

Local and Regional Economic Promotion in Germany

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1.0 Introduction

1.1 Extended scope of the paper

The scope of this paper was, as the title indicates, originally limited to experiences in the field of local and regional economic promotion in Germany. However, since the author has been involved in practical development cooperation over the past one-and-a-half decades in southern, eastern and western Africa, the paper will include experiences in Africa and elsewhere (city state of Singapore and United States of America – USA).

1.2 Summary of the findings

1.2.1 Classic approaches to local and regional economic promotion

Chapter 2 deals with historical, legal and administrative issues and shows that in Germany, local self-government originated mainly from economic roots (chapter 2.1). In the last century, it was recognised by leading reformers that excessive bureaucracy suffocated economic development and that by letting property owners participate in the administration of the cities, administration was successfully brought closer to real life and economic requirements. This was the beginning of self-government of local authorities and the foundation for unprecedented economic growth, making Germany one of the most powerful economic nations in the world.

Because of these historical roots, promotion of local economic development (kommunale Wirtschaftsförderung)¹⁾ is seen as the “archetype” of local self-government in Germany.

Interdependencies between regional policy (which is the domain of the federal and *länder* governments) and local and regional economic promotion is eroding the constitutionally guaranteed right of local authorities to self-government (chapter 2.3). Even at the European level, questions of competition between local authorities and federal states play a role. Unlike the case with other European countries where the representation of local authorities in the Advisory Committee of the regions is higher, Germany is primarily represented by the *länder* (i.e. fed-

eral states), namely 21 out of 24 seats (meaning that only three seats represent “true” local government authorities).

In chapter 3, mini case studies are presented on the cities of Hamburg and Frankfurt, as well as a case of an advanced form of regional partnership, namely the Greater Hanover District Association²⁾ which is a public corporation with the right to self-government. The paper examines in which way the respective offices of the local authorities are trying to promote economic development and whether the regional approach is superior to the local authority solution.

The administrative arrangements of how the various local authorities organise local economic promotion and the means applied are different. Depending on the size of the local authority, they operate an office for economic promotion (Wirtschaftsförderungsamt). In bigger locations, the establishment of privately operated consulting companies, so-called business development corporations, is on the rise. One-stop service centres – i.e. the investor is dealing with one office opening the doors to all other authorities involved and coordinating decision-making processes – become increasingly important. An example is the Hamburg Business Development Corporation which is a public-private partnership owned by the Free and Hanseatic City of Hamburg, the Chamber of Commerce, Crafts and Trades, as well as a consortium of leading commercial banks.

Because the Greater Hanover District Association incorporates a city (Hanover) and its rural hinterland (Hanover Rural District) and is complementing economic promotion by the coordinating functions of the German *Regionalplanung* [English: subregional planning], it appears that the regional solution is superior to those of the cities whose jurisdiction is limited to their administrative boundaries, thereby neglecting their spheres of influence exerted on them by the hinterland (e.g. many people who are working in Hamburg or Frankfurt live outside the administrative boundaries).

Globalisation is the catchword of politicians, corporate managers and economic planners alike. We have therefore included an example from the South East Asian region which has witnessed unprecedented growth in the past. The way in which the Economic Development Board of Singapore is addressing the state’s economic future and how to tackle the medium- and long-term problems associated with it is the most comprehensive strategy and represents the most convincing approach from the case studies.

It goes beyond the offering of services in a “catch as catch can” manner where the best grabs a share of the cake at the cost of the others. The strategy is superior in comparison because it includes the aspirations of the neighbouring countries over

which it has naturally no jurisdiction, but attempts to accommodate their needs (and fears!) in its strategy.

1.2.2 Economic promotion approaches in the wider sense

The extension beyond German experiences means that not only will “classic” local and regional economic promotion be dealt with, but also questions of poverty alleviation and the roles of and requirements for community-based groups in economic development.

In order to prepare the ground for such discussion, a case for sustainable development is argued (chapter 4.1). Sustainable development represents an opportunity to construct a new approach, and the success of that effort has powerful implications for issues of peace and security as well as democratic development in the countries of the North and the South alike.

Beyond this, sustainable development is concerned with inequality between countries. If the pattern of demand for traded natural resources in rich countries encourages unsustainable management of those resources in poor countries, that pattern of demand may threaten development prospects in the future. Hence, inequality between nations is relevant to the sustainable development of the developing world.

However, as is argued for in chapter 4.1.2, in connection with efforts to alleviate poverty, the notion of poverty is conceived as a disabling factor rather than an underlying cause of environmental degradation. The point made is that impoverishment by itself does not necessarily cause environmental degradation. Much depends on the coping strategies of the poor, and these depend, in turn, on the availability of options, cultural factors and policies of local, regional and national governments.

In chapter 4.2, matters of participation and poverty alleviation are discussed. The main question here is: whose participation and participation for what? Again, this question is being tackled in its political dimension and with a view of enabling people to participate in political and subsequent economic development. Related to poverty alleviation, participation in development is understood to be cooptation of people into a process they would not normally have involved themselves in. So we are arguing for the paradigm of participation in citizenship.

In a final chapter (4.3) the author buttresses a point he is very much convinced of: development problems, as far as they relate to the poorer and more disadvantaged strata of society, are quite similar in the countries of the North and those of the South. This means nothing less than that similar development ap-

proaches may be applied to tackle the problems involved. It is the contention here that in the process, the fact that the North can learn from the South will gain increasing significance in future.

The case of two community-based approaches to economic development in problem areas of the USA is used to demonstrate the point. In the narration of the cases, one could substitute the geographical labels of “Central Vermont Community Action Council” [chapter 4.3 a)] and “Northern Montana Economic Development District” [chapter 4.3. b)] with names from developing countries and would not recognise that the cases are actually dealing with regions in the USA! This is in line with the notion of *One World*.

2.0 Historical, Legal and Administrative Issues

2.1 The historical perspective

2.1.1 Self-government to stimulate German economic development in the last century
In Germany, local self-government originates mainly from economic roots. It was inspired by the local government reforms of the Freiherr von Stein at the beginning of the 19th century in Prussia. At the time, the financial resources of the state and the cities were desolate. Von Stein recognised, *inter alia*, that excessive bureaucracy suffocated economic development and that by letting property owners participate in the administration of the cities, administration was brought closer to real life and economic requirements. This was the beginning of self-government and the foundation for economic growth, generating taxes and thus income for the state and the cities (Langer, 1981:34).

In this way, the local authorities (cities and rural districts) contributed decisively to the rise of Germany as a leading industrial nation. Over the period of the past 150 years, they established the necessary public conditions for the flourishing of trade and industry. With the advent and spread of steam engines and railways, the agrarian era came to an end in Germany. With the invention of petrol and electric engines and the development of chemistry and its applications, the process of industrialisation was further advanced. The relationship between rural areas and towns and cities changed as did the locational conditions. It was the beginning of an intricate interrelationship between our industrial and urban agglomerations with its high population density and accompanying economic and purchasing power.

This process has not yet come to a standstill, although a new era – the electronic information age with its globalisation of trade and industry and new forms of locational conditions – is in the making (Von der Heide/Cholewa, 1992:4f).

The liberal constitutional state of the last century did not interfere, however, the social legislation of Bismarck tried to cushion dangerous internal developments. The towns provided for migrants from rural areas and developed infrastructure for new factories. Again it was the towns/cities that constructed local road networks: they built water reticulation and sewage systems; they organised garbage collection and disposal; they built schools and vocational training facilities; they developed public transport (tramway) systems; and they provided for public hospitals and social facilities. Without all these facilities, industrialisation would have failed in Germany. This is due to a high degree to the right of self-government of the local authorities. Without this freedom, the citizens would have not been able to decide upon the development of their own community.

Half a century later than the cities, the rural towns and districts caught up with the industrial development process. The rural districts pushed, *inter alia*, for rural electrification and gas supply without which the rural areas would not have been able to catch up.

It is important to appreciate the role that local authorities played in the economic development of Germany. The difficulties in the development process in Eastern Germany after unification, for example, are partly due to the absence of a yet efficient local administration.

2.1.2 Economic promotion archetype of local self-government

Because of the above described historical roots, promotion of local economic development (kommunale Wirtschaftsförderung) is seen as the “archetype” of local self-government in Germany. In order to provide a working definition derived from its roots, contemporary local economic promotion could be defined as part of the basic tasks of local authorities (gemeinden and landkreise) to create and/or improve the locational advantages and investment climate for trade and industry by means of promoting, maintaining, advising and thereby securing or improving the economic base and social welfare of the population in a given local authority area (Von der Heide/Cholewa, 1992:11).

2.2 The legal basis

2.2.1 Local self-government guaranteed by the constitution

The right to local self-government is guaranteed by the constitution (grundgesetz) of the Federal Republic of Germany (Article 28, 2).

2.2.2 Regional economic policies eroding the constitutional right to self-government

Formulation of regional policy strategies and implementation of regional development measures are closely interwoven with the stimulation of economic devel-

opment at regional and local levels. The legislation for regional policy is therefore of utmost importance to regional and local authorities in order to fulfil their tasks in promoting economic development. It is therefore necessary to look closer at the legal basis for regional policy in Germany.

Since regional policy is the domain of the federal and *länder* governments, its implementation constitutes a major cause – and this is the main contention here – for eroding the constitutionally guaranteed right of self-government of local authorities (*gemeinden*). This is in addition to the fact that lack of finances limits local authorities to discharge their duties independently. Both views will be argued for and further supported in the following.

The Federal Government can legislate for regional policy through two powers:

- The specific power to formulate regional policy at the national level.
- The power to define a framework within which regional policy at the *länder* level should operate.

Apart from the powers held by the Federal Government, the *länder* are the authorities responsible for regional policy at the *land* level (*landesplanung*). They have used their powers to pass regional planning legislation. The *länder* have not only passed *land* development plans, but also made provision for subregional planning. Subregional plans are of special significance in that they provide the link between the development programmes and plans of the *länder* and the local development plans of the *gemeinden*, i.e. the local authority.

The regional policy programmes and plans and the subregional plans formulated by the *länder* contain legally binding policy guidelines (objectives of regional policy) which have to be observed by all public planning agencies in their fundamentals, as well as by the Federal Government. Many laws dealing with matters relevant to regional policy contain specific provisions (so-called regional policy clauses) under which the sectors affected have to observe the requirements of regional policy. This includes the joint task “Improvement of Regional Economic Structure”.

The particular importance of the objectives of regional policy and planning lies in the fact that the distribution of public investment and subsidies is tied to them. This direction of budgetary resources results in indirect, but significant, effects on the economy which in itself is not directly tied to regional policy programmes and plans.

It is evident that the link between the distribution of public investment and the

highly *länder* influenced regional and subregional development programmes and plans undermine, *inter alia*, the constitutionally guaranteed right of the local authorities to self-government.³⁾

This is further stressed by the tools of regional policy which are the regional policy programmes and plans, i.e. the Federal Regional Policy Programme, the *Land* Development Programmes and Plans and their subregional plans. With these instruments, regional policy has to fulfil the tasks given to it by legislation, namely to:

- coordinate the manifold actions of federal, *land* and local authorities insofar as they affect spatial patterns, and to see that the various types of sectoral planning and investment within these areas – *inter alia*, in education, transport, energy policy, encouragement of regional growth or housing – are carried out in pursuit of common planning objectives so that their effectiveness is increased
- provide the necessary large-scale framework for local authority town planning and thus for urban development in general
- decide which of a number of competing demands for land should have precedence in individual cases, *inter alia*, the conservation of water and other natural resources, or of recreation areas as opposed to the demands of housing or transport
- highlight those areas which have slipped behind in their development as compared to other areas and which therefore require special support from the public sector, for example, by financial assistance to local authorities and businessmen for the development of industrial sites and the creation of non-agricultural jobs within the context of regional economic assistance.

Within the above framework, economic promotion by local authorities has its legal limits. In Germany, local governments are prohibited to implement measures that hamper Federal Government or *länder* regional policies or even counteract it. In the 1970s especially, there were many arguments between the Federal Government, on the one hand, and the local authorities, on the other. It is through subsidies (or withdrawing them) and other financial incentives that the Federal Government can exercise undue control over local authorities, thereby undermining self-government.

It does not need much imagination to conclude how far autonomous decision-making and thus the right of self-government of local authorities is narrowed down within the above described framework. This is aggravated by increasingly scarce financial resources, as well as resource development depending on the provision of funds, e.g. upgrading of skilled manpower in new technologies through vocational training.⁴⁾

2.3 The three-tier systems in Germany

In Germany today, public promotion of economic development takes place at four administrative levels (Von der Heide/Cholewa, 1992:2):

- *At the European level:* in pursuit of European regional policy and within European regulations of competition.
- *At the German federal level:* in fulfilment of the joint task (Gemeinschaftsaufgabe) "Improvement of the Regional Economic Structure" (which constitutes only a right to cooperate in a task otherwise performed by the *länder*⁵⁾).
- *At länder level:* through cooperation in the joint task and separately from this through independent promotional measures of the *länder*.
- *At local government level (gemeinden and landkreise).*

At local government we distinguish between two levels: that of the *landkreis* (rural district) and the level of the individual *gemeinde* (local government).

For the purpose of this paper, the local government level as well as the subregional⁶⁾ level are of direct interest. However, a brief look at the whole setting appears necessary because the functions at the local government level can only be understood in the context of its wider framework. Since the European level is chronologically the latest development, it will be dealt with after looking at the federal, *länder* and local government levels.

2.3.1 The federal level

In addition to the federal ministries there are a number of special purpose authorities, of which the recently privatised Federal Railways, the Post Office (soon to be privatised) and the waterways administration are particularly important for regional policy and regional and local economic development. Within the Federal Government, a number of line ministries are important for bringing about economic development, be it direct or indirect. Other tasks, e.g. the planning and maintenance of federal trunk roads (autobahn, bundesstraßen) is carried out by the *länder* on behalf of the Federal Government.

2.3.2 The land (länder) level

The organisation and administrative responsibility for specific measures in the field of economic development more often than not fall within jurisdiction for regional policy and varies between the German *länder*. In Hamburg, Hesse, North Rhine-Westphalia, Rhineland-Platinat, Schleswig-Holstein and in the so-called new *länder* after reunification, the respective chief minister is responsible for regional policy and thus, to a large degree, for the coordination of economic development; in Baden-Württemberg, Lower Saxony and the Saarland, powers are exercised by the Minister of the Interior, in Bremen and Berlin the Senator

for Public Works and Housing, while Bavaria has a special Ministry for Development and Protection of the Environment.

2.3.3 The local authority level (*gemeinden and landkreis*)

Apart from the city states of Berlin, Bremen and Hamburg, every *land* contains a large number of *gemeinden*. Small- and medium-size *gemeinden* are joined together into rural districts (*landkreise*) which exercise those local authority functions which are beyond the resources of the individual *gemeinden*. The *gemeinden* are particularly important for regional policy and development because the German Constitution (*grundgesetz*) and the Federal Building Act (*Bundesbaugesetz*) grant them – irrespective of their size and in fulfilment of the right for self-government – unconditional sovereignty over urban planning and development.

Since the small units proved unable to respond any longer to the requirements of a modern society in an unprecedented technical and social transformation process, most of the *länder* local government reforms in the 1970s were carried out with the aim to create *gemeinden* and *landkreise* large enough for the satisfactory discharge of their functions. Another aim was that the new boundaries should accurately reflect the spatial units of living and working which had developed over the decades prior to the 1970s, regardless of administrative boundaries. However, century old traditional and emotional bonds and attachments⁷⁾ were in a number of cases stronger and the planners of the reform had in those cases to depart from a technocratic regional-scientific approach after many citizens, even whole communities, intervened successfully with the assistance of (administrative) courts.

The Federal Government, the *länder* and the local authorities are, in terms of their financial budgeting, constitutionally independent. However, in contrast to this is the fact that the financial resources of the local authorities are far too meagre to fulfil the tasks involved and they therefore need assistance from the Federal Government. The most important task in the furtherance of regional policy and development in Germany – the true regionalisation of federal resources (finances) in pursuit of regional policy objectives and a corresponding spatial discrimination in *länder* resources – has not been achieved in the wake of the local government reforms.⁸⁾

On the contrary, following an amendment to the Constitution in 1969, certain activities hitherto reserved for the *länder*, but of significance for the development of the country as a whole, were declared to be joint tasks (*gemeinschaftsaufgaben*) of the Federal Government and the *länder*. They included, as mentioned above, the “Improvement of the Regional Economic Structure” as well as the improvement of agrarian structures, both relevant for economic development at the local

level. In other words, financial resources otherwise at the sole jurisdiction of the *länder* were now partly under the control of the Federal Government.⁹⁾

The above indicates that the federal structure of Germany and the constitutionally guaranteed right of self-determination enjoyed by local authorities (*gemeinden*) lead to a situation where the state, represented by the Federal Government and the *länder* governments, may compete with local governments in the performance of certain tasks, including the promotion of economic development. However, as was mentioned earlier, local governments are restricted in this process since they are not in a position to act against the Federal Government and *länder* governments' regional development policies.

2.3.4 Local representation at the European level

The progressing European integration has provided another platform of competition. This shall be highlighted using the case of the Advisory Committee of the Regions (CoR) which was established in 1994 in the wake of the Maastricht Treaty and is to institutionalise the representation of the regions and the local governments in the European Union (EU). (Becker et al,1995:799).

This was done in an effort to upgrade the importance of the regions as a counterbalance to the highly centralised system of the Union and attempted to bring decision-making closer to the people in the member states. In the CoR, economic development questions are dealt with in Committee One, *Regional and Economic Development, Local and Regional Finances*.

In Germany, a conflict arose between the *länder* and the Local Authority Association which should represent the regions in the CoR (Knemeyer/Heberlein,1994:89). Eventually the German regions were primarily represented by the *länder*, namely 21 out of 24 seats!

With this, the German *länder* have a better (potential) institutional position to influence European policy, but at the cost of truly German local representation. Looking at the composition of the CoR as a whole, a greater number of all representatives are sent by local governments.¹⁰⁾ This is owing to the differences of constitutional law between the member states and the correspondingly different roles which the regional levels play within the member states (Fürst,1995:825).

It is clear, however, that the German *länder*, together with the representatives of the Local Authority Association, could use the CoR as a forum to counteract German Federal Government policies. Knemeyer/Heberlein (1994:89) even argue that the claim of the Local Authority Association to be represented in the CoR was directed against the German Federal Government.

2.4 Summary and conclusions

Public promotion of economic development takes place at four administrative levels and the main issue here is the erosion of the constitutionally guaranteed right of self-government of local authorities.

It is evident that the link between the distribution of public investment and the highly *länder* influenced regional and subregional development programmes and plans are, *inter alia*, responsible for this process. The strengthening of local authorities and the involvement of citizens in the decision-making process at local government level is an important area for political reform and civic education. This is evidenced by the historical development in Germany where the facilitation of local self-government in the last century triggered off an unprecedented era of economic growth.

3.0 Examples of Local Economic Promotion

3.1 Forms and means of economic promotion

The degree of promotional means and measures depend on whether they are aimed directly or indirectly at businesses. The measures range from mere information to advice and counselling, as well as financial policy instruments, binding permits and the prohibition of certain actions. Direct instruments are aimed at the business owner, whereas the indirect instruments are attempting to influence the economic landscape in a way that induces certain actions of the individual economic actors (Lange, 1981:9).

The administrative arrangements of how the various local authorities organise local economic promotion and the means applied are different. Depending on the size of the local authority, they operate an office for economic promotion (Wirtschaftsförderungsamt). In larger locations, the establishment of privately operated consulting companies, so-called business development corporations, is on the rise. Often the office of the local government and the consulting company cooperate closely, as well as the chambers of commerce and industry.

It is no question that in an increasingly interdependent world with regional concentrations, on the one hand, and global cooperation on the other, new forms of promotional strategies have to be developed of which the local authorities are an integral part. This refers to development agencies and/or technology centres which cover/serve a number of local governments. Examples are the Economic-Technology Institutes (ETI) in the provinces of the Netherlands. They are quite successful and put equal importance on retaining resident companies who wish to expand and on attracting new businesses. The former includes many advisory ser-

vices which in Germany are performed by the chambers of commerce and industry.

Whereas a multifaceted promotional system is desirable, it develops into a nightmare for private sector businesses to obtain all necessary permissions, licenses etc. when seeking to expand, restructure or relocate an existing entity, let alone to start a new one.

One-stop service centres – i.e. the investor is dealing with one office opening the doors to all other authorities involved and coordinating decision-making processes – become increasingly important as will be shown in the case studies, e.g. the Hamburg Business Development Corporation, a public-private partnership owned by the Free and Hanseatic City of Hamburg, the Chamber of Commerce, Crafts and Trades, as well as a consortium of leading commercial banks.

3.2 Mini case studies

3.2.1 Methodology applied

It would go beyond the scope of this paper to engage in real research. This is indicated by the term “mini case studies”, meaning that the material examined:

- is limited to standard promotional information describing the services that the authorities offer
- could not be verified, or open questions and inconsistencies could not be followed up by subsequent research such as interviews, etc.

The material used was obtained by contacting the relevant institutions and asking for promotional material. In addition, in the case of Singapore exclusively, on-line material from the Internet was tapped.

Examples of two German cities are used to examine in which way their respective authorities are trying to promote economic development. In the case of Hamburg, the characteristics of its past structural problems are also highlighted, providing an insight into the challenges facing contemporary economic promotion. The case of the Greater Hanover District Association provides an example of a regional perspective, incorporating a city and its rural hinterland and complementing economic promotion by the coordinating functions of the German *Regional Planung* [English: subregional planning]. The interest here is whether this is superior to the local authority solution.

Globalisation is the catchword of politicians, corporate managers and economic planners alike. We therefore included an example from the South East Asian re-

gion which has witnessed unprecedented growth. Within this region, the city state of Singapore is seen as a classic example of a global and future-oriented economic society. It is of particular interest here to examine how Singapore tries to secure its future leading economic role in the highly competitive region.

3.2.2 The Free and Hanseatic City of Hamburg

3.2.2.i STRUCTURAL PROBLEMS OF THE PAST AND PRESENT

Hamburg witnessed a severe, and in part painful structural change of its economy in the 1970s and 1980s. Today these changes form the basis of its economic success. This is evidenced by the fact that in 1985, Hamburg was trailing behind the rest of West Germany, having double the national average unemployment. Over the past years, however, Hamburg has reported higher rates of growth than the average recorded by the other federal states in the “old” federal republic. Even employment figures have risen at an above-average rate.

Hamburg successfully pursued a location-based policy, even while the city still had two difficulties to combat: an unfavourable economic structure and its peripheral position in the Western European economic region. Whereas some 20 years ago the Hamburg economy was still primarily based on maritime activities and raw materials, since the mid-1980s it has been a modern centre for logistics and the service sector. Local industry has undergone a technology-oriented restructuring. At the same time, the old Hanseatic city of Hamburg recalled its tradition as a centre for services.

Hamburg is now also a centre for the media. It is Germany’s second largest location for banks and banking facilities after Frankfurt a.M., the country’s insurance metropolis, a popular shopping centre and destination for city-based tourism, the trading and logistics centre for the Northern German region, the gateway to Northern, Western and – after the fall of the iron curtain – Central and Eastern Europe.

The main point here is that Hamburg was able to restructure its unfavourable economic conditions and overall setting.

3.2.2.ii BUSINESS PROMOTIONAL SERVICES

Hamburg has, apart from the chamber of commerce and industry, a twofold business promotion structure:

- The Office for Business Promotion – a typical public administration authority of the city.
- The HWF (Hamburg Business Development Corporation) – a privately operated consulting company. It is a public-private partnership and its shareholders

are the Free and Hanseatic City of Hamburg, the Chambers of Commerce, and Crafts and Trades, as well as a consortium of leading commercial banks.

When this author contacted the Office of Business Promotion of the city of Hamburg for information, his inquiries by fax and email were never attended to. Telephone follow-ups ended up in confusion as to who was responsible for what, and the author preferred to end the whole exercise.

The HWF office was contacted at the same time as the city office for information by email. The author received a reply within 10 minutes of despatching the email and the next day had information material in his "snail mail" post-box, in addition to a number of valuable pieces of information through telephone conversations with friendly HWF staff members.

HWF sees itself as a link between businesses and the administration. As such, it speeds up implementation of business strategies and projects in business locations throughout Hamburg and provides support to foreign firms seeking to develop European markets from a base in Hamburg. Additionally, HWF acts as central coordinator, putting businesses in contact, when necessary, with other institutions and authorities.

The HWF services in detail:

National:

- supply information about business locations
- find suitable office and industrial sites through its databanks
- advise clients on questions of official approval
- cut red tape in official processing
- inform clients about available support schemes
- introduce clients to cooperation partners

International (in addition to the above):

- comprehensive information on the location
- assistance in establishing a company
- help in obtaining residence and work permits
- introductions of cooperation partners and experts
- contacts with other economic development agencies in Northern Germany
- guidance in preparing marketing concepts
- support in establishing a presence in new markets in Central and Eastern Europe

The importance of the coordinating efforts and one-stop services is evident from

the fact that the *Guidelines for Economic Promotion* of the city of Hamburg lists 25 institutions that may and/or need be contacted.

Except for offering links to other development agencies in Northern Germany, the activities seem to be limited to the area of the city-state of Hamburg (which has *länder* status). They therefore do not take into account the regional sphere of influence of Hamburg, e.g. the fact that many people who are working in Hamburg live outside its administrative boundaries (thus depriving Hamburg of financial means since taxes are paid in the local authorities of residence). This is complicated by the fact that Hamburg is bordered in the north and east by the federal state of Schleswig-Holstein, and in the south and west by Lower Saxony.¹⁾

3.2.3 The City of Frankfurt am Main

3.2.3.i BUSINESS AND ECONOMIC DEVELOPMENT CORPORATION

The city has established a Business and Economic Development Corporation (BEDC). Its services include conducting development-related research, facilitating and coordinating contacts and providing active support to projects. The Corporation is a highly active advocate of development and change in Frankfurt. Another responsibility is to serve as a link between Frankfurt's business community and municipal authorities. The BEDC's ultimate aim is to reduce administrative processing times and formalities to a bare minimum and to help wherever required, be it in the securing of residence, work and building permits or in the acquisition of sites for construction.

3.2.3.ii PROMOTIONAL SERVICES

Frankfurt's BEDC offers the following services:

a) ASSISTING AND GUIDING COMPANIES ALREADY LOCATED OR CONSIDERING LOCATING IN FRANKFURT

Companies constantly develop or shift their areas of activities, giving rise to a large set of needs, plans and projects. The BEDC helps companies realise their plans by expediting all legal and administrative procedures. To do so, it draws on a large store of expertise on plan approval processes and laws, building and transport regulations, taxation and related matters. It helps companies to procure power, water and waste disposal supplies and services. It assists companies looking to expand, to deploy new technologies or to reengineer existing operations by helping them find suitable properties or business partners.

Through its American, Middle Eastern, Asian and European contact managers, Frankfurt's BEDC provides special services to the broad range of companies comprising Frankfurt's "expatriate" business community. The managers provide

counsel and contacts to help the companies adapt to their new home's business culture and conditions. In addition, the managers conduct "in-market" canvassing and recruiting operations.

b) PROVIDING INFORMATION AND HELPING COMPANIES GETTING STARTED

Every year, a large number of companies – based both outside the Frankfurt region and outside Germany – consider setting up business in Frankfurt, and many companies are founded in the city. All these companies require a large amount of information on the Frankfurt market and its individual characteristics and areas of speciality. These companies want to be briefed on all aspects of work and life in Frankfurt. Frankfurt's BEDC draws on its large stock of data and expertise and conducts single-project market research. Its in-depth monitoring of the real estate market allows the Corporation to help companies obtain properties or production and office facilities.

c) PROMOTING FRANKFURT AND ITS BUSINESS COMMUNITY

Today, companies looking into a potential site want to get both reliable business facts and figures as well as information on the site's art scene and architecture, its shops and sights and everything else comprising its particular quality of life and occupation. Frankfurt's BEDC furnishes the world's companies with both business and non-business information. The BEDC analyses the development of Frankfurt's urban life and economy and proposes and delineates appropriate ways and measures to respond to them. These proposals often assume the form of development projects – many of which are carried out by the BEDC itself. The Corporation uses a wide variety of media to disseminate information about Frankfurt, including information brochures, advertising and public relations, presentations and lobbying on a local and international level. It views a number of business sectors, geographic areas and operating categories as being especially suitable for development and has focused both the local and internationally-based activities around them. It is apparent that the services offered by Frankfurt's BEDC are more or less the same as those offered by the institutions of the city of Hamburg and are also limited to the administrative area of the city. Unlike Hamburg, Frankfurt enjoys no *länder* status and therefore does not benefit from the horizontal financial equalisation among the federal states of Germany.

3.2.4 The Greater Hanover District Association¹²⁾

3.2.4.i A CASE OF REGIONAL PARTNERSHIP

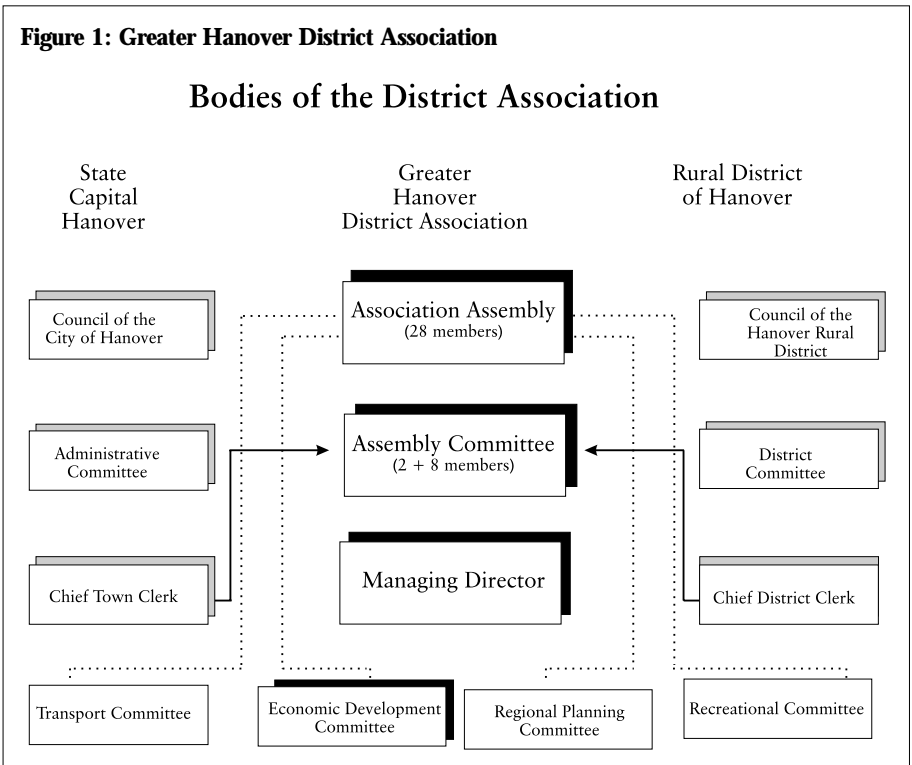
With the Greater Hanover District Association, greater Hanover represents one of the most advanced forms of regional partnerships in Germany. The Association is a public corporation with the right to self-government. The Lower Saxony State Parliament passed a motion on 14 December 1962 by which the state capital Hanover, three rural districts and 210 towns and boroughs of the

Hanoverian economic area were to form the Regional Greater Hanover District Association “in order to organise the Hanover Regional District.” The Association was empowered to “usefully structure the Hanover Regional District by employing uniform planning measures”, to “lay down guidelines for the use of land” and to employ other “development measures”.

The Greater Hanover District Association which exists today is the fourth association solution in the Greater Hanover District (law passed concerning the Greater Hanover District Association, 20 May 1992) (Kommunalverband Großraum Hanover). Its responsibilities are:

- local transport
- regional planning
- economic development
- recreation

Exclusive responsibility for regional planning and local transport is legally an-

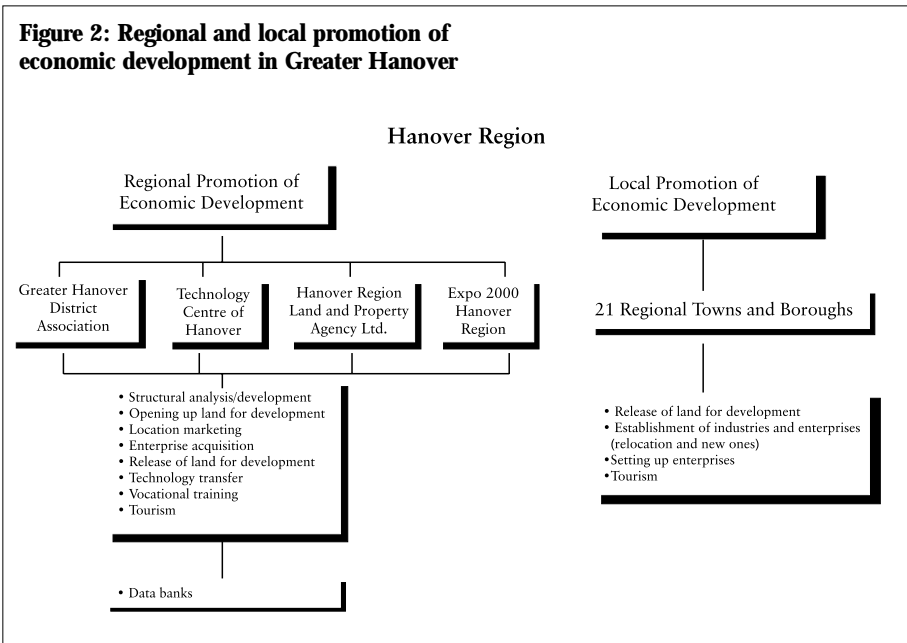


chored; the remaining responsibilities were transferred to the Greater Hanover Association by the other members of the Association.

3.2.4.ii CONSTITUTION AND COMMITTEES

The internal constitution of the Greater Hanover District Association follows the borough regulations for Lower Saxony. The state capital Hanover and the Rural District of Hanover are members of the Association and they finance the Association by allocation. The ruling body of the Greater Hanover Association is the association assembly (*refer to Figure 1*). It consists of 28 members, elected by the Council of the City of Hanover and the Council of the Hanover Rural District in equal parts.¹³⁾ The association assembly has set up four special committees which act in an advisory function during the preparatory stages of resolutions. They are the Transport Committee, the Regional Planning Committee, the Economic Development Committee and the Recreational Committee.

The Assembly Committee is the second cooperative body within the Greater Hanover Association. It is made up of the chairman of the association assembly and eight other members who are entitled to vote and, in an advisory function, are the managing director of the association, the chief town clerk of the state capital of Hanover and the chief district clerk of the Rural District of Hanover. The third body in the Association is the managing director of the Association. The



administration of the organisation is subdivided into specialised divisions within its four areas of responsibility. It also integrates the main office of the Public Transport of Greater Hanover (GVH).

3.2.4.iii RESPONSIBILITIES

- *Public Transport:* Solving the problem of increased traffic and avoiding an absolute traffic standstill has become one of the more important duties in the past years. It can only be solved by integrated traffic planning and structured public transport. The Greater Hanover Association is solely and exclusively responsible for public transport and regional planning by law.
- *Regional Planning:* The Greater Hanover District is marked by the close relationship between suburban areas and transport openings, economic development and environmental protection and recreation and protection of the countryside. Environmental demands and the needs of development projects often compete with each other. A multitude of problems and conflicts of interest have to be solved. Planning and coordination beyond local boundaries is the job of the Greater Hanover Association.
- *Economic Development:* “Together with Association branches and regional towns and boroughs, the Greater Hanover Association is responsible for measures of regional importance in the establishment of trade and industry and the promotion of economic development.” This is stated in the constitution of the Association. The development of the economy and industry and trade and commerce determines the chances of the Hanover region. The main task of the economic development branch of the Greater Hanover Association is to maintain existing jobs and create new positions in future-orientated branches.

As shown in Figure 2, the Greater Hanover District Association has joined hands with other institutions to promote economic development of the region. These institutions are the Technology Centre of Hanover, the Hanover Region Land and Property Agency Ltd. and, since Hanover is the venue for the Expo 2000, the Expo 2000 Agency. In pursuit of economic promotion, the measures of the Greater Hanover District Association have to bear “regional importance” and are supplementary to those of the member local authorities. The main asset is in the complementary functions of the regional planning task (spatial coordination of residential and working areas, recreational zones, etc.), the responsibility for transport and the promotion of businesses. This appears superior to the possibilities that the cities of Hamburg or Frankfurt (or other local authorities for that matter) have at their disposal.

- *Recreation:* For an area with an urban concentration such as that which exists

in the Hanover region, a problem is posed in how to create recreational possibilities within reach of the urban areas, as well as maintaining significant country areas which reach out beyond the borders of the Hanover region (Moorgeest, Leinetal, Deister, Calenberger Löbbörde).

3.2.4.iv PROMOTIONAL SERVICES

The offering of promotional assistance such as one-stop services is mentioned but does not take prominence in the information material. Greater Hanover puts more emphasis on describing the infrastructure-related advantages as well as resource potential to attract businesses from other parts of Germany and worldwide. These include:

- its solid and dynamic growth and high qualification potential
- its outstanding traffic system and central connectivity in the heart of Europe as well as first-rate intercommunication advantages
- a good educational and research infrastructure
- a location for consumer products and service industries
- an outstanding centre for international trade fairs and related recreational infrastructure
- a wealth of cultural infrastructure and an attractive surrounding countryside for recreation

3.2.5 *The city state of Singapore*

Responsible for the promotion of Singapore's future economic development is its Economic Development Board (EDB). It is not surprising that Singapore has, in comparison, the most comprehensive on-line information available.

It is interesting to note that Singapore does not relax on its past achievements as one of the most successful Asian tigers, averaging growth rates of eight per cent per annum over the past 30 years. Singapore recognises that the situation will dramatically change in the future, needing all efforts to compete with the other Asian countries which aspire to emulate Singapore's success. The following are the main conceptual considerations of Singapore's economic future:

3.2.5.i SINGAPORE'S FUTURE ECONOMIC POSITIONING IS THREE-FOLD:

- The EDB must firmly establish Singapore in the regional grid of Asia. Singapore's regionalisation programme is in its early stages, but in the next 10 years, its regional links at both business and government levels will be built up.
- Companies in Singapore, both multi-national corporations (MNCs) or local enterprises, must develop from being suppliers or players in secondary parts of the value chain, to being the key undertakers of core business functions.
- Singapore's local enterprises must develop rapidly to encompass greater busi-

ness depth and breadth, as the new environment allows and demands their future growth and survival.

3.2.5.ii REMAIN RELEVANT TO ITS INVESTORS

The EDB's thrust is based on a simple principle of remaining relevant to its investors and its neighbours. Singapore's investors are principally concerned about three factors – costs, efficiency and market access when evaluating investment locations. The EDB's position on these issues is as follows:

Singapore, with rapid economic growth, has become a higher cost location and those who compare it with its neighbouring countries will make this comment. Singapore cannot artificially suppress costs, but it can increase the value an investor gets out of the country. No company operates in isolation: it has to deal with various suppliers; it needs access to the right type of qualified manpower and competence centres in relevant technologies, as well as efficient infrastructure and other services. Singapore's aim is to simultaneously build up these economic components to a standard comparable to the OECD countries. This is the essence of Singapore's cluster strategy for industry and business services. This would enhance the country's value to investors as compared to lower cost countries which have abundant unskilled labour and undeveloped land. On the other hand, thanks to improvements in productivity of the more efficient industries today, labour forms only five per cent, or less, of total costs and Singapore's infrastructure investments have put its industrial and commercial land ahead of its competitors.

It is most interesting that the EDB does not just state what it will do for an investor and which services it provides, but addresses itself to the fact that all other nine countries of East and South East Asia will do the same:

“Our neighbours are concerned about the same kinds of issues that we are grappling with. They, too, want to improve their economy, attract investments and upgrade the skills of their workers. They need technology and capital. Through our strategy of being a gateway to the region, we can facilitate MNCs going into the region through Singapore. We can provide top and middle level management who are able to operate in these countries; we can provide training places in Singapore, both in universities and polytechnics as well as in companies; and we can help develop industrial estates and other infrastructure to make it easier for foreign companies to operate in otherwise difficult areas. This is a win-win approach which is the only way to have a lasting business and political relationship with our neighbours in Asia. If we can implement these plans successfully, then Singapore will remain relevant to investors and to the region to the year 2000 and beyond.”

However, the EDB goes one step further and poses the following question: the strategies of investing in the region and upgrading the economic base are not unique to Singapore. Will Singapore be able to maintain its competitive edge over other Asian countries, despite high costs, limitations and land?

The answer: Singapore will be well positioned to compete. There are three main reasons for this optimism.

- In the years ahead, change will be very rapid as skills quickly become obsolete, and competition intensifies. Most individuals and countries find change a challenging task, for social, economic and political reasons. Even in Singapore, change will not be easy to manage but we are in a much better position to adapt to change because of our small size and effective government. To use a simple analogy – a super-tanker needs several miles before it grinds to a halt and turns; a high speed racing boat, on the other hand, needs only a foot. Singapore is, and must be a high speed racing boat.
- Because of our political, economic and social stability, Singapore can afford to take a long-term view of development. Many of the strategies outlined earlier look five and 10 years ahead. We are taking these issues seriously, examining the options and decisively making deliberate choices.
- But the most important factor in change is the people factor. Our people have been rated well by international comparison and are educated and vocationally trained. Taken together with government programmes which are currently being drawn up to help both businesses and people with change, we should be among the few select countries in the world in terms of our ability to adapt to a rapidly changing environment.

3.3 Summary and conclusions

As has already been pointed out from the German examples, the Greater Hanover District Association, i.e. the sub-regional versus local authority solution, is the more superior answer to the challenges involved because it takes care of the sphere of influence and thus the interdependencies between the jurisdiction of the local authority and its hinterland. This is particularly important for economic promotion.

However, the way the EDB of Singapore is addressing its economic future and how it tackles the medium- and long-term problems associated with it is the most comprehensive strategy and represents the most convincing approach. It goes beyond the offering of services in a “catch as catch can” manner, where the best grabs a share of the cake at the cost of the others. The strategy is superior in comparison because it includes the aspirations of the neighbouring countries over

which it has naturally no jurisdiction, but attempts to accommodate their needs (and fears!) in its strategy.

This constructive attitude cannot be overemphasised, given the example of the Central Pennsylvania Regional Economic Development Corporation in the USA, where its chairman is emphasising:

“I challenge all units of local government to make a commitment to work together, placing aside our individual differences and agendas and to form a united front as we advance toward fulfilment of our region’s economic development potential . . . Make no mistake about it, we are in an enormously competitive age of economic development – not only with other countries or other states – but even with other areas of our own state. To remain effective, we must strive to maintain a sophisticated and aggressive regional economic development agency.”

This view means nothing else than taking jobs and job opportunities from another spatial area (region, urban agglomeration) in the same country. Such a strategy is therefore unfit for a nation’s approach to decrease unemployment. It is obvious that more refined schemes are necessary to tackle the problem, for example, of long-term unemployed and youth unemployment.

4.0 Selected Issues

So far in this paper, economic development has not been qualified and, furthermore, it has been assumed that any form of economic development, or rather growth, will lead to more employment and provide the means and resources for balanced social development and will be in harmony with the natural environment. It is obvious that this is not the true case. Politicians in Germany state that even future economic growth, should it really be accomplished, could not reduce the number of unemployed in the country, let alone provide for full employment as witnessed in the 1960s. From the city state of Hamburg we read – apart from the fact that it has mastered its structural changes in the economy and is once again at the forefront of economic development in Germany – that it is not able to guarantee the functioning of its judicial system, provide enough kindergarten seats for the children, employ enough police to provide security for its citizens, to name a few.¹⁴⁾ The businesses of the city’s prospering economy are – as elsewhere in Germany – not able to provide enough apprenticeships to avoid socially explosive youth unemployment.

The education system of one of the richest nations on this planet, namely Germany, could not avoid 15% of its school leavers being at the level of grade three

pupils. Almost every sixth primary school student has speech problems.¹⁵⁾ This poses a serious problem to the vocational training system in Germany.¹⁶⁾

It is against this background that in the following discussion on approaches to economic promotion, the aim is on the poorer segments of the society:

- In order to provide the context, the case for sustainable development is argued.
- In addition, forms of participatory development will be highlighted.
- Two examples (case studies), drawn from the so-called developed world (USA) highlight that development problems in the South and the North are, in part, close to each other, thereby supporting the notion of One World.

4.1 A case for sustainable development

4.1.1 Definitions

A development path is sustainable if, and only if, the stock of overall capital assets remains constant or rises over time. The assets in question include manufactured capital (machines, roads and factories), human capital (knowledge and skills) and environmental capital (forests, soil quality and rangeland). To be on a sustainable development path, a nation must be living within its means, which, in this context, means not decreasing its overall capital assets. The proper measure of income corresponding to this idea of sustainability is widely accepted to be the amount that can be consumed without running down the stock of capital (Pearce/Warford, 1996:1).

The sustainability that concerns us is not just about ecology and sustaining environments. It must meet the essential needs for jobs, food, energy and water and achieve sustainability of both human and natural resources. Sustainable development must unite economics and ecology in decision-making at all levels and enhance the resource base (Enda-Zimbabwe and Zera, 1992:1).

It is therefore necessary to understand clearly what is meant by sustainable development. The idea was popularised in 1987 by the United Nations Commission on Environment and Development through the Brundtland Report. That report, entitled *Our Common Future*, produced the most widely accepted definition of sustainable development; that is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

In 1992, the concept was formalised at the United Nations Conference on Environment and Development (UNCED – Rio '92), and since then it has become part of the vocabulary of governmental, inter-governmental and non-governmental institutions in practically all languages. The United Nations has an

International Commission for Sustainable Development which meets each year, with representatives from all the countries of the world. The World Bank has a Vice-President for Environmentally Sustainable Development.

The Government of the USA, like the governments of many other countries, has a National Commission for Sustainable Development. International business leaders created a Business Commission on Sustainable Development, with representation at the regional and global level. International development agencies actively promote development projects which pursue sustainability.

Such success in the dissemination of the idea and in its institutionalisation has contributed to a certain erosion of the concept of sustainable development. Many mainstream economists, for example, together with some politicians and business leaders, have rejected sustainable development as the latest buzz-word whose very appeal lies in its vagueness. For some, sustainable development is a utopian concept, for others demagoguery, while others continue to consider it to be inherently limited in its applicability to cases of extreme poverty and the corresponding difficulties confronted by a large part of the world's population.

This reaction to the proliferation of the term is understandable. In many cases the idea has been misappropriated and misused. Opponents may also mistrust the economic implications of sustainable development. After all, the idea of sustainability implies the introduction of a host of restrictions on the process of economic growth, based on the trade-offs necessary to address the question of inter- and intra-generational distribution. The introduction of authoritative sustainable policies may at times have a negative impact on short-term profit margins, although with the balance of a longer useful life given to investments. On the whole, however, the environmental debate and the continuing puzzle of underdevelopment have had an impact on the way we think about growth and progress.

Today there is a general recognition of the need to modify our approach to development in the present – even without taking into consideration the more difficult question of how future generations will cope with our legacy of spiralling population growth, expanding energy consumption and the inevitable depletion of vital natural resources. Whether confronting the challenges of the present or the future, a new approach to development is a necessity which requires a real revolution in our behaviour and mentality:

“Unless (our) lifestyle is subjected to considerable re-evaluation, including the adoption of far-reaching self-control regarding the satisfaction, not of real wants, but of self-gratifying desires, the emphasis on ecology could become

yet another intensifier of the conflict between the rich and the poor. Sustainable development is therefore a challenge to the highly industrialised world who waste energy and resources” (Senghaas, 1996:237).

“Sustainable development represents an opportunity to construct a new approach, and the success of that effort has powerful implications for issues of peace and security” (LBJ School of Public Affairs, 1996).

4.1.2 Inequality and sustainable development

In the context of the relationship between the North and the South, the question of equality/inequality plays a central role and shall therefore be addressed in the following. Three types of equality or inequity may be distinguished:

- Inequality through time: intergenerational equity.
- Inequality between nations at a given point in time: intragenerational equity between nations.
- Inequality within a nation at a given point in time: intragenerational equity within a nation.

Sustainable development has clear implications for intergenerational equity; in fact, sustainability has been defined as some sort of intergenerational equity. Sustainability involves holding total capital stocks at least constant to ensure that future generations have the same capability to develop as current generations. Environmental capital is a vital part of that stock, since it renders the life-support functions that make a reasonable quality of life feasible and, in some people’s view, make existence possible.

But is sustainable development relevant to inequality now? Some authors distrust the emphasis that sustainability approaches give to environmental quality. This emphasis appears to some, for example, to be a conspiracy of the rich nations to conserve natural assets in the poor nations, simply because those assets yield utility to the rich countries.

On this view, not only does the asset generate benefits mainly outside poor countries, but conservation precludes poor countries from using the asset for development. Thus tropical forests yield the benefits of existence-value and option-value to rich countries, but these values do not translate into cash flows for the poor, whereas development options might. This view contains a clear element of truth but misses much of the thrust of the sustainability approach.

First, sustainable development is concerned with inequality between countries. If the pattern of demand for traded natural resources in rich countries encourages

unsustainable management of those resources in poor countries, that pattern of demand may threaten development prospects in the future. Those prospects are based on the comparative advantage that natural resources confer on the developing world. Hence, inequality between nations (intragenerational inequality) is relevant to the sustainable development of the developing world. On this hypothesis, inequality between nations may, in certain policy environments, foster unsustainable development. In other words, not only does sustainability affect equity, but inequality also affects sustainability.

Second, inequality within a nation may foster unsustainability because the poor, who rely on natural resources more heavily than the rich, would perhaps deplete natural resources faster if they had no real prospects of gaining access to other types of resources. This is the poverty–environment hypothesis. Moreover, degraded environments can accelerate the process of impoverishment, again because the poor depend directly on natural assets. As we shall see, this circular link between poverty, environment and poverty is both far more complex and far more common than generally imagined.

The poorest of the poor thus occupy the least resilient, most threatened environmental areas of the world. The very fact of low resilience to stress and shock means that an exogenous event, such as a change in climate, could induce the poor to take actions that could further degrade the environment. This happens when the poor are in some way confined to an ecologically fragile area and react to stress by intensifying their use of limited resources, that is, by deforestation and overgrazing. The stress in question could include population growth and economic signals from policymakers that diminish the incentives to maintain a stable equilibrium between the local economy and its environment. On this analysis, poverty is not so much a cause, in the narrow sense of environmental degradation, as a mechanism by which the true underlying causes are transformed into actions that degrade the environment. Put another way, poverty does not necessarily in and of itself lead to environmental degradation. That depends on the options available to the poor and on their responses to outside stimuli and pressures. Poverty, however, removes their ability to respond and adapt because the time horizon is typically short and few feasible options are available.

This leaves only two reactions: they can attempt to supplement scarce assets by using free common property or open-access resources, or they can leave the land altogether and move to urban areas. The result of using up resources is to degrade the rural environment. The result of moving to urban areas is to swap one form of degradation for another, that is, rural for urban. Because poverty is also associated with poor health, the capability of responding to exogenous factors is further reduced by the physical effort involved. The association of poverty with illit-

eracy compounds the issue, since illiteracy also reduces the ability of individuals to respond to pressures. Poverty in all its manifestations keeps the poor from being able to respond to environmental degradation arising from other underlying causes; it thus becomes a disabling factor.

This idea of poverty as a disabling factor rather than an underlying cause of environmental degradation permits us to take into account other compounding issues. Population growth acts as both an underlying cause and a compounding factor. In Bangladesh, for example, population growth is reducing the average farm size, thus lowering productivity and deepening poverty. As poverty increases, the ability to escape environmental degradation is reduced even further. In Nepal, the same phenomenon leads farmers to clear and crop hillsides in an effort to maintain their income. Expanding agricultural area is associated with deforestation and with increased soil erosion.

The generalised picture of the links between poverty and environment must not be exaggerated. The existence of poverty does not mean that environmental degradation will necessarily follow. As the model suggests, if the underlying causes or shocks are absent, the state of poverty is likely to persist, but without environmental degradation. Comparatively few attempts have been made to trace the responses of the poor to stress and shocks over time.

Other factors cause environmental degradation, notably new roads that open up virgin territory and lead to agricultural colonisation, misguided price and other incentives and population growth.

Illiteracy compounds the disabling effects of poverty. Instead of stimulating entrepreneurial activity and investment in rural areas, increasing literacy may quicken the exodus of the poor. It is sometimes argued that biasing public investments toward urban areas reinforces the trend of rural-urban migration by creating a large informal sector that acts as a magnet. In many ways, then, individuals in rural areas react to environmental stress by migrating to urban areas. As we saw, this shifts the type of poverty from rural to urban. This is particularly true if the informal sector cannot assimilate the flow, but has real prospects for improving welfare if it can.

Certainly, a bias may exist where cost recovery is not practised and subsidies are not targeted. On the other hand, public investments in urban infrastructure are necessary if cities are to be a positive force in the national economy and provide jobs and income for "excess" rural labour. The important issue is to ensure that the beneficiaries of urban investments pay their fair share for those benefits and that indiscriminate subsidies do not end up in the pockets of the urban well-to-

do. Faced with declining real income because of, say, an exogenously determined decline in crop output, the poor may react in a number of ways:

- They may seek marginal lands on which to expand output – a direct link between poverty and environmental degradation if the marginal lands are ecologically fragile, as is likely.
- They may also seek ecologically sound ways of expanding output in ecologically sensitive areas, for example, by adopting terracing techniques or agroforestry on steeply sloped land. In Kano, Nigeria, for example, the pressure of famine did not seem to affect the preference of smallholders for tree conservation.
- They may also seek income security rather than food security by obtaining employment off the farm or undertaking other activities that generate income. If so, they may well choose not to undertake activities that damage the environment.

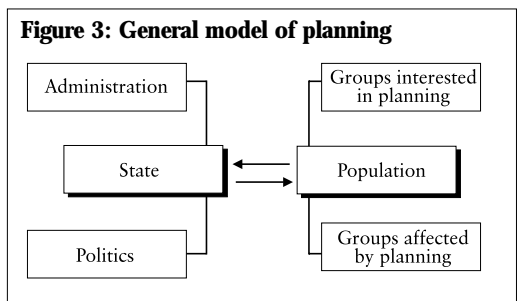
The point made here is: impoverishment by itself does not necessarily cause environmental degradation. Much depends on the coping strategies of the poor and these depend, in turn, on the availability of options, cultural factors and policies of local and national governments (Pearce/Warford, 1996:25).

This is a significant notion since it stresses the importance of providing forms of participation and self-determination, another model of self-government, to the poor in order to provide a framework for help or self-help.

4.2 Participation and poverty alleviation

4.2.1 Models of planning and participation

It is clear from the above that poverty alleviation needs participatory development approaches that give more power to those who are traditionally marginalised politically and resource-wise. Figure 3 represents a general model regarding the relationship between state, administration and politics on the one hand, and the population, subdivided in those interested in planning and those affected by planning, on the other. This rather neutral model can be further qualified when one takes a closer look at those who are able to exert their influence over planning matters and therefore over resource allocation. This is represented in



conomic development for its members, several criteria must be met: the group must address a felt need and a common interest; the benefits to individuals of participating in the group must outweigh the costs; the group should be embedded in the existing social organisation; it must have the capacity, leadership, knowledge and skills to manage the task; and it must own and enforce its own rules and regulations.

Whether strengthening or modifying existing organisations or establishing new ones, steps need to be taken to ensure that these conditions are in place. What may seem an obvious point, but is often neglected, is that a group functions only because it is addressing a felt need of its members. A fundamental design flaw in a natural resource management project in the Philippines, for example, was the assumption that upland farmers were interested in forest management. In contrast, the need to solve what is perceived as an urgent problem may bring different class and power groups together.

In South India, for example, the entire village manages community-based irrigation systems and has developed a monitoring system to discourage water theft. Groups continue to function as long as the benefits of participation to their members continue to outweigh the costs; hence, project design must be based on knowledge of community demand and must ensure that incentives for participation are in place. In any community, inherited networks of organised reciprocity and solidarity form the basis for individual trust and cooperation. New community-based programmes need to use and build on this existing stock of social capital and, wherever possible, to work through existing organisations. In Nepal, for example, when government policy prescribed the creation of farmers' associations, assistant overseers found many informal groups of farmers organised around irrigation systems. Rather than creating new organisations, these existing groups were encouraged to register themselves as official farmers' associations.

Sometimes, notably when the existing social organisation is highly inequitable, creating new groups is the only means of promoting the participation of disadvantaged people. Many successful projects that specifically target women or the poor have formed special organisations such as the Grameen Bank, the Self-Employed Women's Association of India, and women's farmer groups in Nigeria and the Gambia. These new organisations are the creation of their members, drawing as much as possible on what is already in place. Attempts to speed up a community development process by circumventing existing institutions and investing in new externally designed organisations have frequently failed in their aims. They also carry the danger of undermining existing institutions, diminishing the ability of community members to cooperate and organise effectively for other purposes.

An important reason for building on indigenous principles of organisation is that, to be effective, a group must own and enforce its own rules defining membership criteria, the allocation of responsibilities, contributions and benefits, and the mechanisms for ensuring accountability and resolving conflicts. If these rules are dictated from outside, people do not feel obliged to follow them, free riding becomes common, conflicts escalate and the group becomes ineffective. Depending on the tasks that the group is designed to manage and the existing capacity of the group, investment in training may be needed over a period of several years to build the necessary management and technical skills. Groups have failed because too much was expected of them too soon without supportive training (World Bank, 1996: Appendix II).

4.3 Community-based approaches to economic development in problem areas of the United States of America

In the following, two examples from the USA are presented. The notion here is that the development problems at, *inter alia*, regional and community levels in the North are quite similar to those in the South and thus similar development approaches may be applied. This means that strategies developed in the South may be used to tackle problems in the North. It is the contention of the author that this process, i.e. the North learning from the South, will gain increasing prominence in the future.

4.3.1 Central Vermont Community Action Council

Originated in 1988, the Micro-Business Development Programme (MBDP) is a partnership between five Community Action Agencies (CAAs) and the State of Vermont Office of Economic Opportunity. Each CAA houses a MBDP staff person or business development specialist who provides technical assistance to income-eligible Vermonters interested in starting or expanding businesses. The state provides access to financing through its Job Start Loan Programme. The business development specialists offer both classroom training and one-on-one assistance to programme participants. The Central Vermont Community Action Council (CVCAC), one of the CAAs, acts as the lead agency and houses the MBDP director. A statewide programme has been implemented to teach low-income individuals who want to start a micro-business – or begin self-employment – how to write a business plan, make a loan application and manage their start-up business.

4.3.1.i CASE STUDY

THE PROBLEM:

The start-up of a micro-business or the pursuit of self-employment is a viable alternative for many low-income individuals, particularly in areas where employ-

ment opportunities are limited. However, most low-income individuals lack the skills to develop a business plan and lack access to start-up capital.

THE APPROACH ADOPTED:

Initiate a micro-business and self-employment programme where low-income individuals are taught to write a business plan, make a loan application and manage their business.

HOW THEY IMPLEMENTED THE APPROACH:

More than 80% of Vermont's businesses have fewer than 10 employees and more than 60% of them have no more than four employees. Small businesses form the backbone of the state's economy, yet many in Vermont have a hard time obtaining loans to either start a business or expand an existing one. This is an even greater problem for a low-income individual without any business experience.

The CVCAC, in partnership with other CAAs, private funding organisations (such as Working Assets), banks, state, federal and local government funding sources decided to attack this problem through the creation of a statewide micro-business development programme targeting income-eligible Vermonters who were at or below 125% of the official poverty guidelines. Micro-business development specialists were assigned to each of Vermont's CAAs, developing a statewide network to provide classroom training, business development technical assistance and individual counselling services to low-income entrepreneurs. Being located within the CAA structure facilitated the identification of potential programme participants and increased awareness of the Micro-Business Development Programme among low-income persons already using CAA services.

In a rural state like Vermont, networks among service providers are an effective means of coordinating and streamlining services. A variety of state agencies also served as primary partners for the MBDP including Vermont Job Start (a business start-up loan programme), the Vermont Department of Employment and Training, the Division of Vocational Rehabilitation, and the Small Business Development Programme (SBDC). The latter three partners were sources for mutual referrals of the eligible low-income clientele to technical assistance services provided by the MBDP, e.g. MBDP clients may have attended training provided by SBDC which was more convenient in terms of time or venue. Other lending institutions within the state provided referrals of low-income loan applicants to Vermont Job Start. In some instances, Vermont Job Start referred these loan applicants to the technical assistance services provided by the MBDP.

RESULTS:

564 eligible low income Vermonters participated in the programme. 5183 hours

of technical assistance were provided, with approximately one-third involved in one-on-one technical assistance with individual business development specialists. The additional two-thirds were devoted to business development classes. A total of 85 micro-businesses were started or expanded.

PROGRAMME SPIN-OFFS:

The state of Vermont now includes the needs of low-income entrepreneurs in its economic development strategies. Private business development programmes such as Working Assets have expanded into Vermont. Previously Working Assets was in all other New England states except Vermont. The Vermont Banking Association has endorsed the programme and state funding has replaced federal funding at the completion of the initial federal funding support period.

4.3.2 Northern Montana: proactive intervention to diversify a rural economy

Northern Montana is faced with chronic unemployment, an exceedingly high poverty rate and an undiversified economy. With the major employer in the region beginning to downsize, the Bear Paw Economic Development District (EDD) instituted a Revitalisation Plan. The plan included rescuing a manufacturing company in order to preserve the viability of the local industrial park, as the industrial park was central to the region's diversification. This public-private partnership combines the efforts of the regional development corporation and area businesses to create jobs and achieve economic stability and diversity. This project serves as a model for proactive intervention in communities that have a declining, narrowly focused industrial base in a sparsely populated area.

4.3.2.i SUCCESSFUL PRACTICE

This area was proactive in recognising the decline of Big Bud Manufacturing which anchored the local industrial park. Because the industrial park is crucial to the region's economic diversification, Bear Paw EDD formed a partnership with a manufacturing company, which moved into the park and retained the jobs that otherwise would have been lost. The public-private partnership between the regional economic development corporation and the new business not only salvaged vulnerable jobs, but it diversified the economy and brought viability to the industrial park, encouraging other businesses to move in as well.

4.3.2.ii CASE STUDY

THE PROBLEM:

This northern section of Montana is faced with an undiversified economy. A number of years ago the largest employer in the area, the local railroad company, begun downsizing its operations. Additionally, in the early 1980s this already economically fragile area was faced with the closure of the Big Bud Manufacturing company. This company employed approximately 50 people with high

paying manufacturing jobs. With these circumstances present, the region's economic outlook was not healthy.

THE APPROACH ADOPTED:

To deal with these economic problems, the Bear Paw EDD put its Revitalisation Plan into effect. The proactive approach used to diversify the economy and encourage industrial development was to construct a 30-acre industrial park which could house six plant sites. To combat the closing of Big Bud Manufacturing, the Bear Paw EDD entered into a public-private agreement with the Meissner Tractor company.

HOW THEY IMPLEMENTED THE APPROACH:

To begin construction of the industrial park, Bear Paw EDD gained funding from the Economic Development Administration (\$260 000) and the Farmers' Home Administration (\$500 000). The first tenant of the park was Big Bud. Unfortunately, soon after moving to this new site Big Bud began to feel the effects of a declining farming industry and high interest rates. In 1982, Big Bud closed its doors putting 50 people out of work. To offset this loss, the Bear Paw EDD, with the help of a \$1.5 million State of Montana Community Development Block grant, secured a loan allowing Meissner Tractor to purchase the assets of Big Bud to continue the production of its tractor operation. Eventually, this plant became an engine rebuilding centre as it slowly phased out the construction of tractors. Meissner's success in this area led it to build a second plant which manufactures Case IH engines.

One of the more remarkable aspects of the industrial park project is that there is no need to develop a recruiting programme. Bear Paw EDD is able to rely on existing businesses in the area that are seeking to expand operations or move from another part of the state. The industrial park is gaining name recognition and has a positive reputation in the area. For instance, Waterchef, a new business in the region, looked at several different Montana sites before deciding that the industrial park in Hill County offered them with the best opportunity.

RESULTS:

This industrial park and the public-private partnership between the Bear Paw EDD and Meissner Tractor has resulted in the creation and retention of nearly 100 jobs. The infrastructure of the area has been greatly improved allowing smaller businesses in the area to expand and improve their operations. Additionally, because of the installation of sewer lines, homeowners were able to abandon their septic tanks for cleaner and more efficient sewers. This decreased maintenance costs for homeowners and improved sanitation in the region. Although two sites in the park remain undeveloped, it is expected that they will be filled shortly.

4.4 Summary and conclusions

The above examples demonstrate convincingly that local authorities have to develop new approaches to promote economic development since the “classic strategies”, even if improved upon, and as described in chapters 2 and 3, cannot solve the problems of the poorer strata of society. This would be a prerequisite for future social harmony in our societies, be it in the North or the South.

The USA examples hit upon another point which is rather frightening. As global competition has increased, the European business climate has become more like that of the USA – deregulated, with price offensives and a premium placed on customer services. In fact, the Americans have become Europe’s agents of change. With their reengineered plants and efficient use of capital, USA companies are prompting European companies and governments to take a hard look at their rigid labour rules and other obstacles to growth. Many European companies are embracing the USA business model as perhaps the only remaining path to profits and job creation. “The one thing that is compelling today is growth”, says Deutsche Bank director Rolf E. Breuer. “Growth is in the USA and in the USA model.”¹⁷⁾ As we can see, the “American model” cannot provide enough jobs either. Our future is, however, only about jobs. Thus the paramount task for local and regional economic promotion is to develop strategies which also provide jobs for those who will not be covered by the growth model.

Notes

- 1) Throughout this paper, the translation of the German terms follows the International Institute for Legal and Administrative Terminology 1973: “Regional Policy, German/English Glossary”. *European Glossary of Legal and Administrative Terminology, Volume 18*. Langenscheidt, Berlin: Sweet & Maxwell, London.
- 2) The author worked with the Association from 1975 to 1978 as Area Planner and, again in 1981 as Head of the Department of Recreational Facilities, after returning from a two year assignment in Botswana where he worked with the Francistown Town Council.
- 3) It would lead too far here to dwell more on the so-called *Gegenstromprinzip*. This clause stipulates a principle of countervailing influence; in regional policy it means having regard to the conditions and the needs of the whole area and its component areas. Within the observance of this principle, the *gemeinden* have a legal saying in setting up the regional and sub-regional plans, i.e. to make sure that their needs are incorporated and if successfully done, by binding *länder* and even Federal Government authorities to observe them in all their actions.
- 4) In order to avoid misinterpretation: the intent and objectives of the regional policy programmes serve a common good and are not questioned here. The spatial concentration of settlement growth implied and intended, on the one hand counters peripheral growth of the major urban agglomerations and are to relieve pressure on the agglomerations. On the other hand, it is intended that medium-sized and small settle-

- ment concentrations should develop in rural areas, with an infrastructure which not only fulfils all the requirements of a modern standard of living, including private sector services, but is also used at an optimal intensity.
- 5) *Länder* is the plural form of *land*; the unique German terms will be used where necessary and the meaning becomes evident from its context.
 - 6) The German “Regionalplanung” at the level of voluntary associations of local authorities is termed “sub-regional” in the United Kingdom system.
 - 7) For example, many administrative boundaries date back to century-old physical boundaries of church congregations.
 - 8) The financial reform that followed was rather half-hearted in its effects.
 - 9) For more details, refer to Lange, 1981:97f.
 - 10) That this represents one potential conflict of interest within the CoR is of no interest to the question dealt with here. It is also clear that as of now, the CoR does not exert any influence on European policy.
 - 11) Because of the regional interdependencies with severe financial implications for Hamburg, the establishment of a “Northern State” has long been on the political agenda. After the failure of the merging of the city of Berlin and the federal state of Brandenburg by popular vote, the political future of such plans are quite dim.
 - 12) In the UK, this type of planning authority is comparable to voluntary associations of local planning authorities to coordinate planning policies.
 - 13) It is interesting to note that the second Association solution (1974–1980) embodied a regional parliament elected directly by the population of the Greater Hanover area. The direct representation was abolished in subsequent solutions.
 - 14) It has to be pointed out, however, that the examples of the judicial system and the police are only true for Hamburg since it has the status of a federal state. Normally, they do not fall under the jurisdiction of local authorities.
 - 15) Hamburger Abendblatt of 13 September 1996: *Warum immer mehr nicht lesen können*, p.1
 - 16) In the past, the German system was labelled as one of the most effective ones in the world. Now the vocational schools have to make up for the shortcomings of the primary and secondary schools and have to teach subjects like basic maths and German, thereby neglecting the training of skills and vocational-related subjects. In other cases, apprentices have to spend two days a week in the vocational schools as opposed to one day in the past. Now the employers – i.e. those who provide the chance that the youth may receive a sound vocational training base – complain that they, the private sector, have to finance what is otherwise the task of the state (school education).
 - 17) According to *Business Week*, International Edition of 7 October 1996, “Believing in Europe”, p. 23.

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