competitions to realize them, all co-financed by private individuals and funds from the region and the Ministry of Public Works.

In spite of woefully inadequate and inconsistent laws on reclamation at the national level, difficult environmental and property conditions and other disadvantages, a large-scale process of reclamation and conversion of the industrial area and port activities has been set into motion, with the city of Venice in a defining role. The brilliant results of the commercial port, the reclamation and clean-up of roughly two hundred polluted hectares in the industrial area as a consequence of new industries taking up residence there, and the construction of the Science and Technology Park are the clearest signs of this new policy.

The conversion of decommissioned industrial areas dating from the early period of industrialization, the renovation of the Mestre train station and the axis connecting Mestre to the lagoon along the railway, with the expectation of the new metropolitan centrality concept, all respond to the demand for

localization of tertiary activities and services that until now has been sorely hampered by the difficulty of finding adequate premises.

The entire system of historic settlements (Venice, Murano, the minor islands, the Lido, Mestre, the minor historic centers on the mainland, isolated or scattered historic settlements, the garden city of Marghera) now has instruments in place to assist in planning, preservation and creation of value. These tools have enabled the start-up of numerous projects for restoring historical buildings, industrial archeology sites, piazzas, roads, and open spaces, while making it possible to obtain extraordinary resources for this purpose from public and private sources. All the museums that were closed down, mostly in the mid-1990s, have been reopened, and new ones have been created; all the theaters have been reopened; the large islands with abandoned hospitals that had been vandalized for decades have now been salvaged. There is no doubt that Venice has been and continues to be the object of the most important urban renewal program in Italy and, possibly, in all of Europe.

The work being done on the environmental system is just as significant:

Figure 2. Urban Transformation Policies



urban parks, lagoon parks, public parks (San Giuliano is only the most visible of these projects), and the creation of a large wooded area of over one thousand hectares has begun on the mainland.

Concertation and Strategic Governance

Based on the complete definition of the urban development plans, the regional planning process was developed using procedures that could no longer be controlled exclusively within the framework of these instruments. The processes had to be extended to all the economic and social agents present in the city, going beyond the limits of a purely territorial perspective.

It is within this framework that it became necessary and almost natural for the local government to step up in terms of quality and scale. They did this by using strategic planning procedures, intended as a process oriented toward generating decisions and actions that are considered essential for realizing the vision of the future desired by the main economic and social agents of a city.

Venice was able to take on the strategic planning method with a good probability of success because, as we have seen, Venetian planning went beyond the paradigm of the plan as design and regulations (as a *dirigiste* utopia with restrictions, if you will). The plan had become an authentic instrument for managing territorial and regional transformations, based on a shared general strategy (the new town concept) and arrived at through a system of innovative procedures (agreements on programs, renewal projects, integrated projects) through a concerted effort with the private sector and the new proactive, participatory rather than simply regulatory role of the public administration.

This not only enabled effective planning action, but also a broad consensus on the main choices involved in urban renewal, achieved through collaborative relations that took shape in memorandums of understanding or in genuine partnerships between the various major players on the Venetian scene: the port, the airport, the two universities, the chamber of commerce, and the industrial association.

The administration's decision to move forward by formalizing objectives, actions, and projects in a single reference document, and by setting up a *concertation table* that everyone (or as many as possible) was invited to, rather than simply offering occasional or bilateral discussions, was based on this consolidated experience.

The Strategic Plan sets out the objectives shared by the plurality of people and organizations who participated in drafting it and who constitute the city. It describes the actions for attaining the stated objectives; it lists the projects that make up these actions; it specifies the parties who are responsible for realizing and managing the projects. It is a plan more oriented toward comprehensive socioeconomic actions than to regulating land use.

The practical development of Venice's strategic plan took place over two phases.

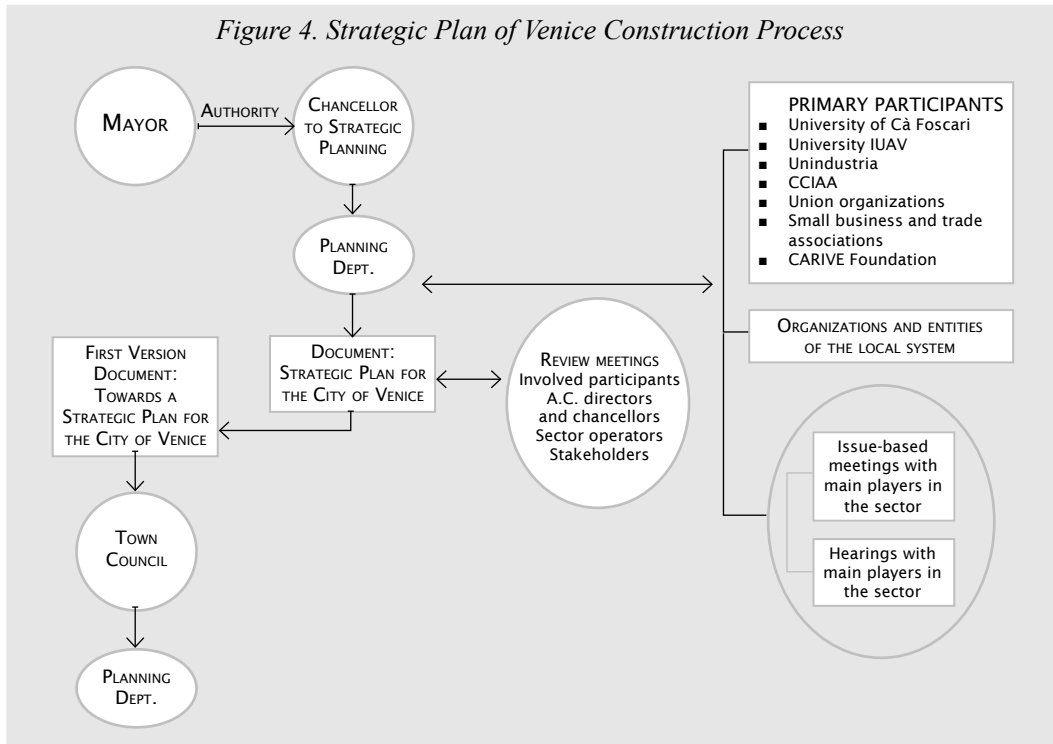
The first phase, between 2003 and 2006, intended to create consensus, involved a large numbers of individuals and organizations, while countless public meetings were held toward the end to foster participation. It served to define the shared vision of the city based on medium- to long-term objectives.

This phase led to the drafting of a document, signed by seventy-five different players from the Venetian private and public sectors. This document sets out the desired vision for the city over the next 10 to 15 years and

Figure 3. Environmental Project



Figure 4. Strategic Plan of Venice Construction Process



constitutes the programmatic base of activities to be undertaken in order to achieve the vision, consisting of strategies, actions, and projects.

The second phase, which is implemental and still underway, is properly defined as one of strategic governance. It was concretized by the formation of an agency for strategic planning that is coordinated by the municipal administration and composed of all the signatories of the planning document. During this phase, all the actions and projects set out in the strategic planning document are monitored and changes are made based on actual developments in the city.

Figure 4 illustrates the procedures for implementing the first phase.

The general contents and objectives of the plan, consisting of the definition of the general vision for the city, the structural conditions that must be respected, and the strategies to be put into play to achieve this vision are shown in Figure 5.

To conclude, it seems appropriate to make a brief comment regarding the resources required to realize the Strategic Plan.

In order to ensure that the strategic planning document does not remain essentially a “wish-list,” a careful analysis was made of the costs of the various

Figure 5. Strategic Plan Contents

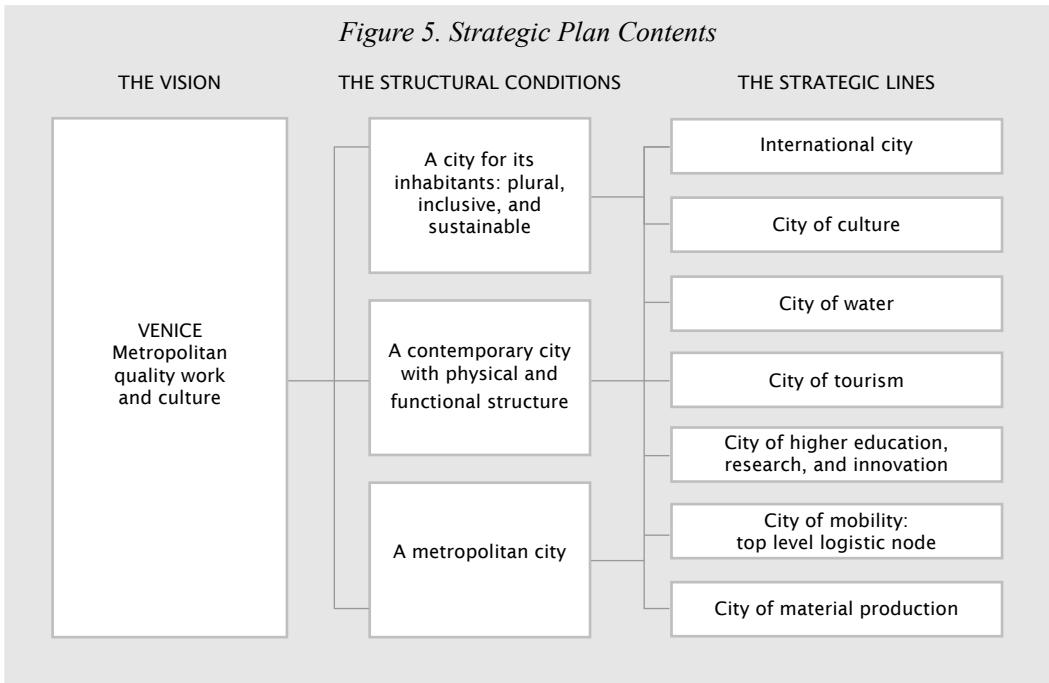
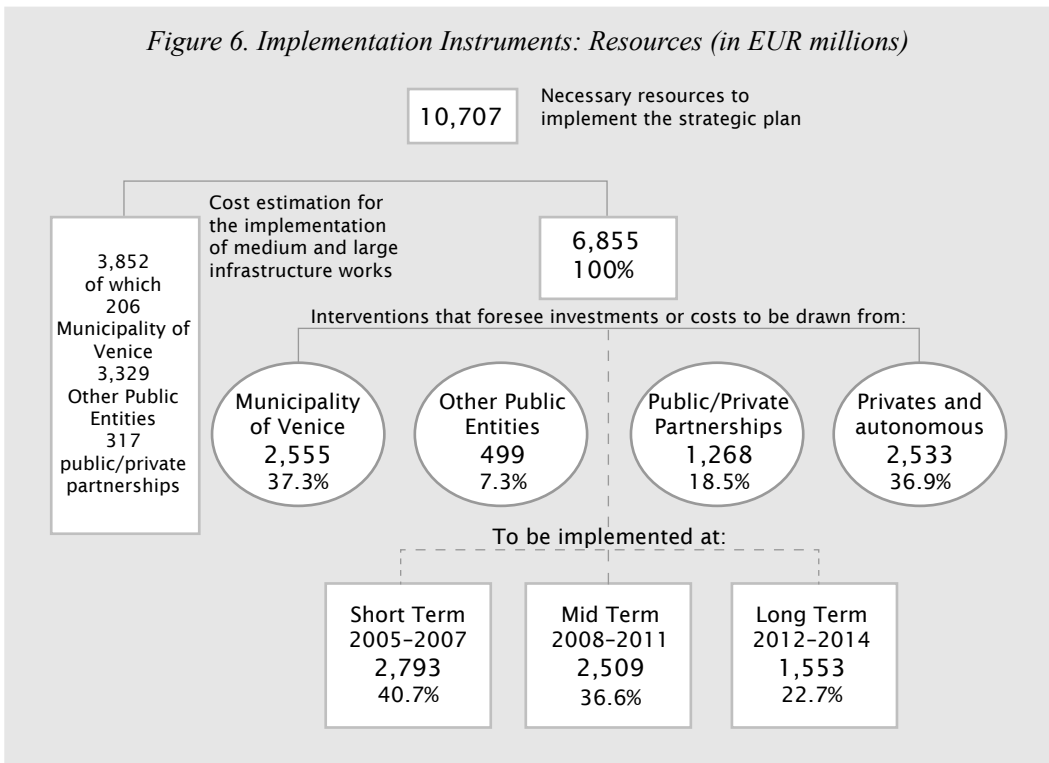


Figure 6. Implementation Instruments: Resources (in EUR millions)



actions included in the plan with sources of funding specified. Figure 6 and Box 2 show the total amounts broken down by the sources of expenditure.

We should note here that many of the expenditure items already appear in municipal, regional, national, and EC budgets as well as in those of the other public and private signatories of the plan. The only difference lies in their allocation method, based on the plan objectives, instead of the various forces that normally influence how budgets are drawn up. Many of the resources, between 20 to 30 percent, come out of the implementation of the plan, thus providing evidence of its positive economic outcome.

If the transition from physical planning to strategic planning was developed in a consequential fashion, one that characterizes the entire planning process of the city of Venice as effective, consistent, and without significant continuity solutions, the same conclusions cannot be drawn about the subsequent implementation phase of the Strategic Plan.

This phase has been marked by problems that remain unresolved, ones that are common to almost all strategic planning experiences in Europe with which we are familiar. To be specific, the instruments for implementation, such as the agencies that bring together the signatories of the Plan, are not endowed with enough autonomy and are essentially devoid of powers for controlling and guiding the project because they are not backed by compulsory regulatory tools. Consequently, individual signatories are not compelled to maintain consistency with the Plan or to fulfill the commitments that they undertook.

At the same time, the main player in the plan, the municipal administration of Venice, which is no different from any other city, has some difficulty in adapting its technical and political structures to the new conditions that would be required by strategic governance, that is to say, the procedure used to implement the strategic plan.

Box 2. Strategic Plan Resources and Distribution

Period 2000-2014:

<i>EUR 10,770 million</i>	<i>activated or to be activated as follows:</i>	
<i>EUR 2,700 million</i>	<i>25.1%</i>	<i>from municipal budget</i>
<i>EUR 3,828 million</i>	<i>35.5%</i>	<i>from other public agencies</i>
<i>EUR 1,709 million</i>	<i>15.8%</i>	<i>from public/private partnership</i>
<i>EUR 2,533 million</i>	<i>23.6%</i>	<i>from private sources</i>
	<i>100%</i>	<i>of which: 61.5% public and 38.5% private</i>

These two interconnected factors are making it difficult to update the original document as they become necessary and, more than anything, to implement the plan given the real conditions of Venice today.

The Strategic Plan is being brought forward part by part, without uniformity and with no director to ensure that consistency is maintained between the individual projects.

Since this process is still underway, it is perhaps too soon to evaluate its outcome.



7

Learning by Planning

The Piacenza 2020 Strategic Plan

*Paolo Rizzi*¹

Introduction: Territorial Strategic Plans and the Italian Experience

Territorial strategic planning is a new form of socioeconomic development that allows for the active involvement of local citizens. Compared with spatial planning (typical between the 1960s–1980s and characterized by public regulation), territorial strategic planning is significantly more innovative.

These strategic plans are voluntary guidelines that allow territorial areas – primarily cities and provinces – to implement policies and develop strategies through public-private partnerships, and without direct public oversight from regional and state governments. This kind of strategic planning aims to be a forum where local interests are represented and organized in the form of coordinated action. In other words, strategic planning is a tool with the goal of achieving large-scale consent for strategic goals, and with defining a strategic vision of the affected area through problem-analysis processes, outcome monitoring, and collective education.

Nowadays, the literature references to this type of planning are broad, and include the Dutch School (Faludi, Mastop, Nijkamp), the French School (McLoughlin, Le Galès), and the North American approaches (Bryson, Perloff), as well as different Italian territorial experts (Camagni, Ciciotti, Bagnasco, Perulli, Balducci). In Italy, the first strategic planning attempts emerged at least two decades after the best foreign examples in European and North American cities. The most important Italian case is Turin, which, after the first plan was initiated in 1999, has developed a second version of

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the plan. This second plan established *Torino International*, an association and coordination center made up of diverse members from several public and private bodies, and from economic, social, and cultural entities. The association is focused on fostering, supporting, and monitoring the plan implementation processes. The association *Firenze 2010*, in Florence, has the same objectives.

In most cases, the municipality is the essential center of the strategic plan, and the city is the promoter of the process (some examples are the municipalities of La Spezia, Perugia, Trento, Trieste, Pesaro, Jesi, and Barletta). In some other cases, the plan expands to the provinces (as in the cases of Treviso, Piacenza,² and Cremona), and a fruitful collaboration between municipalities, provinces, and autonomous bodies, like chambers of commerce, arises.

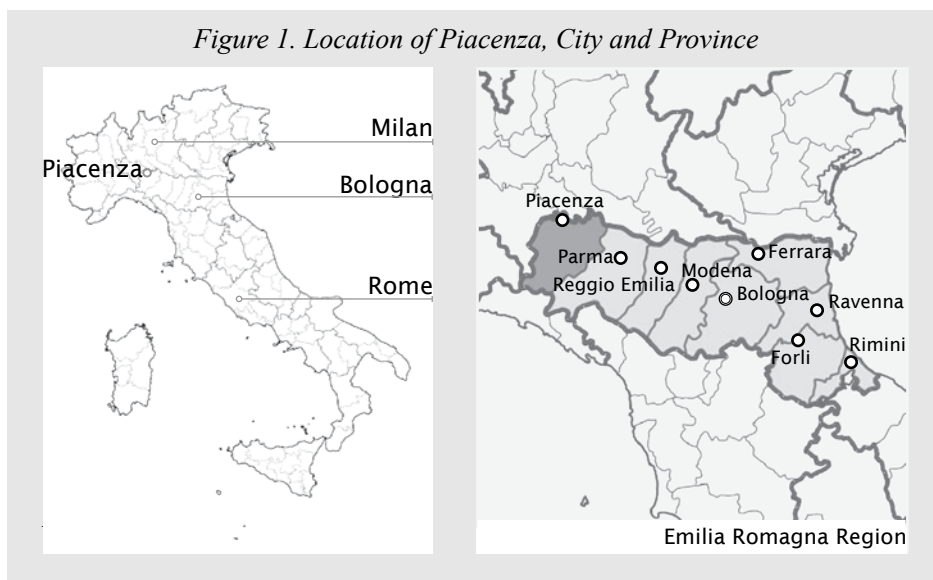
All Italian cases turn out to be examples of private-public promotion plans with a local bottom-up development scheme, since Italian laws do not provide a framework for this new kind of territorial planning. Only one inter-ministerial decision³ introduces the concept of a strategic plan. With 10 percent of the country's resources devoted to each region, the allocating of resources for future participation in undeveloped areas of the country will provide a reserve destined to finance projects in the southern cities and metropolitan areas. At present, such examples are limited (strategic plans are in their second phase only in Turin and Piacenza), and evaluation and monitoring are still in progress.

Some differences, however, should be noted when comparing these examples to foreign cases. First, the background conditions are almost never (except in Turin) as difficult as in many British cities. The varying sectors and economic flexibility of many Italian urban and industrial areas have prevented sudden collapses in the local systems of production. Second, the urban and structural transformations in progress are not as visibly evident as in some big cities (Barcelona is a typical example). Finally, private capital has yet to stimulate a new method for the financing of local projects as it has in other foreign examples. The most positive aspect has been the consolidation of various procedures – including consultation, negotiation, and participation

2. The Italian administrative division includes regions, provinces, and municipalities (or *comune*). Usually, the name of a province coincides with the name of the city capital of the province; this article refers to the Plan of Piacenza Province of which the city of Piacenza is both a part of and leader of the process.

3. The CIPE (Italian Inter-ministerial Committee for Economic Programming), Decision No. 20/04.

– involved in a decision-making process that aligns with the subsidiary principle proclaimed and sustained by the European Union (Perulli 2004, Ciciotti-Rizzi 2005, and Trigilia 2005).



Piacenza's Socioeconomic Context

Piacenza lies on the right bank of the Po River and is one of the richest provinces in the Emilia Romagna Region of Northern Italy. It exists at a natural crossroads between communication routes and is within proximity of other bigger cities, such as Milan, Bologna, and Genoa, allowing for rapid movement and a high standard of living. There are 100,000 inhabitants in the city and 280,000 in the province, with a steady increase in the last several years due to a rise in immigration from new and non-EU countries. The city and the immediate surrounding municipalities are home to a majority of the 32,000 mostly small- and medium-size companies in the region.

Quality agribusiness, advanced mechanics (machine tools, robotics), and the building materials industry are the primary developed sectors of production in the province. Agriculture is first-rate, making use of state-of-the-art technologies and a highly-qualified knowledge network. This sector takes advantage of the scientific contribution of the Faculty of Agriculture (since 1951); other faculties that contribute to development are Mechanical Engineering, Economics, Law, and Education. Piacenza has a multimodal, interconnected road and railway supply center that is integrated with the

new logistic areas through the west-east axis. The agribusiness industry in Piacenza is top-notch. There are several regional products, most of them with certified controlled origin branding (DOC): three for salami, two for cheese (i.e., Grana Padano), and twenty for wine. Although tourism is scarcely developed in absolute terms, it is growing at a steady rate thanks to the natural resources (the Po River and Apennine mountains and valleys), and cultural attractions (medieval castles, churches, and Roman heritage).

In general terms, the labor market is well balanced, with an employment rate of 64 percent and a very low unemployment rate (almost three percent

Figure 2. The Po River near Piacenza



Figure 3. Aerial View of the City Center of Piacenza



before the international crisis). In 2008, the GNP per capita was EUR 30,050, higher than the averages in Italy (EUR 26,300), and in other European Union countries (EUR 25,100). In social terms, the area presents a rich social service endowment, with excellent services for infants and the elderly, an efficient school system, and well-organized cultural entertainment.

Lastly, there is Piacenza's environmental assessment, which scores lower than its economic and social sectors. Air pollution and emissions of NO_x and CO₂ (respectively, 66 and 24 tons per year per capita) are higher than the Italian averages (24 and 8 tons per year per capita, respectively). Additionally, high domestic water and energy consumption make for weak environmental sustainability in the area (similar to other areas in northern Italy).

Piacenza's First Strategic Plan: Positive Outcomes and Limitations

The Piacenza Strategic Plan began with a meeting of key stakeholders in October 2000 who met (and followed a bottom-up approach) to deliberate, listen, and analyze. During this general stakeholders meeting (*Stati Generali*), draft program declarations and projects were presented. In order to execute the declaration, the city, province and the chamber of commerce began negotiating an implementation action plan through a process called *Pact for Piacenza*. A strategic committee was established, which consisted of 32 members representing the municipality of Piacenza, the province, the Emilia-Romagna region, the chamber of commerce, two mountain communities, other towns in the province, key economic sectors, trade unions, civil society organizations (social cooperation and voluntary associations), and the Church.

The strategic committee gathered information from stakeholders' meeting reports and organized a list of projects clustered around four strategic areas (human resources and culture, infrastructures and networks, integrated development resources, collective and social services), together with their respective strategic goals. Ensuring the internal coherence of the strategic areas and the strategic goals was a key consideration, as well as the relative strengths and weaknesses of the territories and the local system. The four strategic areas were subdivided into ten action lines, for which working teams were established and tasked with the development of the programs/projects and an assessment of their feasibility. The working teams consisted of representatives from local institutions and economic and social sectors. Coordination of the process was in the hands of competent officials from the municipality and the province.

Strategy papers and projects were compiled into a “strategic document,” which was signed by the parties on January 12, 2002. The final document, *The Pact for Piacenza*, outlined actions and projects and grouped them into ten thematic areas: human resources and culture; infrastructure and material resources; networks and services; entrepreneurial development; logistics and added value; highest quality food system; integrated tourism; collective and social services; mountain project; and local agenda 21. There were 30 priority projects contained in these thematic areas – some of them were implemented, some are still in progress⁴ and others were integrated into the second edition of the plan.

After an intense and enthusiastic year following the preparation of the strategic document, the first difficulties occurred during the implementation phase, when the focus shifted to the preparation of the feasibility studies. Local elections took place in June 2002 and changed the political color of the city government. The process encountered further setbacks due to a similar change in the provincial administration (June 2004), and the resignation of the plan coordinator, an important local entrepreneur who was elected in 2003.

The first outcomes from the Piacenza experience demonstrate that the Strategic Plan enhanced Piacenza’s visibility both at the regional and national levels. Key to this success was the active role of the city, the province, and the chamber of commerce. In 2003, the Forum for the Public Administration awarded the provincial plan, *Pact for Piacenza*, with an official best practice acknowledgment. In 2004, a similar prize was granted to the province for its territorial marketing plan, which was prepared by one of the working teams. The discovery of areas available for production development and the new logistics zones in Piacenza lured external and foreign investors. Another notable outcome were the new research centers (2004–2005), which offer great opportunities to strengthen the innovative capability of the local system, and a potential to stall and reverse the migration of talented residents to Milan and other economic development centers.

4. The projects implemented or still in progress are: in the *economic development area*: the plan and territorial marketing agency, the logistics area program, four new research centers, the mountain project, the special area program for the Po as a European river, and the Piacenza Expo promotion. In the *welfare area*: the annual meeting on the local welfare and the implementation of the first zone plans. In the *infrastructures* area: public works for the head town south beltway and the construction of new bicycle paths. Finally, in the *Agenda 21 area*: the zone of the provincial observatory for sustainability.

The Piacenza Strategic Plan: Second Edition

In May 2005, a new phase, which led to the second edition of the strategic plan (*Piacenza 2020*), was initiated. From the outset, the limitations of the first strategic planning experience were carefully considered. The first plan was conceived as a collection of projects that were sometimes too general. There was also a lack of participation from local politicians, councilors, and parliamentarians, partly due to a lack of knowledge and understanding. In fact, although key local officials and representatives coordinated the plan since the beginning, they did not fully engage their councils until the signing of the first *Pact for Piacenza*.

Some local politicians felt the first plan overlapped with or even surpassed the institutional mandate, as noted by experts (Bobbio 2000). Paradoxically, political support for the plan seemed to decrease when both local administrations (the municipality and province) belonged to the same party. Moreover, there were no links to higher levels of government that could guarantee the flow of resources necessary to implement the ambitious projects prepared by the working teams. Therefore, the following projects were dropped: “Piacenza Holding” (a venture capital fund project for local initiatives), “Piacenza Portal” (a promotion of the local web site), social housing projects for vulnerable groups, and the consideration for some special sectors such as planning and education. Another weak element was surely the decline in the initial willingness to get the projects started, and the decrease in enthusiasm for sharing the Piacenza Strategic Plan objectives.

Since participation was the crucial element for the formation of the agreement, a wider range of stakeholders from the economic, social, environmental, and cultural sectors were invited to participate in the strategic committee for preparing the second edition of the plan, *Piacenza 2020*, including some from new social areas. The promoters (province, municipality and chamber of commerce) convened a public meeting with the cultural, environmental and voluntary associations in order to nominate their own representatives for the strategic committee. Real participation in such meetings, however, turned out to be always poor. Rather, the direct participation of the population at large could have been implemented through the representing associations that would have been able to organize open meetings to discuss guidelines, strategic areas, and priority actions. However, this did not happen perhaps because the associations were not facilitated and supported. Finally, a further weakness of the process was the absence of a structure devoted to the plan, which affected support for the working group

sessions and, moreover, diminished the capacity to evaluate and monitor the expected interventions.

Since May 2005, the promoters expressed their intent to re-launch the strategic plan by revising the first plan. The new challenge was to project a mid- to long-term timeline for the whole provincial territory, and build a baseline framework that set out the priorities for the next 20 years. This, it was believed, would enhance coherence for policy and strategic decision-making. To that end a new phase was entered, and community consultations were organized. In soliciting inputs and ideas for the future of the city, focus groups were organized with a range of stakeholders and citizens, including with students and teachers. The promoters provided special staff for the organization and support to the committee.

The steps taken for the new plan *Piacenza 2020* were as follows:

- Prepare a draft document to guide the debate and engagement with communities during the public phase (May–October 2005);
- Consulting phase: in order to prepare the first version of the strategic plan which was then submitted to the strategic committee (October 2005–June 2006), in particular:
 - organization of the International Conference “Vision 2020”, (October 2005) aimed at defining the current development trends, challenges and opportunities,
 - involvement of schools and students (November 2005–June 2006) to speak about the new generations’ and local population’s needs and expectations,
 - activation of an online forum, <http://www.pianostrategico.pc.it>,
 - organization of a public forum in the city and province (March–April 2006),
 - gauging the interest of the city council and of the promotional committee, and engaging them in every important step of the planning process,
 - periodic meetings of the strategic committee aiming at validating the first draft of the document (June 2005–June 2006),
- Convocation of all key stakeholders (June 8–10, 2006) for the final approval of the document; the election of the new strategic committee (by adding new representatives – such as young people and the local health service sector), and launching the projects,
- Identification of target indicators and the flagship projects signed by the territorial architects (February 2007).

Figure 4. The Final Approval Session of the
Piacenza 2020 Strategic Plan

Figure 5. The Schools and Student Meeting on June 5, 2006



The vision highlighted in the Strategic Document *Piacenza 2020*, signed in June of 2006, is captured in two phrases: *a knowledge community (territory of learning)* and *a competitive production system (territory of enterprises)*. In 2002 strategic document, the focus was on making Piacenza both a sustainable community (territory of the quality of life) and an open community (territory of welcoming).

The vision reflected the selected strategic axes, which stem from a realistic assessment of the reference settings, and strengths and weaknesses, of the territory. The strategic goals and priority action lines evidently encapsulated the vision. A key innovation was the careful selection of *indicators*, which allow for the establishing of goals and the monitoring of their achievement.

Another key innovation was the selection of the strategic plan's *flagship projects*. These were characterized by the following features: medium to long term; large subjects' involvement (likely public-private integration); inter-sectoriality/multidisciplinary; strategic impacts on the competitiveness/sustainability of the territorial system; measurable through indicators; demonstration effect/exemplariness. Other "ordinary" projects that do not fall within the flagship category, such as administrative projects or initiatives from single stakeholders, are however assessed for their compatibility or fit with the strategic plan framework, and for their ability to be integrated with the plan's *flagship projects*.

The new *Piacenza 2020* strategic axes and the selected relevant *flagship projects* are highlighted in Table 1. The innovations of the second edition of the Piacenza strategic plan lie both in content and method; the following paragraphs illustrate these innovations.

Table 1. The Piacenza 2020 Strategic Plan – Flagship Projects

Axis 1 – Urban Quality and Territorial Sustainability		
Project	Promoters	Description
<i>A Country-life Campaign</i>	<i>Agriculture Council, Piacenza Prov., Environmental Associations</i>	<i>Implementation of short chains through networks of farm producers and consumers to create a local economy grounded in quality, environmental preservation, and solidarity.</i>
<i>Sustainable Use of the Trebbia River</i>	<i>Piacenza Environmental League</i>	<i>Research addressed to the sustainable use of the river water aiming at preserving its good physical, chemical, and environmental characteristics in order to guarantee the water outflow “up to the mouth” and to supply the farms in the territory.</i>
<i>Piacenza, Land of the Sun</i>	<i>Piacenza Environmental League</i>	<i>Citizen information campaign, professional initiatives, and financial support aiming at developing photovoltaic, passive, and thermal solar systems so as to meet up to five percent of the province’s energy needs from solar sources by 2010.</i>
<i>Po River Bay</i>	<i>Cooperative Piacenza 74</i>	<i>Project of urban regeneration and re-use by the city former military areas for public, green, and residential purposes.</i>
<i>Piacenza Metropolitan Railway Service</i>	<i>Transportation Council, Piacenza Prov., Rottofreno Municipality</i>	<i>Implementation of a transportation system of lightrail/ subway as an alternative to the use of cars/private transport.</i>
Axis 2 – Territorial Competitiveness		
Project	Promoters	Description
<i>Piacenza, Iron City</i>	<i>Regional Institute of Logistics and Transports</i>	<i>Strengthening the logistics capacity by investing in railway infrastructures to promote the intermodal transports as the backbone for the territory’s logistics activities.</i>
<i>Business Zones at Conventional Prices</i>	<i>Chamber of Commerce</i>	<i>Providing at least 25 percent of industrial land to be sold at set low prices.</i>
<i>New Road to the Mountains</i>	<i>Chamber of Commerce</i>	<i>Including a new road to easily reach to the mountains within the territorial planning documents.</i>
<i>Safeguard Plan for Piacenza Apennines Bovine Milk</i>	<i>Agriculture Council, Piacenza Prov.</i>	<i>Supporting the milk-cheese chain according to new EU guidelines and within objectives of the new Rural Development Plan through several initiatives such as Gal Soprip* call for proposals.</i>
Axis 3 – Innovation, Knowledge, and Technology		
Project	Promoters	Description
<i>Observatory of the Po River System at Serafini Island</i>	<i>Agriculture Council, Piacenza Prov.</i>	<i>Setting up of a Po River Research Center as headquarters for the river committee in order to foster ecological and environmental studies, cultural activities, and educational tourism.</i>
<i>Piacenza Schools on the Web</i>	<i>School headmasters</i>	<i>Website creation to promote the organization of Piacenza schools for exchange programs with other European countries.</i>

Axis 4 – Social Inclusion		
Project	Promoters	Description
<i>Hospice in Piacenza</i>	<i>Cooperative's league</i>	<i>Setting up of a health housing structure to support patients and their families through palliative treatments and to provide psychological aid.</i>
<i>Housing Policies for Disadvantaged People</i>	<i>Trade unions</i>	<i>Providing integrated policies that offer housing opportunities to recently married people, the elderly, and disabled, and to foreign and Italian migrants.</i>
<i>Elders and Children Together</i>	<i>Uni-Coop Piacenza</i>	<i>Setting up of a kindergarten for children and a multipurpose community center for the elderly: long and one-day-lodging available in the same structure.</i>
Axis 5 – Creativity and Culture		
Project	Promoters	Description
<i>Teaching Peace</i>	<i>Psycho-pedagogical Center for Peace</i>	<i>Setting up of a permanent exhibition about conflicts targeting 11–16-year-old teenagers in Piacenza.</i>
<i>Piacenza, Meeting Place for Youth and World Cultures</i>	<i>Casa Montagna</i>	<i>Youth International Festival: sport, educational and cultural tourism, meetings, and summer stay for EU youth.</i>
Axis 6 – New Approaches to Territorial Management		
Project	Promoters	Description
<i>Beautiful Mountain Life</i>	<i>Tourism Council</i>	<i>Implementation of a technological infrastructure supported by the regional mountain network with an additional service for the elderly (health, emergency, shopping).</i>
<i>Strategic Issues on Urban Changes</i>	<i>Commune of Piacenza, Polytechnic Institute</i>	<i>Turning the strategic plan contents into operative criteria for the transformation of Piacenza areas into indicators for the municipal structural plan.</i>
<i>Broadband Internet Access for Foothill and Mountain Areas</i>	<i>Tourism Council, Piacenza Prov.</i>	<i>Promoting digital devices as a response to the peculiar geographical and demographic features of Piacenza territory and providing broadband access to the whole community.</i>
Axis 7 – Talking City		
Project	Promoters	Description
<i>Local Strategies for Food Risk Information</i>	<i>Consumers Association</i>	<i>Wider dissemination of information about food contamination risks along with information about food safety, pests, and contaminants.</i>

* The Gal (Local Action Group) is a network of enterprises and local administrations that manage the European Structural Funds for rural areas.

Learning by Planning

There has been a radical priority shift in the second edition of the strategic plan. The vision and strategies prioritized emphasize local development and sustainability. This was prompted by the environmental impact of the investments and development implemented during the first strategic plan, which emphasized the development of new areas for production. During the years between 2000 and 2006, an area of more than six million square meters, representing a 26 percent increase, was developed for new production. During the same period, due to development of the logistic poles, an area of more than 3 million square meters was developed for extraction activity, representing a 46 percent increase.

In contrast to the first plan, which emphasized development and economic growth, the *Piacenza 2020* objectives and projects are characterized by a stronger focus on sustainability and quality of life. Major project areas include the production of renewable energy, short supply chains, protection of agricultural areas, lightrail subway, and the observatory of the Po River. The course of territorial development thus changes drastically. Such strategic changes resulted from the new planning process, where the selection of projects was guided by the vision and the strategies, and not vice versa, as it happened during the first strategic planning phase.

Learning by Evaluating

The second key innovation is methodological. Compared with the first strategic plan, where participation was mediated through the territorial representation of associations, during the second planning process, a range of mechanisms such as public forums, websites, meetings, and student engagement were used to enhance direct and active participation of the local population. Furthermore, the shared definition of indicators and territorial goals to address policies and to measure the impact of the strategic plan fostered the coherence of policy choices and initiatives and their alignment with the local development vision. According to the Lisbon guidelines and EU objectives, and on the basis of the available data for the provincial area, 24 *target indicators* were identified, eight each for economic development, social development, and the environment, respectively (see Table 2). This way, the indicators firmly anchored the strategic goals and provided a framework for policy decision-making and actions by the private and public sectors. In fact, in the provincial administration budget, these indicators have already been included as a social accountability tool for local policies.

Table 2. The Piacenza 2020 Strategic Plan – Targets

ECONOMY	2008 data	Target 2020
<i>Employment rate (percent of workforce aged 18–65)</i>	67.9	70.0
<i>Growth rate of newly established high Tech Enterprises (birth minus death percent rate of growth)</i>	2.2	2.5
<i>Export propensity (percent export over added value)</i>	24.0	25.0
<i>Registered patents (EPO patents per thousand inhabitants)</i>	55.3	100.0
<i>Foreign Direct Investment inflows (percent over added value)</i>	0.3	1.0
<i>Tourism growth rate (percent per year)</i>	7.6	10.0
<i>Business zones with sustainable rules (percent of new zones)</i>	0.0	30.0
<i>Business zones with low prices (percent of new zones)</i>	0.0	20.0
ENVIRONMENT	2008 data	Target 2020
<i>Emissions of PM10 (µg/mc)</i>	44.0	< 40.0
<i>Emissions of NO_x (ton/year per capita)</i>	72.6	17.4
<i>Emissions of CO₂ (ton/year per capita)</i>	23.7	Decrease of 6.5 %
<i>Consumption of domestic water (lit/day per capita)</i>	217	160.0
<i>Forest area (hectare per capita)</i>	28.0	30.0
<i>Protected natural area (percent of province area)</i>	10.0	15.0
<i>Differentiated collection of refuse (percent of total refuse)</i>	38.8	50.0
<i>Urban bicycle paths (meters per inhabitant)</i>	19.7	32.0
SOCIETY	2008 data	Target 2020
<i>Female employment rate (percent)</i>	56.00	60.00
<i>Income inequality index (Gini)</i>	0.30	0.29
<i>Kindergarten services (available nursery schools / 0–5 years preschool population)</i>	19.10	24.00
<i>Elderly with home assistance (percent of elderly)</i>	1.36	1.40
<i>Graduate (percent of employees)</i>	10.70	15.00
<i>Decrease of mountain population (percent annual rate)</i>	-1.80	-0.60
<i>Reported crimes (per 100 inhabitants)</i>	3.17	3.0

Limits

The voluntary nature of Piacenza's second strategic plan is its main constraint. Once again, flagship projects are not based on already allocated resources or on the basis of existing financial tools for their implementation. In spite of the experiences in other nearby territories such as Cremona and Lodi, or the Lombardy Region (where Milan acts as the lead city), where local strategic plans evolved into guidelines and projects that were included in regional planning budgets and became part of the Framework Agreement for Territorial Development, *Piacenza 2020* took a different approach. The flagship projects of *Piacenza 2020* did not include any important public initiatives from local

administrations, and rather preferred to depend on private and association actions and investments. Above all, there was no clear connection with the regional plan, and this could have attracted resources from regional, state, and/or European funds. Once more, the new administrative election, which was held during the development of the second plan, in May 2007, slowed down the planning process, and weakened implementation and local initiatives.

Next Steps

The last steps consist of implementing the priority projects, both private and public, and of measuring and monitoring the plan in order to follow project implementation and impact on the local system. During this phase, the people in charge of every project gather data, information and news. By the end of 2009, about three years after setting up the flagship projects, just eight of them have been completed,⁵ eight are ongoing, and the other five are being revised.

Learning from the Piacenza Case

Some lessons can be drawn from the strategic planning process experienced in Piacenza during the last ten years, and the lessons conform to the existing literature and other European and Italian case studies:

- The participation of territorial stakeholders is supposed to run through two intersecting paths: one, through representatives of the local institutions and their governing bodies; and two, through direct engagement of the local residents and communities using open listening tools and public communication media;
- Local public bodies and autonomies (such as the chamber of commerce) play an important dual role: they provide tools and human and financial resources for the planning process, but can also submit the strategic timelines and projects to the institutions concerned with territorial planning (both local and national); in particular, not only should the policymakers be actually involved in order to make the strategic planning effective, but they should also have to take part in the different implementation phases;

5. The eight implemented projects are: elders and children together in Piacenza; strategic issues on urban changes; a country-life campaign; broadband internet access for foothill and mountain areas; safeguard plan for Piacenza; Apennines bovine milk; Piacenza, meeting place for youth and world cultures; a beautiful mountain life; and Piacenza, land of the sun.

- The Strategic Plan succeeds in changing the social context not only through a speedy implementation of the projects and their financing, but also with *precise* strategic direction of the plan; In fact the strategic plan represents for both private employees and investors, a clear indication of the territorial choices and economic priority sectors to be supported, and to the initiatives that will foster investment and activity. From this point of view, the impact of the strategic plan is to be measured not only by the direct outputs of the projects, but also by its long-term outcomes and influence in shaping the territorial culture and identity. It thus forms an excellent tool for territorial marketing, and for external users;
- The strategic plan needs a different skill set (within and outside of the local authorities) to *simplify* the decision-making process; new partnerships and procedures will help to eliminate public red tape;
- Strategic plans represent new forms of deliberative democracy that shall *strengthen* the political and administrative institutional infrastructure (top-down) as well as sustain all new forms of participation (bottom-up), including public meetings and other mechanisms such as participatory budgets, social forums, and e-democracy; inclusive processes will gain momentum and thrive through a strategic planning process and its visible local development outcome, service delivery, and environmental sustainability.

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Strategic Planning Process Is Not Linear



Reflections on City Strategy Drafting

Budapest's Sinuous Process: 1991–2002

*Katalin Pallai*¹

Introduction

A city's strategy process is defined by a single key goal: to impact city development. This is achieved through the contribution of different stakeholders, their agreement on feasible goals for development, and through the identifying the best possible investment of public resources.² In other words, the local government's limited financial, regulatory, and organizational capacities should be allocated to facilitate the desired development process.

As a method, strategic planning is built on the logic of deductive thinking and instrumental rationality: the vision and goals set at the beginning of the process guide the subsequent steps. These steps include the development of programs, objectives, interventions, and policies. Textbooks and training courses on city strategy drafting, in most cases, teach a *blueprint* of the process with a step-by-step guide that faithfully implements the deductive logic of standard strategic planning. This blueprint implies that going through the steps, one by one, guarantees the desired results.

Many city strategy processes have been initiated by donor or international organizations in Central and South Eastern European (CEE and SEE) countries of the post-communist era in their first decade after political transition.

1. *Katalin Pallai*, urban strategy expert, was advisor to the mayor of Budapest between 1991 and 2001 during the time period discussed in the paper, and was responsible for coordinating medium- and long-term city policy programming and planning. Between 1998 and 2001 Ms. Pallai was the leader of the team commissioned with the formulation of the Urban Development Strategy for Budapest. She has a M.Sc. in Architecture and Urban Planning and a Ph.D. in Political Science.

2. By resources, I mean not only financial investments in physical projects, but leadership and organizational capacity, regulatory power, trust building, and all other components of public sector resources as well.

These organizations offered support and various fringe opportunities for city leadership. In new EU countries, EU funds offer a similar kind of external push. In many cases, unfortunately, the rapid strategy drafting process recommended by the blueprints produces weak documents, and fails to set priorities or establish a strategic direction for the affected cities.

The case of Budapest during the 1990s was exceptional in the sense that such external drivers only had a marginal impact. The whole local strategy and reform process was initiated and implemented by the local leadership. The resulting process was long and took many detours from the simple *blueprint* (Pallai 2004).

The city strategy process in Budapest highlights challenges that necessarily lead to deviations from the usual strategy drafting *blueprints*. This paper argues that, in countries that have gone through major political transition and decentralization, during the first decade after the initiation of major changes and reform, the context is not conducive to the rapid elaboration of a local strategy.

Budapest was in better condition and offered more possibilities for the creation of a dynamic local development strategy than most other cities in the region. In addition to having the largest metropolitan agglomeration,³ Budapest had a historical reputation for being a major European city, one that, even during the communist era, was among the most open to a market economy. It is considered the gateway to the East and a major European transport corridor. During the 1990s, Budapest had the largest concentration of consumer spending and high-level human resources in Central and South Eastern Europe. It became the key target of direct foreign investment. Moreover, as a result of rapid and strong political, administrative, and fiscal decentralization in Hungary at the beginning of the 1990s, the municipality of Budapest had by far the largest budget and the most decision-making power among local governments in the region. Thus, many limitations that other cities faced in the region were less inhibiting in Budapest.

Nevertheless, in the early 1990s Budapest also faced some conditions produced by the political transition that presented difficulties for strategy drafting. These included the uncertainty created by the rapidly changing legal and regulatory environment; administrative and decision-making practices typical to socialist public administration; the absence of relevant information for strategy drafting and decision-making; and a new leadership that had

3. Nearly two million inhabitants live within the city and some 600,000 more in the metropolitan area.

no previous experience in public sector strategy drafting. These conditions forced the abandonment of the deductive strategy drafting *blueprint*.

After the first attempt to agree on a vision and broad strategy, years of consistent work on internal management were needed in order to assess the feasible domain of strategy-making and of strategy implementation capacity. An opportunity for the realistic assessment of a feasible strategy, achievable goals, and accountable cooperation with stakeholders became possible only after reform. Thus, instead of the linear strategic process given by the *blueprint*, Budapest had to go through a long, sinuous process, and only gradually began to make strategic choices and decisions on the basis of an integrated strategic concept.

Using the case of Budapest to illustrate some of the key characteristics of the transition context, this paper will argue that, in the case of city strategies, developed in the context of drastic change, extreme complexity, and uncertainty, the applicability of the simple, deductive, and fast track process of strategic planning may be seriously challenged. This paper will demonstrate that in certain cases it is indeed a sinuous process that can take years to finally arrive at an agreed upon and viable city strategy.

The first section describes the process of strategy development in Budapest between 1991 and 2002, and explains why the deductive track could not be followed.⁴ The second part demonstrates that many of the conditions that led the Budapest leadership to leave the standard track of strategy development are ubiquitous in SEE, and discusses why deviations from the standard process can be suggested to local governments in SEE as well. The conclusion of the paper argues that, more often than not, the sinuous process, and not the standard deductive process, is the most logical and effective way to engage in city strategy drafting, especially when drafting an initial integrated local strategy after political transition and decentralization.

A Chronology of Events in Budapest: 1991–2002

1991: Parallel Streams – Dreamers and Bureaucrats

The first democratic local elections in Hungary were held at the end of the 1990s. The newly elected leadership of Budapest immediately embarked on a process to develop a local strategy. At the time, the condition of the ongoing transition and decentralization process created a rapidly changing legal,

4. This paper discusses only some selected aspects of the strategy drafting process in

regulatory, and financing environment that made it impossible to develop a real strategy. Nevertheless, the attempt to develop a strategy led to the opportunity to build agreements on political principles, and initiated a learning process for the new decision-makers and experts. The new leadership was supported both by the “old” administrators and by many new experts who had spent the previous years in opposition and stepped onto the scene only after the transition. The new “players” were filled with enthusiasm and had many new ideas. Nevertheless, the strategic drive soon encountered a serious obstacle: it became clear that the state of the internal management system did not allow for either integrated planning or the assessment of plan feasibility. Within such conditions, the dialogue over strategy became a debate on beliefs where the new visionaries clashed bitterly with the old bureaucrats.

In August 1991, a document was published with the title: “The Program of Mayor Demszky” (Alliance of Free Democrats 1991). The document was far from an integrated strategy, but could define clear policy principles, some main goals, and identify a few key projects for implementation.

The early self-definition of the leadership through the principles and goals, and the wide discussion they encouraged and engaged in, helped them to lead consistent policy-building efforts and communication through the 1990s. Thus, they maintained popular support and power in the city.⁵

1992–1994: Old Projects Have to Be Given up for New Ones

The leadership soon realized that it was impossible to establish realistic strategic thinking and set feasible goals without sound internal management. Therefore, in the years following the 1991 Demszky Program, attention shifted towards internal management reform. The first step was the development of a first-ever comprehensive Capital Investment Plan (CIP) for two years.⁶ The new CIP listed all the projects that had been prepared by the city hall departments. The list showed that the foreseeable financial resources fell far short of what was needed for the already adopted plans. Serious screening had to begin before new projects could be added.

Budapest. In 2004, a book was published on the Budapest strategic process and reforms where the mayor and key experts involved wrote a critical report of the experiences (Pallai 2004).

5. Mayor Demszky has been repeatedly reelected since 1990.

6. The fact that a municipality can operate without a consolidated CIP might sound impossible to the reader. Nevertheless, this was possible (and ubiquitous) during the communist era, when the majority of resources were allocated through vertical channels within sectors and horizontal coordination of projects at the municipal level was very weak or nonexistent. In this frame, the early development of a consolidated CIP was a big achievement.

The consolidated CIP, and the screening of projects according to the agreed goals, demonstrated to everyone that many old ideas needed to be given up to make room for new ones. This only strengthened the conflict between the new and old experts and ideas, and subsequent decisions created huge political conflicts. In order to tame the conflict, a mechanism was introduced that allowed city hall departments and sectors to propose capital projects according to their own discretion up to certain cost ceiling – that is, priority setting was restricted to sectors. In practice, this meant that the first battle was won by the bureaucrats, even if not completely.

The Definition of the Feasible Domain

In 1995 and 1996, a local financial crisis offered the leadership a window of opportunity to launch more comprehensive internal management reform: initiating financial management reform, privatization, planning reform, and screening of ongoing plans. As a result, the municipality introduced a more prudent financial management scheme and a more systematic, multi-year forecasting and planning process. These, in turn, strengthened creditworthiness and allowed the introduction of active credit policy, which led to better investment financing (Pallai 2004).

The internal reforms within the municipality of Budapest resulted in a more prudent and efficient use of resources within specific activity domains. But in the absence of a city strategy, there was no agreed upon basis for cross-sectoral priority setting (Pallai 2005). The bureaucratic CIP also failed to create synergy with potential partner governments and other stakeholders.

At the same time, the internal reforms made it possible to assess the feasible margin of maneuverability and created the possibility for the development of realistic goals and strategies. The reforms also established an internal capacity for effective strategy implementation.

Bridges between Dreamers and Bureaucrats?

A New Attempt at an Integrated City Strategy

In 1998, an external expert group was commissioned to develop a city strategy. The idea was that the time had come to develop an integrated city strategy that would guide cross-sectoral priority setting for projects, and build synergy with external partners.

The expert group produced a strategy alternative by 2000, and made some recommendations to the leadership. After ten years of work, a real strategy could have been adopted that was feasible and was securely supported by analysis and a comparison of alternatives. Following courageous political decisions, this technical document could have been developed into a strategy

that would have defined the choices between alternatives, between old and new projects. It would have operated as a bridge between new dreams and old ideas. Thus, it could have led to the crowning of a strategy process that a decade years in the making.

Short-term Exploitation of a Long-term Process

In 2001–2002, with the local elections approaching, the municipal leadership decided to use the strategy document as a political tool. They felt that the necessary strategic choices could not be made at the time because they would have created political conflict and confrontation with some supporters. Thus, a “softer” version of the document, which included all possible projects and interventions, was approved.

After the local elections, the newly elected Assembly adopted this final “soft” document – one that can hardly be defined as a strategy. The “strategy document” did not establish a focus and was unable to set a clear direction. The leadership also failed to establish a mechanism for strategy implementation. In sum, the leadership failed to make use of the potential benefits of the strategy process.

The Results of Bad Politics

Since the city strategy was developed as part of “internal affairs” of the municipal government, general awareness of the document outside the municipality was weak. Thus, the process could not establish synergy and cooperation with the activities of other stakeholders. The “soft document” could not establish them either.

Moreover, the strategy, which was developed by an external team with minimal cooperation from either the legislative or executive branch of the local government, failed to build a sense of ownership within the administration. Administrators, politicians, and other stakeholders were equally reluctant to accept it as a framework document for urban development. As the final document was so broad that practically any action could be legitimized within its parameters, municipal departments did not change their sector plans, and continued with earlier projects. At the same time, the broad formulation allowed the document to remain the official frame of reference for a long period of time.

In sum, in the following years the strategy did not guide decisions impacting city development and policy. The document was instead used for legitimating actions. It became a formal reference used to support arguments

for new projects, when it was needed.⁷ It excellently served this purpose, as any possible project could be supported by a soft document that did not have clearly defined priorities.

Though the Budapest leadership achieved important results, it could not establish cooperation from a wide range of stakeholders. Thus, tremendous supportive energy for city development was lost.

What Is the Situation Today in Budapest?

Many years later, in 2008, Studio Metropolitana, a municipal agency set up for city marketing, initiated some discussions with the leadership about the revision of the city strategy in the frame of a participatory process. The idea was to launch wide public discussion on the future of the city and to establish a formal mechanism for strategy development and implementation. The idea was to set up an institutionally-embedded internal strategic coordination board and an external steering board of reputable opinionmakers who were beyond politics and politicking. The purpose of the new structure and mechanism was not only the revision of the strategy, but to also institutionalize the subsequent strategic decisions process. Unfortunately, such a process and structure could not be implemented within the actual political context in the municipality and the city. Time will show how the process will unfold following the local elections to be held in the autumn of 2010.

Lessons from the Case

The first important lesson from the Budapest case is the importance of shared political principles. The early definition of the political principles and their consistent implementation formed an enduring foundation for the ten-year process of strategic exploration. Unfortunately, strategy-drafting patterns that emerged in CEE and SEE countries often neglected this step, as if strategy drafting could ever be value-free.

The second lesson is that a strategy process in such a context is necessarily a long process. The aim of the strategy process is to create an agreement that can guide future action. A long road of internal and external processes must be traveled in order to arrive at an integrated strategy and strategic management. This process is not necessarily rapid and linear. Before an integrated strategy can be agreed upon, the conditions for informed, democratic, and transparent strategy drafting have to be established.

7. In the competition for EU funds and many subsidies, strategies must support project proposals.

The third lesson is about the openness of the process. The goal of the city strategy process is not to optimize interventions through instrumental rationality (as in simple business cases), but to create synergy among development forces. For this alignment of intentions to succeed, cooperation and trust building is necessary between diverse stakeholders. Only such a process can produce good decisions about where to invest public resources for the leveraging of other resources. An expert group working behind closed doors can never produce such results. Some level of participation in the planning process is necessary in order to achieve and coordinate stakeholders' actions during implementation.

The fourth lesson involves the necessary alignment of strategy and actions. Strategy is not only a collection of good, new ideas, but also a shift from old ideas and routines. Parallel to the process of drafting a strategy with a diverse group of stakeholders is the process of aligning internal management decisions to the strategy. This will transform the local government into an effective agent of strategy implementation.

Effective strategic management cannot be established without effective internal local government management systems. After political transition and decentralization, internal reforms that transform old management routines into practices that support information-based, transparent, and effective decision-making, are necessary. This is the crucial lesson from Budapest: Only sound internal management of the local government can support:

- the honest assessment of the *feasibility* of strategic alternatives;
- fair cross-sectoral *priority setting* and selecting of interventions;
- the selection of *projects with the best possible impacts* on city development;
- *synergy* with other developers;
- *predictable and reliable partnerships* with stakeholders; and
- effective leverage of *additional resources* for city development.

Relevance for SEE Cities

Every country in the SEE region has undergone enough decentralization to give local governments important responsibilities and opportunities. The exercising of effective leadership by a local government now differs from what was done during the pre-transition era. After such a political transition, local leaders, most of whom are used to working with and vertically depending on one-party systems, are challenged by changes to their operating paradigms and practices. They also have to confront the inertia of the existing

establishment in their effort to change administrative and decision-making practices that are grounded in former incentive systems. In doing so, they have to fight deeply rooted power structures.

Strategic planning was not practiced at the local level before the political transitions. The former system did not give local government units adequate discretion and did not encourage independent local planning and financing approaches. In SEE countries even today, responsibilities and financing decisions related to various local services are often split among various government levels or mostly directed by higher government branches. This situation diminishes local accountability, works against transparency, and often serves as an excellent excuse for a lack of accomplishments (Pallai 2006b).

When a leadership desires to have a strategy, the typical practice, unfortunately, is to push a strategic process through in a couple of months and take whatever it produces. Donors' local offices often support such hurried strategy processes because they need to show fast tangible results to their officials and sponsors. Typically, an expert team develops a strategy document and the local government adopts the document (Pallai and Driscoll 2005).

I demonstrated in the Budapest case that the adoption of a document with the title of "City Strategy" does not mean that the city has a strategy. The adoption of a document as a strategy, when it is not prepared through a genuine, locally owned process, can backfire and kill a real strategy process.

The second important point from the Budapest example is that prior to the municipality's reform of internal management, in the early years the state of the internal management system did not allow for either integrated planning or the assessment of plan feasibility. Within such a context, the dialogue about the strategy became a debate over beliefs where the ideas of the new visionaries clashed with those of the old bureaucrats. Without constructive debate based on hard facts, little room remained for the implementation of new ideas, and inertia persevered. Only the adoption of an integrated strategy, developed with an honest assessment of capabilities, could have created a moment of truth. That is, build the bridge between old and new ideas, between dreams and reality.

Unfortunately, too many strategy documents are prepared without an honest assessment of capabilities. Such documents easily become all embracing project lists – wish lists! The problem with such documents is that they do not give direction for development and cannot guide or support later stakeholder decisions. They do not contribute to the synergy of stakeholders'

activities, or to the leveraging of private resources. Such documents can be used to legitimize any intervention; they remain token and ineffectual.

There is a more problematic scenario, however. In SEE countries most municipalities have weak and unorganized civil societies, and most stakeholders are apathetic to public action. Some stakeholders, mostly representing businesses or small interest groups, are accustomed to making closed-door deals with political leaders. In many places, specific interest groups influence central and local governments. In this context, it is difficult to encourage active participation and even more difficult to realize inclusive and balanced participation. It must be stated that unbalanced participation is a huge risk – especially in such an environment. If a captured government prepares a strategy with an unbalanced representation of stakeholders, capture may be strengthened. Thus the results can be detrimental (Pallai 2006c).

Conclusions

The main claim of this paper was that the standard strategic process (*blueprint*) propagated by textbooks and training courses in SEE countries is not necessarily or readily applicable for city strategy drafting within the actual conditions of these countries. When the conditions of intergovernmental relations and internal managements within municipalities do not allow for even a rough assessment of feasibility, and the strategic process is pushed through in a couple of months, with an unbalanced, or selective representation of stakeholders, the documents produced are not strategies that can guide further development in an agreed upon direction. They become papers exploited for symbolic politics, or in the worst case, they can strengthen the influence of small interest groups over government. These interest groups can then use the documents to legitimize projects that serve their interests. Such strategies are Pyrrhic victories,⁸ that is, documents that can even generate destructive impacts on an emerging democracy, and work against wider societal cooperation for public goals.

Instead of such processes, a longer and more painstaking process can be suggested that gradually develops strategic steps and makes political claims only for already completed phases. Humility in the face of the challenge of strategy drafting and honest reflection over actual capacities and results can

8. A Pyrrhic victory is a victory with devastating cost to the victor. The phrase is an allusion to King Pyrrhus of Epirus, whose army suffered irreplaceable casualties when he defeated the Romans during the Pyrrhic War at Heraclea in 280 BC and Asculum in 279 BC.

guide the identification or calibration of the necessary process, and can save the wasting of resources on misconceived or mismanaged processes. Local governments and external organizations should be equally aware of this.

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From Vision to Action:

9

Multilevel Governance and the Role of Regional Agencies in Territorial and Rural Development

A Snapshot of Three European Countries

*Paola Maccani and Antonella Samoggia*¹

Introduction

The present paper highlights the key features of three European experiences regarding the role and institutional establishment of regional agencies for territorial and rural development. All three countries – Italy, England, and France – offer different experiences and perspectives. Whereas for the English and French cases the paper focuses on the power of the central government at regional and local levels, in the Italian case the paper offers a detailed analysis of players, entities, tools, and instruments related to regional agencies. Clearly, this paper should not be taken as an exhaustive analysis of the European situation, but rather as an attempt to contribute to the discussion over the multifaceted dimensions of multilevel governance.

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Conceptual Framework

The Role of Territory in Local Development

Over the last decades there has been an interesting discussion regarding territorial and rural development. This discussion has focused the importance of the territorial dimension in the support and creation of development processes and policies. There are common key words shared by most of the various approaches: territory, territorial identity, and local development. In this paper the adopted conceptual starting point interprets local development as “not just a growth process linked to one productive sector or to a local aggregation of enterprises, but as a process of territorial development based on the sustainable valorization of tangible and intangible resources of a specific territory, which involve social, cultural dimensions and the capacity for self-organization of the players active in the area” (Garofoli 2001).

A place is not a given element, identifiable on paper, but rather a potential reality, a social dimension that is derived from the interaction of subjects and material and non-material components of the territory. Local players and elements are to be identified and studied from within the same territory, so as to describe the creative process determined by subjective and objective aspects which play between the “sense of place,” subjective and symbolic, and the “conception of place,” objective and naturalistic.

Therefore, the collective identity of the players is not created by spatial proximity, by a passive sharing of a specific territory and its symbolic values, but is derived from the collective action of the players, as carriers of practices and knowledge, “creators” and “builders” of the territory and of new practices of identification processes linked to the territory. The interactions between players and places mutually influence and shape different interpretations of the territory: an administrative conception – roles and competences; a natural belonging to places – territory as heritage from the past; a social conception – local identity as a result of the collective action of players.

This approach has led some researchers and academics to conclude that local territorial systems, which include local networks of players, have a key role in shaping the territory. Because of their relationship to their specific place/territory, and the relationships existing among them, this network of players should be interpreted as one of “collective players.”

The main challenge then becomes the analysis of the relationship between social interaction, the local territory’s potential, and governance and development, that is, the understanding of who acts, what is carried out, and how the territory is managed.

Within this perspective, territorial and rural development processes do not respond to a mere economic and financial rationale, but are also the result of the synergic action of socio-cultural structures. Development is rooted in the territory's productive, cultural, and institutional context, which explains how and why the dynamics of progress and expansion depend on those private and public players who make decisions. It is by way of the continuous interactions among local players that diversities and similarities are combined, leading to the strengthening of local potential, which guides the whole system towards a process of socioeconomic and territorial construction.

Multilevel Governance

Institutions and Governance

Local players express their wishes, needs, and aspirations within a framework determined by formal rules, such as constitutions and laws and the instruments to apply them. They also express them via informal rules, which can be customs, behavioral patterns, codes, or conventions, as well as more formal norms, which condition the behaviors of business companies and of the population in a given territory.

The term *institutions* sums up the whole set of formal and informal rules. Institutions play an important role in supporting development initiatives and players by providing commonly accepted and known formal and informal conditions, which govern the social, economic, and territorial dynamics. Regional and local governments and institutions play a key role in managing and administering the process that leads to the creation of the preconditions to local development and to the effective interactions among local players; their objective is the delivery of policies that support the public interest and the organization of effective implementation instruments.

The coordination process is at the basis of the territory's *governance*; it is necessary for the establishment of coordinated instruments, agreements, and contracts that local developers will respect. Such governance differs from one territory to the other. Governance takes a specific form in each territory. This is because administrative ideas, specific power relations, and abilities differ from one territory to another.

Multilevel Governance

Such governance should be understood as multidimensional, with multiple players who can have overlapping capacities within the same policy area, for example, rural and territorial development. Within this framework, multilevel governance is to be understood as the exercise of authority and

various relationships transcending across levels of government. Historically, multilevel governance has changed and evolved. Because of various reasons over the last two decades, several European countries have introduced decentralization policies that contributed to making local and regional governments more powerful, and supposedly increased their capacity to formulate and deliver policy. These reasons include: increasing challenges due to globalization, experiences accumulated in internal development policies, increasing competition among territories, the strengthening of negotiating planning policies, and the need for regional and local interlocutors at the European level. The trends mentioned above have made the governance of public policies both more complex and more demanding because they involve multiple players – public and private – and require a rethinking of how central and subnational governments should collaborate and which instruments to adopt. Only the joint actions of different players coupled with the synergy of the determinant factors can lead to sound rural and territorial development policies.

As effectively described by OECD (2005), multilevel governance leads to different forms of governance, reflected in vertical and horizontal dimensions. The “vertical” dimension refers to the linkages between higher and lower levels of government, including their institutional, financial, and informational aspects. Here, local capacity building and incentives to help increase the effectiveness of subnational levels of government are crucial issues for improving the quality and coherence of public policy. The “horizontal” dimension refers to cooperation arrangements between regions, municipalities, or sectors within the same territory. These agreements are increasingly common as a means of improving the effectiveness of local public service delivery and the implementation of development strategies. Multilevel governance has become a key issue in the national territorial policy and in the development of urban and rural regions.

Role of Regional Development Agencies

The design of a policy should remain within the public body because of the need for accountability within public policy and strategic political plans. As well, it should be publicly designed because of the existence of international and sovereign regional interests, and the increasing complexity of the policy planning process. However, policy design is only one part of the development equation. The management and implementation of local development policies adopted for a territory are just as important as the conceiving of and adopting of the policy. Often, the public administration lacks flexibility, independence from political powers and interest groups, and the necessary capabilities

for effective policy delivery. Hence delivery of policies is better organized through specific instruments, such as external agencies. It is widely accepted that “European experiences show that local development strategies are more effective when they are implemented through autonomous, flexibly managed development agencies” (Vazquez-Barquero 2002).

Regional Development Agencies (RDA) can play an effective role in tackling the increasing problems at the center of multilevel governance. They can identify the capabilities of the national and local players, understand overlapping responsibilities and the differing incentives for each group of players, and overcome the common problem of obstacles and vetoes and transform it into cooperation. In other words, regional agencies can fill the gap created by multilevel governance when it fails to coordinate local development policies

The real added value brought by the establishment of an RDA is strictly linked to its coordination role. An RDA plays this role by defining its specific mission on the basis of a defined role, a delineated responsibility within the already existing public and private service activities and a wider set of activities carried out by other players. In other words, RDAs contribute not only to fill gaps and solve problems that public administrations might have, but also to deliver additional and specific services.

Development Agency Models

In Europe, there are different regional development agency models. The English, the French, and the Italian experiences are significant examples. This section will highlight these experiences by focusing on how the role of RDAs evolved over time in the context of specific national and regional political dynamics and needs. This is, however, not a comprehensive representation of national panoramas, but a cursory snapshot of legislative, organizational, and management approaches to territorial policy delivery at regional and local levels.

These countries represent three different approaches to the role and set up of RDAs. Whereas England’s experience highlights a strong vertical coordination between central and regional/local bodies with important involvement of the private sector, Italy’s experience demonstrates a rather fragmented framework due to the strongly regionalized political system, which features autonomous decisions at the local level. The French case illustrates that, despite its concrete efforts to decentralize, France still attaches

great value to central power initiatives; further, its experience highlights innovation in terms of its intersectoral approach to policy. In the case of the Italian experience, the impact of recent legislation meant to promote a market-oriented validation process for regional, rural, and local agencies has yet to be seen.

Since the RDA and its role within different contexts is evolving, the typology presented above and the reflection on the experiences presented below should be viewed with caution and in a dynamic context. The experiences highlight a number of positive benefits that RDAs offer. These include a better understanding of local specifications, closer proximity of the policy players to rural and territorial issues, and better interactions between sectors. There are tensions and problem areas as well which are yet to be resolved such as: vague hierarchical power structures, the duplication of responsibilities, informal negotiations, and the irrational division of capacities among the various decision-makers. All three cases offer interesting perspectives and strengthen a shared pursuit of effective and efficient public policy delivery.

The English Experience

Governance structure in the UK varies from one region to the other and no common structure can be identified in the different regions. Various governing bodies, with varying levels of power, govern and are responsible for local and rural territories. There are various levels of power within government led structures and within urban and/or rural areas' decision-making bodies.

The main role of the Regional Development Agencies in England is to act as strategic drivers of regional economic development and competitiveness through the coordination of development and the regeneration of policies and programs. As stated in the founding Act, each agency has five primary statutory purposes:

- to further economic development and regeneration,
- to promote business efficiency, investment, and competitiveness,
- to promote employment,
- to enhance the development and application of skills relevant to employment, and
- to contribute to sustainable development

The RDA's mission is "to spread economic prosperity and opportunity to everyone in the nine regions of England,"² delivering strategic planning

2. <http://www.englishrdas.com>

on matters of regeneration, increasing competitiveness and attractiveness for inward investments, and ensuring availability of adequate skills levels. Efforts are made to decrease differences in growth performance between regions and to ensure adequate partnership agreements with local stakeholders. A detailed analysis of the RDA's system is reported in Box 1, including some political statements.

Box 1. RDA System in England

National level

The Department for Business, Innovation and Skills (BIS) has direct responsibility for Regional Development Agencies in England whose goal is to “to help every region in England to increase sustainable economic development and narrow the gap in growth rates between regions.” BIS was created in June 2009 from the merger of the Department for Business, Enterprise, and Regulatory Reform and the Department for Innovation, Universities, and Skills, and is the sponsor of the RDAs. Over the last decade this responsibility moved to BIS from the former Department for Business, Enterprise, and Regulatory Reform, previously from the Department for the Environment, Transport and the Regions, and again from the Department of Trade and Industry.

BIS is represented in each of the nine English regions by the government offices, inter-departmental and cross-departmental bodies at the local level, representing 12 government departments in the regions. This intersectoral approach to policy delivery through central offices located in each region ensures a direct link with all central departments' policies and programs (with specific targeting toward regional, subregional, and local needs). RDAs are financed by all government departments with money collected in the so-called Single Budget.

Regional level: England's Regional Development Agencies

Eight Regional Development Agencies (RDAs) were established under the Regional Development Agencies Act in 1998, and were formally launched in eight English regions on April, 1999: Advantage West Midlands; East of England Development Agency; East Midlands Development Agency; North West Development Agency; ONE North East; South East England Development Agency; South West of England Development Agency; Yorkshire Forward. The ninth, in London, was established in July 2000 following the establishment of the Greater London Authority (GLA). The RDAs rotate the responsibility of managing the collective work of the RDA network in representing the network to government and other stakeholders every six months.

Statements of government representatives on the establishment of RDAs

“The English Regions want control over their own economic destiny. They want the powers and opportunities to contribute to the prosperity of their own communities – to create jobs and to create wealth,” John Prescott MP, Deputy Prime Minister, December 1997.

“It is anything but clear that England will be better served by nine competing regional development agencies, each seeking to sell its own region and, of course, comparing any competing region unfavorably,” Lord Fowler, then Conservative local government spokesman, January 1998.

RDA board membership is drawn principally from the business sector, although there are representatives from trade unions, the community and voluntary sectors, higher education, and local government. Over time, RDAs have seen their responsibilities and resources increase, including the addition of responsibilities relating to business support, skills, tourism, and rural policy. Currently, RDAs are key players at the local level. The central government's recent announcements demonstrate that RDAs have gained a lead position in "supporting the sustainable growth and recovery of the national economy" after the 2009 crisis. In addition, RDAs have become the main agencies of decentralized economic governance in England, notwithstanding their strong ties to central government accountabilities and performance incentives. Through them national funding will reach the local levels.

At the subregional level, subregional "economic" partnerships have been established in most English regions, mainly for the purpose of producing and delivering subregional economic development strategies, which are closely linked to the RDAs' regional economic strategies. The influence and responsibilities of these partnerships vary, reflecting their lack of a legislative role.

Some Considerations on the English Experience

The governance structures for dealing with regional and economic policy are complex and multifaceted. These structures are dependent on horizontal relationships and coordination between organizations with different functional responsibilities within the same territory, as well as with equally strong vertical connections between the national, regional, subregional, and local levels of government. Despite the clear differences reported by various regional territories, the UK central government still strongly exerts its power at the regional level. Interestingly, and following in the British tradition, this phenomenon has often dealt with increasing the role of, and providing support to, private bodies rather than to the political decentralization process and the powers attached to it. As a result, regional and economic policy planning and implementation is the outcome of multidimensional processes rather than of a properly coordinated process.

In addition, although steps have been taken lately, official powers at the regional level ought to have stronger leadership, agenda-setting powers, and legitimacy among other players. Horizontal coordination between the RDAs and other regional government department tiers could be improved. Among the main reasons local stakeholders see the regional bodies as weak are due to a lack of accountability, transparency, and the ability to deliver effective services. Moreover, government structures' performance at the subregional level differs strongly when it comes to development and effectiveness. They

are generally poorly positioned to take a lead role in developing strategies and delivery in relation to rural and territorial development.

Finally, it is important to highlight a number of details that deserve attention. First, in addition to the increasing distribution of funding for local, semi-public bodies and institutions, England supported the strong involvement of private players and public-private partnerships, especially with large companies, in the production of territorial and rural public goods with the aim of improving quality and efficiency. This trend was accompanied by a second aspect, that is, the wide adoption of the contracting of services previously provided by public authorities. Third, in order to improve the performance of public service organizations, a move was made from the compulsory competitive tendering toward a best-value-for-money approach. The experience shows a trend towards enhanced policy at the local level along with the increased role of the private sector.

The French Experience

During the last 25 years, France underwent various phases of a decentralization process that can be synthetically grouped into two main phases: the first from 1982–1983 to 2003,³ and the second from 2003 to the present. Although the first phase led to the shifting of some central government responsibilities to local territories, the central government kept some important responsibilities. The second phase strengthened the previous reform and, in particular, gave the regions constitutional recognition (Zorzi Giustiniani 2006). Subnational governments now have more power, evident in the reinforcement of their financial autonomy, economic development, and vocational training as part of the territorial planning. Their current power includes major infrastructure projects such as roads, social services, education, and culture. France has 26 regions and two other layers of local power: *municipalities* (around 36,500 units) and *départements* (or provinces, 100 units).

These two phases are crucial to the French history of decentralization and cultural and political change. Both phases move in the direction of building power and budgetary independence at the local level. They represent an

3. In 1982 and 1983, France approved the so-called *Lois Defferre* or *Premier Act*. With this law France started the first decentralization process. Important political and financial capabilities were transferred from the state to territorial communities. In 2003, France approved the new Constitution, and in 2004 approved the Act of Decentralization. In particular, according to Article 1 of the Constitution, France is organized on a decentralized basis, and Article 72 constitutionally recognizes the regions. In addition, local authorities, departments, and regions increased their financial autonomy.

important step forward in the direction of developing a regionalized system. However, when compared with other European countries, the power of the central government at the local level is still strong. The French reforms did not give regions any concrete authority over central power.

In the management of territorial and rural development issues, a crucial role is played by the *Délégation interministérielle à l'Aménagement du Territoire et à l'Attractivité Régionale* (DATAR), which is the territorial and rural policy central coordinating body with strategic responsibilities. Since December 2009, DATAR's mission has focused on economic changes and attractiveness, territorial revitalization, regeneration, valorization, cohesion, competitiveness, accessibility, and sustainable development for rural and urban areas. It acts as the key intermediary between subnational and central authorities. It incorporates two different dimensions of the multilevel governance:

- *horizontal governance*, due to its interdepartmental work for the management of the territory
- *vertical governance*, since it is a central and national body with regional and local offices

DATAR interacts with a number of ministries therefore playing an important negotiating role between different national ministries and various subnational levels, such as communes, groups of communes, departments,

Box 2. The French Central Agency DATAR

DATAR was created in 1964 during the De Gaulle administration to cope with rural and territorial disparities throughout the entire country, with particular attention given to Paris's urban and provincial rural surroundings. As time passed, this first mission has changed, focusing on strategic planning and advising on regional, rural, and urban development and supporting the creation of partnership agreements at the regional level.

The DATAR was named DIACT from 2006 to 2009, integrating in its function tasks previously assumed by the interdepartmental mission on economic promotion. This evolution demonstrates the will of the government to promote the attractiveness and the competitiveness of the national territory while following a politics of solidarity towards the remote areas.

The DATAR reports to the prime minister, but its activity is under the responsibility of most ministries, including the ministries of State, of Economy, Industry, Labor, of Internal Affairs, of Social Relations, Family and Solidarity, of Budget, Public Accounts, Public Functions and Reform, of Education and Research, of Defense, of Health and Sports, of Food, Agriculture and Fishing, and of Rural Spaces and Territorial management. DATAR proposes, prepares, promotes, and coordinates territorial management policies led by the state and promotes economic cohesion and competitiveness.

regions, *pays*, etc. DATAR uses its strategic role and position to develop *partnerships* and synergies among all the players active on issues of territorial management: the national government, territorial groupings, associations, and businesses. It can also play the role of partner. DATAR manages national and European funds.

The Italian Experience

Background

As mentioned in the first section, public governance or multilevel governance is a complex matter. It has both a macro dimension – linked to the principles of *good governance* identified by the EU – and a micro dimension – connected to the specificities of some institutional and organizational models of public administration, as well as to the peculiarities of the socioeconomic structure of each national, regional, and local situation. It is common in Italy to use an external organization for service provision and/or policy implementation, especially where there is market failure.

With reference to the field of economic development, in the last two decades there has been a strong increase of initiatives, above all at the subregional level: this is the result of an Italian/European planning and programming model that gives local institutions an increasingly active role in the valorization of their resources and in the promotion of internal development. The phenomenon evolved over time, especially in the 1990s, due to the development of a large network of autonomous players who obtained legal status and functioning capacity in areas that were previously the responsibility of central or local governments.

The analysis presented hereafter takes 2007 as a departure point. In 2007, a national decree compelled “in-house” companies⁴ to work exclusively with shareholders and committing bodies, and precluded them from providing services to other private or public organizations, neither through direct commitment nor through tenders. It also barred them from holding stocks in other companies/bodies. The analysis should not, however, be read in isolation from the historical and legislative developments that have been taking place for many years. The regionalization process in Italy started a

4. The definition of “in-house” company comes from the case law of *in-house providing*. It means an organization model of public procurement without any requirement for tenders. “In-house” companies are: (a) organizations with wholly public capital stock, (b) organizations to whom the Public Body/shareholder/s exert a similar control as the one applied over their own services, (c) organizations which carry out most of their activity for the controlling Public Body/s.

long time ago and has brought significant changes in some Italian regions. The Emilia-Romagna Region has been the forerunner in applying the new legislation, followed by Marche and Umbria.

A Field Study and its Findings

A study was conducted to establish the basis for a National Observatory on RDAs. This was done by identifying the intermediate organizations that are active in the field of economic development within nine central and northern Italian regions (Piedmont, Lombardy, Liguria, Venetian, Emilia-Romagna, Tuscany, Marche, Umbria, and Lazio). There were 94 organizational entities with a mission related to the economic development of the respective regions that were identified. Most of these (65 units) are directly or indirectly connected to the regional authorities, while the remaining (29 units) report to other institutional players such as provinces and municipalities. Lombardy and Emilia-Romagna are the areas that accounted for a higher number of agencies (respectively, 18 and 16 units), half of them representing local authorities. These are followed by Liguria, Piedmont, and Veneto with 10 to 12 entities, the majority of which are regional authorities. Finally, six to seven agencies were identified per region in the territories of central Italy.

As synthesized in the Figures 1 and 2, the range of entities is wide, including:

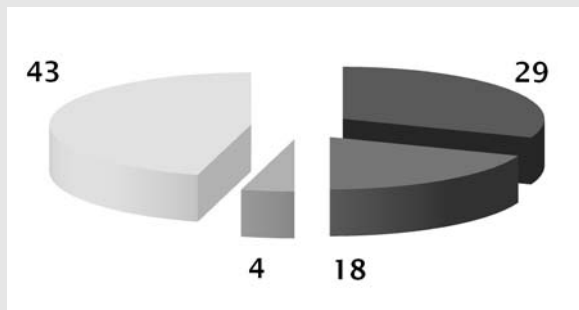
- funding bodies;
- regional research institutes;
- cluster centers;
- structures to support innovation and technological transfer;
- local/regional development agencies; and
- internationalization and/or territorial marketing organizations.

In addition, it is interesting to propose a taxonomic interpretation of the entities based on a matrix combining territorial dimension, local, regional, and “functional specialization” (focused and diversified based on their business type and mission). This exercise led to the identification of the following groups of agencies:

<i>Regionally focused:</i>	38
<i>Regionally diversified:</i>	5
<i>Locally focused:</i>	23
<i>Locally diversified:</i>	28

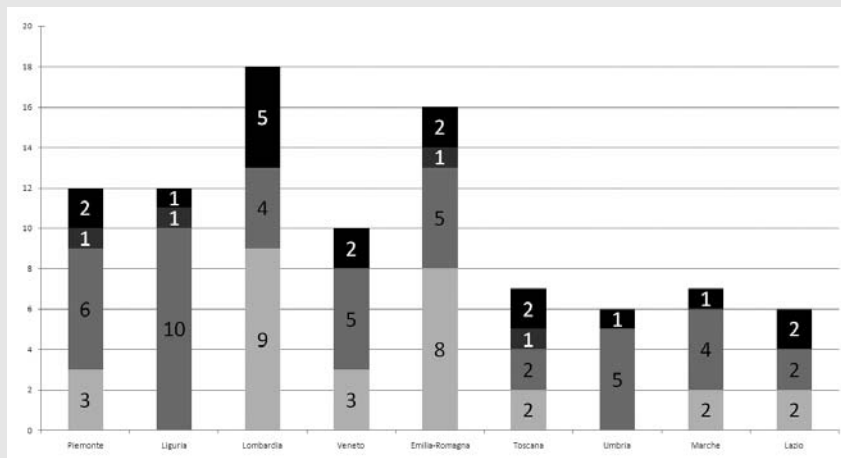
In order to better understand the phenomenon, a further analysis was carried out over the regional agencies in order to better understand the kinds of activity they carry out. In particular, two macro-categories were selected:

Figure 1. Typology of Players with Public Administration Partners



- Player linked to local authorities and no shares owned by regional government
- Companies controlled by regional governments and regional bodies
- Other players with shares owned by regional government
- Players indirectly participated by regional government

Figure 2. Distribution of the Players Identified by Region



- Players linked to local authorities and no shares owned by regional government
- Players indirectly participated by regional government
- Other players with shares owned by regional government
- Companies controlled by regional governments and regional bodies

(a) Tools and Instruments, and (b) Fields of Intervention. Since the range of activities the organizations carry out is wide and complex, they were clustered by the common categories of services and activities, and interventions, as follows:

Tools and Instruments: researches and studies; technical assistance to public administration (consulting, planning, project management, etc.); services and assistance to the enterprises; innovative finance and funds management (venture capital, public-private partnerships, project finance, etc., as well as regional, national, public funding)

Fields of Intervention: public administration development (governance, internal organization, innovation, etc.); territorial and rural development (territorial marketing, infrastructures, environment, etc.); promotion of entrepreneurship (internationalization, research and technological innovation, vocational training, etc.).

Figure 3 contains a detailed synthesis of the research results. It becomes clear how the Italian system of RDAs is very differentiated. An exercise aimed at identifying similarities in all regions would be inadequate. It is important to emphasize that Italy's institutional and economical evolution supports the process differentiating agencies that strive to meet the diverse and customized needs of varying territorial and economic conditions and resources, and differing regional governance situations. By matching regional or subregional dimensions with different tools and instruments and fields of intervention, the dynamic Italian panorama can be envisioned.

The Experience of the Emilia-Romagna Region

One of the best-known examples of practices being carried out at the regional level to implement local development policies is that of the Emilia-Romagna Regional Government, which has established a Regional Development Agency: ERVET⁵ Since 1974, the RDA, a joint stock company mainly owned by the same regional government, has been the agency for the fostering of territorial cohesion, thanks to a flexible, targeted, and selected strategy. The approaches and instruments used to achieve this can be identified in three steps corresponding to different time periods: (i) the business parks, (ii) the business service centers, and (iii) the assignment of specific players devoted to implementing innovation.

The 1998 Italian political-administrative decentralization process, which transferred industrial development capabilities from the national to regional levels, along with the 2001 constitutional reform, are the genesis of the agency's current mission and responsibilities. The new discourse created a fresh arena in which new private-public bodies were acknowledged. As a result, a unified legislative framework could now govern two key players,

5. ERVET (Emilia-Romagna Valorizzazione Economica Territorio, available online: <http://www.ervet.it>)

*Table 1. Areas of Intervention, Tools, and Instruments
of a Selection of Italian Regional Development Agencies*

TOOLS AND INSTRUMENTS		FIELDS OF INTERVENTION		
		<i>Public Administration development</i>	<i>Territorial and rural development</i>	<i>Promotion of entrepreneurship</i>
RESEARCH AND STUDIES	<i>Piemonte</i>	IRES	IRES	IRES
	<i>Liguria</i>	LIGURIA RICERCHE - FILSE	LIGURIA RICERCHE - FILSE	LIGURIA RICERCHE - FILSE
	<i>Lombardia</i>	IRER	IRER	IRER
	<i>Veneto</i>			
	<i>Emilia-Romagna</i>	ERVET	ERVET	ERVET
	<i>Toscana</i>	IRPET	IRPET	IRPET
	<i>Umbria</i>	SVILUPPUMBRIA	SVILUPPUMBRIA	SVILUPPUMBRIA
	<i>Marche</i>	SVILUPPO MARCHE	SVILUPPO MARCHE	SVILUPPO MARCHE
<i>Lazio</i>	SVILUPPO LAZIO	SVILUPPO LAZIO	SVILUPPO LAZIO	
TECHNICAL ASSISTANCE TO PUBLIC ADMINISTRATION	<i>Piemonte</i>			
	<i>Liguria</i>	FILSE	FILSE	FILSE
	<i>Lombardia</i>			
	<i>Veneto</i>			
	<i>Emilia-Romagna</i>	ERVET	ERVET	ERVET
	<i>Toscana</i>			
	<i>Umbria</i>	SVILUPPUMBRIA	SVILUPPUMBRIA	SVILUPPUMBRIA
	<i>Marche</i>	SVILUPPO MARCHE	SVILUPPO MARCHE	SVILUPPO MARCHE
<i>Lazio</i>	SVILUPPO LAZIO	SVILUPPO LAZIO	SVILUPPO LAZIO	
SERVICES AND ASSISTANCE TO ENTERPRISES	<i>Piemonte</i>		ITP	IMA PIEMONTE - TECNORETE
	<i>Liguria</i>		FILSE	FILSE; LIGURIA INTERNATIONAL
	<i>Lombardia</i>			AGENZIA PER LA CINA CENTROCOT - CESTEC POLITECNICO INNOVAZIONE
	<i>Veneto</i>			VENETO INNOVAZIONE RITEX - SPINLAB I TECNOLOGIA E DESIGN
	<i>Emilia-Romagna</i>			ASTER - CITER - CERMET
	<i>Toscana</i>			APET
	<i>Umbria</i>		SVILUPPUMBRIA	SVILUPPUMBRIA UMBRIAINNOVAZIONE - ISRIM
	<i>Marche</i>		SVILUPPO MARCHE	COSMOB - EQI - MECCANO
<i>Lazio</i>		SVILUPPO LAZIO	SVILUPPO LAZIO - PROMOLAZIO	
FUNDS MANAGEMENT	<i>Piemonte</i>			FINPIEMONTE
	<i>Liguria</i>			LIGURCAPITAL - FILSE
	<i>Lombardia</i>		INFRASTR. LOMBARDE	FINLOMBARDA
	<i>Veneto</i>			VENETO SVILUPPO
	<i>Emilia-Romagna</i>			
	<i>Toscana</i>			FIDI TOSCANA
	<i>Umbria</i>			GEPAFIN - SVILUPPUMBRIA
	<i>Marche</i>			SRGM - SVILUPPO MARCHE
<i>Lazio</i>			FILAS - SVILUPPO LAZIO	

i.e., the Consortium for Science, Technology, and Business and the RDA, which are still ruled by two different regional laws. A stronger institutional framework for regional development was generated by the pursuit of innovation for the promotion of regional competitiveness – as stated by the European Lisbon Agenda – and by recognizing the territory's central role in fostering local development processes.

The legal and institutional context introduced in 2006⁶ confirmed the agency's mission, but required the adoption of important changes, such as the empowerment of its institutional role, the modification of its shareholder arrangement, and the adoption of a new operational structure. After the changes, the regional government owned the quasi-totality of shares (98.64 percent) and provided the financial means for the activity of the agency, which became the Emilia-Romagna regional government's in-house operational tool for the implementation of local development measures. This model represents the first and only experience in Italy where a regional government used a Regional Development Agency as a direct implementation tool.

Conclusions

Local developmental growth is based on material and non-material resources within a given rural and territorial area. Local development is not an economically rational process, but rather a continuous process of adaptation, and a mutual combination of the social and cultural elements of all active players in a territory. The dynamic interactions at play are the results of the various senses of identity, historical heritage, formal and informal networking, and coordinating rules and norms within a territory. The objective of institutions that use established and coordinated instruments for the effective delivery of a strategic plan's local development policies is to serve the public interest.

Each country, and at times each regional and local territory, creates instruments and tools with the objective of providing a sound system of policy implementation. Nowadays, this is necessary because of the plurality of players with overlapping capacities over the same policy area on the same territory, which leads to the need for proper management of the multilevel governance processes existing in the territory. In Europe, RDAs have been

6. National Decree No. 223/2006

shown to be effective instruments in providing valuable answers to territorial and local development policy challenges, that is to say, in clarifying problems connected to multilevel governance and in managing rationalization processes for regional cooperation and networking.

The case studies presented in this paper demonstrate that there are two factors common to various national contexts and that they mutually interact to create different national frameworks. The first is the delivery of locally based policies that are adequate and suitable for urban and rural needs. The second is the need to ensure that there is a vertical governing framework that will oversee the action areas of all players pursuing the delivery of public policy. These two factors are a continuum and their degree of activity is changing over time. Even with their differences, all countries have been exposed to external influences from different sources, such as the European Union. It is clear that during 1980s and 1990s the three countries, the experiences of which have been highlighted in this paper, advocated, in their respective ways, for a political and administrative framework that would suit their needs in making the best use of their territorial material and non-material resources.

However, the case studies also demonstrated that for RDAs to effectively realize their added value, a number of conditions have to be fulfilled. These include:

- transparency and clear articulation of roles and responsibilities across different spatial levels and administrative bodies;
- consistent national devolution policy and adequate empowerment of subnational bodies on territorial and sectoral policies;
- acknowledged legitimacy of regional and local layers of powers;
- strengthened regional leadership over specific policy areas; and
- provision of adequate funding directly managed through program planning and implementation at the local level.

Over the last thirty years, European Union policy strongly supported such a process. With different degrees of determination and success, European countries embraced processes, which in some respects, are not yet fully completed. One key element of the process embraced by European countries is the introduction of RDAs. Today, they are widely recognized for their role in local development. They have become effective instruments for mobilizing local resources and energies, and for implementing policies and strategies.

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10

Territorial Marketing

How to Benefit from Territorial Attractiveness

*Claudia Degli Esposti*¹

Introduction

The global economy induces territories to represent themselves as more attractive to new resources and innovative investment. The notion of territorial marketing invokes a series of questions that are fundamental for local development. Why is it so important to communicate territorial potentialities and how can we attract innovative resources and push territories to be more competitive? What does territorial “attractiveness” mean and what are the local economic factors that each territory should consider in making itself more attractive to investment? What new resources should regional and local governments consider? And what are the tools that local governments should adopt to increase their territory’s attractiveness and visible potential?

After briefly examining the methodological basis and reasons for territorial marketing and investment promotion policy in part one, this paper points out the most relevant elements of territorial marketing methodology, briefly giving some details about the players involved in part two. Part three offers some hints about the relationship between strategic planning and

1. *Claudia Degli Esposti* garnered wide national and international experience on policies for territorial marketing, promotion of investments, and industrial cooperation. She worked with the Italian Regional Government of Emilia-Romagna and ERVET, its Regional Development Agency. She served as head of territorial marketing for ERVET and as its coordinator of projects for the promotion of regional attractiveness and of new investments in Italy and abroad.

Returning from a territorial marketing mission in South America, Claudia was travelling on an Air France plane that went down over the Atlantic Ocean in June 2009. This book is dedicated to her memory.

communication, while part four focuses on the attraction of investments. Some concrete cases are highlighted in part five in order to offer tangible conclusions to policymakers and regional policy experts.

Territorial Marketing: Its Definition and Importance as a Tool for Local and Urban Development

Territorial marketing is a policy for the development of a territory (a region, a city, etc.), that integrates actions for improving and utilizing its key assets through planned communication initiatives. The purpose of territorial marketing is to make potential users more aware of the opportunities that a territory offers and to attract and keep users in the identified territory.

Territorial marketing contributes to the enhancement of a territory's competitive capacity via the creation and acquisition of factors relevant to its development process.

“Attractiveness” represents the tendency and capacity of a territory to lure in investment and enhance its international competitiveness. The evaluation of important questions such as, “What resources should a territory offer?” and “What development should a territory seek?” is an important responsibility for local policymakers and should be conducted with the involvement of local stakeholders and citizens.

Territorial marketing strategies should evaluate and plan the type of attractiveness through which a territory plans to develop its levels of excellence. This sort of strategy is a concrete tool toward achieving conditions for sustainable development based on the *vision* toward which a territory or its community aspire.

Territorial marketing has become an important tool in an increasingly global economy. The global economy is marked by a reduction of barriers to the trade of goods and production, and by the improvement of transportation infrastructures and the development of information technologies. In this framework, transnational companies are experimenting with new strategies and new forms of investment in order to earn strategic resources (natural resources, human resources, etc.) or to increase the efficiency of their productive assets.

The World Investment Report, the most important assessment of international investments, underscores the fact that global foreign investment increased by 38 percent in 2006, nearing the record levels reached in 2000,

after a positive three-year trend.² This could provide an opportunity for several countries interested in attracting new investments and resources. Marketing strategies are the tools that allow policymakers to empower their territories, for example, by gaining manufacturing plants, regional distribution centers, research and development units, international headquarters, and also researchers, talent, and tourism flow.

At the city level, urban-territorial marketing includes all actions targeted to match the supply of all urban functions with their demand represented by residents, internal or external companies, tourists, and other visitors. The methodology offers policymakers a useful approach and tools to connect the territorial supply to its potential demand represented by the various investors, customers, citizens or end users with an interested stake in the particular locality.

Territorial marketing uses the lever of communication to better support strategic planning and other policies for territorial change. This strategy is largely adopted by regional and local governments in Europe to assure the necessary national and international visibility of their territory in the global economy.

Basic Elements of Territorial Marketing and Key Local Players

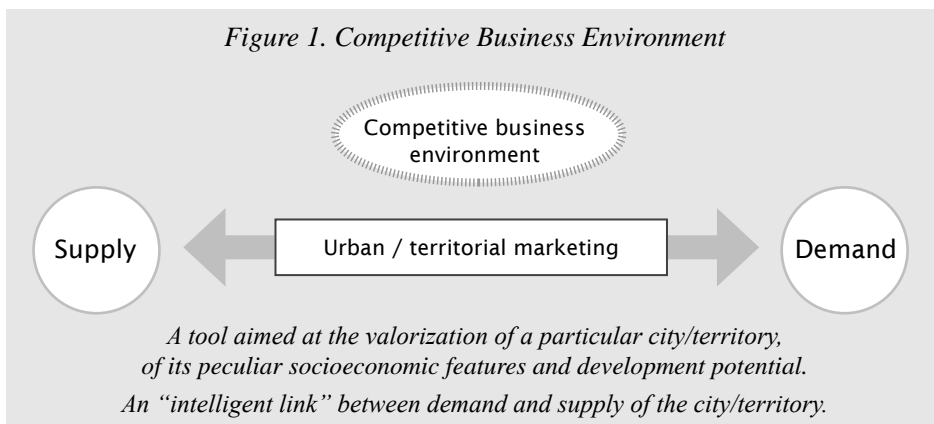
Operating in a competitive environment, we must consider urban-territorial marketing as an “intelligent link” between the demand and the supply of the city/territory.

The *demand* of a territory is represented by the amount and quality of resources available on the domestic/national or international market, which can be useful for enhancing the competitiveness of the area’s national or foreign companies, research centers, tourists, and also its residents and skilled laborers, etc. The territorial *supply* is represented by the potential of the area, its strengths in terms of infrastructure, commercial property and industrial areas, and also its supply of urban, housing, and tourism services, etc.

It is important to note that a number of *local players* coexist in a territory, often holding different interests. For example, these are local entrepreneurial

2. Editors’ note: this paper was written in 2008. Despite the slowdown experienced during the last two years due to the world financial crisis, we expect the general trend of increasing foreign investments to continue in the long run.

associations, chambers of commerce, trade unions, universities, research and development centers, tourism agencies and promoters, citizens' associations, etc. The building of a *strategic vision* for the development of a territory allows the local authorities to balance different points of view among local stakeholders and citizens and to manage local development perspectives in the best way possible.



Internal marketing is addressed to internal users such as residents, localized companies, and investors. The aim is to satisfy them with an adequate urban supply and to identify their expectations. *External marketing* is addressed toward meeting the external demands of potential new residents, commuters, economic players such as external companies and investors, tourists, etc. The aim is to promote the internal supply and to identify those segments of potential new users who may take interest in them.

The territorial marketing function must highlight the attractiveness of the local supply and identify useful strategies, messages, and tools. Other basic concepts to bear in mind are the positioning, image, and brand of the territory.

The *positioning* of a territory consists in its recognition by potential or existing users in comparison with competing territories. More concretely the positioning of a territory means how the territorial supply (with all its assets) is perceived by the market, by the direct beneficiaries, by the public, and by the media. The definition of this positioning allows policymakers to steer communication activities in a clear direction and to elaborate a coordinated communication strategy with the demands of the territory in mind.

Strategic choices concerning how to communicate a territory's attractiveness must prioritize the types of users who may make resources (both tangible and intangible) useful for the development of that territory. It is

extremely necessary to operate cautiously when choosing segments of attractiveness to communicate (especially among companies) when creating particular value for the territory.

From the point of view of communication, every city/territory is perceived through a specific *image* based on its historical, social, economic, infrastructural, political, and cultural characteristics. This image is what is perceived from the outside. The availability of a specific image of a city can have a positive effect, in terms of its attractiveness, on potential or current users. If the city/territory does not have a clear and recognizable image, the territorial marketing and communication strategies have to contribute to its creation by highlighting the issues of diversity and competitiveness of the city/territory.

Therefore the *brand* allows the territory to be identified according to its well-defined image. The brand is the transmission vehicle of the city/territory's offer through language and graphic design. Branding is a specialized task often left to a specialized consultant. It is critical that such a consultant have an in-depth understanding of the historical and social context of the city, and of the promoting institutions.

In the end, in order to carry out a marketing strategy for a specific territory, it is necessary to answer some questions concerning the basic components of the territory being considered, in particular: what different categories of supply are targeted at attracting new users to the city/territory? Who are the players involved? Who are the users who can be attracted or kept? What specific "products" can be promoted as territorial supply to the different users of the territory? These are some of the questions necessary for strategy identification and for the elaboration of a strong territorial marketing plan.

The territorial marketing methodology offers support to policymakers and local authorities in order to answer these questions through specific analytical tools, projects, or services, and the promotion of territorial assets.

Communication in Strategic Planning

During the second half of the 1990s, several territories in Europe initiated strategic planning to promote local development. From this experience, it is possible today to identify the general structure and recurring elements of strategic planning. It is also possible to identify communication as an integrated part of each strategic plan.

Communication conceived in this context supports territorial transformation by enhancing the attractive potentials of the territory. It allows the territory to sustain a process of development geared toward international competitiveness and excellence focused on its key assets. Nevertheless, it is important to have a high-quality product to communicate. This means that the strategic process should identify a clear development vision and a number of concrete interventions targeted at the physical and functional transformation of the city/territory that will attract the interest of users and qualified investors.

The communication of strategic planning plays an important role in enhancing awareness among territory actors, such as public and private stakeholders and citizens, by stimulating their interest and potential collaboration in strategic projects.

The function of communication, therefore, is to attract external resources essential for the accomplishment of the aspired territorial performances by marketing the existing potentials as well as communicating the results from various phases of the plan. In the end, strategic communication can support the achievement of private and public partnerships and become instrumental in mobilizing resources for implementing projects.

Several strategic plans in Europe foresee the identification of specific structures that are engaged in the management of relevant communication activities. Among these structures are urban information centers, whose main objectives also include the provision of information addressed to new and old users of the territory; to increase the participation of citizens and stakeholders; and to develop and use a range of communication tools for territorial marketing. Urban information centers proved to be a useful tool to communicate strategic vision, to demonstrate flagship projects and to inform stakeholders regarding the strategic planning process, progress, and achievements.

Territorial Marketing to Attract Investment

In the global economy, companies localize their production and increase their investments for various reasons or benefits. Different strategies target companies by identifying and developing potential benefits: they want to capture or expand the market for their products or services, in some cases internally (referred to as *horizontal strategy*); or they seek opportunities to access strategic resources such as minerals, energy, or skilled human resources

and a cheaper workforce (referred to as *vertical investments*). Another opportunity offered to international companies is improved efficiency, achieved through new foreign investments. In other cases companies can access the know-how of local companies by benefiting from exclusive skills in research and technology and in complementary production (also known as *strategic assets seeking*). Transnational companies invest overseas not only to exploit profitable opportunities such as new markets, resources, or lower costs, but also to access tacit benefits such as knowledge and relationships, that cannot be found elsewhere.

From the point of view of the territories interested in enhancing their attractiveness, it is important to understand the vision of investors and the factors that can influence their investment decisions. These are:

- the openness of the host economy, and its flow of goods and services at an international level;
- the stability of the economy, its national policies, and business environment;
- the availability of industrial areas and their accessibility;
- the quality of private and public services targeted at business;
- social cohesion and the quality of life;
- specialization of the local sectors and the presence of clusters;
- the presence of universities, research centers, and skilled human resources;
- market size related to company production; and
- the presence of competitors and suppliers, which represents the dynamism of the local context and a concrete opportunity to achieve local networking and find necessary products, and services at a local level.

Marketing activities have to be focused on companies with the highest potential for investment in a given location. Within a universe of millions of companies it is essential to focus on companies with profitable business opportunities in a specific location and encourage an investor to consider investing in the area.

The marketing strategy starts from a careful segmentation of the demand. It is based on local strengths and on the characteristics of competitors. We can examine the following marketing strategy examples:

An *unselected marketing strategy* could be more suitable for weaker areas where strengths may include cheaper labor and the cost of other production factors, whereas a *selected strategy* is more directed towards selected targets addressing local supply. This is often the case with territories that have a wider resource base, assets, and solid economic and institutional development.

A *focused marketing strategy* could be suitable when the territory is characterized by a restricted number of local supply segments such as

logistics, shipbuilding, mining, etc. In this case a territory might find it more suitable to exploit its most competitive advantages in order to become the “ideal” territory for those specific activities.

Marketing a territory to overseas investment requires massive resources and incredible effort. At times it may also incur a waste of money. For this reason it is necessary to consider creating a working collaborative network between the national and local levels. A national strategy managed by the expertise and resources of a National Agency for Investment is the first step toward attracting investments. Meanwhile a local strategy should cohere with national initiatives via a networking strategy focused on the concrete potential of the territory. Such a strategy should also target sectors or business functions (such as call centers) that meet the economic development objectives of the local territory.

Development agencies, including Investment Promotion Agencies (IPAs), play an important role in the setting up of local services aimed at consolidating business infrastructures. These are intermediate institutions such as regional (or local) agencies that involve regional or local authorities and target the development of defined territories. In several cases they are acknowledged in Europe as the best agencies providing advanced services for foreign investors.

The IPA’s services or support functions may involve finding the best location for an investment, identifying available financial contributions, providing critical information needed to support decision-making (such as the mapping of infrastructures and sectors, and identifying components such as suppliers, services, resources, and workforce that are necessary for particular investments). An additional support function of such agencies includes identifying the knowledge networks needed to attract high-tech investment and the establishing of research centers. One of the most successful methods for attracting investors involves utilizing links with existing companies at the national or local level, and networking with target companies and intermediary organizations including industry associations and investment multipliers such as real estate companies.

The most strategic role an Investment Promotion Agency can play is to operate as a central point of technical negotiation between a range of actors representing different levels of interests existing in the area and sometimes within the neighboring areas in order to build alliances and to increase international attractiveness. This means that the agency must have a sound knowledge of the vocations of its territory and the awareness to be part of a multilevel system at the local and national level.

In this sense, the term “*operating as a system*,” implies working in a relationship system among the local, regional, and national levels, and is a key condition toward acquiring increased visibility and achieving the desired territorial image in the global economy.

Territorial Marketing in Practice

Cities are emerging as important new players in territorial development because of their roles in national, regional, and global economies, and their specific functions as crossroads of infrastructures, skills, and resources. Not all cities have the same characteristics and not all cities can aspire to be as competitive as some global cities (such as New York, London, and Tokyo) that have reached “extra-territorial status.”

It is important to note that several European cities have started urban renewal projects. These projects aim to deal with declining traditional industrial sectors (such as the steel, maritime, automotive, and textile industries) combined with an insufficient development of services, and have become more open to the participation of local stakeholders.

Among several experiences, we mention the cases of two medium-size European cities that have been able to identify their local development needs and highlight the combination of key factors underpinning their attractiveness policies.

The first case is Nantes, in France. Nantes is an example of a city that has played a new proactive role in promoting its attractiveness and competitiveness and in facing local development problems by means of new planning tools. The second city, Ferrara, is an Italian city that is trying to balance resources such as its infrastructure for business, its remarkable natural environment, its artistic heritage, and its university by projecting itself as a city of knowledge.

Nantes is located in western France, in the area of Bretagne, presently referred to as France Atlantique. Between 1970 and 1980 the slump in the naval sector caused an economic crisis in Nantes; however, the proactive role of local authorities in local development and in urban planning has revamped the city. Through use of its planning tools, the city of Nantes has activated urban regeneration interventions promoting the environmental habitat and attracting new young and skilled inhabitants.

The Agency Ouest Atlantique operates as the official Investment Promotion Agency for western France and is the regional representative of the National Investment Agency in France. Today, Nantes is an agro-food leader in Europe and a major industrial center which hosts the leading European naval construction and Airbus sites. It is also a French leader in IT and biotechnologies.

The city of **Ferrara** is an example of a provincial area in which factors such as transportation infrastructure and the availability of areas for business combined with the proactive role of local agencies and the university, have allowed it to face its development problems.

At the beginning of the 1990s, the province saw a heavy decline in large industries (mainly in the chemical and mechanical sector) and an increase in the rate of unemployment. However, the availability of infrastructure and industrial areas has presented positive factors for the attraction of investments. To this end, public intervention has supported private investments in the area by increasing the number of people at work.

Moving forward, the city of Ferrara relies on a variety of factors such as its acknowledged potential as a “City of Art,” the production of important cultural events, its quality of life, and the presence of its university. These are important factors not only in the development of an “economy of knowledge,” but as a part of the process for network creation and the promotion of this sector’s assets and local excellences.

Conclusion

Along with this chapter’s preceding sections, the cases of Nantes and Ferrara underline the following important elements of sound territorial marketing strategies:

- thoroughly evaluate a territory’s potential in order to execute the best strategy, following a participative process with local stakeholders and citizens;
- to connect territorial marketing activities with existing strategic planning tools in order to perceive common objectives and to support them in the marketing of relevant projects for local transformation;
- to choose the best strategy by following one or more well-selected directions based on the comparative assets of the territory in order to attract the best and most realistic investment potential for a given location;

- to be open to a networking system at the national and local level in order to promote partnerships with neighboring territories when critical mass is useful for reaching increased visibility in the international economy; and
- to organize a point of reference by which to promote the territory, manage the marketing plan and facilitate future investment into the area, keeping in mind that a local Investment Promotion Agency could be an institutional asset for supporting the local transformation of the territory.

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Innovative Municipal Development Financing

The Case of Three Croatian Cities

*Dubravka Jurlina Alibegović*¹

Introduction

Local governments all over the world face the problem of inadequate investment financing. The structure of expenditures in local budgets everywhere shows that current expenditures prevail. For the purpose of economic development, however, expenditures must be structured entirely differently. In order to secure appropriate funds for capital investment purposes, municipalities and towns must have the following:

- the skills and necessary information to budget for the current and coming years (including both operating and capital budgets);
- the ability to identify, prioritize, and plan capital investments;
- the ability to compare different financing options for capital investments (including budget financing, borrowing, issuing municipal bonds, or using a public-private partnership); and
- the ability to understand the impact of borrowing on capital investments (both annual debt service and annual operational and maintenance expenditures).

A lack of public funds is the predominant reason for the private financial sector's involvement in local and regional investments and development projects. There are several other reasons for private sector involvement in financing such projects. These include:

- increased local and regional needs;
- inadequate structure of local and regional revenues;

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- the size of local and regional capital projects; and
- limitations on borrowing at the local and regional levels (Alibegović 2007).

Municipalities and towns must also be able to identify and analyze all technical and financial options and to assure private investors that they have sufficient, reliable revenues and can meet their debt service obligations (Kandeva 2001).

A small number of Croatian municipalities and cities are capable of financially managing their development needs. Most local government units are dependent upon central government transfers to provide mandatory public services. This means that (a) municipal revenues to finance capital investment are limited; (b) there are, however, many innovative financing instruments for local governments to use; (c) the use of such instruments requires a national regulatory and institutional framework, and a range of skills and municipal capacity; and (d) these instruments can be best utilized when linked with local development strategies, programs, and projects.

This paper focuses on three successful Croatian cases that established new revenue sources to finance urban investment projects. Varaždin, Koprivnica, and Rijeka have used *public-private partnerships* (PPP), *cash-pooling*, and *municipal bonds* as different models to finance education and sports facilities. Varaždin and Rijeka are examples of cities with local development strategies, whilst Koprivnica – having no such strategic program in place at the moment – is an example of using innovative methods for financing capital investment.

The City of Varaždin and Varaždin County: Public-Private Partnerships and Cash-pooling

The city of Varaždin has been a pioneer in implementing local development strategy while applying a mainly bottom-up approach. The Working Group for Economic Development Planning developed the city of Varaždin's economic development strategy at the end of 2001 (City of Varaždin 2001). The strategy is centered on a very important question: "How to ensure and maintain the development of human resources and their utilization for economic development?" In that context, the strategy also stressed the need for improving the formal education system. Although the strategy did not clearly define priority areas such as constructing new schools and enlarging existing ones, it did emphasize the importance of improving the formal educational system in terms of orienting it towards development needs and

contemporary educational standards. It was later realized that there was a need for building new schools and improving existing ones.

An analysis of the city of Varaždin's budget for the period since 2002, when the city of Varaždin's economic development strategy was adopted, shows that at that time the city budget was not able to afford the construction of new schools nor enlarge existing ones or build school gyms.

Varaždin County was also among the first counties in Croatia to have adopted a regional operational program for the period from 2006 to 2013 (AZRA 2006), emphasizing eleven development priorities, one of them being access to "*high-quality education for all.*"

In the next section of this paper, we will examine the role of private-public partnerships as a new model of financing capital projects.

Public-Private Partnerships (PPPs)

A public-private partnership is a partnership between the public and private sectors for the purpose of delivering a project or a service traditionally provided by the public sector. PPPs recognize that each sector has certain advantages in the performance of certain specific tasks. By allowing each sector to do what it does best, public services and infrastructure can be provided in the most economical and efficient manner.

There are several models of PPPs. Variations and combinations of them may be defined by the local authority undertaking an infrastructure project.² The selection of one particular model depends on the length of participation by the private partner in the project, the type of compensation to the private partner for participation in the project, the private partner's participation in making a profit, and the level of private sector autonomy in setting the price for services rendered.

There are several interested partners in a PPP. These are the public (especially consumers), building contractors, operators, maintenance services and suppliers, loan capital providers, investors, and insurance companies.

A PPP holds the promise of increasing the supply of infrastructure projects and other services without overburdening a country's public finances. Likewise, an inflow of private capital and management can ease fiscal constraints on infrastructure investments and boost their efficiency.

2. For example, Build-and-Transfer (BT), Build-Lease-and-Transfer (BLT), Build-Operate-and-Transfer (BOT), Build-Transfer-and-Operate (BTO), Rehabilitate-Operate-and-Transfer (ROT), Rehabilitate-Own-and-Operate (ROO), Build-Own-Operate (BOO), Build-Own-Operate-Transfer (BOOT), Operation License, Finance Only, and so on.

Public-private partnerships must be used with great care. They are undoubtedly more efficient than traditional public investments. Public-private partnerships can be used to move investments off the budget and debts off the government's balance sheets. However, the government continues to bear most of the risk and potentially faces large costs that could be borne by taxpayers.

Fiscal risk assessment for public-private partnerships is a crucial part of the PPP agreement. The ability to assess and manage fiscal risks effectively depends on the quality of project preparation and the necessary information submitted by the implementing bodies at local and regional levels. Specific guidelines defining minimum standards to which project analysis and proposals must comply will help local and regional self-government units in the development of PPP projects. These guidelines should guarantee that all PPP project proposals are accompanied by information of the risks borne by the local or regional self-government units, as well as descriptions of the local or regional self-government unit's contingent liabilities.

If PPPs aim to deliver high-quality, cost-effective services to consumers and the government, there must be an adequate transfer of risk from the government to the private sector. The quality of services must be contractible, so that payments to service providers can be linked to performance, and the risk of costly contract regeneration may be minimized. There must also be either competition or incentive-based regulations (Hemming and Ter-Minassian 2005).

The basic advantages of financing development projects using the PPP model include: decreased costs and increased loan potential for local self-government units; a division of responsibilities and risks among local self-government and private partners; and greater possibilities for realizing projects without extensive capital investment by local self-government units, thereby allowing them to concentrate on supervising public services, the quality of which is thus increased.

One of the most important disadvantages of PPPs lies in the fact that the desire for greater profits and lower costs may lead to higher prices and a reduced quality of services. It is thus necessary for local self-government to maintain tight supervision over the private partner's activities, to see that they are in accordance with the provisions of the contract between the partners.

In Croatia, there are several examples of public-private partnerships. Most of these involve concession agreements for the construction of highways in Istria and Dalmatia. The Build-Operate-and-Transfer (BOT) model is also

Box 1. Legislative Framework for Public-Private Partnerships (PPP)

Currently the legislative framework for PPP in Croatia consists of the following documents:

- The Public-Private Partnership Act (*Official Gazette* 129/08);
- The Regulation on the Criteria for Assessment and Approval of PPP Projects (*Official Gazette* 56/09) establishes the criteria and procedure for the assessment and approval of public-private partnership project proposals, tender documentation, and the final draft of public-private partnership contracts;
- The Regulation on the Content of Public-Private Partnership Contracts (*Official Gazette* 56/09) lays down the minimum content of public-private partnership contracts and regulates the rights and obligations of the parties to the contract;
- The Regulation on the Supervision of Implementation of PPP Projects (*Official Gazette* 56/09) governs the authorizations of the Agency for Public-Private Partnerships concerning the supervision of implementation of PPP projects;
- The Regulation on Training of Participants in Procedures for the Preparation and Implementation of PPP Projects (*Official Gazette* 56/09) lays down the training program in the field of public-private partnerships, the persons for whom the training shall be provided, the organization and implementation of the training, as well as the certificate of completed training program; and
- The Budget Implementation Act for the fiscal year 2010 (*Official Gazette* 151/09) does not explicitly mention public-private partnership nor explicitly sets limits on annual fees on public-private partnerships contracts at the state, municipality, town, and county levels.

an excellent example of a public-private partnership model used in Croatia, mostly in various infrastructure projects (for example, the water purification system in the city of Zagreb). The BOT model is a contractual arrangement whereby a developer undertakes the construction of a given infrastructure facility, including financing, and sees to its operation and maintenance. The developer operates the facility over a fixed period of time and in order to enable recovery of the project investment is entitled to charge users of the given facility the appropriate tolls, fees, rentals, and other charges, which are not to exceed those proposed in the bid or negotiated and incorporated in the contract. The developer transfers the facility to the government, government agency, or local authority at the end of the fixed term specified in the concession agreement. This covers a supply-and-operate situation, i.e., a contractual arrangement whereby, should the government, government agency or local authority so require, the supplier of equipment and machinery for an infrastructure facility operates that facility while providing the appropriate training to designated individuals in the process of transferring the technology to the government, government agency, or local authority.

The current legislative framework for public-private partnerships in Croatia consists of a set of documents³ listed in Box 1. While the most important rights and obligations of public and private partners defined in the PPP contract are documented in Box 2.

The Public-Private Partnership Act⁴ adopted by the Croatian Parliament on November 24, 2008, regulates:

- preparation, nomination, and acceptance of public-private partnership project proposals;
- rights and obligations of public and private partners; and
- establishment of the Agency for Public-Private Partnership.

According to this new act, all public-private partnership project proposals should be financially sustainable and organized with:

- budget projections and fiscal risks and limitations;
- sectoral development plans and strategies; and
- local development policies and strategies.

After the publication of the Public-Private Partnership Act, the *Agency for Public-Private Partnership* was registered on November 21, 2008, and the government adopted the decision for the appointment of the Agency Governing Board. On January 1, 2009, the Agency started work as the legal successor to the former Sector in the Trade and Investment Promotion Agency.⁵ The new legislation defined numerous tasks for the PPP Agency (summarized in Box 3). The Agency became the central national body in charge of the implementation of the Public-Private Partnerships Act in Croatia.

3. The first legislation for PPP in Croatia consisted of two documents: the Guidelines for the Application of Public-Private Partnership Contractual Models (*Official Gazette* 98/06) and the Government Decree on Preliminary Consent to a Public-Private Partnership Contract based on the private financial initiative model (*Official Gazette* 20/07).

4. The official Croatian and unofficial English version of this law is available at <http://www.ajpp.hr/assets/files/actppp.pdf>. The new act replaces the guidelines for the application of public-private partnership contractual models and the government decree on preliminary consent to a public-private partnership contract based on the private financial initiative model.

5. Before the establishment of the Agency for Public-Private Partnership, the Trade and Investment Promotion Agency was a government agency whose main task was to provide full service to investors during and after the implementation of their investment projects. The Public-Private Partnership Department of the agency was in charge of all PPP issues. Particular responsibilities of the Department included controlling the tendering and contractual documentation, proposed distribution of risks and other elements of PPP contracts that define leasing, and reviewing the documents submitted to confirm that a PPP project had been defined under the leasing principles.

Box 2. Procedure for Proposing and Approving PPP projects

- By law, public bodies are the only ones authorized to propose the implementation of a PPP project.
- At the proposal of the Agency for Public-Private Partnership, the government has adopted the Regulation on the Criteria of Assessment and Approval of PPP Projects, establishing the professional criteria for the assessment and approval of PPP projects and a list of documents to be submitted with the project proposal. The public body shall submit to the Agency for Public-Private Partnership the project proposal and the accompanying documentation laid down in the Regulation on the Criteria of Assessment and Approval of PPP Projects.
- The Agency for Public-Private Partnership shall evaluate the contents of the project proposal in line with the criteria laid down in the regulation.
- The Agency for Public-Private Partnership shall seek consent from the Ministry of Finance with regard to the compliance of the project proposal with the budgetary forecasts and plans, fiscal risks and limitations stipulated in special regulations, and with regard to the financial and fiscal viability of the project proposal.
- The Agency for Public-Private Partnership shall seek the opinion of the competent line ministry as to the compliance of the project proposal with development plans and strategies, i.e., the regulations relating to its area of competence.
- The competent bodies of the local and regional self-government units shall submit to the Agency for Public-Private Partnership at its request the opinion as to the compliance of the project proposal with the development policy plans of these local, i.e., regional, self-government units.
- Within a period not exceeding 90 days from the day when the project proposal and the entire accompanying documentation are submitted, the Agency for Public-Private Partnership shall adopt a decision on the approval of the implementation of the proposed project under one of the PPP models.
- The project proposal shall acquire the status of a PPP project solely on the basis of a decision by the Agency for Public-Private Partnership.
- A public body may adopt a decision on the implementation of the project under one of the PPP models solely on the basis of the previously obtained decision of the Agency.
- Prior to initiating the procedure for the selection of a private partner, the public body shall submit to the Agency for Public-Private Partnership copies of tender documents and all accompanying annexes for assessment and approval.
- The Agency for Public-Private Partnership shall issue a decision on compliance of the documents with the approved proposal of the project within a term, which may not exceed 30 days from the date of receiving the complete set of documents.
- Prior to reaching a decision on the selection of the private partner, the competent public body shall submit the final draft of the PPP contract including all the annexes—to the Agency for Public-Private Partnership and the Ministry of Finance for approval and consent.
- Within 30 days from the date of receipt of the final draft contract, the Agency for Public-Private Partnership shall reach a decision on the granting of consent to the text of the draft contract.
- The Agency for Public-Private Partnership shall issue its decision on the basis of the assessment of compliance of the draft contract with the tender documents and the provisions of the Regulation on the Content of Public-Private Partnership Contracts.

- The PPP contract may be concluded solely on the basis of a decision by the Agency for Public Private Partnership and the consent obtained from the Ministry of Finance regarding the final draft contract.
- The selection procedure of the private partner shall be carried out in accordance with the regulations on public procurement.
- If the implementation of the PPP project presupposes the granting of a concession, the selection procedure of the private partner shall be carried out in accordance with the regulations on the procedure for the award of a concession.

*Box 3. Basic Tasks and Authorities
of the Agency for Public-Private Partnership*

The Agency is responsible for the following tasks:

- approving public-private partnership project proposals, tender documents, and final draft contracts;
- publishing the list of the approved PPP projects and participation in their presentation to potential investors;
- organizing and keeping the register of PPP contracts;
- supervising the implementation of PPP contracts;
- international cooperation with the purpose of advancing the theory and the practice of PPP;
- studying national and foreign PPP practices and promoting the implementation of the best practices;
- participating in the creation of umbrella strategies important for the application of PPP;
- proposing amendments to the acts and regulations relevant for the application of the best practice in the preparation and implementation of PPP projects;
- issuing implementing instructions; and
- giving expert opinion on certain issues in the area of PPP.

Although the new regulations were adopted only in the second half of 2006 and 2008, this did not prevent the highly-motivated officials of the city of Varaždin and Varaždin County from applying the positive elements of this new model for financing development projects, such as public-private partnerships, even earlier, thus encouraging a wave of construction projects in the area.

The following section concerns two Croatian local self-government units and their experience with public-private partnerships.

The city of Varaždin and Varaždin County were the first cases in which a new model for financing the construction of schools and sports facilities was established. They opted for a public-private partnership model.

Varaždin County was the first county in Croatia to enter into a public-private partnership. One major advantage of public-private partnerships is that under this model of financing, local self-government units spend their current revenues while capital revenues remain unspent and are saved for use on other tasks. Private partners finance the construction and maintenance of public buildings owned by Varaždin County, while Varaždin County pays its private partners monthly rental fees over a period of 20 to 30 years.

A public-private partnership was the model of financing used in renovating the County Palace, constructing new schools, and enlarging 42 schools in Varaždin County. The County Palace was the first project in Croatia to be realized as a public-private partnership. The entire project was realized in less than three months (it started on June 1, 2006 and was finished on September 1, 2006), during which the whole palace (totaling 2,240 m²) was completely renovated. It is important to mention that this palace is a monument of world cultural heritage, built in the year 1772. The cost of renovating the palace amounted to HRK nine million. Varaždin County will pay monthly rental fees of HRK 84,000 to its private partner over the next 20 years, while the private partner, Meteor Group, has the obligation of maintaining the palace's interior and exterior.

Apart from the County Palace renovation project, Varaždin County has also undertaken construction projects for two new schools and 15 school gyms, as well as enlarging 27 school buildings, all based on the public-private partnerships model. The total value of these projects amounts to HRK 300 million, with financing from the budget of Varaždin County, the budgets of local self-government units in Varaždin County, and the state budget. The largest amount is financed from private sources via the public-private partnership model.

The basic goal of the project for building new schools and school gyms and enlarging existing school buildings in Varaždin County is to secure space for various development programs for students and to enable single-shift instruction, better school planning and management, and an equal distribution of schools and gyms throughout the entire county area.

The projects for building or enlarging schools and gyms are being carried out by public partners (investors such as Varaždin County and the towns and municipalities of Varaždin County), and a *private partner*, or *concessionaire* (a specially established company that will function until the concession expires). This company is responsible for designing, executing, and financing the works, as well as consulting and managing the use and maintenance of the schools and gyms.

The project for building or enlarging schools and gyms includes the following phases:

- analyzing the current situation;
- defining the needs of the school system;
- developing project documentation;
- training public partners;
- placing a call to interested parties;
- managing bidding offers;
- conducting analysis and negotiations with investors;
- signing a contract;
- adhering to deadlines for adaptation and construction;
- overseeing maintenance of the facilities for 20 to 30 years; and
- completing transfer of ownership to Varaždin County.

This model of financing will be used for the construction and renovation of buildings in the health care sector, including the enlargement and adaptation of the county hospital (amounting to HRK 200 million) and for several environmental protection projects (including construction of a sewage system, amounting to HRK 2.3 billion, and a waste processing and disposal plant, amounting to HRK 500 million).

Cash-pooling

Cash-pooling is an innovative method of aggregating the balance of several accounts of a single business entity or group of clients within a bank, with the aim of better managing their funds and increasing the pool members' liquidity. These may be the accounts of a single entity or of several business entities.

The cash-pooling method is suitable for complex companies, groups of companies connected by ownership, business, or finances, or municipalities, enterprises, and institutions that are partly or completely owned by municipalities, counties, and local self-government units.

Cash-pooling enables:

- internal financing in the form of effective coverage of negative balances on pool members' accounts by using available funds from other members' accounts, with or without an actual transfer of funds;
- reduced interest fees and increased interest-generated revenue, resulting in decreased costs for all pool members;
- a clear picture of the financial position of each pool member; and
- better management of pool funds, including cash.

So far, two basic models of cash-pooling have been developed by banks in Croatia:

- concentration of funds from the accounts of all the members in a main pool account, or “master account,” involving an actual transfer of funds to the master account (known as the Balance Order or Zero Balance model);
- joint reporting and management of accounts, which does not involve an actual transfer of funds to a master account (known as the Notional Cash-pooling model).

The model of concentrating funds in a master pool account, or the Zero Balance model, is characterized by the transfer of funds from one business account to another, leading to a concentration of funds resulting from an actual transfer.

The other model, Notional Cash-pooling, is more commonly used to pool together the accounts of several business entities. This model is much simpler than the Zero Balance model and features the following characteristics:

- each member continues to freely dispose of its own funds;
- daily statements of all transactions are received according to the method selected;
- information about the account balance is available to each member in real time;
- monthly reports on the calculation of interest (crediting or debiting the account) are made available to members;
- pool members may make use of Internet banking;
- the members of the pool derive additional advantages (effective coverage of negative account balances by using positive balances on other pool members’ accounts; passive interest is applied to the total net balance of the pool; and active interest is calculated only on the net negative balance of the pool).

The members mutually agree as to which account will be the pool’s master account. The master account (often that of a main member) of the pool has some additional advantages:

- the right to information about the current balance of each member’s account;
- a recapitulation of the balance on the accounts of all pool members at the end of the day;
- an interest sheet for the entire pool; and
- an overview of interest sheets for the accounts of all pool members.

- When agreeing on cash-pooling, the following documentation is required:
- a request by the pool members, submitted by any member or the main member on behalf of all the others and containing a list of the accounts of all pool members and a list of pool members who are the individual beneficiaries of frame loans (or permitted overdrafts) based on the current account principle;
 - a commission contract on joint account management, produced by the bank pursuant to the request, with detailed conditions for using the joint account management service;
 - a short-term loan contract (also known as permitted overdrafts) produced by the bank pursuant to the request.

The city of Varaždin and local public institutions in its majority ownership, in partnership with a private bank, have established a cash pool as a new model for securing local revenue sources.

In early May 2006, the city of Varaždin and the bank signed a Notional Cash-pooling Agreement covering 25 companies⁶ in the city of Varaždin's majority ownership and all city institutions. This agreement sets forth the duties and responsibilities for implementation of the Notional Cash-pooling Program. The Varaždin City Council has confirmed that companies in the city's majority ownership and all city institutions have agreed to notional cash-pooling at the bank, with the aim of improved acquisition of revenues and account management for all parties. The purpose of this model of account management is to achieve lower bank costs and higher interest-generated revenue, as well as effective liquidity management with a higher level of control.

Cash-pooling makes it possible to cover current account deficits at costs lower than those of ordinary bank loan transactions. The internal interest rate for borrowing within the cash pool is regulated by a special agreement and is lower than ordinary bank interest rates.

Varaždin County has formed an alliance with local self-government units (in partnership with another bank) and with various public institutions and companies in its majority ownership, establishing a cash pool as a new model for acquiring local sources of revenue and managing accounts. The cash pool consists of 19 members.

The main features of the aforementioned cash-pooling are as follows:

- the master account (or main members) of the cash pool is:

6. All 25 companies are public institutions or public companies that are fully or partially financed from the city of Varaždin's budget.

- the city of Varaždin and Varaždin County.
- other members of the cash pool are:
 - local companies and public institutions that have established business relations with the city of Varaždin and Varaždin County or are related to the master account (or main members) by ownership;
- the advantages and benefits for the main members of the cash pool are as follows:
 - the possibility of monitoring and online review of the current balance of the accounts of all cash pool members;
 - the possibility of cash management planning, thanks to access to all cash pool members' account balances at the end of each day;
 - effective, economical, and transparent cash management of the revenues and accounts of all cash pool members.

The advantages for the main members and other cash pool members are as follows:

- internal financing;
- increased financial revenues and decreased financial expenditures;
- an internal interest rate of three percent, which is significantly lower than the active interest rate, and several times higher than the passive interest rate;
- internal interest rate revenue amounts to HRK 593,000 (previous amount: HRK 185,000);
- average daily balance on cash pool accounts of HRK 40 million;
- significantly lower payment transaction costs (by around 35 percent), with savings amounting to HRK 330,000.

These examples of cash-pooling provide positive illustrations of cash management that may serve as a model to other local self-government units in the Republic of Croatia and beyond.

The City of Koprivnica and the Public-Private Partnership

The city of Koprivnica has been selected for use as an example here due to its specific situation: it has not prepared any strategic development programs. This fact, however, has not decreased the local government's interest in using a public-private partnership model to finance the construction of a new school. In Croatian practice, public-private partnerships represent a relatively new opportunity for securing necessary funds to construct important urban facilities. It follows that a lack of budgetary funds is the predominant

reason for private sector involvement in local and regional investment and development projects.

Today, Koprivnica recognizes education and knowledge as an important precondition for local development. However in mid-2004 when people in Koprivnica began thinking about the need to build a new school, no development strategy had been elaborated and no development priorities had been established.

It was only in September 2005 that an informational seminar on the development of the new *Local Agenda 21 for the City of Koprivnica* was held. This was a long-term program for sustainable development in the city of Koprivnica. Completed in 2006, the program was based on a balance between economic activities, protection of the environment, and social conditions. The Local Agenda recognized the low level of education among the majority of Koprivnica's population as a problem; a significant number of people had not even completed primary school. A single-shift arrangement in schools proved to be the best solution; however, it was determined that the secondary school population was too large for the existing school facilities. The existing school facility accommodated three different schools with 85 classes and 2,850 students in three or four shifts. Although the city of Koprivnica had not adopted a development strategy, the building of a new school began to be discussed in mid-2004.

Koprivnica-Krizevac County and the city of Koprivnica were the only local government units in the Republic of Croatia where no secondary school had been built for more than 30 years. The educational structure of the population in both the city of Koprivnica and Koprivnica-Krizevac County was extremely unfavorable.

The city of Koprivnica examined the possibilities for financing the construction of a new school. The city's own budget did not provide sufficient funds to finance a capital project and there was no possibility of financing the city's development projects from the state budget. Debt financing by local self-government units, and thus the city of Koprivnica, is severely restricted by the Budget Implementation Act. This act limits local self-government units' debt financing to no more than 35 percent of their budget revenue realized in the previous year, decreased by capital income, and only with the prior consent of the Ministry of Finance. In addition, it was not possible to obtain a loan for a period of 25 years.

The city of Koprivnica's only option was to find a new way of financing the construction of a school by using a public-private partnership model, thereby also accomplishing its goal of protecting public interest to the

maximum and ensuring the quality of the building as per the contract over a period of 25 years.

The chronology of the construction of the school on the public-private partnerships model consisted of several phases and lasted for three years and three months beginning in June 2004, and ending when the school began working⁷ in September 2007.

The private partner entered into a contract with the city of Koprivnica concerning construction of the school with a 25-year right of use. The construction risks and disposability were assumed by the investor, while the demand risk was divided such that the contractor assumed 90 percent and the investor 10 percent. Compensation for use of the school will be paid by the city of Koprivnica in 286 monthly installments of HRK 700,000. This means that a significant part of the city of Koprivnica's capital budget is free to use for financing other important development and infrastructure projects.

In addition, the PPP model provided a number of other advantages:

- the public partner paid for all the services delivered;
- the same quality of service has been ensured for a period of 25 years, and the standard of the school's maintenance was defined as the private partner's obligation;
- construction of the school was financed without any significant budget burden, and with no deficit; and
- public interest was protected to the maximum.

Compared to the traditional model of financing (using the city budget or borrowing), the public-private partnerships model ensures lower construction and future maintenance costs. Furthermore, there are no additional works or delays, and no financial obligations during the time of construction.

Today, with its new school, the city of Koprivnica may proudly state that knowledge and competence have been the major driving forces behind development in Koprivnica, which is now regarded as a center of favorable educational conditions and services of the highest quality.

7. In June 2004, the city of Koprivnica examined the possibility of financing construction of the school via public-private partnerships. Only in December 2004 did the city council adopt a decision to apply the PPP model of financing. In December 2005, a public tender was announced for private partners interested in participating in the project. In January 2006, the suitability of companies that had expressed an interest in participating in the project was evaluated. In February 2006, a tender for bidding offers was announced, and in May 2006, the bids were opened. From May to July, negotiations were held with all the bidders, and only on July 10, 2006 was a public-private partnerships contract signed. Construction began on July 24, 2006, and the school began working at the start of the school year, on September 3, 2007.

The City of Rijeka and Municipal Bonds

The city of Rijeka provides an excellent example of good practice, making use of the necessary methodological assistance from independent consultants in preparing its own development programs. A stable, ambitious and well-organized municipal structure with professional and eager-to-learn staff is one of the key prerequisites for successful program implementation. The city of Rijeka has a stable political structure and a mayor with a clear vision and the leadership ability to find new revenue sources for financing urban projects. The city of Rijeka was one of the first successful cases in which municipal bonds were issued to finance the construction of city sports facilities.

Municipal Bonds

Municipal bonds are securities issued by a state, city, or local government. Municipalities issue bonds to raise capital for their day-to-day activities and specific projects that they may be undertaking (usually related to the development of local infrastructure such as roads, sewerage, hospitals, and so on). The interest earned on municipal bonds is generally exempt from state and local taxes. Capital gains, however, are taxable. Given the tax savings they offer, municipal bonds are often purchased by those with large tax burdens. Yields on municipal bonds are often lower than those on corporate or treasury bonds with comparable maturities, due to the important advantage of their not being taxed at the state level. In general, municipal bonds are considered safer than corporate bonds, since a municipality is far less likely to go bankrupt than a company.

Some municipal bonds can also be insured by outside agencies. These companies promise to pay the interest and principal if the issuer defaults. Both issuers and bondholders can carry this insurance, although a bondholder would need to have a large stake in order to achieve coverage.

There are two common types of municipal bonds: general obligation bonds and revenue bonds. *General obligation bonds* are unsecured municipal bonds that are simply backed by the municipality's full faith and credit. Generally, these bonds have maturities of at least 10 years, and are paid off using funds from taxes or other fees. *Revenue bonds* are used to fund projects that will eventually create revenue directly, such as toll roads or lease payments on a new building. The revenue from these projects is used to pay off the bonds. In some cases, the issuer is not obligated to pay interest until a certain amount of revenue is generated.

There are only a few examples of municipal bonds being issued to raise capital for local development projects in Croatia.⁸ The following paragraphs detail the city of Rijeka's experience in issuing municipal bonds to finance the construction of a city swimming pool.

Debt financing by issuing municipal bonds, just like borrowing by taking out loans, is founded on the provisions of the Budget Act, the Rules of Procedure for Debt Financing by Local Self-government Units, the provisions of the separate Securities Market Act and the Rules on the Content and Enclosures of Applications for Legal Approval of a Prospectus and Brief Prospectus.⁹

The procedures undertaken by the city of Rijeka prior to submitting its request for debt financing to the government of the Republic of Croatia are as follows:

- the city's executive board adopts a decision on the selection of a bank to act as guarantor for the municipal bond issue;
- Rijeka City Council adopts a decision on the city of Rijeka's debt financing by issuing municipal bonds in the domestic capital market, the name of the bank which is to be the guarantor of the bonds, the amount of the issued bonds, and the maturity and other characteristics of the bonds;
- Rijeka City Council adopts a decision accepting capital projects with a clear intent.

A request to approve the city of Rijeka's debt financing is then submitted to the government. The three decisions by the Rijeka Executive Board and City Council are enclosed with this request.

The government of the Republic of Croatia makes a decision concerning the request within 40 days. After the government's approval has been obtained, a prospectus on the bond issue is produced and a request is submitted to the Croatian Agency for the Control of Financial Services (HANFA) to approve the prospectus. After a decision approving the prospectus has been obtained from HANFA, the bonds are issued and their primary sale begins.

The city of Rijeka was one of the first successful cases of a municipal bond issue to finance the building of city sports facilities. During its session on February 28, 2006, Rijeka City Council approved debt financing for the city of Rijeka via a municipal bond issue. The planned amount of the debt

8. Istria County was the first example of a local bond issue in Croatia. More recently, the cities of Zadar, Split, and Koprivnica have issued municipal bonds to raise funds for specific development projects.

9. *Official Gazette*, 96/03, 55/04, 84/02, and 143/02, respectively.

totaled HRK 300 million. During its session on April 28, 2006, the Croatian government approved debt financing for the city of Rijeka via a municipal bond issue.

The city of Rijeka began issuing general obligation municipal bonds in July 2006. They were to be issued in three tranches, the total amount being EUR 24,574,513 (HRK 180 million), with a maturity of 10 years and a fixed interest rate of 3.875 percent to 4.125 percent per annum. The first tranche of municipal bonds was issued in July 2006; the second tranche in March 2007, in the amount of EUR 8,191,504, and the third tranche in March 2008, also in the amount of EUR 8,191,504. The interest earned on the bonds is paid on a semi-annual basis, while the principal will be paid in full upon reaching maturity (on July 18, 2016). The municipal bonds have been issued on the domestic capital market.

The funds generated from placement of the bonds will be used to realize various development projects lasting over several years and financed from the city of Rijeka's budget, which are defined in the Development Programs Plan for the 2005–2007, a constituent part of the city of Rijeka's budget for 2005–2007. Revenues from the second and third tranche of municipal bonds were planned in the city of Rijeka's budget projection for the period of 2006–2007.

The structure of investors in the municipal bonds issued by the city of Rijeka is as follows: pension funds (39.49 percent), foreign investors (21.97 percent), insurance companies (19.84 percent), banks (12.87 percent), investment funds (4.15 percent), and private investors (1.68 percent).

There are many reasons why the city of Rijeka decided to issue municipal bonds rather than resort to traditional forms of borrowing (such as taking out a loan). One of the most important reasons is that the city's mayor, having a clear vision and leadership skills, succeeded in finding new revenue sources to finance various urban projects. In line with his conception and vision of the city of Rijeka as a *leader city* in promoting development to other self-government units, the city's newfound role is to find new ways of investing toward and promoting development at the local level.

Other positive aspects of issuing municipal bonds include:

- financing long-term projects with a long maturity;
- fixed interest rates;
- higher amounts of funds for investment purposes;
- diversification of revenue sources for financing capital projects;
- increased transparency of business and open communication with the capital market;

- a more positive image of the city of Rijeka (as a result of marketing activities); and
- much lower financing expenses compared to traditional ways of financing (such as bank loans).

Municipal bonds are usually considered a safer way of investing and guarantee a higher rate of return than corporate bonds since a municipality is far less likely to go bankrupt than a company. The city of Rijeka's debt ratio is very low, consisting of seven percent of the budget revenues from the previous year. This represents the lowest debt ratio among all local self-government units in Croatia.

Conclusions and Recommendations

The selected local self-government units have been chosen as successful examples of establishing new revenue sources to finance urban investment projects. There are several main conclusions to be drawn from these three Croatian case studies:

Non-budget revenue sources to finance capital projects

Local and regional self-government units in Croatia share the problem of inadequate financing. All three cases analyzed here demonstrate the same situation concerning insufficient revenue sources to finance capital investment. The solution for local and regional governments is to find additional revenue sources for various development projects. The practices of the selected Croatian cities show that local budgets are not the only source of revenues for financing urban development projects.

Private sector involvement

A lack of public funds is the predominant reason for private sector involvement in local and regional investment projects financing. Apart from this, there are several other reasons for private sector involvement in financing urban projects: increased local and regional needs, the inadequate structure of local and regional revenues, the size of local and regional development projects, and limitations on debt financing at the local and regional levels.

Innovative municipal development financing

Three examples of innovative Croatian municipalities – Varaždin, Koprivnica, and Rijeka – have shown in practice how to solve problems such as a lack of investment capital. These municipalities have found innovative funding

instruments for local development project financing. In this paper two cases of private sector involvement have been demonstrated. In those cases a model of public-private partnership was applied to finance the construction of new schools and city sports facilities. Also highlighted is one example in recent Croatian history in which municipal bonds were issued to raise funds for specific local development projects.

Lack of an institutional and legal framework

The use of innovative financing instruments requires a national regulatory and institutional framework and a range of skills and municipal capacity. This analysis of Croatian cities' experiences provides evidence that a national regulation sometimes follows practical solutions.

Strategic development documents

Modern financial instruments for development investments at the local level can be best utilized when linked with local development strategies, programs, and projects. The preparation of a strategic development document at the local and regional levels is crucial for identifying strategic priorities, and also provides a toll for applying and receiving EU funds.

Besides these main conclusions, there are also major recommendations for improvement of municipal development financing at the local level in Croatia.

Coordination of a strategic development document with the local budget

Croatian municipalities and cities have started to recognize the importance of the parallel adoption of a local strategic program and a local budget. The current practice confirms there is no adequate local development if local development priorities are not reflected in the local budget. Recommendations for all local government units in Croatia encourage integrated planning. In other words, urging the simultaneous preparation of a strategic development document and a local budget.

Fiscal risk assessment for public-private partnerships

One of the most important recommendations regards the improvement of fiscal risk assessment for public-private partnerships, particularly for Croatian cities and municipalities. The ability to assess and manage fiscal risks effectively at the local level depends on the quality of project preparation and pertinent information submitted by the implementing bodies at the local and regional level. To support the development of PPP projects at the local level,

municipalities and cities require specific guidelines defining the minimum standards project analysis with which proposals must comply. Unfortunately, at the moment those guidelines are nonexistent.

New skills at the local level

Most local authorities in Croatia are unprepared or unable to take on increased responsibilities for economic development fund raising. In order to borrow responsibly, local government officials of municipalities and cities must have the skills to collect and analyze all needed information for budget planning for the current year and future years. Such officials must also possess the ability to understand the impact of borrowing for infrastructure upon both the annual debt service and annual operational and maintenance expenditures. They must also possess the ability to identify, prioritize and plan capital investment. Furthermore, additional skills for identifying and analyzing technical and financial options regarding different types of investors are also of great importance, especially for small local government units with very few employed staff. Local government officials and those of major cities should also possess adequate knowledge to interpret what revenues are reliable in meeting their debt service obligations.

Decentralization and future local initiatives

The process of decentralization in Croatia started almost ten years ago. Decentralization is seen as a principle objective within the future activity of many areas providing public services. In addition, the government has continually expressed its political support for decentralization. This means that future local development will depend mainly on initiatives at the local level, including encouragement of new ways of financing development projects.

For other municipalities and cities in Croatia, the three cases analyzed here provide adequate evidence that a major role in the future coordination and promotion of local development will be placed in their hands. As such, those municipalities and cities need to be prepared to play a significant role.

Additionally, cities and municipalities should learn more about partnerships between central and regional governments, nongovernmental organizations, private sector entities, and all other major actors involved in local development. Only active inter-institutional cooperation will result in successfully securing revenue for local development.

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