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Administration and
Development of the
Republic of Armenia



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Good Local Governance Programme South Caucasus

MANUAL

LOCAL ECONOMIC DEVELOPMENT

LED Strategies and Programmes

Development of Municipal Economy in Armenia

LED Logic and International Experiences

Introductory

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LIST OF ACRONYMS

LED – Local Economic Development

PACA – Participatory Assessment of Comparative Advantages

UNDP – United Nations Development Programme

SME DNC – Small and Medium Enterprise Development National Center

NGO – Non-government organisation

RRA – Rapid Rural Assessment

RALIS – Rapid Assessment of Local Innovative Systems

CARD – «Centre for Agricultural and Rural Development» Foundation

COC – Chamber of Commerce

JICA – Japan International Cooperation Agency

RCAES – Regional Centre for Agricultural Extension Services

APIU – Agricultural Project Implementation Unit

UCO – Universal Credit Organisation

EDRC – «Economic Development and Research Centre» NGO

LSG(s) – Local Self-government bodies

SWM – Small working meeting

CEFE - Competency based education through formation of enterprises

Preamble

Economic development is one of the major challenges we are confronted with in both public daily life and this assignment. Irrespective of the level of development attained in education and culture, sports and science, nonetheless, comprehensive development tangibly depends upon its economic constituent since it secures resources for development of other sectors and infrastructures, and creates jobs and nurtures well-being.

There exist numerous approaches to economic development, including models, and scientific schools elaborate on this issue, but none suggests exhaustive response thereto. The path each country picks in this direction is unique and specific. What is shared is the goal, and that is development of economy and securing well-being. Some countries, which maintain decades of highly developed industry, thousands of competitive industrial facilities, quality labour force and perfect infrastructures promoting economic infrastructures, have taken over nations. In economic terminology these are qualified *economically developed countries*. Others are yet lagging behind for a number of varying reasons, and remain rather suppliers of raw materials and cheap labour force for the developed countries. Such nations are provisionally terms *developing countries*.

Armenia is a developing country.

Over the recent three decades we have been looking for economic development of our way. Multifarious approaches are applied. Various esteemed international organisations try out their models here, and every next government apply economic development models of their tailor, but all these with no evident or tangible progress as yet.

The responsibility for economic development is multifaceted. Predominant load of that lies with the governments because it is furnished with momentous leverages of economic development, such as fiscal and investment policies, foreign trade promotion, and umpteen other support mechanisms.

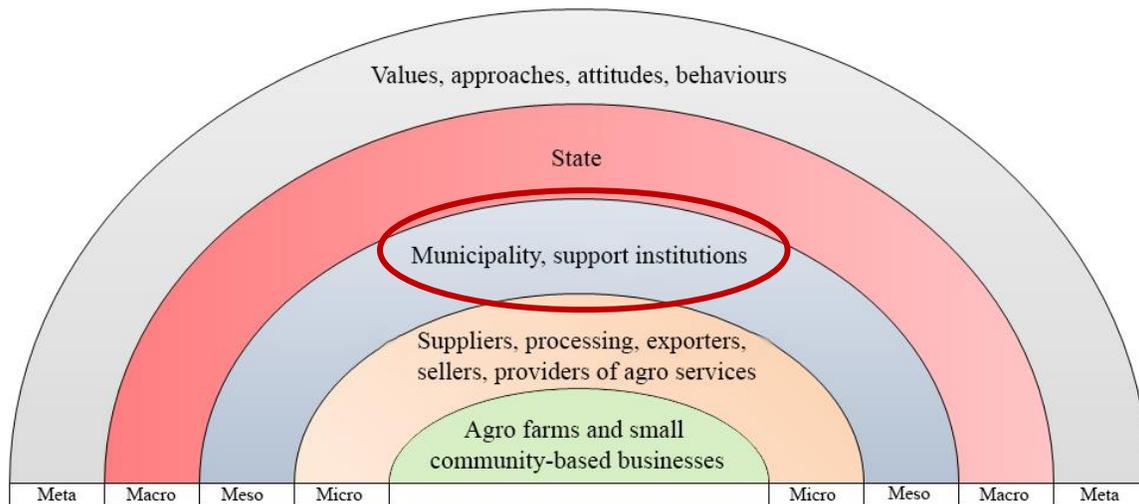
The next development domain is the community. This is the environment where enterprises are brought into existence and get first essential nutrients, such as market, raw inputs, finance, networking, reputation, et cetera. It is equally in this domain where the public slant towards entrepreneurs, performance under contractual obligations, responsibility for the assumed deals, as well as towards leadership and initiative bear impact on the very existence of business enterprises.

There is no doubt that business development is highly dependent upon and influenced by various associations, unions, chambers, non-government organisations, foundations and other communities commissioned by business enterprises. These institutions fed by their founders, governments, international support schemes, exercise palpable impact on advocacy and protection of business interests.

In attributing due tribute to the role of governments and supporting organisations in this sphere, this Manual concentrates on the **community** as the primary cell of local economic development. It discusses prerequisites and factors underlying success of local economic development, in couple with major causes of failure. We could not but describe and attempt to clarify also the roles of government and supporting organisations with the objective to generate the overall landscape of economic development at grassroots level and provide insight on efforts needed

from them. This approach is illustrated in the Competitiveness Matrix set out in the Diagram 1 below.

Diagram 1: Competitiveness Matrix of Local Economy



Development of small enterprises outside Yerevan and other large cities is often perceived purely from social perspective. This approach in both public governance and the enterprises per se gets scaled up, hence does not contribute to enhanced competitiveness of the latter. Instead, it feeds the notion of *subsistence enterprise* and proliferation of thus derived perception. Such subsistence enterprises nurture predominantly inefficient jobs and do not contribute to increase in competitiveness of national economy, nor they boost production of competitive goods.

There are, certainly, few businesses falling into the category of success stories and municipalities with efficient local economies. In this Manual an attempt is made to demonstrate the major factors and prerequisites, which have significant impact upon local economic development in a given municipality eventually yielding general development of the localities.

Chapter One reflects on the importance of local economic development at grassroots level (municipality), applied methodologies and success case studies found internationally.

Chapter Two discusses economic development opportunities in Armenia, namely in small and large rural, as well as urban local jurisdictions.

Chapter Three is devoted to strategizing, programming and architecting methodology of local economic development.

Chapter 1: Logic of Local Economic Development and International Experience

The Addressee and Objective of Using this Manual

Local self-government legislation of Armenia has not provided local self-government bodies with effective resources or motivation to implement local economic development programmes. In spite of this reality, all government levels now recognise that desirable results may be attained only by virtue of investing joint efforts. And local self-government jurisdiction – a pivotal ingredient of public governance sector – may not be left on the margins of economic development processes.

The primary users of this Manual are **the local self-government bodies**, including mayors, experts of local administrations, and members of community councils.

The Manual may be found useful also by **businessmen** to understand local environment, economic development logic and their own role in how to guide the LSGs in legitimately engaging in support to local economic development processes.

National government agencies, international and supporting organisations also may make use of this Manual to streamline their roles in the general mosaic of economic development at grassroots level.

This Manual is intended to establish a guiding milestone for all those private people and organisations who are interested in economic development in localities, namely in jointly depicting our prospect and horizon and jointly planning our actions, whereby, at the same time, - in parallel with doing our own daily work – jointly evaluating interim results to define next steps.

Local economic development has now gained proprieties of an imperative, in the framework of which business support services should stem from real needs and be delivered in the immediate proximity to the local business community.

What is local economic development and why is it important?

Economic activities implemented by tens of thousands of Armenian enterprises are exerted in the boundaries of one local jurisdiction. These enterprises are closely intertwined with the latter, where the major market, suppliers and employees are concentrated. These enterprises are provisionally termed here as community-based, more specifically, based on community resources.

Sectors community-based enterprises operate in are varying and reflect basic services, such as barber, shoe-maker, fast food, vehicle repair garage, car-wash, etc., as well as bakeries and simple construction materials and so on. Certainly, the largest share is attributed to stores (i.e. food, pharmacies, clothes, spare parts, etc.) and to commerce in general (i.e. agricultural markets, construction materials, etc.).

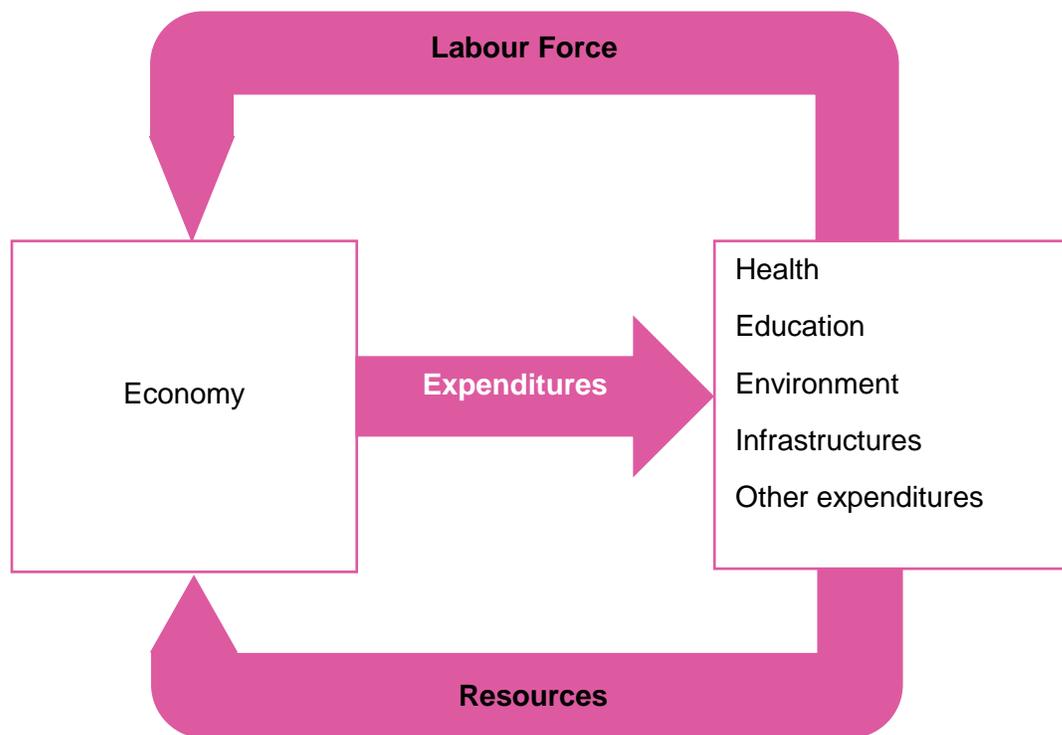
Largest share of personal income in rural and some urban settings is derived from agricultural activities, because households either cultivate land or are involved in cattle breeding. Depending on geographic landscape and conventionally existing experiences, land cultivation varies to encompass crop farming, horticulture, etc., as varying as types of cattle breeding (large and small animals, rabbits or poultry, etc.). Also varying are the sizes of farming facilities. These may be extremely small and thus maintained to meet family subsistence needs, medium and sometimes large, i.e. export oriented.

Again, large and medium enterprises involved in production and exports do operate in localities, but development of such enterprises is even more complicated and requires more extensive finance-absorbing tools. Being crucial stakeholders in local economies, these enterprises are targeted by business support institutions operational across the country (such as SME DNC, Armenia Development Foundation, etc.).

These three major components (i.e. small community-based, small and medium enterprises and agriculture embracing small and large farming facilities) constitute local economy.

In parallel with providing jobs and general well-being, local economy holds another pivotal function and that is to secure sufficient resources for balanced development of social constituent of local economy (i.e. education, health, etc.), and smooth performance of local infrastructures (such as roads, gas, water, electricity supply, etc.), as well as to enable improvement of local environmental landscape. The Diagram 2 visualises the above statement.

Diagram 2: Main Role of Local Economy



Within a scenario where municipal economy is capable of incurring and executing developmental expenditures to maintain and operate municipal educational, health institutions operating in the locality, the community and the municipal administration are developed as one integral organism. Economy creates added value, which is spent for community development, and the community supplies qualified work force, infrastructures and other resources.

The reality in Armenia is different. There is no a single community where local economy secures the entire spend necessary for community development. Predominant majority of local expenditures is provided through national budget subsidies and/or subventions. In other words, our municipalities operate in deficit.

If the overall picture is zoomed in and a glanced vis-à-vis the national level, the materialised situation is not much different. Majority of our spending in infrastructures, social and environmental sectors are received from external sources of funding, such as loans, grants, donations, etc.

General development is the qualitative aggregated sum of its integral constituents. If we wish the country to be developed we need to make sure development of its constituents, i.e. communities. If each individual community had local economy capable of ensuring balanced development of its general systems, the national development would become inevitable. And here is the domain where local economic development acquires it genuine weight and value as a prerequisite of general community development systems.

How to achieve economic development at local level?

One of the most important triggers for economic development is the competition. Not only enterprises and economic sectors compete, but also the environments wherein competing enterprises get conceived and operate.

Communities are the primary environments for competitiveness of enterprises. The more favourable the community environment is, the more competitive will the going or newly established enterprises of such community be versus similar enterprises in other communities with less favourable environment.

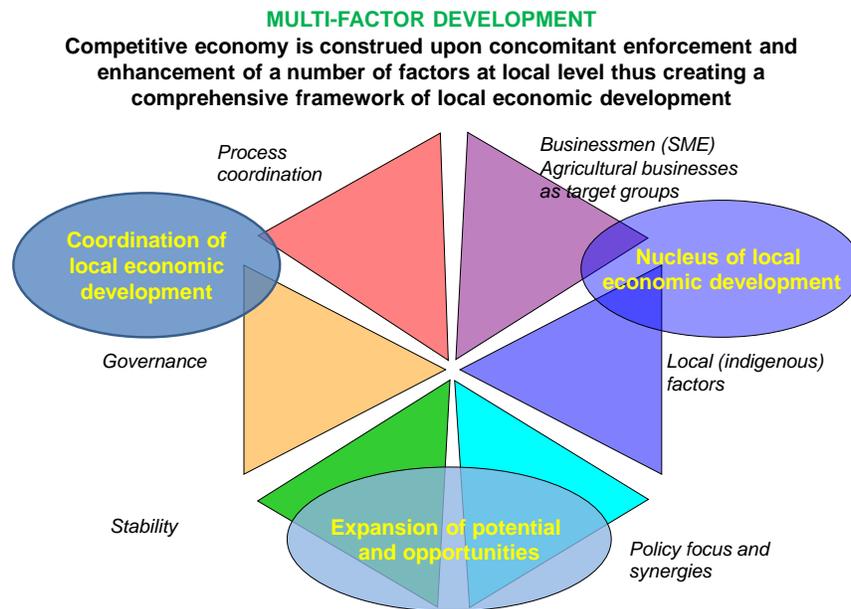
This section of the Manual is called for to clarify the significant factors pertinent to municipality, which have impact upon competitiveness of enterprises.

Local economic development philosophy is presented by deploying LED Hexagon model, as well as other participatory tools, such as PACA, RRA, RALIS, COMPASS (see: Appendix).

The analysis also contains four-level framework of systemic competitiveness, and the four levels include competitiveness of enterprises and clusters, municipalities (communities), state support institutions and public attitude.

Scaled discussion of local economic development enables recognition and perception of the entirety of numerous factors, which individually and in bundle bear significant importance from the perspective of general logic of enterprise development.

Diagram 3: Multi-factor Model of Competitiveness of Local Economy



Over the recent decade, the focus of national economic policies has been placed on local development factors. In numerous municipalities, it was a political priority to securely furnish communities with road construction, gas supply, irrigation and potable water accessibility. The other significant target area is the governance. Local self-government model goes hand in hand with centralisation of power and responsibility within the central government.

Modern imperatives of business and local economic development are set out and described below with the objective to reflect on their individual properties of groups of factors.

- Targets of local economic development;
- Local factors contributing to economic development;
- Superiority and priority of economic policies;
- Prerequisites of sustainable economic development;
- LED management at municipal level;
- Coordination of economic development processes.

Group of Factors 1: Targets of Local Economic Development

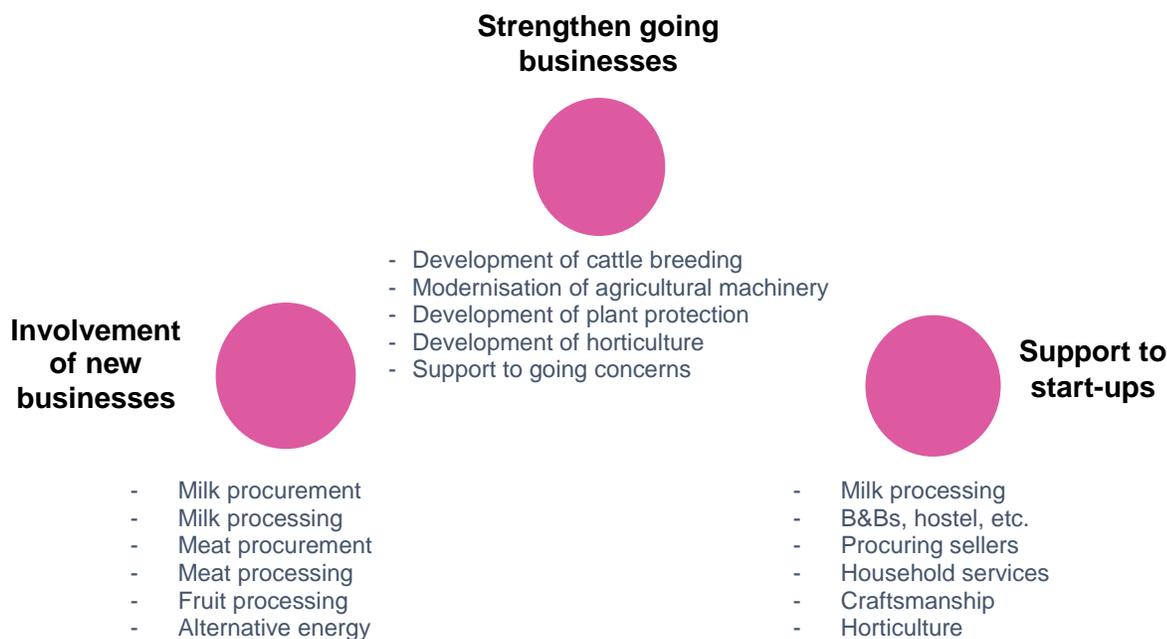
The first question to be raised by municipal officers responsible for local economic development is formulated as follows: **which are the main targets of economic development?** Municipal and community resources are not unlimited and it is crucial to define clearly the direction, along which efforts and resources are to be invested.

Three main targets of local economic development are conventionally defined, namely:

- Going concerns and farming facilities;
- Start-ups and farming facilities; and
- Enterprises operating outside (external) municipalities, which are desirable to bring into the municipality.

Each target is set out in the Diagram below and furnished with concrete examples and support schemes.

Diagram 4: LED targets



Prior to defining the primary target, it is necessary to contemplate and consider competitiveness of municipal economy sectors, position of the municipality in external markets, stance of local resources, and – most importantly – the wishes and intentions of people engaged in selected sectors, their plans, skills, capacities and other factors.

Going concerns can be among LED targets if the community (municipality) already maintains a developed and multi-sector economy, and predominant share of incomes generated by local population directly depends upon such facilities holding successfully tested competitiveness on the market and capable of expanding overall economic potential of the locality had potential support been provided. This approach is widely implemented in all developed countries. It usually embraces the following support tools:

- Financial assistance: tied financing of enterprises (going concerns) with the objective to increase the degree of their competitiveness and/or the number of jobs they offer;
- Tax privileges: this particularly applies to those taxes that are assessed to local budget;
- Support in exports: with the objective to identify new markets and/or to strengthen positions in the existing ones;
- Support in instilling innovations: in the shape of c-financing and other tools;
- Introduction of quality assurance systems, and (re-)training of employees;
- Support in minimising negative environmental impacts: grants, curtail of exhausts and waste, and/or processing, etc.

Successes and failures: international experiences

International experience holds both successes and failures recorded in providing support to municipal going concerns. Very articulate are success stories recorded in providing support to food sector industries of Japan: subsidies from local budgets, tax privileges, allocation of attractive land plots, etc. Another success cluster is the support to mechanics producing plants and facilities in Germany: co-financing of Research & Development, allocation of land plots, etc. And, finally, successful has been production of clay products in Italy, to mention only few.

Examples of failures include support to coal mining companies in Germany, which eventually went bankrupt because international economy took different path of advancement, causing thousands of redundancies and significant curtails in local budget revenues... In contrast, other cities (such as Duisburg, Dusseldorf) embarked on restructuring of former coal mines into technological centres, entertainment complexes, museums, and/or platforms for development of modern arts, et cetera.

The target of support to **start-ups** presupposes identification of impetuses to new directions in local economic development and/or application of innovative solutions in the existing sectors. This group of targets is widely applied in both developed and developing countries. Development of information and high technologies, turnout of new enterprises on almost a monthly basis and bankruptcy of some impose undertaking steps by competitive municipalities and communities to develop these sectors. Development of start-ups is made possible thanks to application of the following tools, the list of which is not exhaustive by any means:

- Financial assistance programmes: venture¹ financing, grant tenders, co-

Examples of support to start-ups

The most vivid examples of support to start-ups in international arena is the Silicon Valley and Bangalore; their development is clearly a response to signals coming from the national level, confined to pre-defined areas. Another exemplary case of innovative development is found in Portugal. Techno-parks created in municipalities help reshaping the profile of local economies to embrace agriculture, small and meso-enterprises. Support to embedding new technologies is primarily applied to start-ups accompanied with tools of financial assistance.

¹ *Venture financing implies investment in newly created and innovative enterprises, often under longer and high-risk terms. The aim is the development of high and/or information technology production, while the result reflects profits generated on success of the production and the enterprises.*

- financing, etc.;
- Support to Research & Development;
- Support in delivering consultancy and training;
- Establishment of technological parks, centres, and incubators, etc.

Attraction of investments is also characteristic of the communities (and municipalities), where:

- Many local producers need buyers or suppliers (such as processing of agricultural produce);
- Commissioning mines requires huge investments;
- There are many specialists of the same sector (e.g.: textile), etc.

The following tools of providing support are applied to attract investments:

- Allocation of industrial land plots;
- Tax exemptions or privileges; and
- Procurement framework agreements, etc.

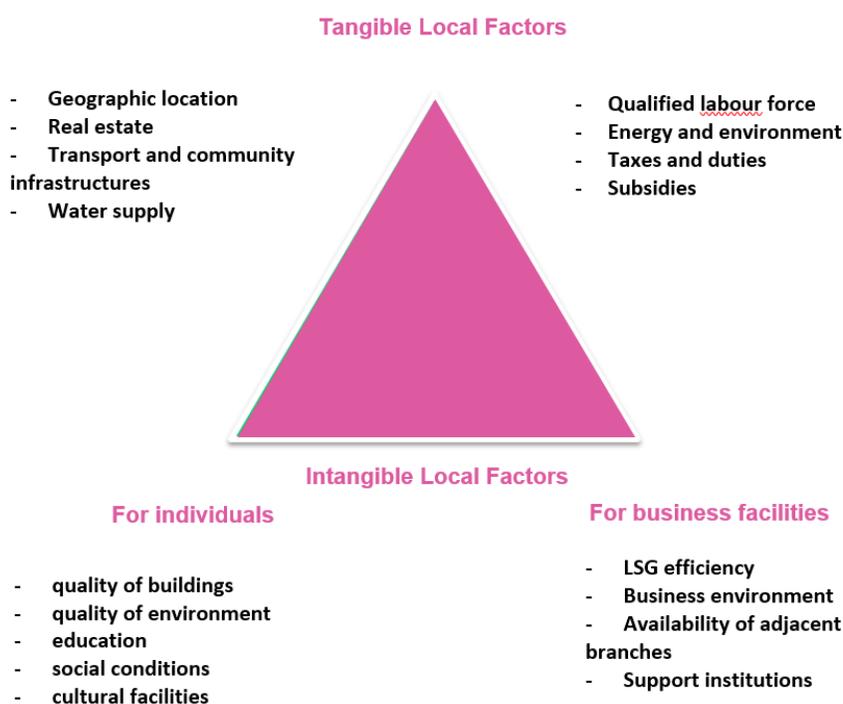
Many communities (municipalities) in developed countries apply favourable environment type policies especially targeting attraction of investments and bringing in large companies. For example, the history of development in Yokohama (Japan) starts with relocation of Nissan Plants and Head Office into this city. The main leverage of relocating Nissan to this city was the land allocation and tax privileges.

There is no doubt that work in all directions is important, but priority among these must be chosen, which should be the target of majority of local economic development measures. The decision on priority will predefine the structure and the locomotive branch of local economy.

Group of Factors 2: Local Factors

Next group of factors, which have maintained a role in enhancing competitiveness of local enterprises are local factors. They are illustrated below in the Diagram 5:

Diagram 5: Impact of local factors on the competitiveness of enterprises



These factors are provisionally divided into three categories, such as:

- **Tangible local factors:** Physical infrastructures are pivotal for development of any enterprise and/or general economic advancement. *Road network* maintains crucial importance for competitiveness in the localities (connecting with the municipality, inner-municipal, to business facilities, field tracks, etc.). Road network is important not only in terms of transport expenses incurred by enterprises, but also general living standards of local population.

Supply of natural gas and electricity is another bunch of factors important to enterprises. If wind or rain suspend operations of an enterprise for several hours every time they occur, or if there is no definite supply schedule of potable and irrigation water, if gas is not available to enterprises (or main pipeline is far from the location of the enterprise), then the expenditures and costs of enterprises dramatically increase. These force enterprises to purchase additional source of electric energy, transformers, and water storage facilities are acquired. If there is no sewage system in the municipality, enterprises will have to install cleaning stations, et cetera. Investments of enterprises drastically increase to secure accessibility of infrastructures and quality procurement of inputs. These may inflate to a level to force enterprise decide to relocate its property, plant and equipment to another locality.

The same is true for quality labour force. This is a decisive success factor for an enterprise, and if there is a lack of high quality workers in the municipality or neighbouring communities, business may not be competitive because of increase in costs and expenditures incurred on bringing quality personnel into the enterprise from elsewhere.

Tourism enterprises in Khalkidhiki

Some ten years ago, northern coast of the Aegean Sea did not have anything to attract tourists. In a time-span of mere ten years, hundreds of poor villages were turned into touristic centres, which offer hotels, restaurants, and other competitive facilities and infrastructures of tourism industry.

Municipal and national support leverages were channelled to development of rural areas in this region. Entire neighbourhoods were netted with modern roads and furnished with other touristic infrastructures. Verbally all houses in the area were renovated. All touristic agencies were offered tax privileges if they operate in this area. In-depth tourism educational curricula were introduced in the universities in Thessaloniki.

Several municipal organisations were established to support tourism, client attraction and organisational development. Colossal resources were invested in advertising Khalkidhiki all over the world.

Over the ten years this part of Greece was a serious competitor with renowned islands in number of tourists and visitors and became a competitive tourist zone worldwide

Tourist infrastructures in Akhaltskha and Mtskhet

Another success story is found in the neighbouring Georgia. Two towns turned into touristic centres. Touristic areas in both Mtskhet and Akhaltskha were completely renovated. Roofs and facades of all buildings were refurbished and brought into compliance with the respective urban master plans.

Touristic zone in Akhaltskha belts the Rabat Castle, which was also fully renovated, while in Mtskhet several streets around the churches were redone to become tourist attractions by offering hotel and catering services, sale of souvenirs, et cetera. All local programmes of support were channelled to tourism sector, including grants, consultancy, visitor attraction, et cetera. Infrastructures of both towns were built from scratch in compliance with European standards.

As a result, Georgia received some seven million tourists last year (2016). Tourism sector supplies significant share of national income of that country.

- **Intangible local business factors:** in addition to physical infrastructures and supply of resources and inputs, enterprises need favourable business environment established. In particular, LSGs must promote and not create hindrances as consequence of their activities. Efficient municipal administration implies targeted use of local budget resources, especially for establishment of favourable conditions for entrepreneurship.

Significant impact on competitiveness is maintained complementary or auxiliary businesses operating in the localities. These include suppliers, service providers, buyers, et cetera. Lack of such adjacent branches is also conducive to increased enterprise costs.

Business development is possible if it goes hand in hand with *competitive support services*. A variety of formats and organisational structures are deployed to deliver such services in developed countries. In some places, municipal administrations are equipped with dedicated structural units (e.g.: divisions), and representatives offices of national agencies, business centres, technological parks and/or incubators are present in the communities.

Portugal: municipal technological centres

It is over ten years now, that rural municipalities in Portugal operate technological innovation centres. These are not intended to develop information or high technologies, but rather they make investments of modern technologies in the existing branches of local economy. This is true for both small businesses and agriculture. These centres are used to introduce modern technologies in horticulture, viticulture and food production. In various rural communities labour productivity has increased in average by more than 30%, while Portugal has stabilised its position in the European food and agricultural market.

The centres are managed by private sector, but they are directly supervised by LSGs. These are classical examples of public-private partnership arrangements.

- **Intangible local factors for individuals:** securing competitiveness of enterprises does not merely take channelling resources to organisational development. Environment is crucial so that entrepreneurs, their families, highly qualified personnel live decent lives, including quality education for children, quality and accessible health services are delivered, and rich cultural life is offered. Significant role is attributed also to environmental situation.

Targets of economic development and factors of local competitiveness are the axis of local economic development.

Group of factors 3: Superiority and Priority of Economic Policies

There are several significant sectors where decision-making at municipal level is crucial, namely:

- Economic situation and policies;
- Social situation and policies; and
- Decisions associated with infrastructural development.

Any policy or decision implies concrete programme/plan and budget.

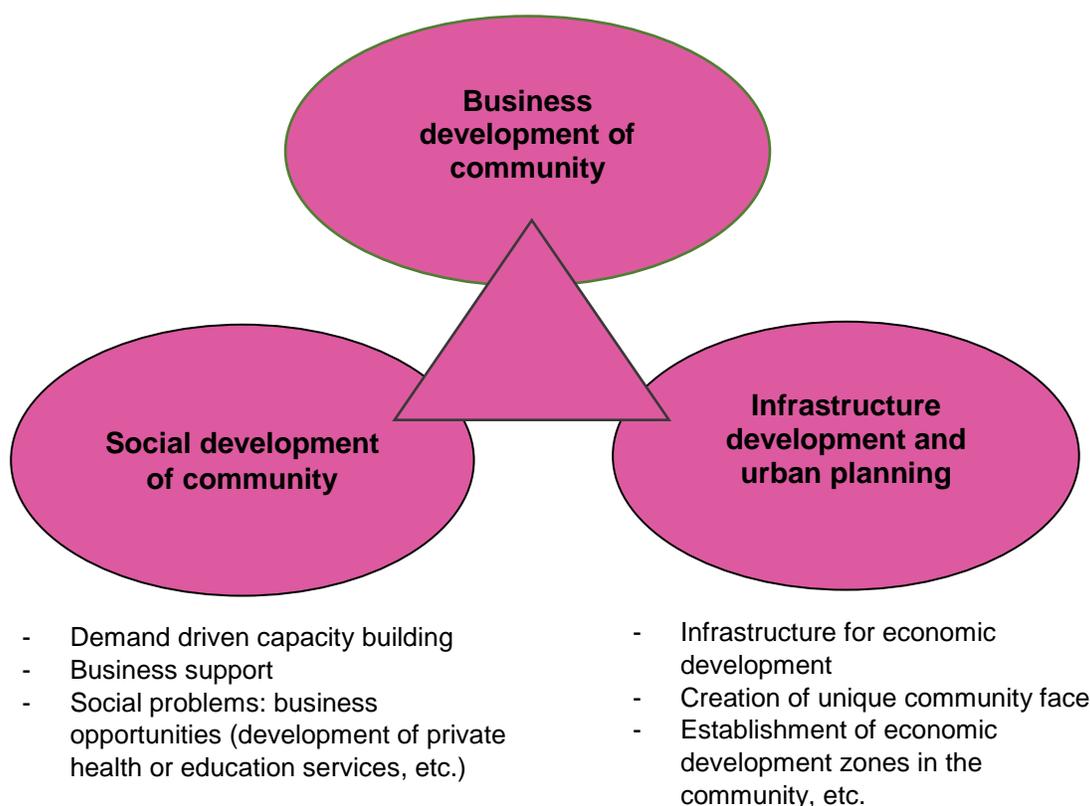
In designing social programmes, oftentimes, no linkage or bringing is established between such policies versus economic development challenges or issues. On the one side of the “equation” education, health institutions and programme promotion are landed, and on the other there is vocational training, which may trigger economic development. Community development budget is always limited and scarce, while similar alternatives are frequently observed.

The same is attributed to decisions on infrastructural development. Community councils may find themselves on the crossroad, e.g.: whether to provide for capital renovation of the road to the school or field tracks. One promotes safe trips for children attending the school, the other serves to increase municipal income.

Municipal social and infrastructural programmes bearing economic prevalence target first and foremost tackling challenges and issues of economic development.

The Diagram below sets out three programmatic directions, whereby economic priority is a precondition for their implementation:

Diagram 6: Policy centralisation and potential synergies²



Both businessmen and municipal administration clearly realise that social and infrastructure projects beyond the economic development vector are also crucial for various strata of local population. However, a comprehensive local economic development strategy suggests joint actions along all policy aspects pursued by municipalities. Only bracketed in such approach programme synergies are possible whereby the aggregate sum of individual actions yields new, higher quality.

From the perspective of enhancing competitiveness of local economy synergies of various economic, social, infrastructural sector programmes is the key and crucial success factor.

For example, if the objective of a municipality is tourism development, then it is necessary to make investments in all three political mainstreams:

- Applying direct tools of economic development, including financial, consultancy, client attraction and other support;
- Social programmes should reflect on creation of tourism database and education relevance;
- Infrastructural component should focus on roads, smooth supplies of inputs and resources, trash removal, renovation and/or construction of other tourist infrastructures.

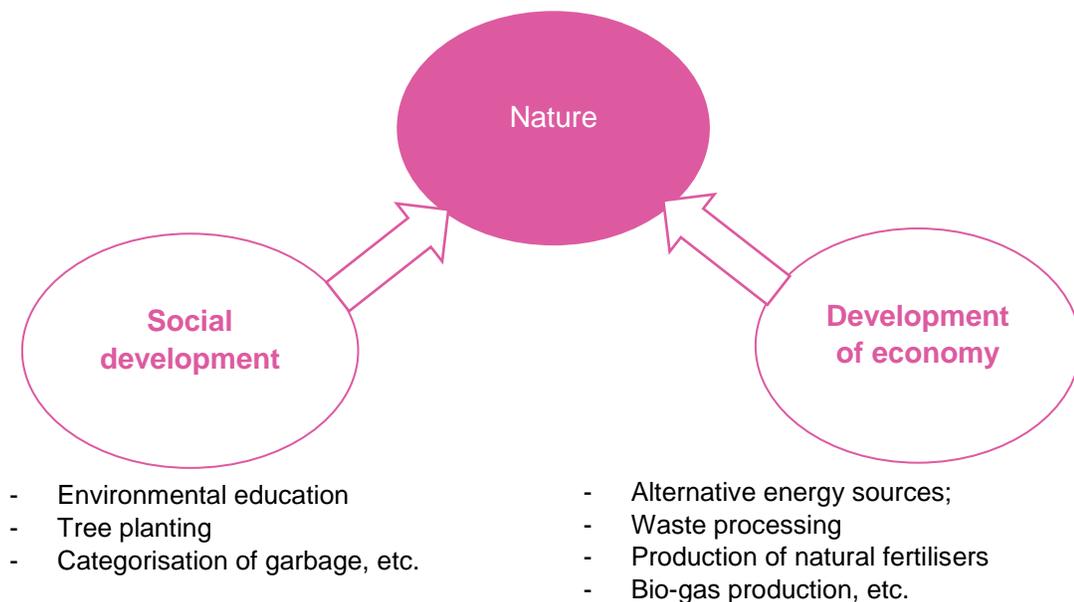
² A phenomenon in business practices, wherein total value is over and above the sum of individual results, e.g.: efficiency increase resulting from merger of enterprises relative to their results prior to merger

Group of factors 4: Prerequisite of Sustainable Economic Development

Economic development is the most important factor to secure public well-being. Nevertheless, this development should not be accompanied with depletion of environmental and natural resources. Economic development of today may not be achieved at the expense of future generations.

Developed countries have found solution to this issue. Enterprises embark on processing of waste and garbage, use of alternative sources of energy in production. Diagram 7 articulately shows the path of addressing ecological problems.

Diagram 7: Sustainable economic development



Economic development these days is to pursue multiplication of resources to pass on to next generations and protect environment for them. In Armenia there are hundreds of examples of social catastrophes caused by depletion of nature. Trimmed forests, depleting fish stocks, inefficient use of mines, soil erosion and inefficient management of water resources are the evidences thereto. Today, exploitation of nature enables generation of incremental incomes, but the generation of tomorrow will not have a chance to make use of it. As a result, economic development today takes place at the expense of next generation.

It is more than two decades now that developed countries had introduced environmental requirements and norms, which significantly changed eco-situation. In addition, promotion

Green Village and Towns: Competition

Government of Germany organises competitions of green communities. Villages and small towns are invited to submit project proposals containing environmental strategies, which target promotion of green initiatives embracing local enterprises and households. The winners receive grants to implement the projects described in the proposals.

At the same time, sustainable development strategies incorporate tax privileges, promotion of projects to establish joint ventures to operate in the area of alternative energy, et cetera.

programmes are carried out to secure «green» economy (when an enterprise changes its operations to environmentally safe production processes, waste management, energy production, et cetera) through grants, consultancy, co-financing, et cetera.

Sustainability of economic development is a cut out area for especially small businesses to create and apply innovations. This priority further expands potential of enterprises towards efficient and future oriented directions accompanied with higher social responsibility and higher degree of sympathy on the part of clients.

Group of factors 5: LED Management at Municipal Level

A group of factors bearing particular significance for local economic development is the LED policies at municipal level and management programmes aiming at enhanced competitiveness.

As it currently stands, LED promotion at municipal level are direct state intervention and planning, nor regulation of the involved processes via free market. In both cases shortcomings of public governance systems and backlashes in the market shrink efficiency of economic development.

Diagram 8: LED management at municipal level



Success factors

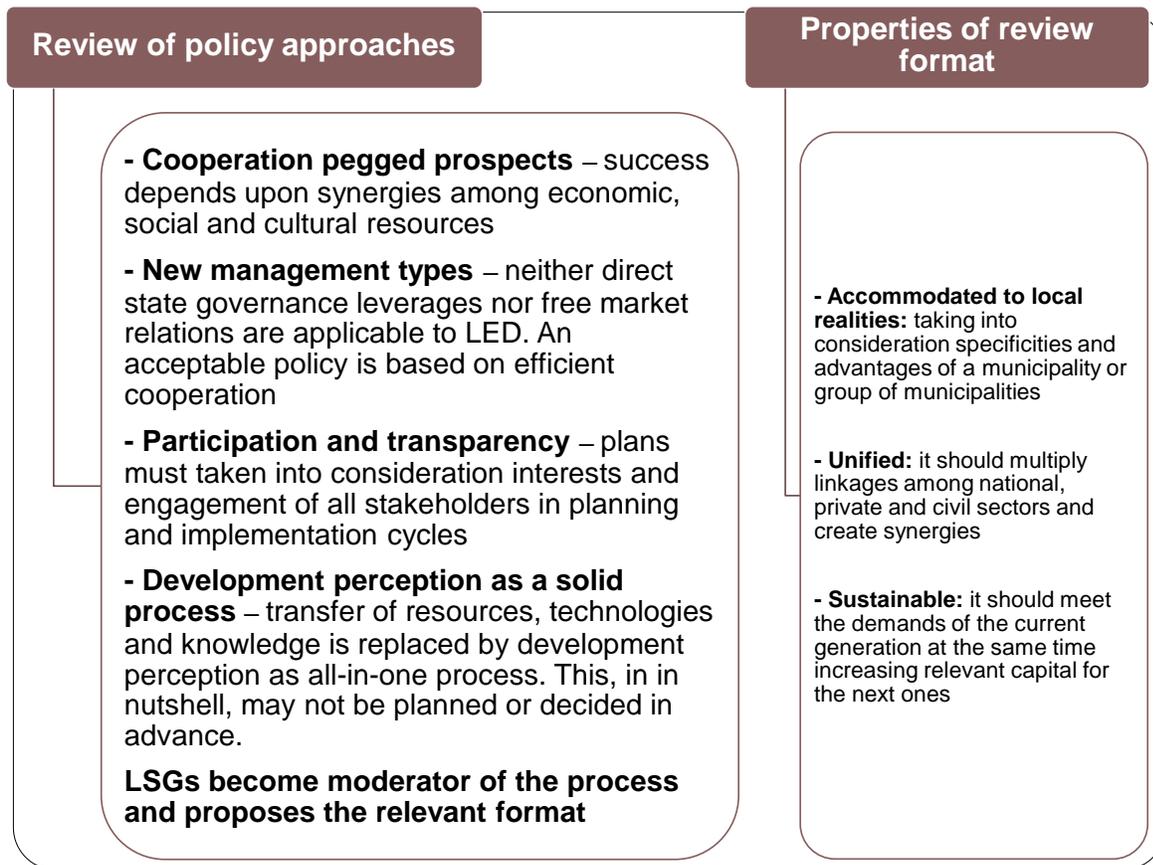
- Network management
 - Division of responsibilities between government and non-government organisations
 - Agreement and coordination without specified power centre
- Decentralisation (alleviation of the load assigned to LSGs, distribution of responsibilities)
- Participatory approaches

Comprehensive and unified management of LED envisions dialogue and establishment of efficient interrelations among all stakeholders as the first step in the development domain.

Lack of capacities among local self-government bodies in the area of economic development also gives rise to low efficiency of enterprises operating at municipal level.

The Diagram below proves a schematic picture depicting logic of managing actions envisaged to achieve successful strategies. It is evident that it is at the very level of municipalities that review of economic policies may be attained because here it is possible to spot and expand

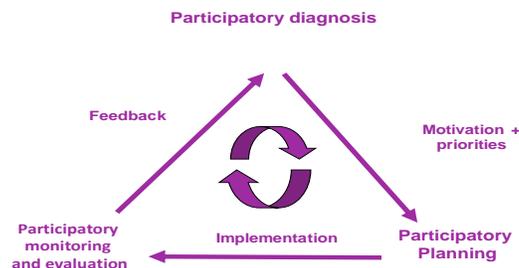
targeting of support structures and mechanisms and secure cooperation among various stakeholders.



Group of factors 6: Coordination of Local Economic Development Processes

Coordination of local economic development processes is possible only through application of participatory tools with the objective to overcome the systemic lack of trust.

Diagram 9: Coordination of economic development



Current situation, joint planning the vision of the municipality and subsequent measures are jointly diagnosed, in parallel with each stakeholder doing their daily work. Next steps are jointly observing the results and jointly decide on the next steps. This process should be attended by

all active individuals and organisations who maintain impact on municipal economy. The individuals and organisations should be both those operating in the municipality and those operating beyond its administrative boundaries. A decisive factor for local development is the participation of all individuals and organisations that have influence on decision-making processes in the municipality. Constructing shared vision and recognition of own niche in the development landscape enable shaping comprehensive perception of development and turn cooperation into a competitive advantage.

In the current circumstances, Armenian municipalities maintain embryonic participatory processes, which are in need of further development and stabilisation. Moreover, participatory diagnosis of the situation in the municipality guides participating development stakeholders towards efficient use of resources and competitive advantages. Participatory planning tools enable division of assigned roles in significant initiatives and secure balanced development, which is tested and supervised by virtue of participatory monitoring and evaluation.

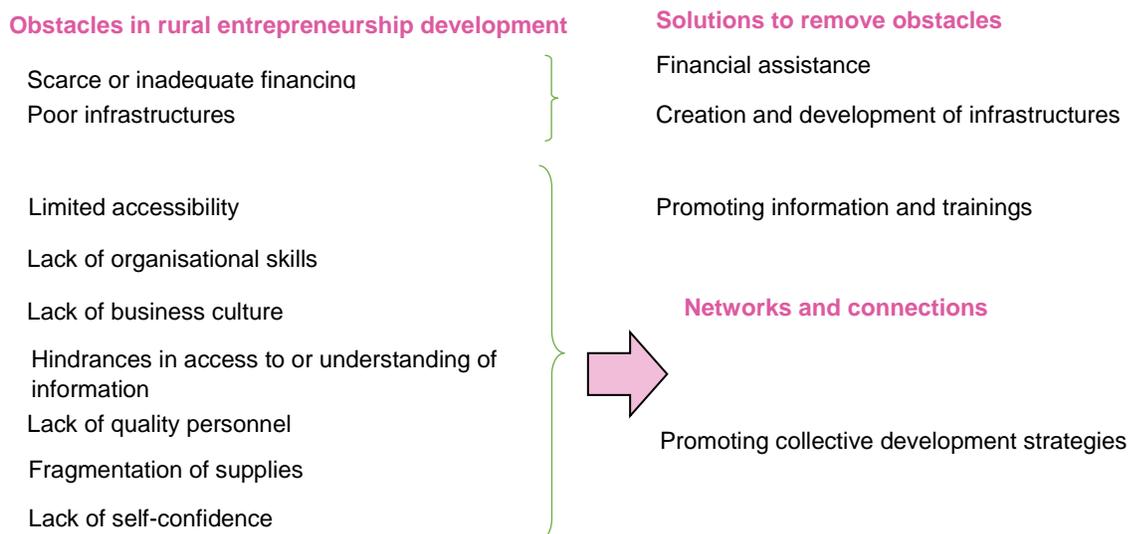
International experiences and overview: summary

Experiences of developed countries show that securing development in future dictates that the municipalities should pursue growth of productivity as one of their priority strategies. Necessary changes should be made mainly through local (municipal) strategies. There are **five driving forces** to advance necessary capacities if future economic development at local level is to be secured. These are:

- Nurturing labour force that is capable of quickly adapting to new situations;
- Efficient use of skills and improvement of performance quality;
- Increase in employment rate and specialisation;
- Predefining and promoting new directions; and
- Improved local self-government.

Objectives of applying the above components include increased production results, specialisation for start-ups, as well as creation of employment opportunities. Recently, more frequent have become prioritisation of creating connections and networks as instruments of LED. On the one side, it promotes expansion of entrepreneurship, and on the other it creates new perspectives in public perceptions. The Diagram below sets out main obstacles to regional or rural entrepreneurship and the solutions, which are accepted in developed countries.

Diagram 10: Obstacles and solutions in rural entrepreneurship



Application of financial assistance instrument, development of agricultural infrastructures, delivery of information and trainings courses, support to design of municipal development strategy are crucial tools to boost development of rural entrepreneurship.

Nonetheless, improvement of access to information and markets, human resource development and accessibility of supply chains require a tool – very significant one – and this tool is the networking. Particular weight they get in underdeveloped settings, where networks may trigger inflow of resources, innovations, knowledge and financial assets to enhance competitiveness of enterprises and create efficient development vision.

Development dynamics and trends in developed countries are tangibly different from the realities in Armenia. Nevertheless, their experiences hint the appropriate path and provide opportunity to learn from precedents, outline SME development routes, as well as obtain and manage information associated with future challenges and requirements.

Chapter 2: Local Economic Development in Armenia

Armenia: market and governance failures

Having contemplated on international experience and models applied in local development, we now take our next step to describing the Armenian situation in this sector. First of all, a brief analytical reference is made in respect of failures in markets and governance because these are the crucial hindrances to economic development at local level.

In addition to hundreds of factors, which bear impact on competitiveness of municipal enterprises, there is a need to discuss also situations whereby free market mechanisms are not capable of regulating economic relations in an efficient manner.

- Over several decades now, Yerevan has been the place where predominant share of population, existing economic resources and qualified labour force are concentrated. The concentration of this high degree continues to attract people and their economic resources accompanied with downsizing labour productivity and economic efficacy in regions and municipalities.
- Major share of business service delivery potential is also concentrated in Yerevan. In other municipalities, which do not provide for sufficient or adequate market for such services, the latter are not accessible whatsoever or their quality is very poor in places where they nevertheless are delivered.
- The medium and small enterprises, which create and operate value chains with rural municipalities and/or communities, usually maintain privileged position on the market and dictate prices, and this trend preconditions low profitability of enterprises and agrarian facilities operating in localities. In addition, this prevents creation of sufficient opportunities for expanded reproduction.
- Large investors avoid involving in business in areas remote of Yerevan because they cannot find quality resources or infrastructures.
- Local budgets are tiny to the extent that only reimbursement of wage bills can be afforded. Renovation or construction of infrastructures may not be doable with such budgets.
- Low labour productivity and limitations of business environment entail inefficiencies of income generation and emigration.

In parallel with market failures, there are shortcomings in state support activities, which in some cases further aggravate market inefficiencies.

- The central government has assumed the responsibility for renovation of infrastructures in rural municipalities, which is accompanied with political influence and centralisation of resources.
- Decentralisation policies are confined to allocation of subsidies to municipalities and only physical refurbishment of some infrastructures, which does not result in their functional improvement.

- LSGs do not have material interest in making entrepreneurship active in their jurisdictions, since budget revenues do not eventually grow.
- Capacities of LSGs do not suffice to design and implement business development tools and techniques.
- LSGs do not have capabilities to coordinate local economic development processes in their jurisdictions.
- LED process is not structured at any level. Local LED strategies are not yet designed or institutionalised. Over the recent three years, some positive experience has been accumulated (Bagratashen, Azatan, Tashir, Noyemberyan, et cetera), which needs scaling up.
- Merciless exploitation of nature entails deterioration of environmental conditions in some municipalities, including soil degradation and mass illegitimate trimming of forests.
- Territorial development policy is primarily socially oriented; economic development component of this policy is applied only in social contexts.

The above failures in market and governance require solutions together with the challenges and problems faced by local self-government bodies. The subsequent chapters and sections of this Manual are used to reflect on situation in various municipalities from the perspective of economic development as a means to analyse and solve those.

Municipalities (communities) in Armenia are provisionally divided into four categories:

- Small rural;
- Large rural and small urban;
- Urban; and
- Yerevan.

This Manual reflects on the first three categories. We drop Yerevan out of this Manual as the development profiles here are totally different and as such requiring different toolkits of economic development.

Small rural communities have up to two-three thousand permanent population. Main source of incomes in these settings is agriculture. Usually, a couple of enterprises may be found there, which are involved in commerce or service delivery.

Large rural and small urban communities have permanent population of up to fifteen thousand people. Main source of income is also agriculture but there are usually several processing and service delivery enterprises, representative offices of government agencies, schools, a hospital, et cetera.

Population in **urban communities** is usually more than 15000 people, and they maintain ordinary urban infrastructures, structure of urban economy and administrative agencies. Economies are diversified and there frequently are various competitive branches.

How to develop economy in small rural communities?

Economy

As mentioned above, main source of income in small rural communities is agriculture. Depending on the geographic location, agriculture is usually focused on one of the four following directions:

- Cattle-breeding;
- Crop farming;
- Horticulture;
- Mixed.

In elevated areas main occupation of population in small rural communities is cattle breeding, cultivation of cereals and potatoes, as well as fodder plants.

Despite the large land areas of meadows and pastures are available to households cultivation of these areas is extensive and inefficient.

Cattle farms usually have 3-5 larger or up to 20 smaller animals in average. But in each community there are some ten households who have more than twenty larger and hundreds of smaller animals. Profitability rate of smaller households is very low; their produce is consumed in subsistence needs, and only tiny share (if any) is marketed.

In case of medium and larger farms (over and above twenty large animals), the produce is sold to procuring companies. There are farmers who have commissioned own production of dairy products. If a farm maintains twenty and larger and hundreds of smaller agricultural animals, their profit is sufficient not only to meet family needs, but also to operate expanded reproduction. The value created by smaller farms (which account for more than 90% of total number) is sufficient to meet subsistence needs only.

Cattle breeding branch of local economy is dramatically dependent upon procuring companies. They are the ones to dictate prices for meat and milk. They usually step into agreement among themselves to regularly change the prices for milk, meat, cereals, etc., which causes shocks to the entire cattle breeding value chains.

In elevated small communities falling into the category of small ones, tens or even thousands of farms are involved in cultivation of cereals or fodder plants. The size of a farm capable of producing expanded reproduction and some profitability is minimum five hectares. In the meantime, more than 90% of farming households cultivate smaller land areas. The produce is sufficient to meet subsistence needs. Procurement prices for wheat are dictated by one or two procuring companies, leaving farmers complaining about the prices.

Agricultural machinery in the villages has been there since Soviet times. During the recent years, various international or other programmes some villages were supplied with some modern tractors, but these are not enough to meet total needs in agricultural machinery. The situation is particularly grievous, when ploughing and harvesting vehicles are considered.

It is not incidental that highest share of labour migrants is attributed to residents of small rural communities. Agriculture does not secure sufficient incomes to maintain families, and majority of male population leave abroad in search of jobs. Engagement of women in agricultural works steadily increases.

Potato cultivation is another sub-sector of agricultural activities in small elevated villages. Its yields are primarily dependent upon market prices of a year, imports, and export opportunities. At the same time, however, the farming households are particularly shocked by market volatilities and fluctuations, and either gain or lose because of exogenous factors beyond their command.

Small rural communities in the lower elevated regions, such as the Ararat Valley, Vayots Dzor, Syunik and Tavush lowlands are mostly involved in vegetable cultivation and/or horticulture. Many communities commission and operate hot-bed facilities as well.

The situation is quite different in these regions. Even smaller areas (one hectare and more) allow for generating sufficient yields and gains to provide for expanded reproduction. Natural and climatic conditions and specialisation of people are also conducive to competitiveness of horticulture and vegetable cultivation (especially, tomatoes and cucumbers). In the rural communities located in lower elevated areas more than half of population is capable of meeting their recurrent expenses through agricultural incomes, and to make investments towards expansion of their farms. As in other places, here also mechanised work is limited leaving a great deal to the manual.

Over the recent years, almost all villages expand their horticultural lands under apricot, peach, apple, plum and pine-apple trees. In cases, when procuring companies do not fail to pay in time for the procured produce, people are satisfied with cultivation of these plants, as well as tomatoes and cucumbers.

In these sub-sectors, procuring companies again hold dominating positions and dictate prices. Agricultural producing farms try to get accommodated. There are no unions or associations of farmers, which might have advocate for the interests of producers.

Communities involved in horticulture see fruit processing and hot-bed facilities sub-sector developing as well. Drying facilities are established together with small canning plants and hot-beds, where primarily tomatoes, pepper and cucumbers are produced. Communities in the Ararat Valley have proliferated their adjacent productive capacities and hot-bed facilities, which the latter yet rare in other low elevated regions.

One combined drying facility (20 square meters of solar and one electricity dryer of 300 kg capacity) or a 300 square meter hot-bed are capable of meeting recurrent expenses of one household, while larger ones allow for expansion and development.

Depending on geographic location of a municipality, fishing and forest trimming and sales may be sources of income for population. If there is no large mine or plant in the vicinities of municipality, many local people may generate income from these sub-sectors. In any case, incomes are generated as a result of hard physical and manual labour.

Local development through tourism: Chiva

Chiva is a village in Vayots Dzor, which has some one hundred households. Conventional occupation here is viticulture, horticulture and smaller cattle breeding.

The village is situated close to Areni. This part of Armenia is famous for wine-making, rich cultural and historic heritage monuments, as well as gorgeous natural landscape and caves, etc.

Some ten years ago, several local families started receiving short-stay guests in their own dwellings. There were no vacant rooms in the houses of their relatives in Yeghegnadzor and the hostess enquired with her relatives in Chiva with a proposal to cooperate. In the first year two or three guests appeared. Conditions were not adequate, bathrooms were off the dwelling, and the beds inconvenient. However, there was an indisputable advantage, namely, hospitable and open-hearted people. In the second year, the hosts started serious thinking about refurbishing their facilities. One of the facilities renovated the bed-rooms; the others have renovated bathrooms and kitchens.

In seeing local people moving and investing, several support organisations provided knowledge and other assistance.

Now annual number of tourists visiting Vayots Dzor and staying in Chiva is over three thousand. Each B&B maintains five-six bed-rooms furnished in modern style, tasty and rich catering and, certainly, menus.

Khikar Smbatyan can receive 8 visitors at a time in his B&B. it is not incidental that it is referred to as “Smbat’s House”. Four members of his family receive and see off their guests in an open homely manner. The facility has a nice yard, relaxation booth with ornamented in Armenian motives, where in summer time it is pleasant to dine and get rest in an enjoyable atmosphere. Gayane, Smbat’s wife, bakes tasty pastry and national dishes. Guests are allowed to attend baking and cooking. Their son provides English translation. Khikar is a sculptor working with wood and crafts various items, such as cross-stones, souvenirs, which are almost entirely bought out by the guests. Gayane laughs:

«Guests are so fond of the crafts and buy so often that nothing of his works often remain for us. My husband starts selling the things he created for us, and that is why I just hide them».

Currently, some twenty percent of population in Chiva lives the income generated on tourism, continuing to further develop their small businesses and the community in general.

Infrastructures

Infrastructures are underdeveloped in small municipalities. Municipal roads are either in dilapidated condition or gravel covered at best. Field tracks are demolished by floods if not renovated or reinforced every year hence hamper agricultural activities. Gas supply is available in most of the places, but the high tariff does prevent its consumption.

Quality of electricity supplied is poor, especially in remote villages, where climatic conditions frequently force cuts in supply of electricity and accidents remedied at last priority.

Water supply is of special concern. The water management system does not contribute to efficient supply, and frequent are cuts of supply of irrigation water during the agricultural season.

The conditions of non-financial infrastructures are also far from being satisfactory. Support organisations are far from villages, information and assistance schemes predominantly inaccessible. Agricultural extension services are mainly poor in their quality.

Farmers Centre in Sarnakunk

Five years ago, Centre for Agricultural and Rural Development» Foundation (CARD) founded a Farmers' Centre in Sarnakunk village in Syunik marz. It delivers a set of services, such as:

- Artificial insemination and veterinary services;
- Sales of agricultural machinery and tools, including leasing;
- Training courses and advisory services to rural enterprises and farms;
- Sales of various materials and chemicals, etc.

Four small populated settlements in this region have been merged into a consolidated municipality of Gorayk³. Approximately 80% of households in Gorayk are beneficiaries of the Centre.

Quality services ensured a 20% rise in milking cows, husbandry of new milk and meat kinds, and use of modern equipment and tools of milking and mowing, et cetera.

Ownership of CARD, the Centre is operated by local veterinary, Suren, who perceives this occupation as his own business and takes care and responsibility in doing performing his duties.

It is virtually impossible to make sure highly qualified specialists are available in small communities because of poor dwellings, quality of educational and health services, and absence of cultural life.

Situation in social sectors

Health services are not available in villages. These, at best, are delivered in the closest urban municipalities. These are also in need of quality enhancement. Delivery of ambulance service may take hours before it reaches the patient. There are rural out-patient facilities, which are but predominantly a building and a nurse. These facilities usually lack equipment and quality services.

Elementary and basic schools operate in small rural communities. Often are situations whereby school need specialists, but the latter do not wish to work in the villages. Education of pupils is very much dependent on the quality of teaching staff. If there is a good subject specialist at school, pupils usually get interested and later specialise in that very subject.

«Tsaghkunk Open School» Foundation

Years ago, the village school in Tsaghkunk (Gegharkunik marz) became a foundation. Philanthropists originally from this village financed capital renovation of the school building, update of curricula and involvement of new specialists through the Foundation.

Substantial innovation in this school lies with teaching the subjects on the curriculum. Pupils learn bee-keeping, potato and new plant cultivation techniques, and apply the received knowledge in practice. The school maintains a test-ground and an apicultural facility, where practical drills and lessons are held.

This is the first rural school model in Armenia where subjects on mandatory curriculum of basic schools is replenished with applied subjects crucial for rural livelihoods.

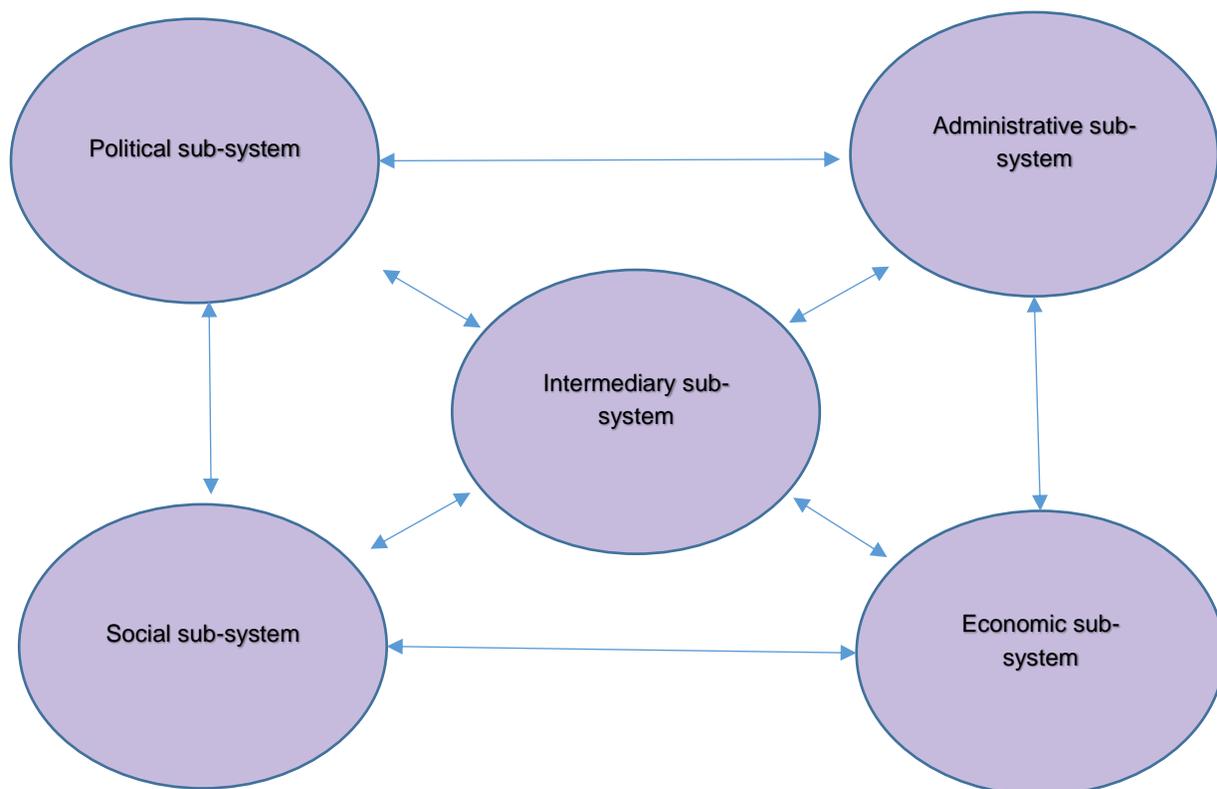
³ *Gorayk consolidated municipality embraces former Gorayk, Spandaryan, Tsg huk and Sarnakunk LSGs. The Centre is Gorayk.*

Local self-government bodies and organisation of development processes

Local self-government bodies are the main centres of administrative influence in small rural municipalities. This is true also for the political influence. During the elections, mayors are responsible for votes of the ruling party.

In general, overall system of municipality may be depicted through the following scheme:

Diagram 11: Components of municipal system



Political and administrative sub-systems in small rural municipalities are usually intertwined. Mayors are the main political role players.

Social sub-system covers primarily the school and out-patient facility, the heads of which are appointed by the regional administration (marzpetaran).

Economic sub-system is represented by rural farming households and several small enterprises.

Intermediary sub-system is responsible for smooth and unimpeded performance of the general system (NGOs, civil society, church, etc.), but it is almost not represented in small rural municipalities.

As a result, the general system takes the shape of a pyramid, where the mayor is the unilateral decision-maker.

From the standpoint of economic development, this may be a substantial impediment. Single person and his allies may take ownership of the majority of economic resources, such as arable

lands, agricultural machinery, as well as fertilisers, seeds, fuels and other items received under assistance schemes, thus depriving other households of healthy and sound development opportunities.

Development of cooperatives in Armenia

It is two decades now that various international and local institutions (World Bank, Ministry of Agriculture, Oxfam, etc.) try to develop agricultural cooperatives in small rural communities. Small or larger grants are allocated in addition to agricultural machinery, extension services and other assistance.

As a result, numerous cooperatives are established, which received state registration in that status, but they are, in reality, managed by the mayors, which unilaterally takes decisions on asset management and distribution of profit.

Balanced, or proportionate, development requires an environment where sub-systems step into competition with and are complementary to each other, while the structure is not pyramid type.

Moreover, administrative, economic and social sub-systems should buffer the power of political influence. In such a case it would be possible to insist that there is a sound competition in the community, and each of the involved powers strives to make their influence leverages more efficient.

Economic development opportunities in small rural communities

The main complexity for local economic development in small rural communities is the lack of entrepreneurship. Few, if any, entrepreneurs are available in these communities who have established own businesses and successfully develop those. What can be really met is targeted to taking care of family needs and can qualify as subsistence (or survival) business. Villagers are predominantly **producers or groups of producers**, who do not have marketing capacities, skills, connections or potential.

At the same time, representatives of local self-government bodies do not have necessary knowledge or skills to design and implement economic development programmes (projects).

Consequently, the major development direction remains agriculture.

Agriculture development in small rural communities

Agricultural development takes supportive actions at several levels. The support from both central government and LSGs is required, in addition to that of business support institutions and substantial role is attributed to farmers.

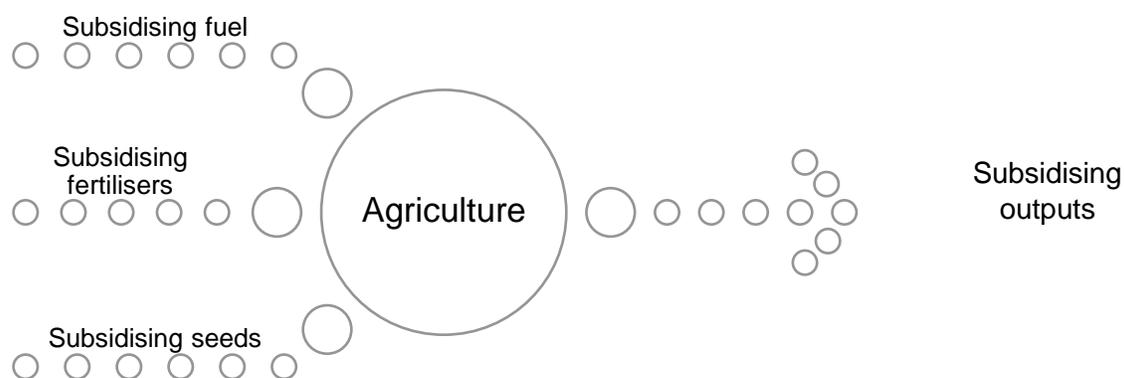
In lack of relevant capacities of LSGs and scarcity of leverages, the major load is attributed to the central government.

Below are several examples of how it is possible to improve support to agriculture in small rural communities.

A. Subsidisation

The existing subsidisation policies are based on providing subsidies to resources, such as fertilisers, fuel, and seeds. Exercising this approach, the government seems to push development of economy. Unfortunately, the direction is unclear. It is necessary to replace the policy of pushing with the policy of pulling and make a transition to subsidisation of outputs in the process of procurement. An example of a pulling policy is the increase of procured milk by 20 drams.

Diagram 12: Directions of subsidising agriculture



Recent studies⁴ have shown that farmers are not satisfied with the existing system of resource subsidisation. These subsidies are particularly problematic from the standpoint of prices in case of fertilisers and quality in case of seeds. Significant shortcomings are observed in the system of their distribution. These are vivid examples of failures in the area of implementation of agricultural programmes.

Subsidisation of outputs would enable exercising influence on prices and generate larger income in rural areas, while farmers may take care of quality seeds or fertilisers on their own. To this end, there are limitations imposed by international organisations, of which Armenia is a member. The relevant requirements, however, may be renegotiated in order to fit them within the limits of existing normative provisions.

In any case, in small villages, where producers' groups are not yet able to assume full responsibility for development, the approach of "I am dragging the cart and you are following" is more preferable than the one of "I am pushing and you chose where to go". In other words, government assumes leadership in development processes for a certain period of time until the established enterprises and farmers learn how to do it on their own.

B. Market regulation

When agricultural market fail and entail decline in agricultural sector, governments may undertake market regulation measures. One of the most widespread measures is the market board.

⁴ RDF, Evaluation of the «Agriculture extension services» budget programme; RDF, State support to agricultural land users and acquisition of diesel», 2016

Market board (state regulatory or state sanctioning) is legal entities regulating relations in sales of agricultural produce. Similar structures were initiated in the 20th century in both developed and many developing countries.

In international practices, the advice is a state established and supported agency, the objective of which is to directly involve all interested parties to food value chains (i.e. producers, intermediaries, processing facilities, consumers and the state) in sustainable development of and quality improvement in the sub-sector. The board is the intermediary body operating between the two extreme systems, namely total state regulation and total market economy. In other words, it enables producers and other interested parties solve issues and problems at both sector and state levels.

Leverages to promote production by the government vary from country to country; these are leverages, which result in monopoly management of production and trade, as it is done in Israel, New Zealand, Canada and other countries. In such cases, it is the board that decides on procurement prices, allocates means to improve production, as well as protect local producers from international competitors. This enables producers ensure sustainable income, planned production development and improvement of competitive stance of producers in international markets.

C. Extension support services

Currently, state extension support programmes are implemented through Regional Centres for Agricultural Extension Services (RCAES). Most recent studies implemented by RDF show that activities of RCAES do not suffice to deliver necessary services to farmers.

Instead, there is another example, which is described above, namely farmers' centres of CARD Foundation, which carry out the involved processes in a highly efficient manner.

In all those cases when private enterprises are able to implement delivery of agricultural services, the state should try to delegate relevant powers thereto furnishing them with adequate co-financing or assistance.

This is attributed to both cattle breeding and horticultural facilities, and involves veterinary and plant protection services.

D. Agricultural machinery

Almost in all small rural communities, the agricultural machinery is either obsolete or too few. Over the recent years, several local and international programmes were commissioned to arrive at partial solution to this challenge. Tens of villages received agricultural machinery in the framework of a joint (WB and Agricultural Project Implementation Unit) project. However, the machinery is not sufficient to fulfil entire volume of agricultural works. In many cases, established cooperatives compete with individual entrepreneurs, and this competition creates market of unequal opportunities.

In the framework of *Supply of Agricultural Machinery Project* implemented by SME DNC more than 300 tractors and 1000 units of other agricultural equipment were imported. The entire lot of imports were successfully realised because sales were at cost, and SME Investment UCO provided for low rate leasing arrangements.

Now the government undertakes steps to extend leasing loans at low interest rate. This must be accompanied with provision of agricultural machinery at cost, which can be done by one of the foundations with state participation (such as APIU, SME DNC, et cetera).

Agricultural machinery and tractor park in Georgia

Government of Georgia has established agricultural machinery and tractor parks in all regions of the country, replete with internationally competitive and modern equipment and vehicles. At the outset of agricultural season, farmers get queued to make use of the services. The government partially subsidises the services provided by the parks. Independent monitoring companies provide evidence that the parks manage well to perform all the works planned for the entire season.

One of the advantages of this programme is that the business approach underlying the programme enables cost recovery via the generated income to the extent that the respective international loan liabilities are also reimbursed.

E. Irrigation water

Especially in communities situation in low land regions, where horticulture and vegetable cultivation are wide-spread, accessibility of irrigation water is the pivotal factor of economic development. At the outset of establishment of water users associations and unions, the primary principle underlying the selection of their management model was to secure participation of farmers and transparency of operations. In the course of implementation at advanced stages, lack of these two pivotal principles (participation and transparency) caused downgrading of efficiency in operations of these facilities.

F. Financial assistance mechanisms

Currently, financial assistance to agriculture in Armenia is implemented via subsidisation of agricultural loans. The main shortcomings of this approach include:

- The volume of financing is small. The loan amounts enable purchase of one or two cows or fertilisers. In other words, this mechanism can support increase working capital, but it does not provide for solution of issues associated with fixed assets or new investments.
- Interest rate of loans, though subsidised, remains high.
- Targeting of the loans is not supervised whatsoever. The resources are predominantly channelled to redemption of previous loans or to cover consumer expenditures.

Introduction of efficient mechanisms of financial assistance should be compliant with the following criteria:

- Loan amount should be sufficient to renewal of fixed assets and investment in innovations. For example, it may be up to 10 mln drams.
- Interest rate of the loans should not be over and above 6% in the entire republic, and not only in the bordering municipalities.
- Loans should be tied, controlled and channelled to agricultural development exclusively.

G. Role of LSGs in agricultural development

The on-going territorial and administrative reforms through consolidation of municipalities increase the role of LSGs in supporting agricultural development at grassroots level. Formerly,

mayors and administration of small rural communities did not have relevant leverages, financial resources or skills to support development, now, the newly created larger governance units are obliged to create relevant capacities and development support mechanisms.

- *Agricultural machinery* – various international organisations, as well as the state in the framework of several support programmes, have supplied more than 1000 units of agricultural machinery and equipment to small villages, among which tractors, mowers, combine-harvesters, and auxiliary tools. This stock is currently managed in a variety of ways, but rarely for common community purposes. The works organised in an efficient way, even small communities can manage to establish machinery and tractor stations by pooling together both municipally and privately owned vehicles. Fragmented land plots and varying schedules of their cultivation (because of belated supply of seeds, lack of money, of absence of desire to cultivate, etc.) make the overall process inefficient. A tractor would visit the same location for several times, and consumes more fuel, while cultivation of small plots affects quality of soil, et cetera.

Union of people owning small land plots in the same region would increase efficiency of land use both in terms of cultivation and fertilisers, sowing and all other agricultural processes. The most influential organiser of such union may be the local self-government bodies.

Tsovagyugh: lands are still cultivated

Former kolkhozes dismantled, people were leaving Tsovagyugh (as many other villages) for towns or abroad. Independence motivated people to cultivate land and breed cattle again. The main plant in this village is wheat. But import of cheaper wheat undermined the development of this sector. People again abandoned land, for more than 15 years, which eventually meant degradation and turning arable lands in pastures.

Several years ago, youngsters decided to change the life in the village. Young mayor was elected full of new and ambitious ideas and approaches.

The mayor involved his own resources to start fertilisation and cultivation of 150 hectares of degraded lands. The mayor succeeded, distributed the harvest to locals at cost. The latter were at least distrustful to the initiative and in some cases even hampering. The investment was about 110.000 drams per hectare. Average harvest per hectare was 2-3 tons of wheat, which secured 250.000 drams of income.

Several international and local programmes were engaged by the mayor to acquire machinery and equipment. Now the machinery park of the village is more than 10 units of machinery, including tractors and combine-harvesters.

This year, people sow buckwheat in the lands that used to be in deteriorated condition and the course of business is promising.

- *Improvement of infrastructures*: majority of physical infrastructures to support agricultural sector falls within the authority of local self-government bodies.
The condition of field tracks has impact both on cattle breeding and crop farming. Since all these roads are gravelled, mud waters destruct the many sections of these tracks and necessitate current repair.

Activating efforts of municipal administration in the processes associated with management of *irrigation water* supply are crucial. Each municipality has a representative in the Water Users' Unions, but these are more administrative functionaries rather than advocates of the interests of municipalities. In the meantime, these unions have turned into agencies of authoritative management (inflated expenditures and vague mechanism of use of irrigation water), which are more influenced by marzpetarans or State Water Committee than municipalities. A coordinated solution to this problem implies active participation of the entire community, on-site planning of water distribution and influence on pricing.

- *Efficient land management*: communities and LSGs have substantial influence on land management. It is associated with both application of land use principles and efficient distribution of reserve land stock, as well as pasture management, creation of living conditions in remote pastures, et cetera.

SME development in small rural communities

Weak entrepreneurial potential in small rural communities does not contribute to development of small businesses. The potential with young population is primarily channelled to agricultural sector. There are no positive examples or cases, which would motivate others to get involved in business activities.

In these circumstances, main strategies to supporting entrepreneurship in small rural communities should be based construed on attracting other companies to the villages. This is particularly urgent in agricultural processing sectors.

Milk procurement in Berd region

Several years ago, UNDP explored milk production volumes in Berd region and decided to establish milk procurement centres. Relevant equipment was purchased, and mayors involved in establishment of cooperatives, allocated spaces were refurbished to secure proper working conditions for the cooperatives.

Procurement centres did not operate for a variety of reasons. Volumes of produced milk were not at all large, and population sold it for 200 drams per litre on the local market, while wholesale buyers offered 120-140 drams. Producers preferred processing their milk into cheese to be consumed for own purposes or sell later.

There are no large produced in Berd. The small ones (3-5 cows) produce some 50 litres per day, of which only a tin share is set for sale. People do not want to sell it for below par prices hence prefer producing cheese.

The failure with milk procurement initiative in Berd demonstrates that such process may be organised in an efficient manner by private businesses, which are capable of organising the works, estimating the demand and appreciating contractual obligations, et cetera.

In contrast to these centres, rehabilitation of viticulture in Berd has been preconditioned by the presence of a large investor (i.e. Pernot Ricard cognac plant), which has a branch in Berd and procures the entire volumes of locally produced grapes.

Unlike in Berd, milk procurement centres are successfully developing in Gegharkunik and Shirak (cattle is numerous, average number of cows per household is bigger, people prefer sales of milk against cash payment, rather than waiting for sales of chesses, et cetera). All large milk procuring companies operate in these marzes. Another positive example is the development of more than dozen of milk processing workshops in Tashir.

Entry of procuring companies into a region and/or enhancing their efficiency may be triggered by a number of impetuses, such as:

- Tax privileges;
- Lending at low interest rates; and
- Co-financing of procurement centres, et cetera.

Consolidation of municipalities and economic development

The government of Armenia has adopted community consolidation strategy. Small rural municipalities are merged into a bigger one or the one with urban municipality in the centre. This change has significant impact from the perspective of economic development of communities, namely:

- Professional and technical capacities necessary for economic development are larger in the context of enlarged governance schemes. Good specialists are hard to find in small rural settings, for example experts able to design development projects, manage and supervise those; at the same time, enlarged governance units provide for supply of better developed professional capacities. Moreover, financial potential to involve qualified specialists and experts is also higher in the enlarged municipalities;
- Larger municipal budget bear the potential of not only financing recurrent expenditures but also implementing a couple of infrastructural projects per annum, which may trigger local economic development. Such funds may also be invested as co-financing provisions when participating in tenders under and implementing international projects;
- Consolidated municipalities maintain more potential to engage large investors, procuring companies and suppliers because they act in the name of larger number of producers or consumers. Negotiating position of enlarged municipalities gets stronger and weightier in pricing policies;
- Potential to implement large-scale projects in enlarged municipalities gets larger. Small villages are not in a position of justify constructing water pipe-lines or roads because of the tiny number of population or beneficiaries;
- In the enlarged municipalities the value chains (from primary agriculture to processing and marketing) are implemented in all stages integral to generating produce. They cover production processes in the context of primary agriculture, processing or packaging, as well as procurers and intermediaries. If any of the above ingredients fails, its replenishment is easier in a larger jurisdiction in view of the availability of human, financial and other resources;
- Enhanced efficiency of governance underlying the enlargement of municipalities has an impact also on efficiency of use and/or distribution of local economic resources. This is the case equally for land and water resources, as well as for use of agricultural machinery and application of tools to promote local economic development;
- The next Chapter shows, economic development in large municipalities sets different targets, which prevailingly accentuate local economic agents, strengthening local producers and the securing economic development in the municipality through the above targeting.

How to develop local economy in large rural communities?

Economy in larger rural settings is more diversified with agriculture multi-sector, delivering services of processing agricultural produce, commerce, procuring facilities, et cetera.

Public sector is multi-polar. If consolidation of administrative and political resources in small villages reshapes the general system into a pyramid governed from single centre, in the larger rural jurisdictions the situation is different, namely:

- Mayor may be an influential stakeholder in the municipality, but not the only one and not the most influential;
- In addition to small, medium and large agricultural enterprises, municipal economy embraces also other small and medium businesses, which have influence on both economic and political situation in the community;
- Political sub-system is multi-polar and it embraces variety of political opinions and positions. In addition to the ruling party, the representative of which is – as a rule - the mayor, there are also representatives of other political parties, opposition, et cetera;
- The role of the schools is huge. Teachers are respected individuals in the municipalities, who have influence on the local decision-making processes;
- Some civic institutions have maintained their existence in large rural municipalities, and these include neighbour relations, respected elderly, et cetera. These institutions do not exert influence in urban municipalities, but in rural ones they are capable of significantly changing the course of top-down decision-making processes, including implementation of the decisions.

Such a multi-polar system observed in large rural communities enables hitting public participation in decision-making versus smaller rural and urban municipalities. Such a cooperative environment creates sound bases for participatory planning, which is a substantial success factor for development of local economy.

Agricultural development in large rural communities

The leverages available to the central government and LSGs described in the section on smaller rural communities are also applicable in the larger ones. However, there are specificities, which change the nature, mechanisms and targeting of support to agricultural development in larger communities.

Agriculture in smaller rural settings is preconditioned by activities of large number of stakeholders, while different situation is characteristic in larger ones. Any community has the holders of knowledge, machinery, innovations, financial resources and other capacities, and it is their behaviour and quality of investments that has significant impact on general development trends in the community.

Some 10% of households in larger rural communities are different from the rest, namely the land plots are larger (more than five hectares in mountainous regions and more than one hectare in horticultural and crop farming regions); number of cattle suffices for expanded reproduction, old and new machinery is there, and rich experience and knowledge to work in a given sub-sector.

These types of households and/or farms which carry the entire local agriculture are at the same time the orientation for other households because they are the knowledge, machinery, marketing ties resource for the latter hence those 10% of farms should be the target of agricultural development policy.

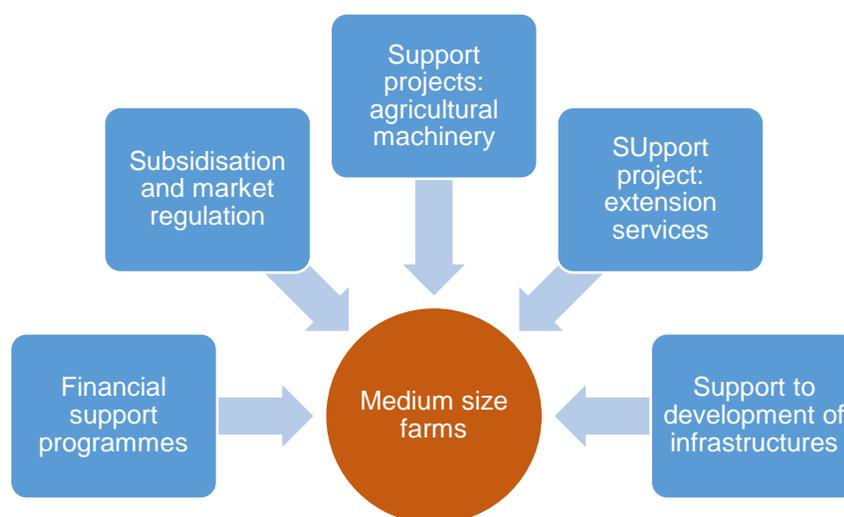
Large rural municipalities see also substantial investments in agricultural sector, such as establishment of orchards and vineyards in hundreds of hectares and hundreds of cattle, et cetera. Large investment create jobs and bring in new technologies, however their contribution in community development is usually contained to jobs of low productivity. Normally, large investors are not from the communities and local population do not benefit from the accumulated knowledge or machinery, while the investors are not very much willing to share their skills.

Thus, households and/or farms operating in larger rural communities are divided into three groups on the basis of their size:

- Small – these primarily take care of their own needs and the surplus (if any) is sold in the market;
- Medium – these have been established in the municipalities and base on local resources. They help the municipality develop by bringing in machinery, knowledge, finance, marketing ties, et cetera;
- Large – they, as a rule, are exogenous investors and their main linkages with the municipality and community is realised through creation of low-pay jobs.

The major target of agricultural development policy, which at the same time is associated with general rural development, is the medium farms. The target points here are the needs endured by these economic agents towards swift development, more productivity and higher degree of competitiveness in the market.

Diagram 13: Target of agricultural policy



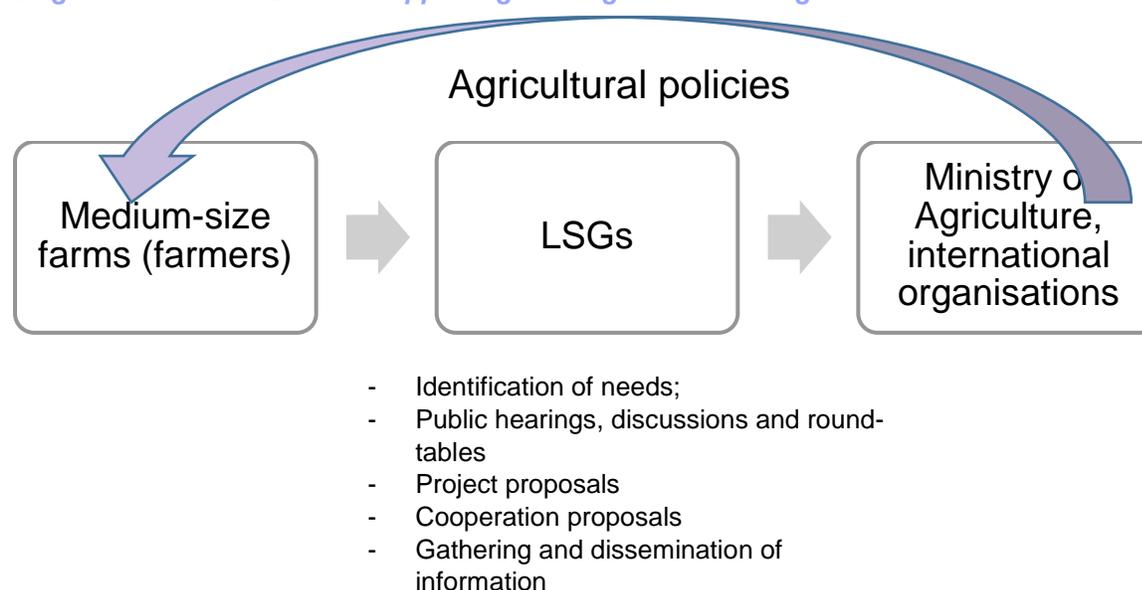
The main reason cause of failures in agricultural policies in Armenia is the absence of a concrete targets and, and a consequence of that, the policy measures are not targeted and not

based on the postulate of enhancing competitiveness of the growing economic agents. In the absence of such an approach, the agricultural development policy falls into more of a social assistance domain and turns into stronghold of subsistence economic agents.

Agricultural policies in large rural communities should be stem from local realities, targeted, be responsive to the needs of medium-size farmers from such communities or their groups and be designed so as to enhance their competitiveness.

In addition to the renovation and/or construction of major infrastructures described in the previous Chapter, LSG functions should include securing linkages between the policy designers and medium-size farmers.

Diagram 14: Role of LSGs in supporting local agriculture in large rural communities



A substantial share in agricultural development infrastructures in large rural communities is attributed to farmer and technological centres. These may serve several communities and municipalities simultaneously and – in addition – embrace small rural jurisdictions. The centres should assume responsibility for agricultural development in a large municipality or their groups. The best model of their sustainable establishment is the strengthening of several medium agricultural farming facilities operating in a municipality, while these receive support from state and/or international organisations and transfer the support to small and medium farms. The role of LSGs may be construed around monitoring, evaluation of results, reporting and accountability.

Akunk: cheese centre of excellence

Approximately ten years ago, Arthur Movsisyan established a small cheese producing workshop in Akunk village. At the outset, he used to procure some two or three tons of milk, topped it up with his own production and produced cheese. The village-mates, who supplied milk to Arthur, used to ask for advance payment and advice on how to increase milking volumes and how to inseminate cows, et cetera.

Gradually, Arthur's workshop had become a centre to provide knowledge, machinery and finance to other farms in the village. Not only he purchases the produce generated by village-

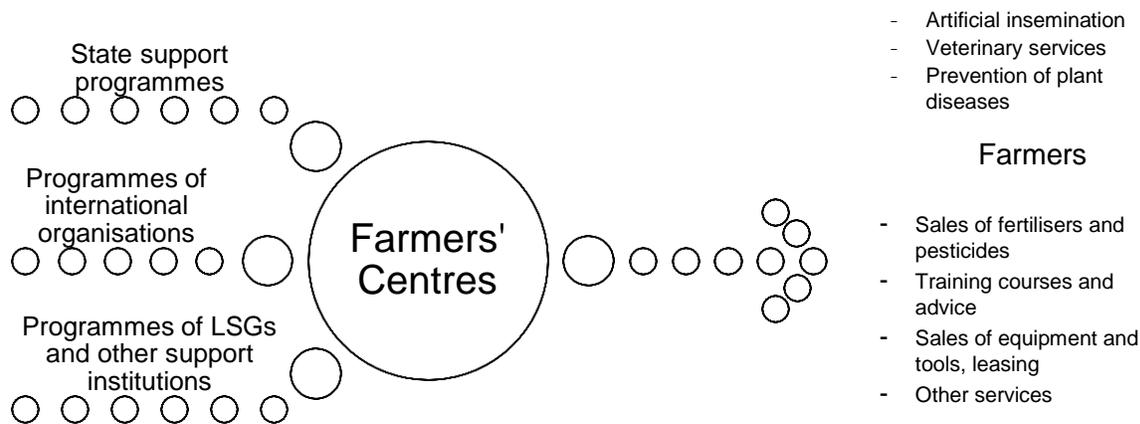
mates, but also he provides financial assistance, required knowledge and experiences, as well as support in agricultural machinery.

Last year, Arthur established a farmer's centre with support of CARD foundation, which lays grounds for higher quality of extension services. Now, the farmers in the village have a support institution at arm's reach, which purchases their milk, provides necessary resources, knowledge and technologies.

Cheese and dairy products produced in Akunk village are now items of exports.

Taking into consideration the experiences and realities of Armenia, farmers' technological centres may operate along the following scheme.

Diagram 15: Services provided by farmers' technological centres



These Centres will replace the RCAES, but in contrast to the latter:

- They will be managed by local private sector in a more efficient way;
- They will operate directly in the community, and with concrete targeted groups on targeted issues;
- Investments of the municipalities will be materialised in providing space and infrastructures;
- The government will implement capacity building exercises and events to enhance professional and other knowledge, skills and capabilities (one of the PIUs of the Ministry of Agriculture should deal with capacity building of these Centres);
- International organisations will cooperate with the Centres through their programmes and projects and will thus multiply and diversify their capacities;
- The Centres will be involved not only in delivery of standard services, but act as the safeguard of bringing in and embedding innovations and new technologies in the municipalities.

It is not at all mandatory that Centres were established in all municipalities according to the same scheme or management model. Depending on the real situation in a municipality and the level of cooperation among main stakeholders, the Centres may be private, municipal, state, private-public or private-municipal, as well as established in the framework of projects implemented by international organisations, et cetera.

Business development in large rural communities

The axis of business development in large rural communities is the processing of agricultural produce, delivery of agricultural development extension services, as well as trade and services.

Bagratashen: from border market to fruit processing centre

Bagratashen municipality of Tavush marz holds an interesting history of economic development. Some twenty years ago, it used to be one of the trade centres of trade in Armenia. Border market located in the village had tangible impact on local economic development prospect of the municipality. Almost all residents of employable age were directly linked with the market. Agriculture was pushed towards backstage, while the entire village was involved in trading and storing of various goods, as well as provision of transportation services. Trade was developing at high pace dragging also the entire village entailing increase in well-being of the residents.

Nonetheless, that market could not have a long presence. Stricter customs legislation and reforms in border management resulted in closure of the market. As a result, the village of 3000 citizens found itself vis-à-vis a total catastrophe.

Agriculture had already been demolished hence no way it could compete with trade in profitability. The only advantage of the village was concentrated in thousands of effective ties with businessmen and traders in Armenia and Georgia.

People started to gradually return to land cultivation. Land abandoned for years, the peach orchards were fruitless and huge olive lands uncultivated. At the outset, new peach orchards were established in the areas where irrigation water was accessible. Later, pine-apple has taken the trend accommodating the knowledge, experience and inputs received from Georgia.

Then, several local and international organisations (Gegharkunik Chamber of Commerce, UNDP, SME DNC, JICA, et cetera) installed a two-kilometre long water pipeline securing access of irrigation water to more than 200 hectares of arable lands. Orchards of peaches and pine-apples were also established in these new areas. This was followed by extension of irrigation water pipelines supported by local and other partners, and lands under orchards got expanded. Now Bagratashen maintains and cultivates more than 1000 hectares of orchards. Anti-shower stations installed in the village protect the entire village from hails and other devastating precipitations.

This was not, however, the end of economic activity and development in the village. Residents strived for knowledge and experience necessary for processing to establish their own workshops and facilities. Support institutions have delivered trainings to some twenty farmers on how to dry fruits, cultivate cucumber and tomatoes in hot-beds, as well as how to establish own businesses and commission them into effective operation.

Almost five years ago, first drying facilities and hot-beds were established in Bagratashen. There was no need any more just to supply raw fruits to intermediaries at below par prices; rather the surplus of locally produced fruits are now processed and marketed as dry products. Refrigerating facilities were also established in the village through which marketing of fruits was rescheduled to the seasons of higher prices. The best example is the pine-apple, its

maintenance in the refrigerators. In September, farmers fill the refrigerators with pineapples for sales in December, when prices hit double of what is found earlier in the year.

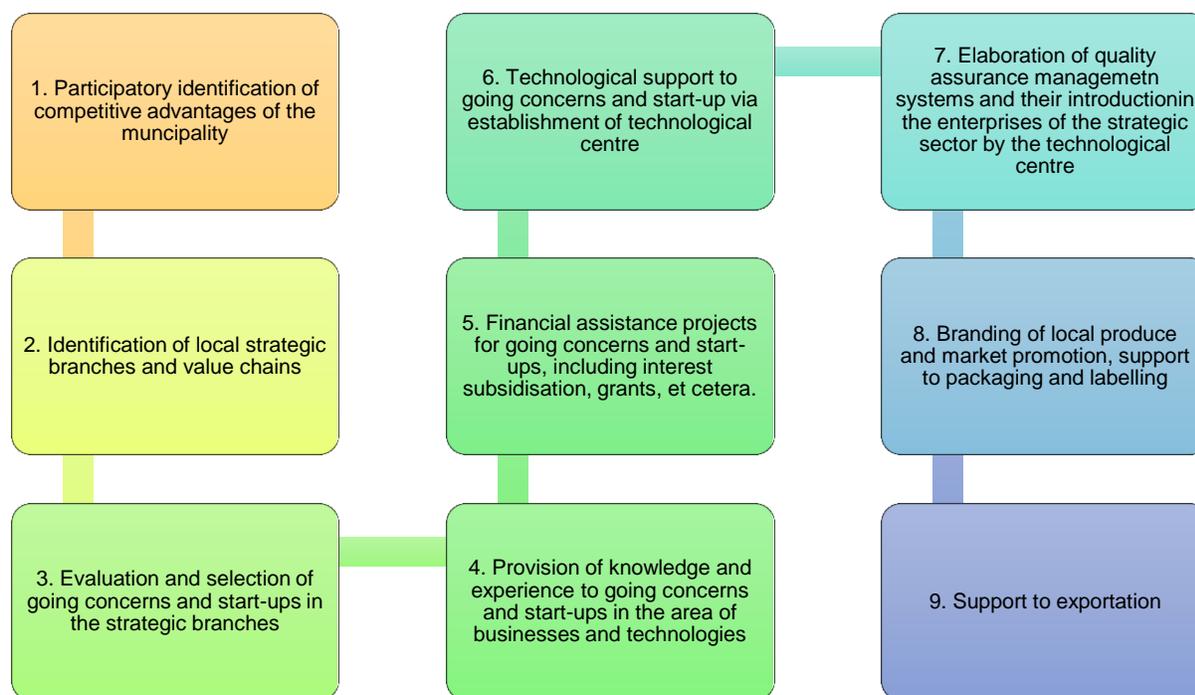
Three years ago, the mayor and some international organisations pooled their efforts to establish training centre for processing of fruits, which not only teaches the techniques of preparing dried fruits, but also relevant knowledge, experience and equipment are shared with local population.

Two years ago, local young people got involved in a new business activity, namely, they bought several refrigerating trucks and started export of fruits to southern towns of Russia. This is also a quickly developing business in Bagratashen. More than ten businessmen are involved in fruit exports.

Today, Bagratashen is the centre of fruit processing and sales for the entire region. Population in neighbouring municipalities learn cultivation, processing of fruits, as well as identifying buyers from Bagratashen.

Development of entrepreneurship in large rural municipalities may be implemented along the sequence set out in the Diagram 16 below:

Diagram 16: Sequence of steps to support entrepreneurship in large rural communities

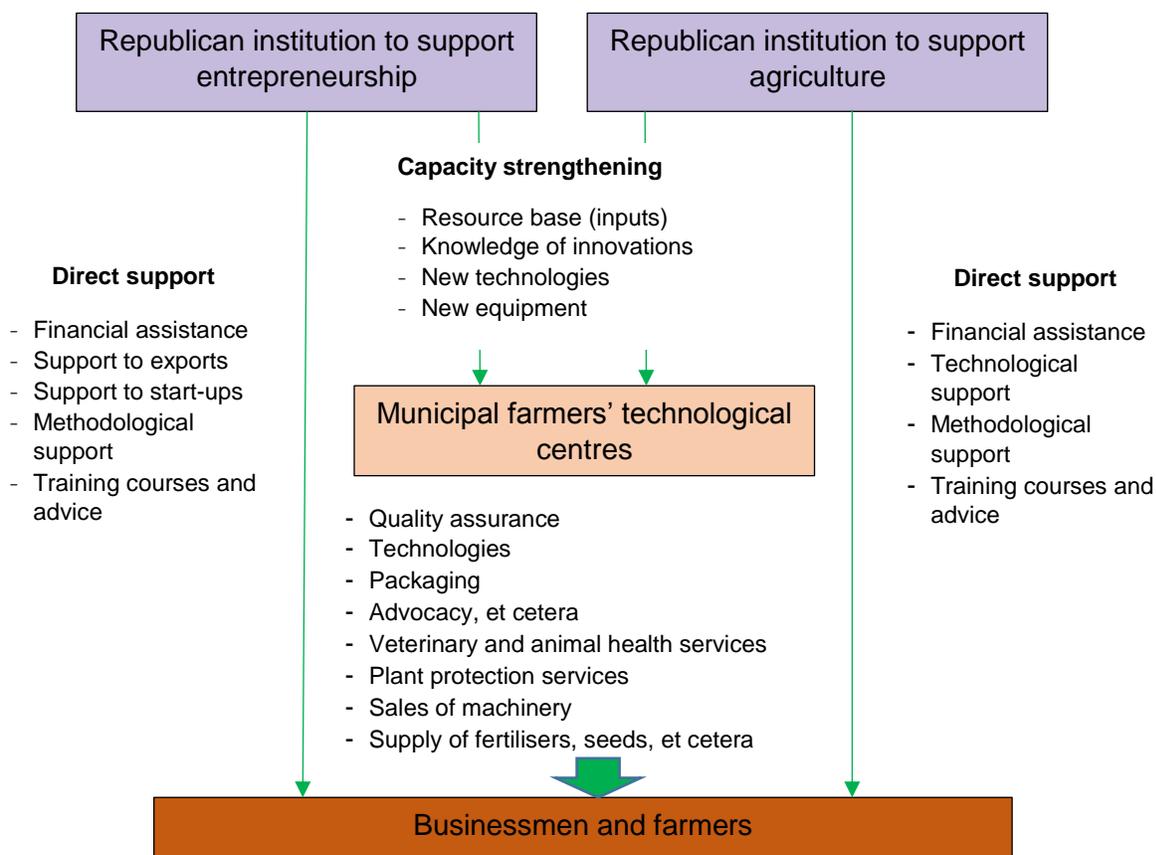


1. **Participatory identification of competitive advantages** pertinent to the municipality is possible if one of the tested methods is applied. The major principle is the participation of the stakeholders who are active in the selected sectors, together with the stock-taking and estimation of their plans. Any businessman or a start-up, who carried out business activities in the municipality, has an influence on the local economy in general. Their activities form part of general economy of the municipality, and their plans are

ingredients of the municipal plans. Participation of businessmen in identification of competitive advantages addresses a number of important issues. First and foremost, it is the businessmen who are in command of important information about the municipality; secondly, identification of competitive advantages of the municipal economy is per se an educational process for them opening avenue for use of the results generated through the participatory processes.

2. The branches that are based on identified competitive advantages tend to produce more competitive output. This is the safeguard that the output will be later realised on the domestic and foreign markets.
3. The main prerequisite of successful local economic development projects and programmes are the people, the individuals, which work or plan to work in the competitive branches of local economy. Identification of such people and establishment of cooperation framework among them is the vertebra of the development process as a whole. Measures to promote their development will strengthen each of them, while cooperation will nurture reinforcement of the entire municipal economic system.
4. Both **going concerns and start-ups** are in need of additional knowledge. The going concerns are predominantly interested in thematic, topical training modules (such as application of new technologies and equipment, knowledge of customs system, country-specific requirements in respect of imports or quality), while start-ups need knowledge and skills through training courses in business planning, marketing, and technologies. Short-term and payable training courses are affordable for going concerns, while start-ups need longer-term and free training initiatives.
5. Business projects compiled during the training courses, as well as the presenters may be evaluated against a variety of criteria, which would lay bases for defining opportune financial instruments of lending at low interest rates and/or affordable collateral arrangements, as well as grants and so on. Training expenditures may be co-financed by the municipal administrations.
6. Sustainability of support and its enhanced targeting will be facilitated by establishment of **technological (farmers') centres** in the municipality or a group of municipalities, as described in the section on agricultural development of large rural communities. The structure and functions of such centres should be replete with appropriate capacities in processing of agricultural produce, including elaboration of quality standards available for use by all local producers, et cetera.
7. The last group of functions is intertwined with **output promotion** on domestic and foreign markets. If the capacities available in the centres are not sufficient to implement this function in its entirety or at the required quality, more sophisticated tools of support may be used by the support institution established by the central authorities.

Diagram 17: Support to entrepreneurship from various levels

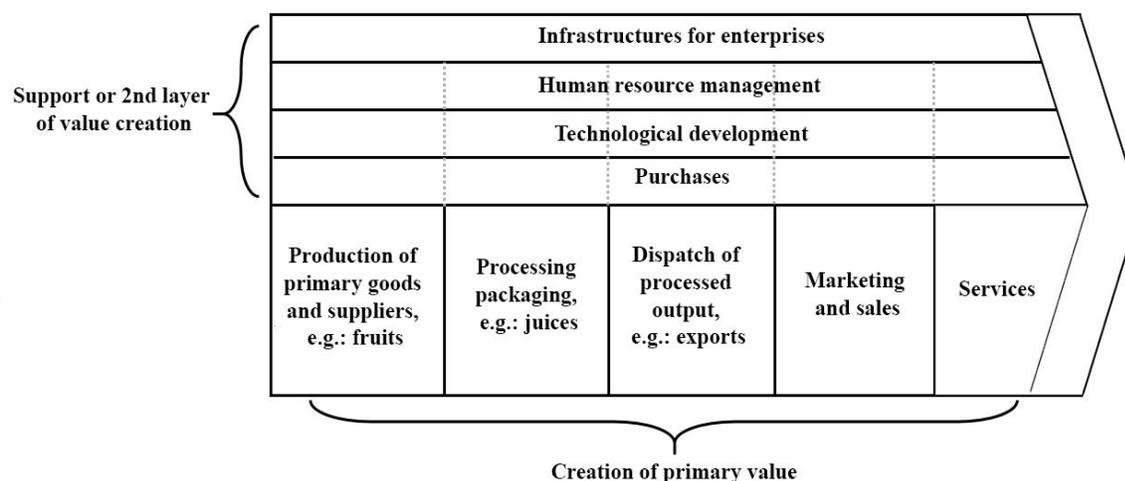


Part of functions assigned to farmers' technological centres is associated with the value chains existing in the municipality in question.

Participatory discussions in municipalities with the help of value chains enable identification of the overall picture of the local economy and its development trends, as it is presented in the Diagram 18 below. Procurements and supplies, major branch of local economy and their outputs, processing and marketing of outputs are set out separately.

Diagram 18 reflects two levels of value chains. The primary level, which may incorporate the chain between production of raw inputs to processing and exportation, as well as the services pegged to each phase of production in the chain. The second level presents value added as a result of interventions by support institutions.

Diagram 18: Structure of value chains and levels of added value



In the primary level of added value the responsibility falls with the enterprises, including groups of agricultural producers and processing companies, exporting, logistic and marketing units, variety of service providers, et cetera. The major responsibility for valued added in the second level is assigned to central government and state run foundations, PIUs, NGOs, chambers of commerce, LSGs and so on.

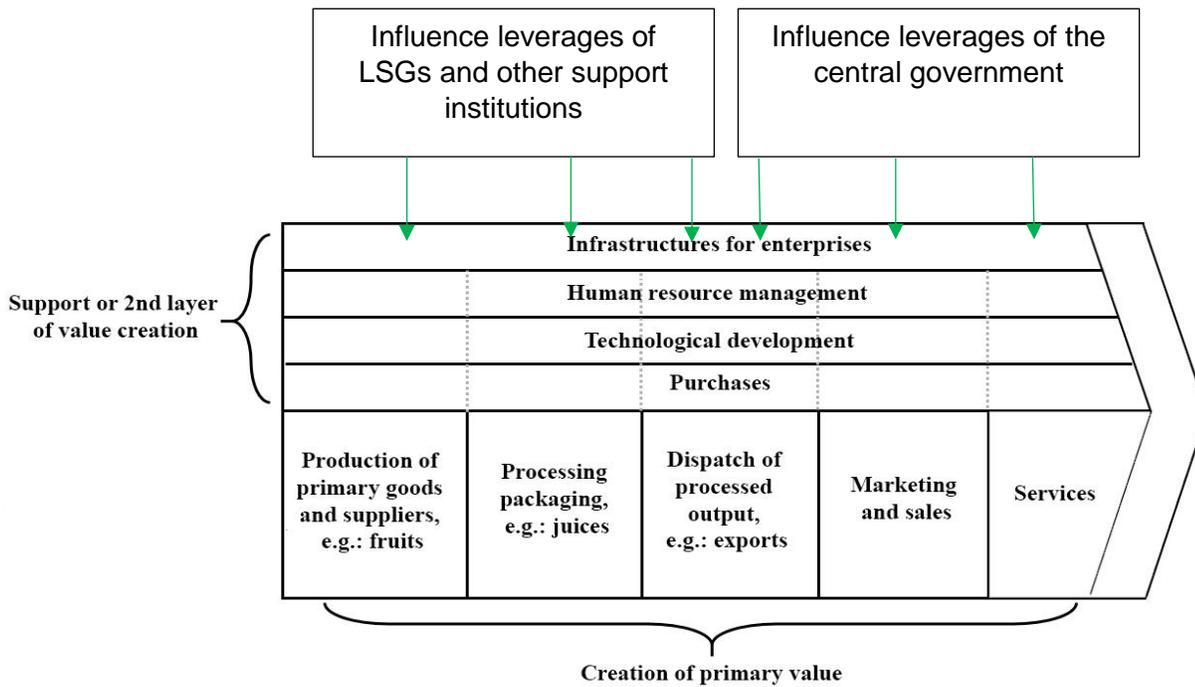
The major directions of providing support at the second level of added value include:

- Creation or maintenance and operation of infrastructures;
- Human resource development, education, management;
- Securing opportunities for technological transfers; and
- Support to enterprises involved in procurement and deliveries.

Support along the above directions should be provided in all phases of the value chain from issue of primary output to marketing and sales. Support institutions and agencies decide the phase (primary output, processing, sales, et cetera) when they provide assistance in various services and the directions (infrastructures, technologies and human resource development, et cetera).

The main target beneficiary groups of LSG and support institutions may be the development of infrastructures promoting economic development, accessibility and affordability of human resources in the phases of producing primary output and processing. The major target beneficiary groups of the state assistance include creation of appropriate infrastructures for sales, exports, accessibility and affordability of technologies, as well as education of relevant area specialists.

Diagram 19: Directions of support to value chains and support institutions



Rural communities in Armenia possess huge potential of producing output, but what is weak is the capacity to market and export. Support to marketing, sales and exports, is one of the major functions of the central authorities. In this phase, support should be provided to those companies, which make arrangements for exportation of agricultural produce and processed goods, which had been procured from thousands of small rural farms.

At municipal level, LSGs' role is realised in support to export groups by virtue of providing relevant infrastructures, professional capacity development, application of technologies and other instruments, which are described in the opening sections of this Chapter. The next major goal of the LSGs should be to organise joint actions embodied in relevant plans. If LSGs, support institutions and farmers jointly plan the development of value chains:

- Enterprises and farmers do see new business opportunities, familiarise with the plans of LSGs and other organisations, present their real problems and development challenges;
- LSGs are able to plan their recurrent and capital expenditures in a more targeted manner promoting trust towards local self-government as a whole, and political decision makers get credible information and data on the real needs of the municipalities;
- Support institutions (in this case farmer's centres) increase their efficiency in integrating in the community and municipality initiatives and are better capable of delivering targeted and well-informed services.

The power of the seconds

Development of businesses involved in agricultural processing in rural municipalities oftentimes requires the first example, e.g.: a business or an experience, where the involved processes maybe observed, questions about the results may be asked, and it is possible to stay assured that the chosen path is the correct one.

There are people in any village who try new ways as business paths, such as production and development. Such people are usually unsuccessful in businesses but take their chances, i.e. in solar or wind energy, generating biogas from manure, design of new equipment for production of dried fruits or jams, et cetera.

Spotting and motivation of such people in rural areas is the first step to take in developing and promoting innovations. Of course, the result will be the same, i.e. such people will not have businesses up and running, but others in the vicinities will see the experience tested as worthy.

It is pivotal who the next ones will be (the seconds), engaging in development of a sector in local economy. If the experience of the pioneer interests business-minded people in the locality and region, the development of the sector may be perceived as guaranteed.

Andranik is an innovator. Always in search of new ideas, every year he tries new sector, equipment, idea for implementation. He decided to establish a fruit drying facility a couple of years ago in Ptghavan. Residents of this region in Tavush did not have any experience or knowledge of drying fruits, but cultivated fantastic fruits with a share of harvest left unsold. Andranik and his supporters made investment in construction of a solar drying facility. The first year they were struggling in lack of experience hence lots of losses.

In the second year, SME DNC and UNDP decided to jointly develop drying business in this area. Some twenty businessmen were interested because they knew about the experience of Andranik. Training courses and consultancy took several months resulted in establishment of drying facilities by twelve people making use of the model by Andranik. Under the support scheme, these people were given electricity efficient driers.

It is already three years now that Andranik is not involved in drying fruits business, but in Ptghavan, Bagratashen and surrounding villages there are 15 small and medium workshops and the dried fruits of Tavush are exported to Russia.

Economic development in urban communities

Towns and other urban municipalities are complex structures and systems relative to villages. Design of economic development policy in urban jurisdiction should be accompanied with considerations of specificities pertinent to complex systems, and the differences natural between the urban and simple rural communities.

There are widespread mistakes in designing economic development programmes and policies in urban municipalities, which result in lagging pace of development or even suspension thereof, such as:

- Willingness to quickly change the behaviour and attitude of enterprises; this expectation may evaporate the political efforts invested;
- Isolated view; it is possible to collect multifarious information and data, but their individual analysis compromises arriving at fragmented perception of the system;

- » Seduced by former success; if a political measure or an economic programme in a given municipality or elsewhere yielded success, it does not mean that it should be just identically repeated in the current circumstances of a given municipality.
- » Incremental political influences are neglected; this takes place when the comprehensive picture of the issues and challenges, as well as all the stakeholders are not fully analysed hence fail to participate in the economic policy design processes;
- » Desire to exert direct influence on the system; this is a case whereby exclusively administrative-command and punitive methods are applied to regulate or manage the municipality and community.

Urban municipal economy is not malleable to full-fledged or comprehensive analysis. It is not mandatory to scrutinise behaviour of all enterprises to comprehend the principles according to which the system performs. It is enough to merely explore existing and potential behavioural models. They should be accurately and scrupulously selected in order to understand the behaviour of major influential groups of the community.

In urban municipalities it is easy to confront varying types of behaviours, as well as multifarious ties. Application of direct management leverages is impossible in these settings, because sooner or later the system reunites to modify supervisory mechanisms and alternate systemic management paradigms.

Simple systems

- elements (enterprises) with simplest behaviour
- among few and weak ties
- quantifiable behaviour
- stable lines of influence
- limited models of behaviour
- simple and predictable state policies
- potential for full regulation and supervision

Complex systems

- numerous multifarious elements (enterprises)
- strong ties and interlinkages
- behavioural norms that are difficult or too lousy to evaluate
- multifarious and varying potential of influence
- state policies prevalently targeting enhanced trust and collaboration
- potential for regulation and supervision is limited

The primary precondition for development in urban municipalities is the reciprocal trust among enterprises, government agencies and social sector. If these constituents of community life operate in the environment of trust, this leads to strengthened ties and the livelihood in general.

Economic development programmes are based on inclination of enterprises in various sectors to cooperate on the one hand, and the productivity of labour on the other, which is an evidence of competitiveness of the sector in question.

The diagram below maintains a more structured reflection of the idea:

Diagram 20: Strategic branches of local economy

	Branches and enterprises actively cooperating with other branches and enterprises	Branches not inclined to cooperation with other branches and enterprises
Branches and enterprises of high productivity ⁵	A. Strategic branches	B. Monopoly branches or enterprises
Branches and enterprises of low productivity	C. Promising branches or enterprises	D. Hopeless branches or enterprises

A. **Strategic branches** – the axis of local economic development is the branches which maintain inclination to cooperate and high productivity rates. Enterprises operating in such branches actively cooperate with each other and enterprises in other sectors, establish unions and associations, present and advocate their rights and interests, think about development of the entire region perceiving it as the primary environment and context of their activities and operations. Depending on the community, such branches may embrace tourist agencies, e.g.: B&Bs and restaurants, trading, fruit processing companies, as well as units involved in the sector of information technologies, et cetera.

B. **Monopoly branches or enterprises** – these branches enjoy high productivity or profitability rates, but they do not cooperate with other branches or enterprises of the community. Such branches vary from community to the other, and may be in mining industry, single very large production, et cetera.

C. **Promising branches** – although the productivity here is low, but the enterprises are inclined to cooperate and create strong ties and linkages, which lays sound basis for improvement of their development potential. Such branches may be found in services, utilities, processing or re-processing of agricultural produce, et cetera.

D. **Hopeless branches** – in this branches both productivity is low and preparedness to cooperate is non-existent. These are gradually disappearing, insolvent or liquidated enterprises, which – if support instruments are applied – would generate negligible results.

In designing economic development programmes and policy, it is necessary to cluster strategic and promising branches as the primary target and axis of local economic development.

Sevan: touristic perspective

One of the main branches of local economy in Sevan municipality is tourism. It supplies incomes to more than 30% of employable population, and more than a hundred enterprises operate in the coastal areas of the Lake Sevan, which are directly associated with the town.

Approximately ten years ago, tourism in Sevan was a strategic branch. Enterprises used to develop and new investments were attracted in the coastal areas, with hotels and restaurants constructed.

Over the recent several years, productivity of this sector has significantly dropped. Enterprises operating here maintain inclination to cooperate but are of lower productivity. The cause lies with the diminishing

⁵ Highest productivity branches in Armenia are high-tech, information technologies, finances, communication, et cetera. Low productivity is observed mainly in agriculture since small result is created per unit of labour time.

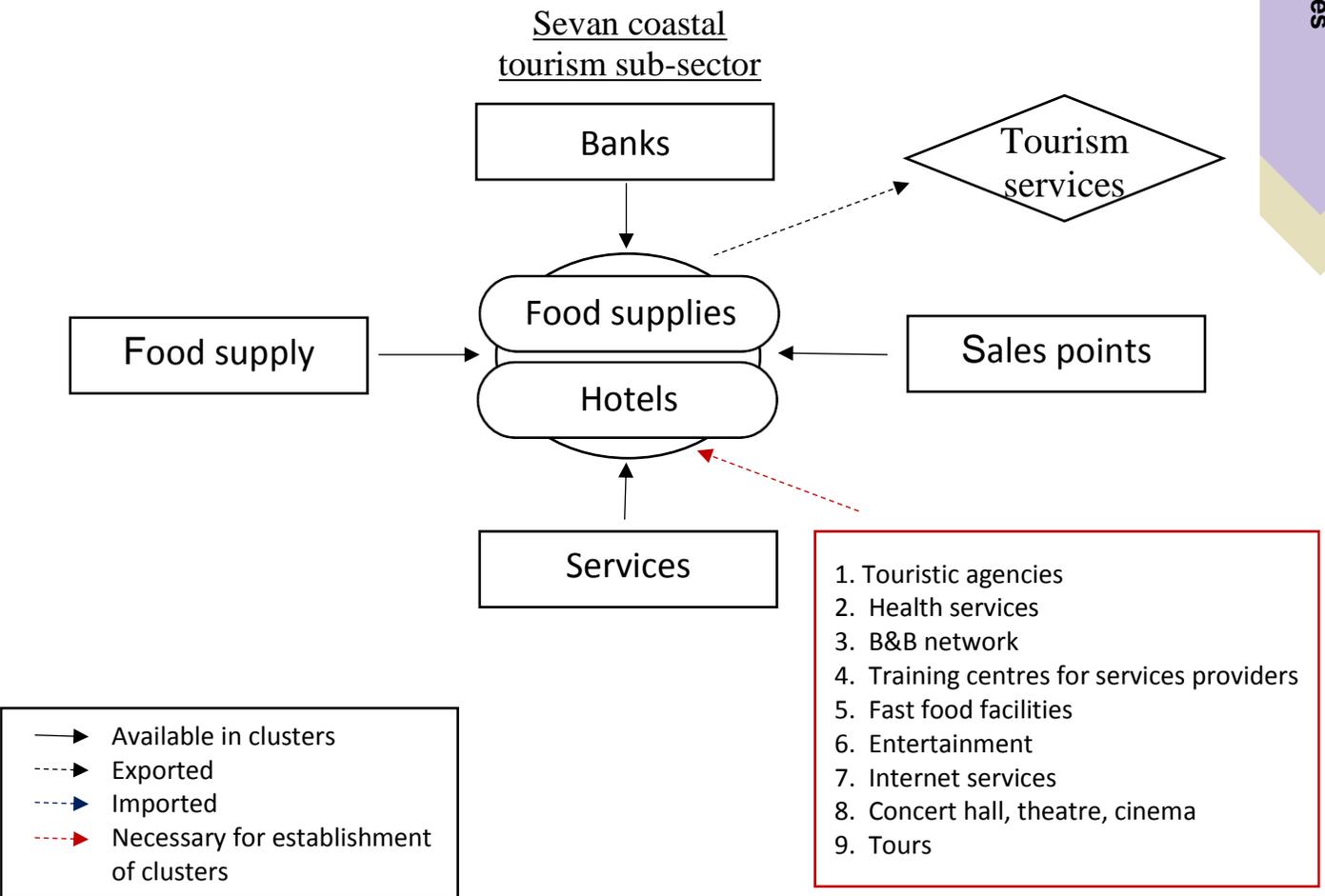
demand (downsized solvency, preferences of clients for cheaper sea coasts in Georgia, et cetera), while hotels and restaurants always were targeting local tourists and are skilled therein.

Local or domestic tourism is expanding now, and foreign tourists are also interested in Sevan, but local enterprises are not yet prepared to meet the demand. Inclination to cooperate is promising, and the following steps and measures may increase competitiveness of this touristic area, supply incremental income to enterprises together with new jobs:

- restructuring of tourist enterprises in accordance with the needs of foreign tourists; this includes buildings, structures, standardised architectural appearance, et cetera;
- introduction of unified quality standards; in order to turn Sevan into a long-term recreation zone for tourists, it is necessary to elaborate unified standards of lodging and catering to be embedded in all relevant enterprises;
- Design and promotion of unified brand to present touristic attractiveness of Sevan;
- Offers of tours, entertainment et cetera to the tourists and visitors (for more details see tourist clusters further).

Implementation of the above steps and measures Sevan will choose new target in the tourism sector, i.e. foreign tourism (citizens of other countries) which is a dynamically developing sector. At the same time, Sevan will not rule out the current target, that is domestic tourism (citizens of Armenia). Implementation of this objective is possible exclusively in the context of cooperation among touristic agencies, local self-government bodies, support institutions and central government. Unified picture of development of tourism cluster in Sevan is set out below:

Diagram 21: Development of Sevan tourism cluster

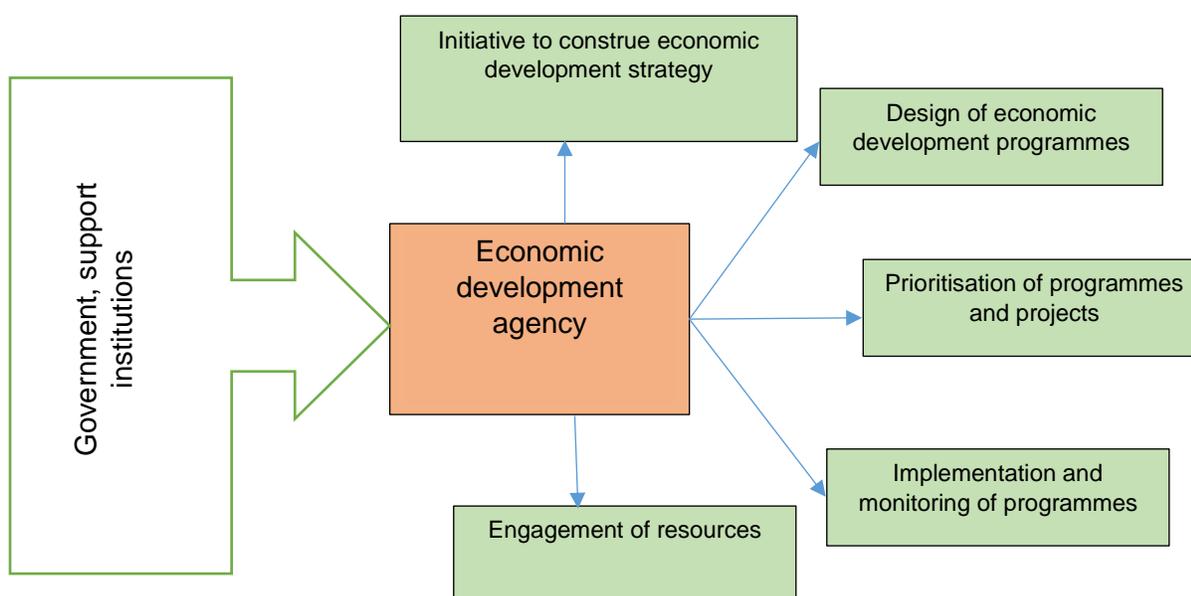


Organising economic development process in urban communities

The administrative and territorial reforms of municipal consolidation (enlargement) open a new horizon for economic development processes. While it is true that smaller administrative units confront the problem of relevant capacities and skills, the larger ones are obliged to address this issue. Prior to consolidation of municipalities, the responsibility for local economic development was too far from the LSGs, while now the government should increase delegation of functions to local authorities, at the same time providing for their capacity development strengthening.

If several programmes and projects are able to substantially improve the situation in small rural communities, the economic systems of urban municipalities are absorptive maintaining several strategic branches and several dozens of support programmes and projects. The work of such volume and scope implies existence of a dedicated structural unit, e.g. division of the municipality, a development agency, business centre, et cetera. This structure or unit is provisionally called Urban Development Agency here. The organisational types of such Agency are varying and depend on the actual situation in the municipality, activeness of economic stakeholders, availability and operations of support institutions, et cetera. In any case, if entrepreneurs are not capable of uniting or joining their efforts and resources to establish a development agency, this function becomes the responsibility of the local self-government.

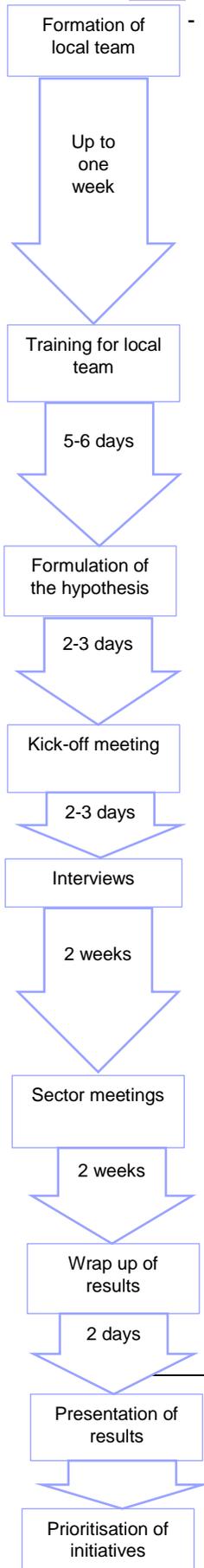
Diagram 22: Functions of the Urban Development Agency (UDA)



The main role attributed to the government and support institutions is the strengthening of capacities of these institutions, including:

- Training in participatory diagnosis and planning tools and techniques;
- Training in project design, management, monitoring and evaluation;
- Enhancing fund-raising capacities;
- Implementation of certain state programmes through these institutions on a competitive basis, et cetera.

Economic development process in urban municipalities is the amalgamation of the following phases:



design of local economic development strategy: the initiators of this process may be development agencies, local self-government bodies, business centres, chambers of commerce, unions, individual entrepreneurs, and others. The first step in designing the strategy is the establishment of a team of interested institutions and individuals to organise the process of economic diagnosis and planning at municipal level. The structure of the team and motivation of its members is the primary precondition for a successful strategy. Earlier in the Manual it has been identified that strategy is to be based on participation of all interested parties and stakeholders, more specifically, by and for the latter.

The team should have certain baggage of knowledge and experience to secure participation by utmost possible number of stakeholders. A training course is necessary to present the participatory toolkit and its application modalities. This process may take up to seven days. During the training course, the local team not only get acquainted with participatory planning tools, but also jointly identify the hypothesis of municipal economic development, in other words, the small picture, which is generated on the basis of the experience, knowledge and information maintained by the team members.

This preparatory phase should be followed by involvement and engagement of the community to try and test the hypothesis in real scale. The first step is to organise and hold a large community meeting, where all interested parties should be informed and notified about the planning processes underway in the municipality and share their perceptions. There are various formats to hold this meeting, such as *Local Development Café*, *Porter's Diamond*, et cetera. These methods are described in the Appendix to this Manual.

Then the team members meet with people engaged in economic activities and having influence on the municipal economy, hold discussions with them, identify business advantages, challenges of each participant, degree of cooperation, plans et cetera. *Porter's five strengths*, *Positive Assessment*⁶ and other techniques can be applied during the interviews. Description of these techniques is provided in the Appendix to this Manual.

Sector meetings may also be organised to encompass main strategic branches with the objective to take the stock of competitive advantages, challenges and other aspects of the sector in general. The methods of these meetings may include Porter's Diamond or *Five Strengths*, *Tools to Identify Competitive Advantages*, et cetera.

In cases, when cooperation is weak, meetings between and among confronted parties can be organised to clarify the potential and interests to cooperate, as well as the causes for failure to cooperate and so on.

⁶ These methods have been applied in 15 consolidated municipalities in the framework of GIZ Good Local Governance Programme assignment, whereby RDF implemented Project Idea Stock-taking and Prioritisation Project. The prioritised project ideas were taken as a basis for Armenia Territorial Development Fund in designing their projects to provide support to consolidated municipalities.

On winding up the interviews and workshops, a dedicated wrap-up session is organised, where results of all meetings, sessions and workshops are summarised by the local team and thus generate the final picture of the local economy, including initiatives and project proposals, which can contribute to economic development of the municipality.

The summarised results are again presented to the community at a public meeting attended by active economic agents and stakeholders of the municipality. This meeting is organised to provide a final check on shared understanding of the competitive advantages of the municipality and the initiatives and proposed projects to support it, including their types and sizes. In addition, participants in this meeting will prioritise the projects on the basis of their impact on municipal and community development. The initiatives may target the entrepreneurs as well because they contain an envelope of attractive project proposals. Their target may well be central government agencies, local self-government bodies, and support institutions for the same reason. In designing the strategy participation of all these parties is very desirable.

The overall duration of participatory planning of local economic development may go on up to one month.

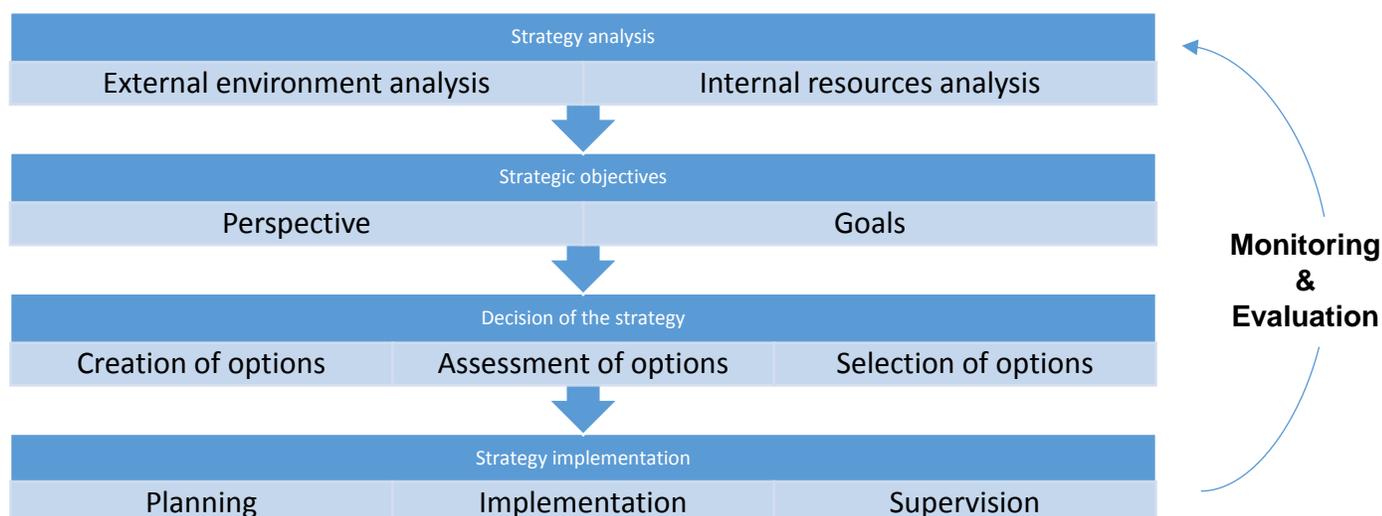
- **Designing economic development programmes**

Next step to participatory planning can be the summary of results by experts shaped in a local economic development strategy. All identified and prioritised initiatives should be shaped into separate projects for urban development agency, local self-government bodies and other support institutions. The staff of the agency should be in command of project design and fund-raising tools and language. There is a need for dedicated training courses so that these capacities are created and developed in areas other than Yerevan.

- **Project implementation and monitoring:** implementation of identified and prioritised projects may be organised by businessmen, local self-government bodies, as well as the urban development agencies. Irrespective of the implementing agency, the UDA must keep track of the progress in their implementation with the objective to understand which targets have been achieved and which still need further work. Another topic of trainings for the staff of the UDA is the monitoring and evaluation of projects, which can be carried out by support institutions or respective offices of the central government.

The overall picture describing the process of economic development planning at municipal level is depicted in the diagram below.

Diagram 23: Course of economic development planning process



Value chain development at regional level

Far not always economic development strategies or programmes are compliant with the administrative and territorial division of the country. Economic development silhouettes new boundaries, which embrace several municipalities situated in different marzes.

The Getik Valley is a concealed part of Armenia, where one is sure to find wonderful landscape, ruined and standing monasteries, unreachable castles and hospital people. The Getik River springs from vicinities of Tchambarak town and through canyons flows into the Aghstev River.

It is the tenth year now that tourism is gradually developing in this area. The whole deal was kicked-off with one single B&B and now the number of these facilities is several dozens. There are other service providers as well, such as a small workshop producing souvenirs and carpets, mastery centres of apiculture and cheese breweries also operate.

The Getik Valley is divided between two marzes. Between Tchambarak and Antaramej village all villages are in the Gegharkunik marz, while Aghavnavank and Khachardzan are in Tavush. However, this is the very same valley, the same people, and the same development opportunities.

From the standpoint of tourism development the entire valley, including the two villages in Tavush marz are one single entirety, an area where there is a shared and common economic development perspective.

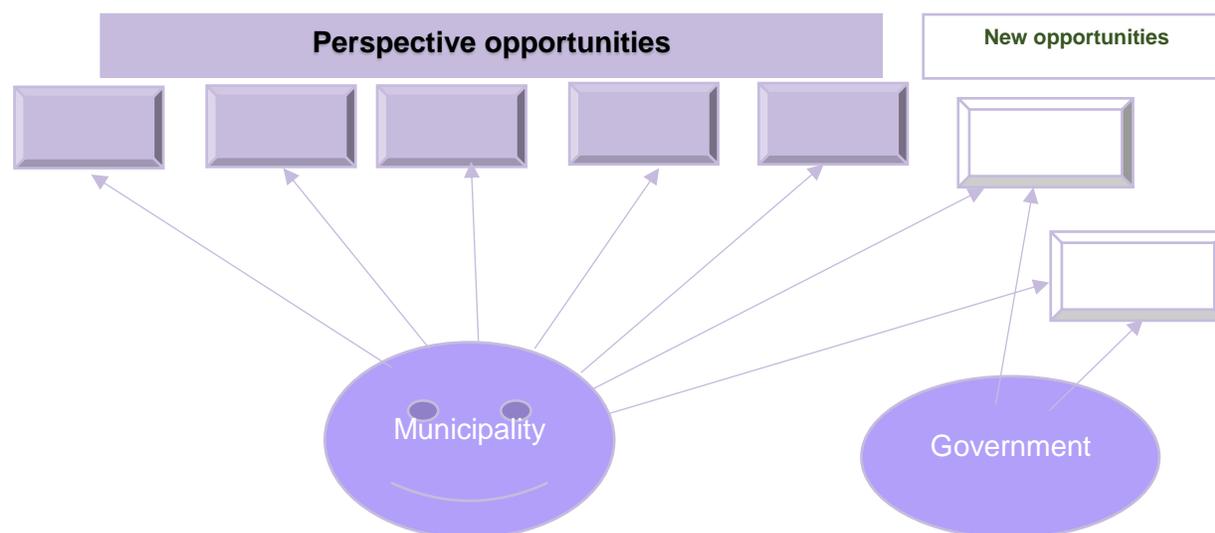
The role of central government and support institutions in local economic development

Any programmatic intervention at municipal level should multiply the potential of the local stakeholders towards implementation of the already designed plans.

Prior to embarking on implementation of nay intervention, it is a must to explore plans of the local operating enterprises, other stakeholders and try not to hamper the perspective stipulated therein.

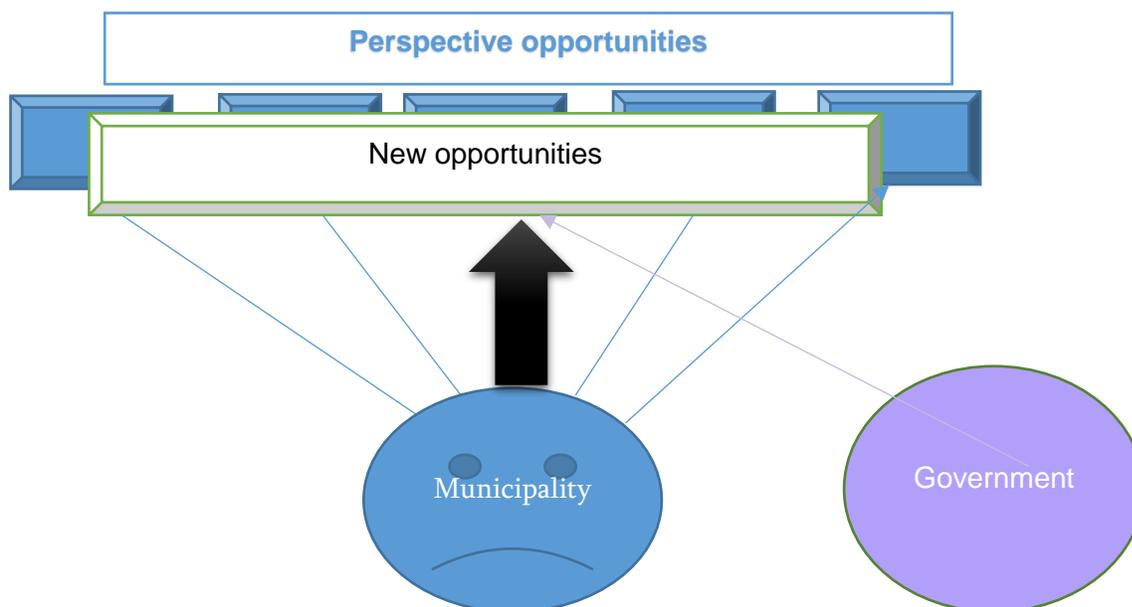
It is necessary to try to expand the horizon of the local active enterprises providing them with new opportunities of future choices, and never deprive them of the components of their development prospect.

Diagram 24: Expanding perspective development opportunities of municipalities



In the diagram the government creates new opportunities for the municipality by multiplying alternatives of the existing development prospects. The municipality chooses its own and one of the added alternatives. In case of inefficient behaviour, the government shall step in to curtail development opportunities of the municipality replacing them with its own alternative or not suggesting anything.

Diagram 25: Limitation of development opportunities of a municipality



In such a case the new alternative suggested by the government limits the choice of the municipality and leaves only one option, i.e. the proposal of the government.

The same applies to the support programmes implemented by international and local organisations. Often, these do not any relevance to the imperatives of local economic development, which are defined in the municipality, rather they stem from the mandate assigned to the support institution. There are also cases when various organisations repeat the same programmes and projects in the same municipality simultaneously or at negligible time interval yielding the same negative or no results.

Concrete proposals addressed to the government and support institutions are set out in various sections of this Manual.

Chapter 3: Local Economic Development Strategy and Programmes

Competitive advantages: where are we now?

It is important to consider the competitive advantages, on the basis of which the prospect of local economic development is construed. Each municipality maintains a unique collection of competitive advantages, which include both human and natural. Human-driven competitive advantages incorporate technologies, innovations, professional skills, the capacities and knowledge of community residents, which generate economic gains. A municipality gets natural advantages primarily from nature or as a historic legacy, such as climatic and natural conditions, geographic location, natural or historic heritage, et cetera.

In discussing competitive advantages of municipalities, it is indispensable to emphasise human driven advantages, because they reflect the capability of people to deploy natural advantages for the benefit of economic development.

If a municipality is not in a position to use own natural advantages, then enterprise of other municipalities or states do so, dooming the local population to be merely a cheap labour force.

In large rural municipalities, the educational and professional status of population is differentiated, i.e. quality experts are available in various sectors, including craftsmen, artists, technologists, mechanics, scientists, et cetera. It is simply important that a community that maintains such professional skills is advanced at least versus the neighbouring ones. In such a case, competitiveness at regional level can be contemplated. If these advantages make a community different from others in the countries, then it should be stated that such municipality is competitive in the domestic market. The next level is the competitiveness at international level.

Local economic development programmes should be based on natural and, particularly, human driven competitive advantages. This would make sure that the gains and benefits of future are also competitive on the market.

As an example, competitive advantages of Koti municipality are set out below:

- Natural and climatic conditions are mild and favourable for engagement in high-value agricultural activities. In the neighbouring Debed valley freeze and extreme heat often damage seedlings and branches of the trees, drastic changes of temperature are very rare in Koti.
- Vicinity of forests supplies population with not only berries and fruits, but also stove wood. If trimming is done according to the established plans, the wood would suffice not only for household needs, but also for heating hot-beds.
- The inter-state road runs through the municipality and it is a favourable opportunity for sales of local agricultural produce.
- The knowledge and experience in production of vegetables, fruits, cheese and canned food-stuff are still here from Soviet era and can be invested in agriculture and processing facilities.

- There are small cheese and canning enterprises in the region, which may be a successful precedent to repeat if relevant people and markets are identified.
- An advantage for development of cattle breeding sub-sector is the availability of remote pastures and meadows, where water supply is secured and the roads are in pretty good condition.
- Population of the region is apt to getting into joint efforts, changes, and numerous alternatives of cooperation networks exist.

Community development prospect: where are we going?

Municipalities have a variety of development paths to follow. Selection of the path(s) may be incidental, but it may also be shaped on the basis of the community development vision maintained by people responsible for such development. Each and every resident, enterprise, significant stakeholder of a municipality holds their own vision about the development of their municipality. One of the major goals of designing a strategy is to bring together these distinctly separate visions to generate unified picture of the municipality, i.e. its prospect. The process described in the preceding section and the deployed methods enable sum up of prospects and plans of individual enterprises and generate common picture of LED, which helps the entire local population, corporate sector, municipal decision-makers always stick to the major development path and – most importantly – create a broad cooperation framework. If prior to participatory processes, people were only superficially following activities of others, within the described process they see and listen to each other about their programmes and desires.

Shared vision is the main source of synergies. Sum up of forces is possible if power centres know the potential and plans of each other. The case of Gavar economic development prospect is set out as an illustration to the above.

Gavar is one of the educational centres of the country. Specialist educated here are competitive not only in the republic, but also beyond. Meat products produced in Gavar has conquered entire market in Armenia. They are known as the most high quality products in Armenia, and their export has already been launched.

Local development objective: where do we get in a given time period?

Formulation of a shared vision facilitates shaping the main development objective. The picture of development prospect is more about qualitative properties, the objective “earthly”, in other words, quantifiable, clearly worded and timed.

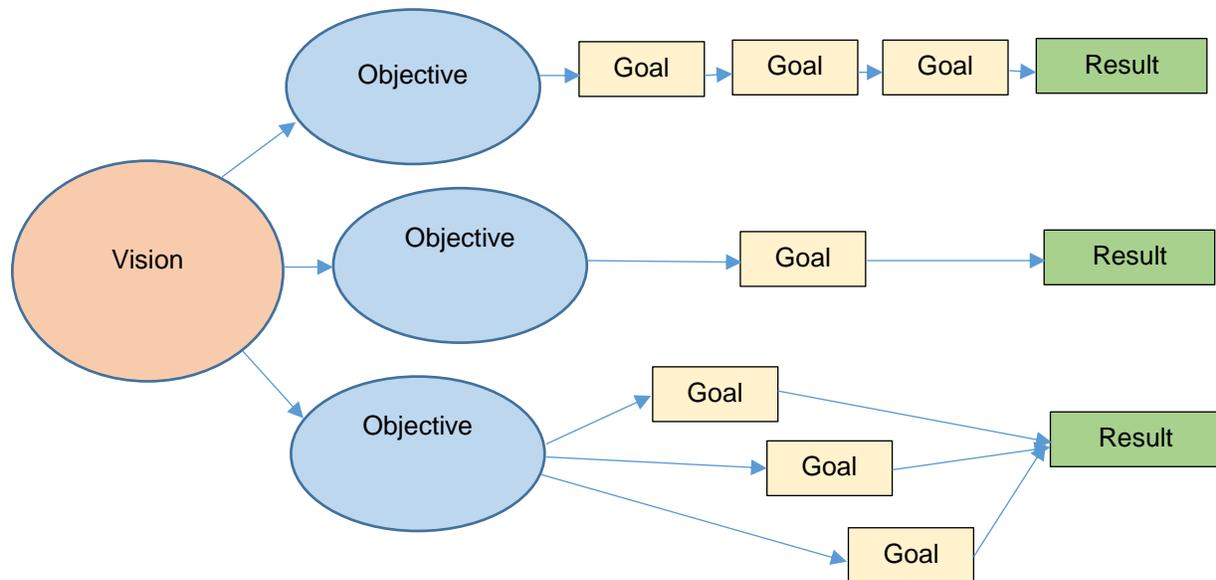
An example may be objective of Sevan economic development.

Over the upcoming five years Sevan hosts more than fifty thousand tourists, some 80% of whom spend more than two nights in the hotels in Sevan.

Dividing the objective into goals and results: how do we achieve the objective?

Any big objective should be divided into clearly formulated goals. Addressing a group of goals results in implementation of the objective. The Diagram below reflects the linkages between the vision, objectives and goals.

Diagram 26: Vision, objectives, goals and results



Implementation of goals yields intended results along the three main options:

- Sequential address of issues, each solution bringing us closer to implementation of the result;
- Implementation of the result through single goal to secure the overall result;
- Solution of several goals in one go and securing the overall result.

Breakdown of the economic development objective in the case of Sevan will have the following shape:

- Enhanced quality of services delivered in the hotels, elaboration and introduction of pricing standards for lodging;
- Introduction of new multi-language menus in the restaurants and training of service sector specialists;
- Presentation of tourism potential of Sevan, elaboration of its brand and its promotion in the republic and abroad.

Each of the above goals may become a full project per se, or all of them may be summarised in a general tourism development programme.

Formulation of issues into projects, structures of projects

Any economic development issue may be shaped into one or more projects or initiatives. In other words, local economic development programmes should contribute to implementation of the general objective. In formulating projects, it is necessary to following the following logic:

1. **Brief:** Overall objectives and expected results of the project are set out in this section.
2. **Description of the organisation implementing the project:** General objectives stipulated in the project should be coherent with the mission and background of the project implementing organisation. It is necessary to scrutinise the experience of the organisation, which is in concert with the proposed project in its rationale and structure.
3. **Situational analysis:** Project proposal should ideally contain detailed analysis of the current situation and substantiate it with quantitative data. The legal and normative framework should be analysed and relevant references to decisions and legal acts are to be stipulated.
4. **Description of the challenge:** One of the crucial postulates of a project proposal is the description of the challenge and its impact on implementation of the general objective set in the context of local economic development. Analysis of the challenge may incorporate both political and sector analyses, opinions, case studies and so on.
5. **Project objective and goals:** Similar to economic development strategy entails concrete objectives and goals, each project should be furnished with a concrete objective, which should be timed, measurable and achievable. Further, goals and activities are to be defined for each objective.
6. **Project beneficiaries:** This section indicates the target group, which is the direct beneficiary of the project. Indirect beneficiaries are also stated, and these are the ones who make use of the indirect results of the project.
7. **Proposed methodology:** This section of the project should indicate concrete tools and methods, which are deployed to solve the project goals. Both known and individual solutions may be applied, which should yet be tested or their success is already a fact of life.
8. **Project activities:** Each goal is presented as a sequence of activities. The latter are set out to the extent of detail which precludes questions for readers as to the activities.
9. **Risks and limitations:** For each project activity, risks should be predicted. These are the risks that might somehow hinder implementation of activities. Moreover, measures should be envisaged to remove the above risks or alleviate their impact.
10. **Resources and means to implement project:** Resources and means necessary to implement any project activity are analysed and their accessibility for project implementing agencies is set out.
11. **Project budget:** There are several alternative to present the project budget, the most widespread being line expenditures grouped into several categories, such as:
 - Remuneration;
 - Acquisition of property, plant and equipment, construction;
 - Travel costs (lodging, per diem, fuel, et cetera);
 - Communal and office expenditures;
 - Expenses incurred on organisation of training courses; and
 - Other expenditures, grants, and so on.
12. **Monitoring and evaluation:** Monitoring and evaluation of projects is to be implemented in accordance with the M&E plan designed in advance and vis-à-vis the defined indicators and criteria. It may be implemented by both the project tin-house evaluator and contracted party.
13. **Project sustainability:** In the process of designing and implementing a project, a pivotal issue is how to secure project sustainability in the period beyond wind-up of the current financing. Does the project or implementing organisation generate sufficient resources or capacities to safeguard uninterrupted flow of the process and the continuity of the results?
14. **Appendices:** this section contains information on the project personnel, their expertise, logical framework of the project, which is the logical scheme manifesting the linkages between the objectives and actions (activities), et cetera.

Appendices

PACA (Participatory Appraisal of Competitive Advantage)

<http://www.mesopartner.com/knowledge-services/tools/paca/>

PACA is a participatory, bottom-up and pragmatic approach to local economic development. It is toolkit, which enables – within a short period of time - assessment of economic situation in a community, identify competitive advantages and come up with initiatives, results of which will be visible in a short notice. The primary goal of PACA is the swift and visible identification of results in contrast to the projects, which are concentrated on development of long-term, complex strategies requiring extensive financial resources.

This approach is used in municipalities to:

- Promote local economic development processes;
- Increase efficiency of the ongoing LED process.

PACA has been introduced in more than 40 countries.

As PACA is a starting phase of LED, it contains significant educational and training component. The training and transfer of LED skills are not by-products of the project, but the pivotal element of the PACA concept.

With the objective to transfer the necessary knowledge to the municipality and secure continuity and sustainability of the LED processes, a local team to implement PACA is formed, representing various interested parties, such as business, LSG, business service delivery organisations, civic sector, et cetera.

Implementation of PACA project encompasses the following sequential steps to be undertaken:

Selection of the municipality

The selection of municipality of operations is carried out on the basis of the following four criteria:

- The number of population should be between 3000-15000 people;
- The municipality maintains a complex public sector, numerous active organisations and individual exercising influence on local decision-making processes;
- Local economic structure is diversified;
- Mayor is motivated to the improve organisation of economic development process;
- There are other organisations hosting PACA project in addition to the municipal administration.

Selection of hosting organisations

- The selected organisation provides information and logistic support to the project in the entire period of its implementation, supplies basic information on the local economy and creates first connections with the major stakeholders.

Forming local team



- Guided and attended by local stakeholders, a group of knowledgeable people is formed (3-5 people); membership is voluntary and unpaid. The local team is the implementer of the project and the holders of project tools and the safeguard of the project sustainability.

Training of the local team (7-8 days)

- The PACA toolkit is transferred to the local team as a result of the training.

Elaborating the hypothesis

- The local team, guided by local and international PACA experts, elaborates hypothesis of the current situation, development opportunities and directions of LED.

Kick-off meeting

- This is the first large meeting of the PACA team with important local stakeholders. The objective of the kick-off meeting is to notify the stakeholders about the start of the project and get information about the local economy.

Interviews and small working meetings (SWM)

- Interviews are held with some 40-60 local stakeholders, including businessmen, chambers of commerce, business service providers, LSGs, NGOs, employment centres, et cetera. The objective of these meetings is to correlate the hypothesis with opinions and projections of the other stakeholders and participants of the process.

Development of results

- The local team will consolidate the results of interviews and other meetings and elaborate a package to be presented to the community.

Presentation of the results

- The local team will invite all interested parties of the community to the meeting and present the results of a one month work. They will summarise the studies and research and submit the package of identified initiative to the community, having invited all interested parties and organisations to the meeting to participate in the process of submission of project proposals.

Design of the action plan

- The local team will design a plan to guide the implementation of the identified initiatives.

Implementation

Implementation is envisaged by all interested parties and organisations.

Guidance

- This means guidance of initiatives targeting local economic development.



Hexagon⁷

The Hexagon is an instrument, via which LED training measures are implemented. It helps categorise local economic development issues into six main blocks. At the same time, Hexagon is a basis for organising rapid workshops along a variety of formats, which are directed at elucidation of LED development prospects.

The 6 main blocks of Hexagon are:

1. LED target group (local organisations, start-ups, external investors);
2. Territorial factors (tangible and intangible factors for local organisations);
3. Synergies (among LED and social developments municipal strategy planning);
4. Sustainable economic development;
5. LED process management;
6. LED process organisation.

COMPASS⁸

Compass is an LED tool, based on a one day workshop with active local stakeholders. During this one day workshop, the local stakeholders:

- Exchange information of success stories;
- Define the major objective of their activities;
- Identify the priority success factors in their sector;
- Identify the activities, which target implementation of the priority success factors.

Application of COPMASS tool enables:

- Swiftly get to know the activities currently underway in the municipality;
- Balance the prospects of various local stakeholders;
- Promote willingness of local stakeholders to engage in joint work and arrangements agreements;
- Define the list of activities, which are targeting strengthening of municipal economy.

The LED Café

<http://www.mesopartner.com/knowledge-services/tools/led-cafe/>

This tool is a multi-participant workshop management method, which allows increasing awareness about LED. It can be easily used when a meeting is attended by more than 200 people. This tool is an efficient format enhancing exchange and correlation of information among local stakeholders.

Micro franchising

⁷ For more see <http://www.mesopartner.com/knowledge-services/tools/hexagon/>

⁸ For more see <http://www.mesopartner.com/knowledge-services/tools/compass/>



Micro franchising is business model under which elements and concept of conventional franchising are applied in micro businesses.

This tool is particularly efficient in transition economies. Transition to market economy gives rise to completely new relations and demand for knowledge. In these circumstances generating innovative business ideas is quite a challenge for start-ups, because entrepreneurial culture and skills are virtually non-existence. Micro franchising protects start-ups from many risks and enables to launch a private business by having a ready package.

This tool is directed to introduction of replicable business models and:

1. A business model is created, based on a replicable business idea, which includes business planning, as well as all necessary qualitative and technical criteria;
2. On the basis of business plan and criteria, businesses are replicated;
3. A network of competitive and sustainable enterprises is established according to the same criteria and under the same brand.

Competency based education through formation of enterprises (CEFE)

www.cefe.net

The main component of the project is the interactive training course primarily based on simulating market situations, analysis of which enables start-ups to avoid serious mistakes in real life. The objective of the course is to prepare start-ups to establish and successfully operate their businesses in market environment. A one month course is replenished with a set of individual advice, market analysis carried out by the businessman and elaboration of business plan.

The project consists of three phases:

Selection of participants

Application – Interview – Orientation seminar

Main course

A one month long course, which incorporates a set of individual advice, market analysis carried out by the businessman and elaboration of business plan

Brain-pool - up to 18 months

At least six mandatory meetings per annum to provide for exchange of experiences, and to identify the need for training courses and individual advice

Coaching

Individual advice on demand

The project, as a rule, is launched upon completion of a LED project, encompassing implementers of business projects which form part of identified LED initiatives.



M. Porter's⁹ Diamond

Having analysed experiences of thousands of municipalities and communities, M. Porter has identified a number of competitiveness tools. Of these, the tool called Porter's Diamond is used in the context of community development.

This tool enables analysis of links existent in the economy, their power as a prerequisite for stability and competitiveness of the economic system as a whole.

Business environment in a municipality is depicted as an entirety or a system of interconnected four sectors. Application of this mechanism enables seeing current condition of the sectors, the level of their competitiveness, strategies, as well as all those factors, which make operations of the major spheres of local economy operational, such as meticulous demand, quality human and financial resources, economic framework, infrastructures, as well as adjacent sectors, which furnish the main ones with necessary auxiliary goods.

The image of a diamond would help understand not only the current situation, economic power and competitiveness, but also reveal the future picture.

Thus, what will come up as a result of applying this tool includes:

- description of current economic situation and ties;
- description of future, i.e. vision;
- activities turning the picture linking the present with future into a reality, including for business structures, public governance agencies, and non-government institutions.

M. Porter's Five Powers

In local economic development, another tool elaborated by M. Porter is used called Five Powers.

Diagram 27: Five Powers

⁹ Michael Porter (1947) – American scientist specialised in economic theories, business strategies, and social sectors





Analytical tools created by Porter are used in interviews and working meetings with entrepreneurs enabling not obtaining the information and experience of the latter through a clear mechanism, but also provide them with a possibility to think new and structured.