

# **An Employment Strategy for the Lodz Region of Poland**

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## Preface

In the Agreement of Cooperation concluded by the International Labour Office and the Republic of Poland for the 2000-2001 biennium, one project was to elaborate a regional employment strategy for a selected Polish region, with the assistance of the ILO. Lodz was the target region agreed on by the Ministry of Labour and Social Policy together with the social partners. Within the ILO, the project was undertaken by the Employment Strategy Department in Geneva, and the ILO Central and Eastern European Team in Budapest. Mr. Frank Pyke, an independent expert and a long-term ILO collaborator in the field of local economic development joined the project team as the main consultant.

Two ILO missions (accompanied by representatives of the Polish Ministry of Labour and namely by Mr. Czeslaw Nowicki, Adviser to the Minister of Labour who contributed a lot to the missions' achievements) were undertaken in early April 2001 and in mid-January 2002. The purpose of both missions was to discuss – with the regional government, the social partners, the regional and local labour offices, the regional academia and other important stakeholders – the developmental problems and opportunities in the Lodz region, together with a regional development strategy prepared for the (regional repeats) government to address these problems. The ILO missions collected relevant statistical information on the regional economy, the labour market and the various activities of regional stakeholders to improve the economic and employment situation. Mission members also benefited from discussions with leading officials from the Ministry of Labour and Social Policy, the All-Poland Alliance of Free Trade Unions, the Independent Self-Governing Trade Union Solidarity, the Confederation of Polish Employers, the Polish Confederation of Private Employers and the Polish Handicraft Union in Warsaw.

Professor Eugeniusz Kwiatkowski (University of Lodz) prepared a background paper analysing economic and labour market changes in the region during Poland's transition to a market system, the roles played by regional institutions in this process and the achievements and failures of regional development initiatives. The present report is based on this paper, together with the information and findings collected during the two ILO missions, and supplementary data collected from international experience.

The report and its findings and recommendations were discussed in depth during the Tripartite Seminar on the Regional Employment Strategy and Social Dialogue, which was held in Lodz on 27-28 May 2002. Some 150 participants attended, representing the Ministry of Labour and Social Policy, the Regional Government of Lodz, the regional social partners, the Regional Labour Office, local governments, regional academia, administration and non-governmental institutions as well as representatives from other Polish regions. Also representatives of the ILO and experts from three EU regions attended the seminar.

We trust that the tripartite constituents in the region of Lodz will find some inspiration in the analysis and the recommendations presented in the report to address the challenge of building a strategy to create jobs for men and women in the region.

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## Introduction

The report presenting a regional employment strategy for the Polish region of Lodz consists of two parts. Part I describes the main characteristics, recent development trends and major challenges of the regional economy and the regional labour market. It also tackles the issues of labour demand constraints, including the impact of labour market regulation and high labour taxation, and assesses the effects of labour market policies. Further, it evaluates regional social dialogue, both bipartite and tripartite (with regional and local governments) with regard to crucial economic and employment goals.

Part II discusses the components of a regional employment strategy that could build on strong-points in the Lodz regional economy and human resources, to contribute to improving the labour market situation and promoting productive employment. Coordination, decentralization and partnership in implementing regional development initiatives are key elements of these proposals. Numerous initiatives currently exist but are largely independent, competing for constrained (and mainly public) resources. A successful strategy needs to combine endogenous development “from within” with inward investment “from without”. It should focus on upgrading existing traditional sectors and developing new sectors, in particular by making the best possible commercial use of the region’s exceptionally rich educational and scientific infrastructure. This report makes a strong plea for strengthening the role of local and sectoral partnerships and for genuine social dialogue, in order to increase regional competitiveness and facilitate change.

In Lodz (as elsewhere), small enterprises are the main job generators. It is imperative to create an enabling support system for the establishment and advancement of these firms. Apart from industrial and service activities, rural development and improvement of the information and transportation infrastructure also need attention. Another critical task is to develop an effective education, training and learning system to try to alleviate the extensive skill mismatches currently in the market and to provide assistance in skills upgrading or skill-changing – to maintain people’s employability throughout their working lives, and to facilitate knowledge sharing among enterprises. Labour market institutions and policies must also be reconsidered and strengthened, facilitating the change of job, profession or location of work that may be required to avoid long-term joblessness and marginalization, in particular for those social groups that are especially vulnerable.

This report elaborates all the above major components of a regional employment strategy and illustrates them with examples of similar approaches applied in other industrialized and transition economies. Its purpose is by no means to set hard-and-fast rules, but to provide guidelines and to stimulate discussion on ambitious but feasible development projects for the region, and concrete actions to be carried out by regional stakeholders to achieve them. With this in mind, the report concludes with a list of recommendations for further consideration.

## Part I. Current Situation: Trends, Opportunities and Problems

### Introduction

On January 1, 1999, a major geographical reorganization of the administrative regions of Poland resulted in 16 new voivodships or regions, and the definition of the current boundaries of the Lodz voivodship.

**Map 1** Poland's administrative division after 1998



Each voivodship has been divided into poviats or districts. The Lodz voivodship has 23 poviats (including 3 cities with poviat status). Beneath the level of the poviat is the gmina or commune, of which the Lodz region has 177.

The new Lodz voivodship largely (but not entirely) overlaps the five earlier Central Macroregion voivodships of Lodz, Piotrkow, Plock, Sieradz, and Skierniewice.

*A Region in the Centre of Poland*

With just over 2.6 million people and covering around 18,000 square kilometers, the Lodz voivodship (in 2000) occupies 5.8 per cent of the area of Poland and contains 6.8 per cent of its population. The higher level of population density is reflected in higher proportions living in urban areas. The Lodz voivodship contains 42 towns, the biggest of which is the city of Lodz with 800,000 inhabitants. Overall, the population is declining because of a negative natural increase and a net level of migration. Women form a higher percentage of the population compared with Poland as a whole.

Its central position makes it a potentially important transport and communication crossroads between north and south, east and west.

## 1. Light Industry - Traditional Core of the Regional Economy

Historically, the city of Lodz and the surrounding area was renowned for its concentration of light industry. Of the five former Central Macroregion voivodships, from which the new Lodz Region has been shaped, in four of them in 1990 the share of employment in light industry was markedly higher than for Poland overall, reaching 27.1 per cent of all employment in the old Lodz voivodship, compared to 5.7 per cent for Poland. In 1989, light industry accounted for 54.9 per cent of all employment in Lodz industry and 51.3 per cent of all industrial production.<sup>1</sup>

In many respects, Lodz and its surrounding area had all the characteristics of a monoculture, with all the economic advantages that potentially derive from clustering and specialization, along with the disadvantages of single-industry dependency and vulnerability to downturns in demand.

### *A Period of Restructuring*

During the 1990s, transition to a market system engendered a restructuring of the economy and enterprises, in terms of their ownership, their size and their areas of activities. Regional and sector restructuring programmes were created with the purpose of accelerating and easing the restructuring process. Devised in 1993, the *Lodz Region Restructuring Programme* was the major programme and emphasized the need to diversify industry.

An important element of the transition process has been the privatization, restructuring and liquidation of state-owned enterprises, which began in 1990. Between 1990 and 1999, 107 companies, mainly in manufacturing, were established from state-owned enterprises. During 1999, 192 state-owned enterprises, mainly from industry, were included in the privatization process, of which 87 were subject to bankruptcy and liquidation and just two were directly privatized.<sup>2</sup>

Privatization, bankruptcy and liquidation were accompanied by the establishment of new entities. As a consequence, the number of economic entities in total, and in particular areas of economic activity, as well as their ownership, their organizational form and corresponding legal status, underwent change. By 1999 the number of economic entities in the new Lodz voivodship had risen by 73.8 per cent compared to 1990, and the private sector comprised 97.6 per cent of all economic entities in the voivodship.<sup>3</sup> Moreover, the importance of large enterprises lessened in many fields of activity while the role of small and medium-sized enterprises in the private sector increased.

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<sup>1</sup> *Zatrudnienie w gospodarce narodowej*, 1992, quoted in Kwiatkowski, 2001; Kwiatkowski, 1995.

<sup>2</sup> *Lodz Voivodship Statistical Yearbook*, 2000.

<sup>3</sup> *ibid.*

### *Increased Inward Investment*

Accompanying the regional restructuring has been an increase in the number of foreign enterprises and companies with foreign participation. The number of companies with foreign capital participation in the Lodz voivodship was 1,033 in 1995 rising to 1,701 in 1999. By 1999, the number of foreign economic entities in the Lodz voivodship was 1,392. Foreign direct investors have included major companies such as Bosch, Daewoo, Coca-Cola, ABB, PepsiCo, Merloni, Statoil, IKEA, Aral, Shell, Philips, Carrefour, Texaco, LG Group and others.

The incoming companies operate mainly in industry and trade, with a recent growth in the role of trade. The city of Lodz, for example, has seen an increase in foreign-owned supermarkets. Until 1997, foreign direct investment (FDI) in the Lodz region amounted to US\$ 420 million, of which 51 per cent went into manufacturing activities, 30 per cent into trade, and 15 per cent into financial intermediation.<sup>4</sup> Most FDI has originated in Germany, South Korea, France, Great Britain, the United States, Australia, Switzerland and the Netherlands.

It has been suggested that an insufficient number of FDI companies operate in “modern” industries such as manufacturing electrical equipment, medical or optical instruments.<sup>5</sup>

### *The Current Structure of Industry*

Table 1 sets out the current share of industry sub-sectors in total industry sales in the Lodz region and compares them to shares for Poland as a whole.

Inside the Region, the “*Electricity, Gas and Water Supply*” sector has the highest percentage and this percentage is also high relative to the situation for the whole of Poland. However, when the sectors of “*Textiles Manufacture*” and “*Manufacture of Wearing Apparel and Furs*” are combined, the continuing importance of light industry is highlighted, **accounting as it does for 26.7 per cent of all regional sales**, compared to only 3.8 per cent for all Polish sales. Moreover, the figure of 26.7 per cent is likely to underestimate its regional importance – given that parts of other sectors will also be dependent on, or closely related to, the textiles and apparel industries.

At the same time, the significant percentage shares within the Region of other sectors, such as “*Food Products and Beverages*” at 11.2 per cent; “*Manufacture of Electrical Machinery and Apparatus*” at 7.0 per cent (compared to only 2.8 per cent for Poland as a whole); and “*Publishing and Printing*” at 6.2 per cent (compared to 3.3 per cent for Poland); plus a percentage of 18.2 per cent for “*Other Manufacturing*”, testifies to proportional growth in certain sectors relative to textiles and clothing – indicating that attempts to diversify the economy have met with some success.

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<sup>4</sup> Jewtuchowicz (ed.), 1999.

<sup>5</sup> Kwiatkowski, 2001.

### *Non-Industrial Sectors*

Agriculture plays an important role in the economy, accounting as it does for 34 per cent of total employment. Important items in agricultural production include potatoes, vegetables, fruit, cattle breeding and milk.

**Table 1. Share of Industry Sub-sectors in Total Industry Sales in the Lodz Region in the First Three Quarters of 2001, and Poland 2000 (percentage)**

	<b>Lodz</b>	<b>Poland</b>
Electricity, Gas and Water Supply:	20.0	9.7
Textiles Manufacturing:	18.2	1.7
Other Manufacturing (including Mining and Quarrying):	18.2	51.1
Manufacture of Food Products and Beverages:	11.2	19.3
Manufacture of Wearing Apparel and Furriery:	8.5	1.9
Manufacture of Electrical Machinery and Apparatus:	7.0	2.8
Publishing and Printing:	6.2	3.3
Manufacture of Other Non-Metallic Mineral Products:	5.4	4.7
Manufacture of Chemicals and Chemical Products:	5.3	5.5
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Total:	100.00	100.00

Sources: "Social and Economic Situation in Lodz, I-III Quarter 2001", Statistical Office in Lodz, December 2001;  
"Statistical Yearbook of the Republic of Poland: 2001"

Apart from agriculture and industry, the construction and service sectors are also very significant, especially in respect of certain service sub-sectors. For example, "Trade and Repair" and "Real Estate, Renting and Business Services" are particularly significant, both in terms of the number employed and the number of entities. Reflecting in part their generally small size, these two sub-sectors respectively account for 37 per cent and 10.0 per cent of all economic entities in the region.<sup>6</sup>

Other significant sectors include "Transport, Storage and Communication", and, in terms of number employed and strategic significance, "Education", including over 19 higher educational institutions offering a strong scientific and commercial potential.

### *Small Enterprises*

Of significance in both service and industrial sectors is **the preponderance of small enterprises**, which could have many implications for development and employment policies. For the region as a whole, a reported 211,000 enterprises exist (in 2000), the large majority of which employ 5 or less workers. In 1999, 99.8 per cent of all enterprises were small or medium enterprises (SMEs), and around 73 per cent of employees were employed in SMEs, compared to 61 per cent for Poland as a whole.

<sup>6</sup> Kwiatkowski, 2001.

For the city of Lodz, 93 per cent of all enterprises employ 5 or less workers, and 98 per cent employ 20 or less.<sup>7</sup> Only 0.5 per cent of firms employ more than 100. In agriculture, the size of farms also tends to be relatively small.

### *The Region's Performance*

On a number of indicators, the Lodz region shows a need for improvement. The Gross Domestic Product per capita for Lodz region in 1999, at PLN 14,497,<sup>8</sup> was less than (91 per cent of) the Polish average of PLN 15,907.<sup>9</sup> Also enterprises in the Lodz voivodship have been operating with very low profitability rates. In 1999, the gross profitability rates were: 1.5 per cent in industry, 3.8 per cent in construction and 1.6 per cent in trade and repair – with an average for the entire regional economy of 1.8 per cent.<sup>10</sup>

Anecdotal evidence indicates that technology and productivity is generally poor, and that there is a high reliance on low labour costs as a means of competing. Moreover, rates of innovation appear to be low. In 1998, according to data from the Statistical Office of Lodz, out of 35,205 large enterprises less than 2 per cent declared conducting an innovative activity such as introducing new products, or technologies or organizational changes.<sup>11</sup> Also, despite its pivotal geographical position, the transportation and information communication infrastructure is poorly developed.

In respect of agriculture, in most areas soil is of relatively poor quality, except in the northern poviats of Kutno, Lowicz and Leczyca where market gardening is possible.<sup>12</sup>

Average monthly gross wages/salaries for the Lodz region in 1999 were PLN 1,787, below the national average of PLN 2,026<sup>13</sup> while unemployment is much higher.

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<sup>7</sup> “Lodz in Figures, 2001”, Statistical Office of Lodz.

<sup>8</sup> PLN (Polish zlotys) 4 = US\$ 1 in December, 2001.

<sup>9</sup> Statistical Year Book of the Republic of Poland, 2001.

<sup>10</sup> Kwiatkowski, 2001.

<sup>11</sup> *ibid.*

<sup>12</sup> *ibid.*

<sup>13</sup> *Ibid.*

## 2. The Regional Labour Market

### *Employment characteristics*

The Lodz regional labour market differs from the national one in several characteristics. First, while the proportion of working-age population in total population is nearly the same (60.7 per cent in Lodz compared to 60.6 per cent for Poland overall in 1999), the activity rate in Lodz is higher (79.2 per cent and 77 per cent, respectively).<sup>14</sup> Second, the employment rate, at 41.6 per cent, is also higher than the national average of 40.6 per cent – although the difference is already less pronounced, pointing to an above-average unemployment rate of 16.1 per cent in Lodz compared to 15 per cent for Poland (both figures for 2000 originate from labour force surveys). In absolute numbers, the economically active population accounted for 1,273,300 persons at the end of 2001, of which more than one-fourth – 349,400, lived in the city of Lodz.

Third, the average level of education of employed persons is remarkably better in Lodz, differing in particular in the share of persons with tertiary education (16.9 per cent in Lodz and 13.4 per cent in Poland). It reflects a better access of local population to higher education (the region has the highest percentage of university students in total population). This contrasts with the slightly elevated proportion of persons with only primary or lower education, also characteristic for this region (15.7 per cent in Lodz and 15 per cent in Poland).

Nevertheless, discussions with local employers revealed their partial dissatisfaction with the contents and specialization of skills of the local labour supply. They complained that many local schools do not take into account actual and future demand for skills and contribute to skill mismatches and high unemployment of school leavers while a number of professions are in short supply on the labour market. According to employers, the qualifications of blue-collar workers are particularly unsatisfactory: the system of vocational training is rather weak due to low subsidies from the State. Adult education and retraining sponsored by the State also lags considerably behind market needs, especially for the smaller enterprises that cannot afford to bear the full costs of retraining employees with obsolete skills.

Despite the more advantageous educational structure of employment in Lodz, wage relations are the opposite: the average gross monthly wage in Lodz was 17 per cent lower than the national average in 1999. There are four main reasons for this difference. First, the economic situation of the region is not favourable and the lower profitability of local enterprises does not permit them to pay higher wages. Second, the legacy of past wage relations that disfavoured major regional industries, such as the food and textile industry, in comparison with primary industries located in some other regions of Poland, is still valid – a factor compounded by powerful trade unions in the latter sector. Third, the impact of higher unemployment on wage levels cannot be disregarded. Fourth, although investment in education has increased during the transition period, the increase is insufficient to balance out the regional and industrial effects on wage relations.

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<sup>14</sup> The activity rate is measured as a share of economically active population to working-age population. The figures are taken from the Statistical Yearbook 2000, Central Statistical Office, Warsaw 2001.

### *Unemployment trends*

As mentioned above, the unemployment rate in the Lodz region is higher than for the entire country, a difference that has been maintained since 1998, when the labour market situation in Poland deteriorated remarkably. The figures for the end of 2001 put the regional rate of registered unemployment at 17.5 per cent, compared to 16.8 per cent for Poland as a whole. Between 1999 and 2001, the regional unemployment rate increased by almost 3.5 percentage points. The average rate for the region hides large intra-regional differences, ranging from 13.3 per cent in Poddebnice and the town of Skierniewice to as high as 24 per cent in Zgierz and 23.6 per cent in Tomaszow Mazowiecki. The unemployment rate for the city of Lodz is close to the regional average – 17.3 per cent.

The absolute number of unemployed persons registered at labour offices in the region was 230,631 at 31 December 2001. Women accounted for 50.5 per cent of registered unemployed, school leavers without work experience 5.6 per cent and disabled persons 2.5 per cent. Only 21.2 per cent of registered jobseekers were eligible for unemployment benefits; when taking pre-retirement benefits into account, this share increased to 22.7 per cent. The extremely difficult labour market situation is amply demonstrated by the number of unemployed persons per vacancy: 252 for the region as a whole, increasing to 2,034 for the Zgierz district and with virtually no vacancies on offer in five other districts.

Based on labour force surveys for 2000, unemployment rates in the region of Lodz are 1.1 percentage points higher than for the country overall. As for the unemployment structure by gender, women were over-represented in both cases but still slightly better off in Lodz than in the Poland overall, contributing respectively, 52.3 and 55.2 per cent to total unemployment. Younger workers were in a slightly better situation in Lodz with 28.2 per cent for those under 25 and 25.1 per cent for jobseekers aged between 25 and 34. The corresponding figures for the country as a whole were 30.5 and 26.4 per cent respectively.

In Lodz, similarly to Poland overall, the share of persons with secondary vocational education (20.1 and 20.8 per cent respectively) and, in particular, with tertiary education (2.8 and 2.6 per cent) in total unemployment has been considerably lower than their share in employment, pointing to education as the best protection against unemployment. In contrast, jobseekers with primary and lower education have been over-represented and contributed 37.1 per cent to total unemployment in Lodz, compared to 33.4 per cent for the entire country, while the figures for blue-collar jobseekers with basic vocational education have also been high but reversed – 32.9 per cent in Lodz and 37 per cent in Poland. The average duration of unemployment has been higher in Lodz, with 47.6 per cent of persons jobless for more than 12 months in 2000, compared to “only” 44.6 per cent in the country as a whole.

In sum, despite some clear advantages in terms of higher economic activity and higher average educational levels in the Lodz region, the overall labour market situation is significantly worse than the national average. Women, young people and persons with vocational, secondary and tertiary education are somewhat better off in Lodz. The slightly better position of women is connected with the higher representation of female-dominated industries – food, textiles and services – in the regional economy. It is also evident that in times of high unemployment employers prefer recruiting young, more flexible and skilled workers. Many older workers have lost jobs, in connection with enterprise closures and restructuring, some have remained jobless for an extended period, others have had to withdraw from the labour market.

### *Labour demand and labour market regulation*

Undeniably, the main reason for the low labour demand and high unemployment in the region is the significant slowdown in Poland's economic growth, combined with the unfavourable economic situation of the majority of local enterprises. Other factors frequently reported by employers include high interest rates that freeze investment activity; the lack of state incentives for investors to create new jobs; or the intricate business regulations (which, moreover, are amended each year and require continuous effort on the part of entrepreneurs to keep up with changes).

In addition, according to employers, the rigidities of labour market regulation are increasing labour costs and contributing to a lower demand for labour. In fact, comparisons with other EU accession countries reveal Poland as already among those countries with the least restrictive employment protection legislation.<sup>15</sup> Nevertheless, employers point to certain regulations, which indeed increase overall labour costs considerably. These include the obligation of employers to cover the first 35 days of sickness leave (in many countries sickness leave is fully, or to a much larger extent, covered by public insurance funds). Employers also cite the high costs of overtime work and the considerable costs they are required to bear for employees' medical examinations.

Also, social contributions equaling 46.6 per cent of wages and divided between employers (20.9 per cent) and workers (25.7 per cent) are considered a heavy burden, in particular for small firms. However, it should be emphasized here that prior to the 1999 reform of the social and health insurance schemes, the total level of social contributions was the same rate but born exclusively by employers.

High labour overhead costs are frequently blamed for leading to a large informal economy and to a high incidence of so-called civil contracts (work contracts regulated by the Civil Code). Unlike most other transition countries, in Poland the misuse of civil contracts, by replacing regular labour contracts and avoiding the payment of social contributions, largely stopped with the introduction of the 1995 Amendment to the Labour Code. While this change has been initiated and welcomed by the trade unions, employers call for an expansion of civil contracts allowing them to flexibly adjust labour input and costs.

Regarding the size of informal employment, a special labour force survey conducted in 1998 revealed that the extent of informal employment in total employment is not very large - 4.8 per cent of the population aged 15 and more were engaged in the hidden economy in 1998. Moreover, between 1995, when the first survey on informal labour was conducted, and 1998, the proportion of informal workers in total employment declined by 2.8 percentage points from 7.6 per cent.

No information is available on the size of the informal sector or the share of irregular labour contracts in Lodz and there are no grounds to assume their higher incidence compared to the national average. Certainly there is a need to further social dialogue at the national level on labour market regulation and policy in order to find a good compromise between labour adjustment flexibility for firms and employment security for workers, acceptable to both sides, conducive to labour demand and in line with the European Social Charter. Nevertheless, for the task of formulating a regional employment strategy, labour market regulation is an external factor, imposed by the central government.

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<sup>15</sup> S. Cazes and A. Nesporova, *The impact of employment protection legislation on labour market outcomes: The evidence from CEE and OECD countries*. Paper presented at the ILO Regional Tripartite Seminar on Labour Market Flexibility and Employment Security in Transition Countries. Budapest, November 2001.

### *The impact of labour market policy*

Labour market institutions in Poland apply both passive and active labour market policies for unemployed persons. Passive policies include unemployment benefits, pre-retirement allowances and benefits, and early retirement (the latter has been discontinued as of 1 January 2002). Unemployed persons registered at labour offices are also exempted from paying health and social insurance contributions and may get social benefits from the Social Welfare Fund or the State Budget depending on their family social situation.

Active labour market policies include labour market training, intervention works (a subsidized employment programme), public works, business start-up loans, loans to enterprises for new job creation, measures facilitating the transit of school leavers from education to work and some other special programmes.<sup>16</sup>

The rules of the unemployment benefit and social welfare systems, as well as the design of active labour market policies, are determined by the Ministry of Labour and Social Protection. The Ministry also allocates money for financing these programmes from the Labour Fund according to fixed criteria, mainly reflecting the unemployment rate and the absolute number of registered jobseekers in a region (until the end of 2001, fund allocation was done by the National Labour Office). Labour market policies are implemented by labour offices (LO).

On 1 January 1999, a new administrative reform changed the division of responsibilities among the three levels of LO – the National Labour Office (abolished at the beginning of 2002), regional (voivodship) labour offices (RLOs) and district (poviat) labour offices (DLOs). DLOs are now responsible for improving the local labour market situation and enjoy large autonomy in their activity, including the implementation of active labour market programmes. Their work is monitored by RLOs, which have overall responsibility for the smooth functioning of the regional labour market and have newly become part of the Regional (Voivodship) Offices. However, their opportunities for intervention are restricted by the lack of funds. RLOs receive no allocations from the Labour Fund and have (limited) access to funds – only from the PHARE programme and from the Ministry for financing certain special programmes and activities, including labour migration programmes. In order to enable RLOs to implement programmes for the benefit of the whole region or several districts, there is a need to reconsider the allocation of the Labour Fund and strengthen the position of RLOs from the financial point of view. The Ministry of Labour is already working on this issue and will soon submit relevant proposals to Parliament.

In the Lodz region the network of labour offices consists of the Regional Labour Office (RLO) in Lodz with affiliates in three other main cities of the region - Piotrkow Trybunalski, Sieradz and Skierniewice – and 22 District Labour Offices. The Lodz RLO has already achieved considerable success by developing a job search programme on the Internet, which will soon be introduced at the municipal level and also includes information on jobs abroad. Other special programmes cover a job-rotation programme,<sup>17</sup> training programmes for small entrepreneurs and support programmes for small, family-run firms; and activation

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<sup>16</sup> For a description of passive and active labour market policies in Poland see, for example, *Labour market flexibility and employment security: Poland*, E. Kwiatkowski, M.W. Socha, U. Sztanderska, ILO, Employment Paper 2001/28 (Geneva).

<sup>17</sup> Jobs, absented by workers for periods of retraining or skills upgrading, are temporarily occupied by registered jobseekers who receive new skills on the job.

programmes for youth under 25, especially training in computer use, language courses and sponsored internships in enterprises.

As to labour market policies implemented by Lodz DLOs, the major share of labour market allocations has been spent on passive policies. As a consequence of growing unemployment, it increased further between 1999 and 2001. According to the RLO data in 1999, some 80 per cent of total labour market expenditure was allocated to passive policies. Two years later this share exceeded 90 per cent, affected not only by higher unemployment but also by cuts in funds due to a serious imbalance of the state budget. Despite this high percentage of funds allocated to unemployment and pre-pension benefits, the share of benefit recipients among registered jobseekers declined between 1999 and 2001 from 25.4 per cent to 21.2 per cent. Austerity measures introduced by the new Polish government at the end of 2001 have led to further reductions in labour market expenditure.

Cuts in funding active labour market policies (ALMP) have tellingly reduced the number of participants in these programmes. In 1999 there were 37,100 participants or 20 per cent of registered jobseekers. Two years later their number plummeted to 12,105 persons or 5.2 per cent of registered jobseekers.<sup>18</sup> Labour market training has been the most frequently applied programme: in 1999 the total number of jobseekers completing training courses accounted for 13,200 persons and dropped to 3,700 in 2001. Intervention works have been the second most utilized programme, with 9,100 unemployed participants in 1999 and 3,348 in 2001. Activation programmes for school leavers were offered to 8,700 persons in 1999 but only to 2,800 persons two years later.

These three programmes are evaluated as the most effective in terms of the re-insertion rate and the cost per participant. According to a 1999 analysis conducted for the Lodz voivodship, the costs per participant were PLN (Polish zlotys) 856 for training, PLN 1,804 for activation programmes for school leavers and PLN 2,714 for intervention works, while the participation costs for public works equalled PLN 3,625. In the same year only 36 per cent of jobseekers placed in intervention works and 32.1 per cent of school leavers returned to the unemployment register after completion of the programme, compared with as many as 66.5 per cent of public works participants. These evaluations, together with the discussions with officials from local labour offices and representatives of local trade unions and employers' organizations, underline the importance of a significant expansion of ALMP, in particular the three programmes mentioned above. These are demonstrably moderating labour market tensions in the region and promoting employment of vulnerable groups of jobseekers such as school graduates, women, low-skilled persons and the elderly.

Retraining and skills upgrading are viewed as probably the most effective ALMP programme for improving employability and the flexibility of jobseekers and persons threatened by unemployment. However, assessments of labour market training also revealed it is mainly oriented to young and more skilled persons. Training for low-skilled persons has been very modest and should be reinforced considerably if the most represented group of jobseekers in total unemployment is to be helped effectively.

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<sup>18</sup> The figure usually quoted for the share of ALMP participants in total registered unemployment is overstated: it measures the total number of participants in any ALMP programme over the year to the average or end-year level of registered unemployment. If the average monthly number of ALMP participants is taken as the numerator and related to the average monthly registered unemployment, the actual participation rate is much lower.

### 3. The Role of Social Dialogue

Social dialogue, by mobilizing human resources and including all stakeholders in consensus-building on problems to achieve common goals, contributes significantly to the fostering of economic development, thus to employment generation, and to enhancing stability and social peace – which in turn can contribute to economic efficiency.

International experience shows that for social dialogue to operate effectively, the following conditions are necessary:

- *strong and representative social partners;*
- *effective institutions within which representatives of public authorities and social partners, as well as representatives of other stakeholders of civil society, can interact and reach consensus on social and economic policies;*
- *the existence of a political will to address economic and social challenges facing a region or a country via social dialogue instead of through a unilateral decision-making process and by confrontation, as well as the availability of experience on social dialogue.*

Unfortunately, the current social dialogue between the Lodz regional public authorities and the social partners is far from satisfactorily addressing the daunting challenges that confront the region in restructuring the regional economy and fighting high unemployment. A clear willingness has been demonstrated by the local authorities, which have recently established institutions within which employment policies and other matters related to regional development are discussed with the social partners and other local stakeholders. However, this willingness is overshadowed by a number of shortcomings. These are impeding regional social dialogue in a critical period and are connected with:

- a) the institutional framework for regional social dialogue;*
- b) the capacity and organization of social partners;*
- c) the lack of practice and experience of the regional public authorities in the field of social dialogue;*
- d) the influence of the weak national tripartite social dialogue on lower levels, particularly the regional and sectoral levels .*

Taking each aspect in turn:

*a) The institutional framework for regional social dialogue*

Until now there has been no permanent and stable institution for social dialogue at the regional level, endowed with a clear set of competencies, a mode of operation, a secretariat and resources, within which regional economic and social policies related to issues such as economic restructuring, education and employment, poverty alleviation, and other matters are formulated in consultation with the representatives of the different local actors. Instead, two types of institution are currently playing the role of channels for social dialogue in the region, namely the Regional Steering Committee and Employment Councils. However, as will be described below, both these institutions are failing to fulfill their roles.

### The Regional Steering Committee

Chaired by a Marshall, this body involves the following actors: Voivodship Marshall's Office, Poviats and Commune leaders, and representatives of education institutions, the Chamber of Economy, two trade unions (OPZZ and Solidarnosc), and those of employers' organizations. Its main function is to deliberate about the content of the Regional Contract between the Lodz Region and Central Government, which is concluded every two years. The current regional contract covers the period 2001-2002.

The role of this institution appears somewhat limited and its effectiveness has been questioned by the social partners. Indeed, while the challenges facing the region are huge, such as the reform of the education system, enhancement of vocational training, upgrading of traditional industries such as textiles, its competencies have been limited to addressing the Regional Contract – thus rendering all the issues mentioned above outside the scope of regional social dialogue. Furthermore, the document on regional economic development strategy elaborated in September 2000, which is supposed to shape the future development of the region, appears not to have been adequately deliberated with the full participation of local stakeholders involved in this institution. For example, important players such as employers' organizations including the Chamber of Crafts and Trade Unions have complained about their minimal involvement to date in the formulation and implementation of the regional economic strategy by the regional government and voiced their considerable interest and readiness to contribute.

Within this Steering Committee is a Monitoring Committee whose role is to monitor the implementation of the regional contract. However, in this committee the social partners, which are substantial local players, are not represented. This means that the latter participate in the deliberations but are not involved in the monitoring process of implementation of the contract.

### Employment Councils

Two types of employment councils operate in the region of Lodz: the first at the level of the Voivodship, the second at the Poviats level. They are advisory bodies composed of representatives of trade unions and employers' associations, chambers of farmers, and regional and local administration (Voivodship Administration and Poviats self-government). They do not have decisional power. Rather, they provide opinions and advice to regional and local administrations on employment issues, a role that has recently been enhanced. In the past they were only advisory bodies to labour offices; now they also advise regional and local administrations on employment policy. As such they fulfill, inter alia, the following tasks according to the law of 14 December 1994 on Employment and Counteracting Unemployment, as amended:

- provide advice to the Marshall of the Voivodship/Poviats administration on education, vocational training and employment policy;
- appraise the management of the labour fund resources;
- provide opinions on criteria for granting funds from the labour fund;
- are consulted on the nomination and dismissal of the Director of the Voivodship/Poviats labour office;

- appraise the reports prepared by the Voivodship/Poviat labour offices about their activities,
- submit periodic reports and proposals on employment to the National Employment Council. In Lodz, this function does not seem to have been fulfilled by existing employment councils to date.

Since this change is so recent, it is too early to make a comprehensive assessment of the effectiveness of employment councils in terms of enabling the social partners to play an effective role in the shaping and the implementation of employment policies.

Nevertheless, some observations could be made at this stage. First, the recent empowerment of these employment councils to advise regional and local authorities on employment policies is certainly a positive step towards strengthening regional and local social dialogue. However, the effectiveness of these bodies is open to question, according to the social partners. Indeed, both at Voivodship and Poviat levels the creation of these employment councils has not been accompanied by a real decentralization of employment policy, particularly the management of employment funds. For example, at the Poviat level, the manoeuvring room of the labour office to manage the employment fund, transferred by central government, is small. The level and structure of the employment fund are determined centrally; the autonomy of the Poviat labour office in modifying that structure to accommodate local needs is restricted. Consequently, this narrows the influence on employment policies of the employment councils and the social partners – an observation that suggests the need for a further decentralization of employment policy and its corollary, the management of employment funds from national to regional and local levels. This would give more autonomy in policy shaping to local actors, including the social partners.

Employers' organizations voice disapproval of the too formal functioning of these councils and the lack of information provided to them by the regional (Voivodship) and local (Poviat) public authorities. In addition, they also argue that the credibility of the whole regional employment policy is hampered by the lack of resources from central government – a view shared by trade unions. Indeed, the funds transferred by Central Government to regional labour offices seem restrictive and do not allow for functional employment policies at the regional level. A second point raised by the social partners is that the lack of inter-level coordination impedes the efficiency of the employment councils.

Another problem is the narrow approach to social dialogue taken by the employment councils, who tend not to involve some important local players in the fight against unemployment, namely youth or women's organizations. One example is the International Women's Foundation (IWF), a visibly active player in the area of employment promotion in Lodz, which is not involved, even on an ad hoc basis, in the social dialogue on regional employment strategy. Given the experience gained by this organization (and others) in employment promotion, its participation in social dialogue on the formulation and implementation of regional employment might well bring useful results.

#### *b) Organization and capacity of the social partners*

On the trade union's side, the two national workers' organizations, Solidarnosc "NSZZ" and the All-Polish Alliance of Trade Unions "OPZZ" are both represented in the region. On the employers' side, seven employers' organizations are present, namely:

- the Association of Employers in the Knitting Industry,
- the Association of Agrarian Employers in Lodz,
- the Regional Association of Employers,
- the Association of Employers of Health Services,
- the Association of Employers of the Textile Industry,
- the Christian Association of Entrepreneurs and Employers,
- the Chamber of Crafts.

Both employers' and workers' organizations appear reasonably established and quite active in the regional and local arenas. They appear to be quite willing to play an active role in the handling of regional matters. Both express serious concern for the high rate of unemployment prevailing in the region and its economic and social consequences. They are trying to develop some actions and policy proposals aimed at improving the labour market situation. For instance, on the employer's side, the Chamber of Crafts is promoting vocational training and apprenticeships in order to contribute to the improvement of the employability of the labour force. On the trade union's side, proposals are made with the aim of boosting employment creation in the region.

The missing link (despite the presence of these organizations at the regional level and their willingness to play an active part at the regional level) is their ability to find a common ground and develop a common strategy. Without it, they cannot exert a real influence on the shaping of regional economic and social policies.

Several reasons can be cited. There is strength within numbers, but the large number of organizations representing employers' interests may hinder the design of their joint positioning in negotiations with regional authorities and trade unions. And the poor cooperation between the two trade unions has similarly weakened the influence of workers and the emergence of an effective social dialogue, including on a bipartite basis.

Where does commonality lie? It lies in the urgent common challenges facing the social partners: the difficulties of the textile industry, the mismatch between education and employers' needs, and the insufficient resources transferred by Central Government to cope with the huge number of unemployed. Yet workers' and employers' organizations have been unable to work out common proposals to submit to the public authorities. And they also failed to agree on proposals regarding improvements in the efficiency of the labour market – for the benefit of both sides of industry. It goes without saying that a stronger bipartite dialogue would have considerably strengthened their bargaining positions at the regional social dialogue table.

Recently, the social partners have recognized that such attitudes are detrimental to their interests and are now showing a certain willingness to reverse the trend of non-cooperation. For example, they have agreed to accelerate the process of setting up the Regional Social Dialogue Commission, the creation of which was foreseen in 2001.<sup>19</sup> Indeed, they agreed to set up the Commission as from 1 March 2002. Both trade unions and employers' organizations consider that the creation of the Regional Commission for Social Dialogue would provide the missing link – an appropriate forum for effective interaction between the social partners and

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<sup>19</sup> The Law of 6 July 2001 (Chapter 3, art. 16-18) concerning the Tripartite Commission for Socio-Economic Council and Voivodship Social Dialogue Commissions.

regional public authorities on the issue of regional economic development and its corollary, the promotion of employment.

What competencies would be required for the Regional Commission? The law of 6 July 2001 is flexible. Article 17 states:

“The competence of the Voivodship Commission for Social Dialogue shall include expressing opinions on matters within the scope of tasks of trade unions or employers’ organizations, belonging to the competence of governmental and self-governmental administration at the territory of voivodship”.

In addition, the law does not specify articulation between the National Tripartite Commission for Socio-Economic Issues and the Voivodship Commissions for Social Dialogue.

It could be supposed that the provision’s wording may be a signal from the central legislators to regional authorities and social partners to determine for themselves the competencies of the Regional Commission for Social Dialogue and its articulation with the National Commission, rather than centrally imposing a rigid outline of competencies and links with the National Tripartite Commission. If this hypothesis is true, it would mean that regional authorities and social partners would have adequate room to manoeuvre in designing an effective Regional Commission for Social Dialogue – with a wide range of competencies to respond satisfactorily to the specific needs of the voivodship.

*c) Regional public authorities: A lack of experience and practice in social dialogue*

Consultation over the shaping of a regional development strategy as conducted by the regional public authorities, as discussed earlier, shows that there is clearly a lack of experience of regional social dialogue. Those important local players, including the social partners and some NGOs actively involved in the area of employment and vocational training, who were not fully involved in the preparation of the regional economic strategy have attracted their criticism and deprived local authorities of wider support for the strategy. Success in the implementation of the regional economic strategy and its impact on employment promotion will largely depend on the breadth of support from various regional civil society groups.

Lack of experience in social dialogue is also evident in the absence so far of any attempt on the part of regional authorities to propose to the regional actors that they devise a regional pact on specific social and economic objectives and a time frame for achieving them.

Some European Union regions have designed innovative approaches to social dialogue that have contributed significantly to improvement of the economic situation in depressed areas. Their experiences are worth mentioning here. To illustrate, the “Prommazione Negoziata” in South Italy is a bargaining regulation that involves public authorities, social partners and other local stakeholders (banks and private companies) in a set of development goals, each stakeholder with a division of responsibilities. One of the main instruments of this bargaining regulation is territorial pacts. These territorial pacts represent an institutional framework of several institutional and social actors at national and local levels, to draw up various agreements, for example:

- agreement between regional authorities and companies both foreign and domestic on tax facilities and other subsidies;
- agreement between the trade unions and employers’ organizations on the flexibilization of working conditions (which in turn give rise to company-level agreements);

- agreement between public administrations and employers' organizations involving central government on the simplification of administrative procedures (permissions, authorizations, etc) for enterprises, investors, to speed up the implementation of new investment projects;

One of the main characteristics of these territorial pacts is the involvement of the central government via the ministry in charge of regional affairs, along with regional and local authorities. These pacts involve some concessions, such as tax subsidies and simplification of administrative procedures and public infrastructures, which fall within the responsibility of the central government. The latter's involvement was therefore considered important.

The territorial pacts are based on explicit tradeoffs between the State (central government and regional and local authorities); the employers and trade unions; and other local stakeholders. The State offers public investments in infrastructure, subsidies, tax and social contributions reductions to employers subscribing to the agreements; the employers commit to bringing productive investment into the area through new employment; the trade unions make concessions in terms of flexibilization of working conditions and lower labour costs. Before being enforced these pacts require approval by the Ministry of Finance and are co-financed through EU funds. Some studies show the impact of these pacts has been quite positive in boosting economic development in depressed areas.

*d) Effects of the influence of weak national tripartite social dialogue on regional and sectoral levels*

High unemployment is a major concern for policy-makers and the social partners in Poland. With the continued deterioration of the labour market situation since the second quarter of 1998 (the unemployment rate reached a level of 18.1 per cent in February 2002), the debate continues on the determinants of high unemployment and the strategies required to bring it down to a more acceptable level. Notwithstanding several attempts at consensus, there is presently none at the national level among social partners and government on the causes of increasing unemployment and the strategy required to reverse this trend.

In April 2000, a national tripartite forum was set up within which various working groups were established to work out proposals to address the problem of unemployment. The sub-groups were asked to make proposals for reform over taxation, education, labour market flexibility and restructuring of the State sector. Government and social partners could not reach agreement. This failure of national tripartite social dialogue has left a wave of unanswered questions in its wake. The lack of autonomy at voivodship level subsequently prevented the regional actors from taking up issues such as labour legislation and taxation, which the tripartite national actors had fallen short of addressing.

The discontinuation of the national tripartite social dialogue, from the failure of the April 2000 discussion until the end of 2001 meant that no strategies to combat unemployment were resolved. Meanwhile, the unemployment rate was rising rapidly. This scenario has negatively affected the operation of social dialogue at lower levels, particularly in regions such as Lodz. However, since the adoption of the law establishing the Tripartite Commission for Socio-Economic Issues and Voivodship Social Dialogue Commissions on 6 July 2001, the tripartite social dialogue has improved significantly at the national level. This will certainly have a positive influence in the future functioning of social dialogue in the different regions of the country.

## 4. Observations and Challenges

While some progress has been observed in diversifying the economy, the Lodz voivodship remains heavily influenced by traditional industries (in particular textiles and clothing) and is encumbered by relatively low levels of technology, productivity, innovation, profitability and incomes. Unless the economy becomes more competitive in all sectors of activity, its capability to provide high quality and well-paid sustainable employment will deteriorate further.

The challenge now is to create conditions that build on existing foundations in order to upgrade existing enterprises and develop new and higher value-adding activities, in traditional and in new sectors. Small enterprises play, and will continue to play, a major role: undeniably, policies will need to be tailored specifically to this size of enterprise.

Only increased effort can boost employment opportunities and job quality. To strengthen the employability of the workforce, the educational and training infrastructure must be radically improved to ensure it reflects changes in skills requirements and relevancy.

The Lodz region, like regions everywhere, must be geared to cope with a future of continuous change. For this, social inclusiveness and cohesion at the regional and local levels must be promoted, and an enabling regulatory and policy environment that can promote change and adaptability, while maintaining security, implemented.

Social dialogue should play a vital role. Hitherto, regional social dialogue has clearly suffered from the absence of an effective institutional framework and the lack of practice and experience of regional actors on how to develop an effective and inclusive partnership to address the challenges facing the region. The regional public authorities have established some channels for regional social dialogue on the formulation of the regional contract and the implementation of employment policy, but, so far, the traditional social partners have failed to reach agreement on tackling the region's pressing problems. This failure needs to be rectified immediately, while other important actors should be brought into the equation. The institutional arrangement for social dialogue needs to be reviewed, and stronger co-operation developed among the social partners for the benefit of all.

## **Part II. Major Components of a Regional Employment Strategy**

### **Introduction**

In recent years the international trend has been towards an increased decentralization of economic and social policy formulation and implementation, with new divisions of responsibility between national, regional and local levels and, in the context of the emergence of broader political and economic trading blocs such as the European Union, new relationships with and responsibilities for supranational institutions.

Within the European Union, but also more generally, the promotion of regional development has become an increasingly sophisticated endeavour, as regions compete with one another to promote their industries. Competition is intensifying as economies engage in a "Race to the Top". Within the European Union, but also more generally, the effects of increased globalization, and the appearance on the international scene of low labour-cost producers such as China, have motivated industrialists, trade unions and policymakers alike to search for new ways to compete. Regions, or specific industries within regions that are characterized by a strong reliance on low labour costs as a competitive advantage, have found it increasingly difficult to maintain their positions in the face of competition from countries with even lower costs.

It is not expected that the Lodz region will prove an exception to this pattern.

In some cases, the response has been to react "short-term", with enterprises engaging in a destructive downward spiral of putting pressure on wages and social costs, and putting off necessary investments in technology and training, in order to try and undercut rivals. Often this pressure, and the response, can be systemic as first-tier suppliers react to the pressure of customers, and sub-contractors react to the demands of first-tier suppliers. In the absence of broad industry agreements, room to manoeuvre for the individual enterprise in such a situation, especially the small enterprise, can be limited.

In other cases, however, and this seems to be the situation in the regions and industries of the European Union, it has been recognized that such short-term responses offer no long-term sustainable competitive solution. Here, the approach taken is different – increasing competitiveness through a process of upgrading, innovation, the development of higher value-adding activities and a greater knowledge input, all compatible with rising wages and standards.

For the Lodz region, it is equally clear that short-term cost-cutting strategies have no long-term future. The emphasis must be on creating the conditions and policy environment for upgrading, and the creation of sustainable high quality employment.

## 5. Coordination, Decentralization and Partnership

Just as at the level of the nation state there is a tendency to decentralize development initiatives to the intra-country regional level, so the tendency of the region is towards decentralization down to local levels. Concomitantly, centralized bodies (such as departments of regional government, development agencies and small-enterprise promotion agencies) have acted as coordinators and facilitators of decentralized action by local authorities, entrepreneurial associations, trade unions, promotion agencies, training institutes and others. The trend has been towards encouraging these institutions to act in partnership with one another and, especially where region-wide initiatives are involved, to encourage consensus over broad objectives.

Through such partnership approaches, services and service institutions can be linked to, and made particularly relevant to employment requirements. Moreover, specific programmes can be focused on sectoral needs, and actions taken to encourage regional actors to work in co-operation, such as, for example, enterprises in an electronics sector collaborating with a university electronics research institute.

In the United Kingdom, the recent division of England into nine regions has been accompanied by the establishment of **regional development agencies** which aim to provide strategic leadership, develop (with partners) regional action plans, provide backup expertise and services, and work with a large range of regional and local partners to facilitate collaboration and coordination. Box 1 and Annex 1 describe development strategies and the roles of development agencies in two regions.

The Lodz Regional Economic Development Strategy expresses the desire to promote industry on a sectoral basis, and to achieve consensus and cohesion at the regional level – an aim very much in line with trends elsewhere, especially within the European Union. **The next step is to identify the most appropriate organizational and institutional arrangements that can promote industry-driven development and upgrading.**

With such objectives in mind, we raise two questions.

**Given the existing arrangement in the Lodz region of assemblies, national and regional government offices, small firm promotion agencies, and other institutions, and given the aspirations of the regional development plan and the proposals of this report, would it be feasible and useful to promote at the regional level a central coordinating body along the lines of the English regional development agencies?**

If so, would it be better to enhance the role of an existing body or create an entirely new agency?

### **Box 1 Regional Development Strategies in England: East Midlands Region**

In the United Kingdom, England was recently divided into 9 regions, each of which has a lead development agency, which coordinates, through partnership arrangements, a range of economic development initiatives. Each region has identified important sectors for the region and, for particular sectors or clusters, representative bodies are acting as partners with the agencies.

Each development agency has worked with regional partners – employers' associations, leading enterprises, trade unions, local authorities, voluntary sectors, universities and others - to produce a regional strategy for the next 5, 10 or, in one case, 20 years.

#### ***The Example of the East Midlands Region***

The East Midlands region has a population of 4.2 million and has a regional strategy coordinated by the East Midlands Regional Development Agency.

In this region, 11 sectors or “sectoral clusters” have initially been identified, which are seen as having actual or potential importance to the region. These are: “*Communications*”, “*Construction*”, “*Textiles, Fashion and Design*”, “*Financial and Professional Services*” “*Food Sector*”, “*Healthcare Industries*”, “*High Growth Engineering*”, “*The Learning Industry Sector*”, “*The Retail Sector*”, “*The SME Group*”, and “*Tourism and Cultural Industries*”.

For each sector or cluster, “*Pathfinder Groups*” have been created. These groups consist of leading representatives of their sectors and are intended to be “Champions of Change”. The number of representatives on a group varies. For example, the Food Sector has 16 food industry representatives, while the High Growth Engineering sector has 23.

The “*Textiles, Fashion and Design*” sector or cluster has a Pathfinder Group of 6 people, which includes representation from a major clothing retail chain, and garment and knitwear manufacturers. Initially, this group has produced a report outlining industry weaknesses and needs, and what should be done to drive East Midlands industry forward.

*Sources: Economic Development Strategy for the East Midlands 2000-2010;  
Economic Development Strategy for the East Midlands 2000-2010, Special Report: Pathfinders to Prosperity.*

## 6. Economic Development and Upgrading

### *Endogenous Development and Inward Investment*

As outlined in the Lodz Regional Economic Development Strategy, the promotion of the region has two main aspects: encouraging endogenous development "from within", and attracting inward investment "from without". Within Europe and elsewhere some regions such as Emilia Romagna in Italy have historically tended to favour endogenous development strategies, while others such as the North East of England have emphasized attracting inward investment. **In practice, the trend now seems to be moving towards a combination of the two, as suggested by the Lodz Regional Economic Development Strategy.**

Endogenous development strategies focus on small firms and enterprise start-ups, on developing local skill and broader knowledge capabilities, and the building up of local institutions and programmes to promote locally based industry. Growing home-established businesses and expanding the numbers of businesses, and developing the means to upgrade such industry and create quality jobs, is typically the focus of such strategies.

As will be shown later in this section, the approach to developing small firms differs from that of attracting large firms with their own internal resources to act strategically and independently. However, small-firm-focused endogenous strategies and inward investment strategies are not incompatible. On the contrary, under the right conditions the two can mutually reinforce one another.

### Inward Investment

Inward investors are potentially an important source of employment, and a source for upgrading and increasing competitiveness. However, the employment and developmental contribution of inward investors varies. An important consideration for the region is: what types of inward investor does it want, and can it do anything about what it gets?

Of course, the direct employment effects of an individual incoming enterprise are important, but strategies for inward investment have also increasingly considered indirect effects on the development of the region. With the indirect effects in mind, strategies have become more targeted and linked to broader development goals, such as the promotion of particular sectors, or the potential for introducing new kinds of knowledge into the region, or the potential for contributing to the upgrading of local small firms – for example, by transmitting ideas for improving quality, design or technology.

However, not every inward investment has a developmental effect. Some investment into Central and Eastern Europe has been attracted primarily by access to low cost labour, has no interest in developing that labour or moving operations onto higher value-adding activities, and is liable to move elsewhere should lower cost labour become available. Where regions are perceived as offering little more than low cost labour it can be no surprise if they attract enterprises interested in little more than what is on offer.

However, the most successful regions offer much more. It is incumbent upon regional policymakers to develop the endogenous conditions which not only promote high value-adding enterprises "from within" but which in turn act as magnets for high value-adding enterprises coming in from outside. Emilia Romagna illustrates this point. Major companies have been attracted to this high-wage region by the quality of the skills and capabilities of local suppliers, which enables the production of high-value products and services to their

customers. Other examples are to hand. In England, the Cambridge region has developed endogenously a strong knowledge base and a large cluster of small high-tech enterprises, which have in turn attracted inward investment by major international companies such as Microsoft. Outside Europe, countries and regions such as Singapore and Silicon Valley in California also attract high value-adding enterprises.

In the long term, the Lodz region must seek to create the conditions for a high value-adding locale and attract high value-adding enterprises and/or high value parts of global supply-chains. In this, the provision of a skilled labour force will play a vital role. For example, in Israel, a rapid rise in GNP per capita has occurred primarily as the result of export-driven small ICT and high technology firms that do not depend on low wage labour, location or natural resources for their comparative advantage. Education, skills and knowledge development and dissemination have played an important role. The upshot is a country with a highly educated and skilled workforce, suited for carrying out some of the highest value-adding activities. As Box 2 shows, this is reflected in the type of investment attracted, a high proportion being R & D activities.

### **Box 2: Israel and Inward Investment**

Israel is particularly attractive to companies wishing to establish high value-adding functions such as R & D. This example is taken from the ICT sector.

- \* More than 50 per cent of all products offered by Motorola have been developed in Israel by Motorola Israel engineers;
- \* IBM maintains one of only three R & D hubs outside of the US, and is in the process of building the largest overseas T & D facility next to the University of Haifa;
- \* Intel operates both extensive R & D facilities in Haifa, where the Pentium II was co-designed, and VLSI manufacturing in Jerusalem;
- \* Microsoft conducts operating system design as well as regional support from Haifa.

***All the above firms cite the availability of engineering talent among their primary reasons for locating in Israel.***

*Source: Israel background paper for the World Employment Report, 2001, ILO, Geneva.*

### Leveraging Inward Investment

Many initiatives now seek to leverage the presence of an important inward investor for the benefit of local enterprises and the regional economy. These benefits include the development of local supply-chains, with accompanying jobs. Frequently, inward investors make little use of local suppliers. This could be for technological reasons; for example, a bulk processor of a commodity might require relatively few suppliers.

It is often the case, however, that the development of backward linkages is limited by an absence of good quality local suppliers. In some cases, a major inward investor, such as an automobile assembler, may take the initiative and set about developing local suppliers. More often, however, this will not occur unilaterally, and government programmes and/or the

establishment of intermediary institutions might be necessary to encourage supply-chain development.

Well-known initiatives to leverage the presence of inward investors to upgrade local suppliers (and also help to embed the inward investor into the local economy) are found outside Europe in countries such as Singapore, Malaysia, Mexico and others. In Europe, prominent examples exist in Ireland and the United Kingdom, the latter in the context of devolved and regional development strategies.

Central Europe also has significant initiatives; Box 3 shows an example in the Czech Republic and Annex 2 describes an initiative in Hungary.

### **Box 3: Supply-Chain Development Initiatives: Czech Republic**

In the Czech Republic, the foreign investment promotion agency, CzechInvest, started its Supplier Development Programme in 1999, with the objectives of promoting modern industrial technology and raising the qualifications of the local labour force, while pursuing environmental protection considerations.

The Programme comprises three elements:

- i) *Collection and distribution of information* regarding the products and components of potential Czech component suppliers, to enable foreign manufacturers to short-list and contact potential new suppliers;
- ii) *Matchmaking*, including events to bring together suppliers and potential customers, seminars and exhibitions, and the provision to inward investors of concrete suggestions on possible suppliers;
- iii) *The upgrading of selected Czech suppliers* with consultancy and training support. The costs of training are shared evenly between the Czech government and the European Union.

CzechInvest's strategy for 2000-2004 now covers support to domestic investment as well. This ties in well with its mission to promote linkages. Other adaptations in the programme are an increasing attention to training and financial assistance. In addition, the creation of sectoral clusters and supply-chain management are receiving more attention.

*Source: World Investment Report, 2001, "Promoting Linkages", UNCTAD, Geneva.*

The authors make the following recommendation:

**That the region develops an integrated endogenous and inward investment promotion strategy, which not only aims to create new industry and employment opportunities, but also considers how the presence of both endogenous and inward coming assets, such as, respectively, universities and branches of multinational enterprises, can best be leveraged for the purpose of upgrading particular sectors and, more broadly, the regional economy. Supply-chain programmes tailored to the particular needs of the region's inward investors, local enterprises and the broader regional development strategy, could play a valuable role.**

### *Addressing Lodz Industrial Sectors*

The Lodz Region has a number of well-established traditional industries in sectors such as Textiles and Clothing, Ceramics and Furniture which, as described earlier, are major economic actors and sources of employment, albeit that the general level of development is rather low. Although some traditional industries might not possess the glamour of new sectors, numerous examples exist of such industries not only surviving but doing well in high-wage countries, including the European Union. Examples include successful clothing manufacturers in Spain, furniture producers in Denmark, speciality textiles manufacturers in North West England and Germany, and footwear, furniture, textiles, ceramics and other industries in Italy.

**It is recommended that the Region take strong steps to upgrade existing traditional sectors.**

#### The Textiles and Clothing Sector

Clearly, the most important traditional sector in employment terms is Textiles and Clothing, employing 46 per cent of the manufacturing workforce. Moreover, when related industries and activities are taken into account (chemicals, printing, engineering, clothing retail, and a range of services) the employment significance is even greater.

However, the industry is under competitive pressure. Eastern European markets have been lost, possibly exacerbated by cross-border restrictions on incoming buyers.

Moreover, where, on the one hand, competitive strategies have focused primarily on low labour costs and low prices, the sector's ability to compete has been threatened by low-labour-cost manufacturers elsewhere, such as China and Turkey, as well as by importers of second-hand clothes. On the other hand, the sector's ability to compete with high-wage manufacturers in the European Union and elsewhere is threatened by competitors' superior technologies, products and organizational capabilities. The challenge for the Textiles and Clothing industry, as for much of the rest of the Region's industry, is to upgrade gradually and develop the capacity to compete on a rising-wage basis.

Traditional industries in high-wage countries compete in a variety of ways. Accentuating the aspects which differentiate their products from mass markets is one method. For example, enterprises might concentrate on speciality textiles or other niche products; or develop a reputation for high quality, or high design and fashion content; or differentiate themselves by advertising their adherence (or their suppliers' adherence) to labour or environmental standards; or make use of European or other regulations to gain exclusive rights to use product names made in certain ways (for example, certain cheeses or wines); or offer reliable delivery, or quick and flexible response, or some type of value-adding function in a value chain, as Box 4 illustrates.

In the case of small firms, they might compete individually, or collaborate together with other small enterprises to share costs and perhaps design and market joint products, or utilize common service centres.

#### **Box 4: Fast Fashion Response**

Fast fashion response is one means by which European clothing and textiles producers (such as knitters) can compete advantageously with low-labour-cost countries that may be further away from the market. In Europe, the knitwear cluster of Carpi in Emilia Romagna, Italy, has been able to offer retailers “Pronto Moda”, while in Spain the third biggest clothing retailer in the world, Zara, is reported to base its success on its capability to keep close to fashion trends and respond very quickly to changing fashion demand, utilizing production sites in Spain and Portugal. While the large company, Zara, is able to employ over 200 designers, researchers and scouts to research fashion trends, the small enterprises of Carpi have been assisted by their own cluster-focused service centre, CITER, which, among other things, provides fashion-forecasting services.

*Source: Watson, 2002.*

A strong trend in high-wage countries has been for enterprises in a range of industries to focus on high value-adding activities compatible with higher wages – research and development, design, brand development and marketing, for example – while outsourcing the lower value-adding, typical production functions to lower-labour-cost countries.

**Here, there could be opportunities for the Lodz region to pick up outsourced business, while gradually developing its own higher value-adding capabilities.**

**A crucial aspect of a strategy to upgrade existing sectors is to strongly involve the industry by encouraging representative associations, fora or sectoral partnerships to take leading roles in new upgrading activities. The authors recommend sectoral associations or partnerships in the Lodz region to commission research into the strategies that enterprises in their sectors (textiles and clothing, furniture, ceramics, and others) are utilizing to compete in high-wage countries in Europe and elsewhere. This should be accompanied by a review of obstacles and opportunities for upgrading of specific sectors within the Lodz region.**

#### *Utilizing Higher Education Expertise*

One of the great strengths of the Lodz region is the exceptionally rich educational and scientific infrastructure, including 19 higher educational institutions. The Lodz Regional Economic Development Strategy recognizes the potential offered by the knowledge contained within its institutions and advocates the development of means to promote collaboration and technology transfer.

In fact, the desire to make best commercial use of a region's higher educational and research institutions is a common objective in Europe and elsewhere. This reflects a trend to link university research and knowledge expertise to strategies to upgrade existing sectors within a region, or to spin-off new industries or high value-adding specialities from those sectors, or develop entirely new sectors. Thus in the Lodz context, university and research institute expertise could be brought to bear on both existing sectors (such as textiles and clothing, food processing, furniture, ceramics, agricultural, pharmaceutical and others), and new industrial sectors arising out of the educational knowledge base.

In Europe, and elsewhere, a range of different approaches are used to encourage stronger university-industry linkages, including the establishment of the following bodies: advisory departments within universities to advise scientists on commercial exploitation; special university/industry liaison offices; university-industry discussion fora and collaborative ventures; and decentralized outreach offices to provide local industry with easy access to the institution's services.

**It is recommended that the Lodz Region carry out a review of best practice and consider what lessons might be learned.** Below are some suggestions of approaches, which cater particularly for upgrading established small enterprises and/or creating new enterprises.

The intention by Lodz partners to create a **Science Park** reflects the region's desire to develop high-knowledge, high value-adding industries. The creation of such parks, often linked to incubators, and located near or on university grounds, is a recognized attempt to develop knowledge-driven industries. Examples abound: one of the biggest science parks in Europe is located at Sophia Antopolis in France. In the United Kingdom is the thriving group of science parks associated with the University of Cambridge. The university has operated as an important source of knowledge, which has given rise *directly* to new spin-off companies, and *indirectly* via its graduates to the growth of a large cluster of small high-tech enterprises.

In Germany, a well-known attempt to make maximum use of higher educational scientific expertise is **the Steinbeis Network of Technology Transfer Agencies in Baden-Wuerttemberg**. This extensive network has agencies located in the region's large number of polytechnic institutions, and is oriented specifically to upgrading small and medium-sized firms. Each agency provides a scientific 'specialty', which is offered to small firms through consultancy services. The agencies operate as a network and any client accessing an individual agency also has access to the specialty range in the whole network. The network is coordinated by a central agency located in Stuttgart.

Another approach has been for small-firm promotion agencies, modernization centres, or other intermediary institutions **to encourage small firms to cooperate together** (sometimes also with large firms) for business and upgrading reasons which, then as a network group, may obtain services from agencies such as technological institutes or universities. For example, in Denmark one of the aims of the Danish Business Network Programme was to encourage small firms to work together on joint business ventures and share the costs of consultancy and other services from institutions such as the Danish Technological Institute, a leading technology transfer institution. In Sweden similarly, to make higher educational institutes more responsive to the needs of small firms, the latter were encouraged to join together in collaborative groups. As groups, they would make joint demands on technology suppliers, thereby helping to make the technology transfer process more demand-driven. At the same time, efforts were made to improve supply by encouraging coordination and cooperation among the technology suppliers – universities, technical institutes, technology parks and others – and by creating a national referral network which could be accessed at any one point.

Collaborative horizontal networks of small firms may also collaborate with universities and research institutes on **joint research and development projects** to develop new products or techniques. In Taiwan, for example, such an approach has been used to help small firms in the electronics industry develop new products and move up the value chain. In Europe, Italy and Norway have such programmes, while at the pan-European level cross-border collaboration has been sponsored by the European Commission.

In the Yorkshire and Humber region of England, a Business Birth Rate strategy aims to focus not only on new start-ups but also on survival and growth. This will involve clustering concentrated support activities in a **Centre of Excellence** in each of the Region's sub-regions, around a university or other organization, utilizing business mentors, incubator units, access to specialist knowledge, enterprise development programmes and supply-chain support.

In such Centres of Excellence, there are strong links to actions to boost key sectors identified under the Region's *Regional Innovation Strategy*.

A focus on specific sectors or clusters which are seen as having potential for high value-adding or/and high growth is now common. For example, some regions – not only in Europe – have decided to promote sectors such as biotechnology, environmental engineering or information technologies. In the USA, for example, Arizona has a well-established “cluster development” strategy, which involves promoting sectors such as “*optics*” and “*environmental technologies*”. In Scotland, targeted clusters include, among others, “*biotechnology*”, “*food products*”, and “*electronics and associated products*”. There, as elsewhere, efforts have been made to better utilize higher educational expertise by linking technology transfer institutes, specialist research departments and agencies, and sector- focused education and training capabilities to broader sectoral promotion strategies.

In some countries outside Europe, such as Brazil and India, whole science parks have been dedicated to specific “new” sectors, such as information technology or software, typically accompanied by a range of appropriate training, export promotion, infrastructure and other services.

#### *Promoting Local and Sectoral Partnerships*

A significant trend in recent years has been the increased role of local and sectoral partnerships in upgrading industry, increasing competitiveness and generally facilitating change. Two distinct, but sometimes overlapping, contexts for such partnerships need highlighting here. The first are (i) partnerships, specific to particular **sectors or clusters of enterprises** in related activities (such as textiles enterprises, or ceramics companies), sometimes conceived in value-chain terms as crossing traditional sector lines (meaning, for example, not only textiles enterprises per se but also related input and output industries, such as chemicals, textiles machinery, or printing). The second context is (ii) development partnerships at the **local level**, not necessarily concerned only with particular sectors.

Addressing each in turn:

##### i) Sector Partnerships

Sector partnerships, fora or associations include groups of enterprises in the industry, which come together, in some cases in partnership with trade unions and sometimes also with other local actors, for the purpose of developing their industry. They might start their activities by identifying collective strengths, weaknesses and needs of the industry. This might then be further addressed in partnership with regional agencies. Weaknesses here could include, for example, supply-chain problems – such as in respect of quality or reliability – or marketing difficulties, or perhaps skills deficiencies.

In some cases, some form of representative sector associations might already exist, but have hitherto restricted themselves to bargaining or representation roles rather than developmental ones. In this case it is a question of the existing associations taking on new

roles. In other cases, the formation of new sectoral associations and partnerships is encouraged by regional development agencies or promotion institutes.

Such sectoral associations or partnerships need to be linked to an effective support infrastructure. How? A sectoral association or partnership could occupy a supervisory role on the board of a sector-specific intermediary institution dedicated to upgrading their industry. Such intermediary institutions will provide some services themselves – say, technology transfer, quality testing, or training – but also link up with other specialized regional service agencies when necessary.

Box 5 illustrates how social partners in the United States have joined forces for the purpose of upgrading a large clothing-manufacturing cluster. The New York Garment Industrial Development Corporation (GIDC) has been specifically intent on moving the industry of largely small firms along new higher value-adding competitive paths. The GIDC model has reportedly been replicated in the United States in other sectors.

### **Box 5: The Garment Industrial Development Corporation of New York**

The Garment Industry Development Corporation of New York (GIDC) is a tripartite-governed development agency set up to help the New York clothing industry move along a new higher value-adding path. Supported by the industry's employers and trade union organizations, as well as the city administration, GIDC organizes a range of services and programmes to help the city's 4,000 or so small clothing firms compete on a basis compatible with a rising-wage economy. Training features prominently as do activities aimed at raising fashion content, quick response and just-in-time delivery, and new technologies and better production organization.

As well as providing services itself, GIDC also acts to link up with other specialized service providers.

*Source:* Herman, 1998.

#### ii) Local Area Partnerships

Local area partnerships are essentially focused on local development initiatives, are not necessarily restricted to a specific sector, and tend to involve a broader range of actors than the social partners alone. Although intended to be locally driven, higher-level authorities can facilitate conditions that generate such initiatives. In Europe, an important facilitator has been the European Commission, through its agencies and programmes, especially the *Territorial Employment Pact* programme. In this programme, it was stipulated that initiative should come from the local level, that all local actors should be involved in a partnership arrangement, and that an integrated strategy should be developed based on detailed local analysis, resulting in an **Employment Action Plan**.

Well-known local partnership initiatives have been taking place, for example, in Italy, as Section 2 described. In Germany, a decentralized approach in North Rhine-Westphalia involved the promotion of concertation or partnership, and consensus-building, among key local actors in the State's 15 sub-regions, who have collectively participated in designing and

implementing their own development strategies. The state government has carried out a facilitating, coordinating and monitoring function.

The process of partnership has taken place through **regional conferences**, the members of which have reached consensus on development proposals, which are then sent to the state government for funding. Each regional conference has had a different membership according to local conditions, but common to all are local governments, trade unions, chambers of industry and commerce, and the local labour offices. Other members have covered a broad range of community groups, such as women's groups, welfare services, environmental protection organizations, church groups, and others. In the most successful examples, typified by a preponderance of small and medium-sized firms, the process of negotiation, bargaining and consensus-making has committed actors to cooperative and collective action.<sup>20</sup>

In Ireland, area-based partnerships have been addressing a range of economic and social issues, as shown in Box 6. In 1991, the Irish Government, with the support of the Social Partners, and the Structural Fund of the European Union, initiated the first of 38 Area-Based Partnerships in urban and rural communities, which served to extend national level tripartite cooperation to local-level tripartite projects aimed at tackling social and economic issues such as enterprise development, long-term unemployment and social exclusion.

#### **Box 6: Irish Area-Based Partnerships**

Typically, an Area-Based partnership has a board of 18 members that includes representation from national government departments (concerned with areas such as issues of training, welfare, or economic development), workers' and employers' organizations, and the community sector (groups involved in community issues such as unemployment, or welfare or tenant rights).

Examples of such partnerships include: in an urban setting, the "*Tallaght Partnership*" which has been involved in projects to train young people; help disabled people voice their needs to service providers; and in enterprise mentoring programmes. In a rural setting, the "*Ballyhoura Development Partnership*" has been involved in rural enterprise promotion such as encouraging new agricultural-related activities and broader community development – making low-cost housing available to local village people, for example, and the "*South Kerry Partnership*" assists enterprise creation in areas such as specialty food products, and helps to develop community and cultural services.

*Source:* Pyke, 1998.

**The authors of the present report recommend that the Lodz region actively promote sector and local area associations, fora and partnerships as an aid to managing change, promoting consensus and social cohesion and to accelerating upgrading.**

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<sup>20</sup> For more details, see Potratz, 1997.

### *Creating an Enabling Support System for Small Enterprises*

The overwhelming majority of enterprises in the Lodz region are small. Small enterprises are a crucial source of employment, of new businesses, and providers of competitive inputs for other enterprises, including large ones.

The success of small economic units depends on an effective and enabling institutional and regulatory environment. In the Lodz context, an adequate infrastructure of support must include the provision of a range of services. These include, for example, the provision of finance, human resources, marketing and export services, technology transfer, testing and measuring services, upgrading and consultancy services and incubator facilities.

To be effective, the provision of such services needs to be **comprehensive, relevant and easily accessible**. Relevancy can be helped by linking the determination of the services to the needs of particular sectors, as expressed by sector associations, fora or partnerships. Where an upgrading strategy is in place services such as training can expect to adapt as changes are introduced inside individual enterprises and at the level of whole sectors or clusters.

Because a range of services is frequently required, it must be possible to obtain a comprehensive package of support (for example, advice on production matters, plus training, plus finance). This implies the vital need for coordination.

Small entrepreneurs and their workers typically have limited time or financial means to travel in search of services, which should be easily accessible. The trend has been to decentralize services to particular localities and introduce one-stop shops for easy access. Where sectors are geographically agglomerated it can make financial and effective sense to locate technical support within the boundaries of the cluster. This is amply illustrated in Box 7, outlining a one-stop example from Spain.

### **Box 7. The Network of Technological Institutes in Valencia, Spain**

The region of Valencia in South East Spain has a network of technological institutes, which aim to raise the levels of quality and innovation in the region's small firms. Around a dozen such institutes exist, some of which are sectorally focused and others provide generic services to all industries. The sectorally focused institutes are located in a decentralized manner, close to the clusters of industries they serve. For example, local institutes serve clusters of industries in ceramics, textiles, footwear, and toys. Some institutes, such as one concerned with the generic theme of biomechanics, are located in a science park near to the capital city.

Each sector-focused technological institute provides services tailored specifically to the needs of the sector it serves, including, for example, quality testing and measurement, technology transfer, training, and marketing. In order to ensure relevancy of services for each sector, a small-firm entrepreneurial association has been formed, which elects a majority of the boards of each institute. Where individual institutes are unable to provide a required service, clients are referred to other institutions in the region, such as universities and specialized training institutions. The technological institutes collaborate with one another to combine their skills where relevant.

The whole system is coordinated from the capital city by the Institute for the Promotion of Small Firms (IMPIVA), a government agency. As well as coordinating the network of technological institutes, IMPIVA also implements other programmes for small firms, such as a programme to encourage enterprises to cooperate together on specific projects.

*Source:* Pyke, 1994.

The Lodz Region already has a range of some 30 institutions providing support to small enterprises and assisting new start-ups. It has not been possible for the authors to assess the extent to which requirements on comprehensiveness, coordination, relevancy and accessibility are being met in Lodz. However, in respect of the last mentioned aspect, a geographically uneven spread of small-firm support institutions has been reported, with less than 40 per cent of them operating outside urban areas, thereby creating potential problems of accessibility for enterprises located in outlying areas.

**In view of the intention expressed in the Lodz Regional Economic Development Strategy to pursue a sectoral strategy, it may be that within the regional network of existing service institutions there is space – and the need – to complement the provision of generic services with services oriented to specific sectors.**

**Consideration could be given to providing some services not just on an individual enterprise-by-enterprise basis, but also on a group, network or cluster basis. Elsewhere in this report, examples are provided of how small enterprises may collaborate together to learn from one another, to share costs, or to develop joint products and strategies and that, as groups, they may require collective services. This could even include services to help them cooperate.**

**Also, in the event that it is decided that coordination could be improved, it might be considered whether the network of small-firm support institutions, and the range of programmes in existence to promote small firms, would benefit from a coordinating**

**agency similar to the Institute for the Promotion of Small Firms in Valencia (see Box 7), or the ERVET agency in Emilia Romagna, Italy (see Annex 3).**

### *Developing an Effective Education and Training System*

It is widely agreed that to keep up with the pace of change, ongoing skills upgrading or skill changing is necessary for the duration of our working life. The concept of lifelong learning has come to encapsulate the establishment of attitudes and expectations among people to learn continuously – from childhood to retirement, with the backup of institutional and enterprise capacity to provide that learning. In the pursuit of such aspirations we are seeing the development of new convenient institutional settings for people to engage in new educational programmes, and new means of delivery, such as ICT.

In the Lodz context, active labour market programmes have given high priority to training as a means of securing greater employability, and should continue to do so. Nevertheless, there have been criticisms that serious mismatches exist in the region between jobs on offer and skills available. A high priority must be to develop mechanisms for overcoming the mismatch problem and to locate training and active labour market programmes in the context of a dynamic upgrading strategy – a strategy that not only considers the creation of new skills but also the creation of new job opportunities, and that develops both skills and job opportunities together.

#### i) Training and Institutional Support

Particularly for small enterprises, training should be part of the coordinated support infrastructure of services advocated in the previous section. Small firms and their workers typically do not have the resources, time, and sometimes motivation to engage in training. Also, training provided to large organizations is not always relevant to small enterprises. Moreover, certain enterprises often have specific sectoral needs, as well as generic requirements. In addition, the needs of small firms evolve, as they grow or/and they engage in upgrading activities. Furthermore, small firms and their workers are likely to need a range of services. Consequently (as for other services), training needs to be integrated as part of a broader **comprehensive** package of support.

#### Linking to Local Partnership and Sectoral Upgrading Strategies

**Issues of coordination, relevancy and motivation** can be addressed by integrating training into local partnership initiatives and sectorally focused upgrading actions, as well as programmes, which encourage small firms to cooperate on joint ventures and cost-sharing initiatives. **Accessibility** can be improved by decentralizing training provision, close to where people work and at convenient times. Possibly, information technologies might be usefully applied for distance learning. **Affordability** can be helped through collective approaches such as groups of enterprises sharing the costs of training.

#### Involving the Industry

**Involvement from the industry that is being served promotes relevancy and a capacity to drive initiatives forward.** Some of the most innovative approaches have been where representative associations have gone beyond traditional bargaining and representation roles and have become actively involved in developmental activities. We have already seen

examples of this in respect of sectorally focused associations in Valencia, Spain (Box 7); and the Garment Industrial Development Corporation in the United States (Box 5). Two further examples are summarized in Boxes 8 and 9.

### **Box 8: The ASCAMM Technology Centre in Barcelona, Spain**

**The ASCAMM Technology Centre has been established by, and is owned and run by, the largely small-scale industry it serves.** ASCAMM itself is an entrepreneurial association of (in 1996) about 150 small firms (average size 10 employees) in the mould and die-making sector. ASCAMM opened the Technology Centre in order to improve the competitiveness of (mainly small) firms in this particular sector, mostly in Catalonia, but also more broadly in Spain. The Centre employs (in 1996) 34 people full time and some part time, and provides training courses alongside other services, such as testing, measurement and quality certification, consultancy, technology transfer through seminars and show rooms, research and development, and assistance in negotiating finance.

**The connection of the entrepreneurial association to the centre is reported as one of the factors helping it to succeed, not only because it provides an integrated voice but also because the association is said to act as a transmitter of ideas of continuous improvement of services.**

*Source: Pyke, 2000.*

### **Box 9: The Machine Action Programme: Massachusetts, USA**

The Machine Action Programme in Massachusetts, USA, consisted of an intermediary institution that aimed to upgrade small metalworking firms by carrying out continuous surveys of sectoral needs, translating the needs into programmes and initiatives to meet those needs, and then collaborating with a network of service providers and institutions to deliver the programmes and services.

**Considered important to the success of the initiative was the full participation of employers' and workers' organizations: both groups, for example, have strong representation on a supervisory directing board. This involvement of the industry was also considered to help make the whole programme demand-driven.**

Equally important was the provision of services, especially training, not so much on an individual basis as much as for whole networks and groups of firms, a feature, which is considered to have generated collaboration, the sharing of ideas and enthusiastic involvement in the programme.

Finally, the whole programme ran as a continuous and adaptable process, which meant that a capacity was built up to continually evaluate requirements and programme effectiveness, and to respond to rapidly changing needs.

*Source: Forrant and Flynn, 1996*

**The authors recommend that efforts be made to address training mismatch problems, and take account of the specific problems faced by small enterprises. Issues of relevancy in particular could be addressed by linking training to sectoral and local development initiatives, and to small-firm cooperation programmes, by involving industry representation in determining training needs, and by considering the provision of training as part of a dynamic process of change linked to changing industry and worker needs.**

#### Labour Monitoring and Forecasting Capabilities

As experienced in the Machine Action programme (See Box 9), continuous research into changing skills needs is an important aspect of integrating training dynamically into development initiatives. In some regions there has also been a region-wide approach with the establishment of **Regional Observatories** to monitor and forecast skill requirements. Such observatories can play an important part in linking the needs of industry with the world of policy and training provision. And they can form part of a region-wide effort to create the institutions and programmes that promote lifelong learning. One area likely to have region-wide implications and be of relevance to all sectors is ICT-related needs and skills.

**In an era of continuous change, an effective research capability is vital to the dynamics of economic development. Consequently, the authors recommend labour monitoring and forecasting capabilities be created, that are able to keep up with both sector-specific *and* generic skill requirements. In the latter, one of the first priorities should be to assess future ICT skills needs.**

#### ii) Training, and Knowledge Transfer Between Enterprises

Simultaneously with the trend towards improved linking of industry needs to institutional training suppliers, the importance of inter-enterprise knowledge transfer and training has also been recognized. Indeed, when *informal transfer* of knowledge of aspects such as best production practices, technologies, markets, fashions, materials and other areas are included, customers, competitors and suppliers are particularly important sources. This recognition has led to a spate of initiatives to try to improve knowledge flow and learning between companies, horizontally between small firms and vertically between large and small firms.

In fact, some large firms unilaterally take active steps to ensure that various tiers of their suppliers are trained in the latest techniques. In other cases, as mentioned earlier, **Supply-Chain Programmes** have been developed, to encourage supply-chain cooperation in training and other areas. Working in partnership, local small enterprises might benefit not only from assistance of local training institutions, but also the facilities and expertise of leading large firms. Linking training to concrete business opportunities can provide considerable motivation to small enterprises to become involved.

There are also examples of **Mentoring Programmes** – such as exist, for example, in Belgium and Ireland – where managers from large companies will discuss best practices with colleagues from small firms; programmes to promote **Learning Networks** – such as occur in Germany, Denmark and the United Kingdom – where participating enterprises are encouraged to share information (possibly visiting one another's production plants) on technologies, production methods, managerial methods and other upgrading activities and, perhaps, benchmark themselves against best practice in their industry, sometimes with the support of

scientific, research or consultancy experts; the organization of **Sectoral Fora and Conferences**; and **Collaborative Research Projects** involving local research institutes and enterprises.

**It is recommended that particular note should be taken of the importance of inter-firm relationships for knowledge transfer and upgrading, and that actions to be taken to encourage knowledge flow through means such as supply-chain programmes, mentoring initiatives, learning networks and experience exchange activities, participation in fora, and collaborative research projects.**

#### *Developing New Agricultural and Rural Opportunities*

The Lodz Regional Economic Development Strategy recommends attention be paid to agricultural and rural industries and opportunities. We agree fully with this view, and suggest four aspects, which might be included for consideration:

i) **Consider linking agricultural strategies to the promotion of broader cross-sector value-chain activities in the region.** For example, agricultural development could be linked to a cross-sector strategy, involving industries such as food processing industries (in meat, vegetables, milk and others), small and large retailers (including supermarkets), storage and transportation, and supporting institutions including university and research institutions.

For example, in the Netherlands, it is generally agreed that the success of the Dutch cut-flower industry is to be understood not only in terms of the capabilities of the agricultural activity of plant-growing, but also in the quality of a comprehensive array of upstream and downstream economic and institutional actors – in areas such as marketing, transport, training and scientific institutions – that are more broadly associated with the industry.

ii) **Consider strategies for rural development that could be decentralized to local partnerships** involving key local actors (employing organizations, trade unions, labour offices, training institutions, financial agencies, local authorities and others) who can help to identify local business opportunities and work together with entrepreneurs, to help make them successful.

iii) **Consider agricultural diversification.** Possibilities could include the introduction of new higher value products, possibly involving some form of processing on the farm (or maybe through cooperation with separate, including existing, food processors); or by using different ways of producing, such as organic methods; and/or engaging in different or additional ways of market access, such as through the Internet; and/or, given the small size of Lodz farms, by using cooperative or collective methods, if and where appropriate. Box 10 outlines the changes occurring in agricultural enterprises in the United Kingdom.

### **Box 10: The Changing British Agricultural Scene**

There are indications that British farmers are changing their practices. One of the biggest growth areas has been in organic farming. The United Kingdom market grew at a rate of 33 per cent during 2000-1 with sales of £802 million; it is the fastest growing organic market in Europe. In the same period, the area of fully organic land in the UK increased by 133 per cent.

The number of farmers' markets (where farmers come together locally to sell direct to the public) has increased from single figures in 1997 to more than 200. Farmers are also selling direct to the public through mail order via the Internet.

Also, it is reported that approximately 65 per cent of farmers have diversified into other areas – from bed-and-breakfast outlets to ice-cream-making.

Source: *The Guardian*, 5 February, 2002

- iv) **Finally, consider the possibility of supplementing farming with other kinds of non-agricultural economic activities**, including, as suggested by the Lodz Regional Economic Development Strategy, agro-tourism, but also possibly other areas. For example, in other regions, farming families have supplemented household incomes with various kinds of home-working, business and sub-contracting activities. In the future, new information technologies could offer new possibilities for increased “distance working”. In Britain, teleworking is reported to have increased by 65 per cent in just 4 years up to 2001 (Turner, 2002).

#### *Developing an Effective Information and Transportation Infrastructure*

The Lodz Regional Economic Development Strategy considers the development of a transport and information infrastructure a high priority. Improvements in the roads and airport have been emphasized. There appears to be consensus that such improvements would provide long-term business benefits, including tourism, and that construction could provide short-term employment opportunities.

Improving the information infrastructure is another priority aim. Many regions and countries in the world mirror the aspiration to develop ICT capabilities, seeing such capabilities as a necessity for competing in knowledge-driven economies. Moreover, current economic uncertainties notwithstanding, recent labour shortages might be expected to continue into the future.

On the one hand, many see the widespread use of ICT as a necessity for improving productivity and communication, for accessing information and learning, and for engaging in day-to-day business activities. On the other hand, ICT is seen as offering significant job opportunities and training needs, whether it be in the higher skills of programming, analysis, software, and computer repair, or in the more general skills of manipulating computer data bases or operating computerized equipment.

Such developments pose challenges on the demand-side, ensuring that businesses make the best use of ICT – and here small enterprises might face particular difficulties in accessing the requisite technology and know-how. On the supply-side comes ensuring an adequate level of skills in the economy.

Should predicted international labour shortages eventuate, one future problem may be stemming the loss of higher ICT skills through emigration.

**The authors recommend that the region proceed with its ambitions to improve its transportation and information communication infrastructure. Many regions and countries view the role of ICT in development and employment creation as so significant that they have created specific national and regional ICT strategies. The Lodz region might like to consider whether a comprehensive regional ICT strategy would be appropriate. As suggested earlier, this should include work by a Regional Observatory or other labour research instrument to assess current skills availability and future needs.**

## **7. Activating Labour Market Policy**

While the active economic policy interventions described in Section 6 are key instruments for promoting new job creation and reducing unemployment, labour market institutions and policies also play a key role.

### *The Regulatory Environment*

Poland is among the transition countries (and industrial countries in general) with labour market regulations that are least restrictive to employers. Still, certain regulations remain unnecessarily burdensome. Although any ideas concerning their modification would normally be outside the scope of a regional report, the central government is now considering important changes.

The redistribution of responsibility for sickness benefits from employers to insurance funds seems to be the right step towards decreasing labour costs for employers. In contrast, a broadening of facilitation of short-term employment contracts and civil contracts could have significant counter-productive effects: lower labour productivity caused by lack of motivation to innovate and improve work performance and loss of loyalty to the firm on the part of employees and, on the side of employers, by low investment in human capital.

**The authors strongly recommend an in-depth discussion of proposed regulatory changes in a broad national tripartite forum.**

### *Active Labour Market Policies*

In the majority of Western European countries the shift towards higher labour adjustment flexibility and lower workers' protection at the enterprise level has been compensated by higher employment protection by the State, through providing active and passive labour market policies to workers already jobless or threatened by joblessness. For Poland as a whole, as well as in Lodz, however, the recent trend has been the opposite. Financial budgetary problems have meant a considerable decline in funds per jobseeker allocated to labour market policies, in particular funds for active policies.

In the current situation, retraining and skills upgrading is considered as probably the most important active labour market policy for improving employability and mobility of jobseekers and persons threatened by unemployment. Available assessments of its policy

performance in Poland have been quite favourable. However, they also reveal its main orientation to young and more skilled persons. Training for low-skilled, especially older, persons, has been very modest. This needs to be rectified. At the same time, labour market training for unemployed youth needs to be further expanded in close relationship with market demand for skills, if the most highly represented group of jobseekers in total unemployment is to be effectively assisted.

The re-employment of low skilled jobseekers should also be improved by the further expansion of intervention works that have been evaluated as reasonably successful and cost-effective in Polish conditions. In fact, the higher application of such schemes can be even more useful in the current recession, when employers think twice before hiring any new person, and particularly in the case of those enterprises that are less competitive.

Discussions with specialists from regional and local labour offices reveal that they have gained a lot of valuable experience in the application of labour market programmes, not only those traditionally used but also experimental ones such as subsidized job rotation, modeled on the successful Danish experience. The experts have also improved their capacity in working with youth and harder-to-place jobseekers.

While there is always a space for improving job mediation and the range, design and implementation of active labour market programmes, the most limiting factor for a wider and more effective use of labour market policies in line with the European employment policy goals is money. In a situation of very high unemployment the right answer is not to cut resources but to allocate more funds for quality job mediation, labour market training and other effective labour programmes, with more attention paid to their proper targeting and regular evaluations of their efficacy and cost-effectiveness. After all, the EU experience clearly shows that workers better accept changes in job, location of work, skills or even profession, when they feel secure in the provision of income support and effective re-employment assistance.<sup>21</sup>

**The authors recommend expanding the access of unemployed jobseekers and workers threatened by unemployment, in particular disadvantaged groups, to appropriate labour market policies in line with their specific needs.**

## **8. Strengthening Social Dialogue and Social Cohesion**

The pursuit of a high value-adding economy can be undermined by mistrust and conflict among the key economic and social actors in the region. The promotion of a partnership approach requires consensus over development aims and the means by which they are to be accomplished.

Employers' organizations, trade unions and other key players can agree that industry is to be made competitive by means which promotes productivity, innovation and high value-adding production. For example, in the case of the Prato textiles industry in Italy, sector-wide agreements and understandings are said to have been very important in promoting cooperation and encouraging the industry move along a path of upgrading. Thus a framework can be set, within which solutions to specific problems might be sought – such as more training, new

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<sup>21</sup> See, for example, Auer (ed.), *Changing labour markets in Europe: The role of institutions and policies*. ILO Geneva, 2001.

production methods, more research and development, better design, and other value-enhancing solutions – and destructive, illegal, or undesirable practices outlawed.

Already in the Lodz region, institutional arrangements are being made to bring together the social partners in a regional commission where they can address key issues of common concern. Such dialogue at higher levels, which could include the making of regional or national regulatory and policy agreements, can form the background and basis for collaborative action at sectoral and local levels.

**The authors recommend that efforts be made to promote consensus and broad support for the region’s strategy. Institutional arrangements need to be developed which can promote continuing dialogue, both among the social partners and, also, where appropriate, other key regional actors, along the following lines.**

Step 1: Set up rapidly the Regional Tripartite Commission for Social Dialogue foreseen in the law of 6 July 2001, and incorporate into it the Employment Council operating at the voivodship level. The latter should become a sub-commission within the Regional Tripartite Commission for Social Dialogue. This institutional arrangement would have the advantage of streamlining the social dialogue structure and bring the issue of employment to the heart of the regional economic development strategy. Since the law of 6 July 2001 is flexible concerning the competencies of the Regional Commission for Social Dialogue, these could be defined by the local partners themselves in the framework of an agreement. As far as the Employment Council is concerned, both its competencies and its composition should be broadened, as follows:

i) Composition

In addition to the current members represented in the Council, namely trade unions, employers, farmers, and Voivodship administration, other actors could be invited to take part in its deliberations – including representatives of educational institutions, independent experts and NGOs involved in-depth in employment and vocational training activities.

ii) Competencies

The competencies of the “new” Employment Council should also be broadened to include matters related to regional/local employment policy, vocational education and training policy and labour market policies; its resources should also be increased.

Step 2: Strengthen bipartite social dialogue. This could be achieved through involvement in local and sectoral partnerships and via the creation of a Bipartite Commission for Sectoral Social Dialogue. Such arrangements will enable the social partners to address specific problems pertaining to the development of high value-adding sectoral strategies – including both traditional “labour” issues such as training and working time arrangements, and “developmental” issues such as technologies, transport links, design centers and others.

Step 3: Consider working out a regional social pact committing all stakeholders to a clear set of objectives to be achieved over a definite period.

## 9. Conclusions and Recommendations

The Lodz region is an old region with a number of established industries, especially textiles which, while still being of major importance to the economy, have significant problems to compete in today's world. For enterprises in this situation, two survival options are currently available.

Enterprises can try to undercut low-labour-cost competitors by squeezing labour costs and working conditions, cutting investments and undercutting standards. Such destructive competition can only, if at all, succeed in the short term, as encroaching globalization puts more and more low-cost countries into competition. In the authors' view, some sections of Lodz industry are already feeling the pressure of competition from low-labour-cost countries.

The second option is to engage in a competitive strategy that is compatible with rising incomes and conditions. This means emphasizing innovation, productivity, high value-added production and long-term investment in technologies and skills. This route has been taken by countries and regions within the European Union and is also advocated in the Lodz Regional Economic Development Strategy.

As an aid to furthering the region's economic development strategy, the following recommendations are proposed, based on the authors' findings and examples of international experience.

1. Consider how regional institutions, programmes and initiatives, and collaborating partners might best be organized to work in a coordinated manner to pursue the region's development vision. Consider also an enhanced role for a central coordinating agency at the regional level (similar to the British regional development agencies), to provide strategic leadership and facilitate partnership and coordination.
2. Give consideration to actively promoting sector and local area associations, fora and partnerships, as an aid to managing change, promoting consensus and social cohesion, and accelerating upgrading.
3. Promote inward investment and endogenous development approaches in tandem, with the mirror goal of developing a high value-adding innovative region to attract the best investment, and attracting investment, which can help achieve the region's development aims.
4. Link inward investment policies directly to the Regional Economic Development Strategy, such as the promotion of particular sectors and value chains, the promotion of the science park, and the overall aim of moving along a high value-adding route.
5. Consider utilizing supply-chain programmes, which, on the one hand, should serve to make local small enterprises attractive as suppliers to inward investors, and, on the other, should aim both to embed potentially mobile companies and help to upgrade local industry.
6. Encourage sectoral associations or partnerships in Lodz's traditional sectors to commission research into the strategies used by enterprises outside Poland. How are enterprises in their sectors (such as textiles and clothing, furniture, and ceramics) competing in the high-wage countries of Europe and elsewhere? Accompany this with a review by the same associations or partnerships of obstacles and opportunities for upgrading specific sectors within the Lodz region.

7. Make full use of the higher educational and scientific infrastructure; and carry out a review of European best practice, paying particular attention to arrangements such as the Steinbeis Network in Germany, or horizontal collaborative approaches, which particularly cater for small enterprises.
8. Consider the adequacy of the existing small firm support infrastructure, and ensure that the system provides services that are *comprehensive*, *relevant* and *easily accessible*, with an adequate level of *coordination*.
9. Consider strengthening small-firm service relevancy by: i) involving industry representation; ii) establishing both generic and sector-specific support institutions; iii) linking services to an active upgrading strategy that: identifies needs, identifies appropriate programmes and initiatives to address those needs – such as improving quality, design, fashion content, just-in-time capability, better production layout – and which can then call on services (consultancies, training agencies, export promotion agencies) to back up those initiatives.
10. Consider initiatives to help small firms collaborate with one another for purposes such as exchanging experience and sharing best practice, joining forces on industry promotion, cooperating at trade fairs and marketing and developing together new products and processes.
11. Should the coordination of services for small firms require improvement, consider the possible establishment of a coordinating agency like the Institute for the Promotion of Small Firms in Valencia or the ERVET regional agency in Emilia Romagna, Italy.
12. Training and knowledge generation and distribution could be improved by: integrating training provision with the provision of other services; and linking training to local and sectoral partnership approaches, programmes to promote inter-firm collaboration on joint business and cost-sharing initiatives; and sectoral upgrading initiatives.
13. A Regional Observatory or similar facility could be created, with labour monitoring and forecasting capabilities, to keep up with both sector-specific skills requirements and generic skill requirements. One of the first priorities should be to assess future ICT skill needs.
14. Take particular note of the importance of inter-firm relationships for knowledge transfer and upgrading, and take actions to encourage knowledge flow through means such as supply-chain programmes, mentoring initiatives, learning networks and experience exchange activities, participation in fora and collaborative research projects.
15. Undertake actions to improve the situation in agricultural and rural areas. Possibilities include, for example: linking agricultural strategies to the promotion of broader cross-sector value-chain activities in the region; promoting local partnerships; and promoting agricultural and other forms of diversification.
16. Proceed with improving the region's transportation and information communication infrastructure, and consider whether the development of a comprehensive regional ICT strategy would be appropriate.
17. Expand the access of unemployed jobseekers and workers threatened by unemployment to job mediation and active labour market policies. Improve the design of these programmes to target those most in need of re-employment assistance – and in line with their specific requirements.

18. Proceed rapidly with setting up the Regional Tripartite Commission for Social Dialogue foreseen in the law of 6 July 2001. Incorporate the Employment Council operating at the voivodship level into this Commission and ensure that both the composition and the competencies of the Employment Council are appropriately broadened.
19. Promote social dialogue and consensus for the regional strategy and a high value-adding approach to competitiveness. Consider initiating the working out of a regional social pact.
20. Strengthen bipartite sectoral social dialogue.



## Annex 1. Development Agency Role in North West England

### Box 11: North West Region of England

This region has a population of 6.9 million people, geographically stretching from the cities of Liverpool and Manchester northwards to the Scottish border. **The North West of England Development Agency** (NWDA) takes a leading strategic and co-ordination role.

This region has identified a number of established sectors of importance to the economy. These include: “*Chemicals*”, “*Textiles*”, “*Aerospace*”, “*Agriculture, Forestry and other Land-based Industries*”, “*Mechanical and Other Engineering*”, “*Automotive Sector*”, “*Energy Sector*”, and “*Food and Drink*”.

The textiles cluster is historically based on cotton, with links to clothing, wholesaling, specialist materials and related machinery. There is now a vibrant high value-added sector in speciality textiles.

In agriculture, the priority of the NWDA is to help economic units maintain income by diversifying into new market areas. To assist this process the NWDA will work with partners to produce a regional food strategy, and develop a diversification programme with rural partners.

In addition to the above established and traditional industries, the following growth clusters or sectors have been identified: “*Environmental Technologies*”, “*Biotechnology and Pharmaceuticals*”, “*Medical Equipment and Technology*”, “*Financial and Professional Services*”, “*Tourism*”, “*Computer Software and Services*”, and “*Creative Industries*”.

The NWDA aims to work with target sectors to identify actions that would help them to expand or become more competitive. These might include supply chain or supplier improvement programmes, collaboration on promotion and marketing, and joint training initiatives. The NWDA will act as a supporter to help sectors get funding (European, Government and Private), and develop the necessary support in terms of people, advice and training. Sector-focused knowledge institutes will be encouraged.

*Source: England's North West: A Strategy Towards 2020, North West of England Development Agency*

## Annex 2. A Supply-Chain Programme in Hungary

### Box 12: The Integrators' Subcontracting Programme

In Hungary, the *Integrators' Subcontracting Programme*, is designated as one of the central programmes within a national development plan.

The Programme initially aimed at promoting direct linkages between final assemblers and local SMEs, regardless of ownership. Currently, its focus is on promoting links between first-tier suppliers – known as “integrators” – and their second- and third-tier suppliers. Most of the first-tier firms in the priority industries are foreign-owned, and roughly 80 per cent of the second-tier supplier firms are fully Hungarian-owned. Thus, the programme is de facto a programme promoting linkages between foreign affiliates and domestic firms.

Originally, the Programme focused on the *automobile industry, electronics and rubber and plastics*; it subsequently added *textiles, furniture, building materials, services and retail trade* to the list of priority industries.

The Integrators' Subcontracting Programme gives priority to relatively advanced supplier firms. The following types of services are available:

- **Access to a national subcontracting database and related information services;**
- **Education, training and consultancy services;**
- **Promoting the international presence of Hungarian firms;**
- **Financial support and grants from the Ministry of Economic Affairs.**

Innovation centres, as well as universities and research institutes, indirectly support the Integration Subcontracting Programme by coordinating relevant aspects of research and development.

Between 1998 and 2000, a number of key foreign affiliates (e.g. Opel, Audi, Suzuki, Ford, General Electric, Nokia and Electrolux) signed 76 supplier contracts under the programme. According to latest estimates, the share of Hungarian firms among the suppliers to foreign affiliates increased from 16 per cent in 1999 to 21 per cent in 2000.

*Source: World Investment Report, 2001, “Promoting Linkages”, UNCTAD, Geneva.*

### **Annex 3. Support System for Small Firms in Italy**

#### **Box 13: The ERVET System in Emilia Romagna, Italy**

Emilia Romagna in Italy is a highly successful small-firm economy aided by a well-developed service infrastructure. As well as strong entrepreneurial associations providing members with a wide range of services, the region is served by a network of support agencies coordinated by the ERVET development agency. The small-firm support agencies either provide generic support – such as in respect of technology services – or sectorally targeted support aimed at the region's clusters of industries (in sectors such as knitwear, ceramics and furniture). For example, the service centre CITER supports the knitwear industry, which is clustered around the town of Carpi. CITER is particularly known for its fashion forecasting services, but it also provides other services, such as advice on appropriate technologies. CITER is located in Carpi, close to its clients, and has industry representatives on its board.

ERVET not only coordinates its own network of service agencies, but also provides backup services to other frontline service institutions, such as the entrepreneurial associations.

*Source: Mazzonis, 1996.*

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