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Forum “Public-Private Co-operation in Industrial Restructuring”

Almaty, Kazakhstan, 2-3 November 2004

REPORT ON THE FORUM

1. The following document represents the outcome of the Forum on “Public-Private Co-operation in Industrial Restructuring” co-organized by the United Nations Economic Commission for Europe and the Organization for Security and Co-operation in Europe on invitation and in cooperation with the Government of Kazakhstan. The co-organizers of the Forum also included the Kazakh Union of Economists, Almaty-based “TENIR Project” and Moscow-based “PACC Consulting i Audit”. The Forum was held at Rahat-Palace hotel, Almaty, Kazakhstan on 2 and 3 November 2004.

Introduction

2. The Forum brought together 104 representatives of Governments, private companies, labour unions and academia from 14 UNECE member countries. Representatives of the Organization for Security and Co-operation in Europe also attended.

3. Mr. Asset Issekeshov, Vice-Minister of Industry and Trade of Kazakhstan opened the Forum. He highlighted the major achievements of the Kazakh economy in the recent period and informed the participants on the major objectives of the Government industrial policy. He emphasized the importance of industrial restructuring as a means of enhancing competitiveness of the Kazakh

economy. The major objectives of the industrial policy in Kazakhstan include the design of supportive institutional and regulatory framework, development of adequate analytical backup for policy decisions, encouragement of high value-added manufacturing industries (machine-building) and effective import substitution, promotion of indigenous research and innovation, and introduction of modern information technology, which forms the basis for the knowledge-based economy of the future. Government at all levels – national, regional and local - is to play an active role in designing the plans for strategic restructuring of economic sectors and regions in Kazakhstan. It should also facilitate an effective dialogue of major actors involved in industrial restructuring and territorial development. Wishing the Forum success in its deliberations, Mr. Issekeshv was confident that the exchange of information on best practice in cooperation of the public and private sector in industrial restructuring in different countries of the world would contribute to its progress in transition economies.

4. The Forum was also welcomed by Ambassador Ivar Vikki, Head of ESCE Office in Almaty and Mr. Kairat Bukenov, first Deputy Mayor of Almaty.

Summary of discussion

5. The Forum discussed the ways and means to strengthen the cooperation of major stakeholders in industrial restructuring and revitalization of decaying towns and areas. In particular, it addressed new business models facilitating restructuring, Government support to enterprises requiring modernization, instruments facilitating their re-profiling and measures alleviating the associated social problems. A particular emphasis was put on best practices in handling the problems encountered by single-industry towns and areas, as well as on the international experience of industrial and territorial clustering. The final session of the Forum discussed possible future measures facilitating the cooperation of Governments, private sector, trade unions and public in the course of industrial restructuring in transition economies. This discussion resulted in the recommendations to national, regional and local Governments agreed by the Forum (see Annex).

6. The discussion at the Forum revealed a number of new forms and methods of restructuring peculiar to mature stages of market reforms. Large private companies, which have emerged over the last 10 – 15 years, view the restructuring not as a defensive set of measures for enterprise survival but as an investment for its future development and growth. The speakers referred in this context to the establishment of service centres and outsourcing of the auxiliary and servicing activities (for example at Russki Allumini in the Russian Federation or Nikolayev alumina plant in the Ukraine), creation of industrial parks on the basis of unused infrastructure capacities (Volgograd and Kirov tractor plants in the Russian Federation), hiving off of non-core functions to new SMEs (Jairem mining works in Kazakhstan) or transformation of “non-core” parts of the enterprise into new competitive production lines (e.g. the establishment of a metallurgical equipment subsidiary on the basis of the Russian-based Severstal’s repair operation).

7. The Forum agreed that in order to be effective, the restructuring plans should be well integrated into the long-term strategy of the company, including its marketing forecast, on the one hand, and in the regional and municipal development plans, on the other. The role of central and local authorities is particularly important at the conceptual stage of sectoral and territorial

restructuring, when both the potential for and major directions of enterprise growth, and the requirements of its host territory need to be harmonized.

8. The case studies presented at the Forum highlighted the mechanisms of co-operation of various stakeholders (Central, regional and local administrations, trade unions and employers) in resolving the social problems of restructuring in single-industry towns and enabling the economic revival of the latter. The economic roles of these stakeholders vary. While the restructured enterprises and emerging companies provide employment and incomes to local inhabitants, and even sponsor the modernization of communal and business infrastructure, the local Governments contribute to the education and retraining of the labour force for the benefit of new business operators. As an example, local authorities have partially financed the retraining courses for the Ericsson telecommunications company employees selected for lay-offs at the production site of that company in central Sweden. The workers selected for dismissal have been trained in professions, which were in high local demand (health-care and education). Along the same lines, when the prospects for oil and gas mining in Western Kazakhstan have started to materialize, the regional and municipal authorities at Fort Shevchenko area have co-financed the computer and linguistic training of the youth, as well as the retraining of the former Caspian fishermen to become mining operators and construction workers. In that town, the municipal and regional authorities encourage the diversification of the local economy (e.g. the development of agriculture and agro-industries) and support new private companies. For this purpose they have sponsored the establishment of a business incubator, as well as rendering of consulting and training services to local entrepreneurs.

9. The participants emphasized that the fruitful co-operation of major stakeholders in the course of restructuring in developed market economies is determined by their long-standing efforts encouraging the relationship of trust and mutual respect. Although the emulation of this experience in transition countries might take years, there is no alternative way to modernize the economy while maintaining the social peace.

10. The Forum noted that transition countries increasingly conjugated the interests of territorial development with technological progress and innovation. For this purpose, technological parks, business incubators, science parks and similar integrated market structures are used. Their common feature is the collaboration of a core potentially competitive enterprise with locally-based research institutions and universities in order to develop competitive high technology products. Sponsored by the state, such structures have proved their efficiency in practice (for example the Orion SRS amalgamation in West Siberia in Russia). In a number of cases (e.g. Ala-Tau IT Sector and other regional science and industry parks in Kazakhstan) transition economies endeavour to use similar structures for a breakthrough in new technologies of the XXI century.

11. The participants encouraged regional and local authorities to more actively use new information technologies for the facilitation of industrial restructuring and establishment of new private enterprises. In particular, up-to-date information on the supply of new products and technologies by companies newly established in the area should be made available to local business operators on-line. The referred to and similar information resources could spur up the use of locally-developed technologies, encourage the local demand and import substitution, and eventually ease the expansion of inter-regional trade and exports.

12. Case studies of restructuring prove that the synergies of collaboration between the local entrepreneurs and research institutions permit to inhale a new life in declining towns and areas, and promote indigenous innovation. For example, having joined efforts with Pavlodar University, the Aksu Plant of ferroalloys in the Pavlodar region of Kazakhstan has established a business incubator, and an engineering and innovation centre. The resulting new technological solutions are marketed in co-operation with 45 region-based SMEs.

13. The Forum also discussed the issues of sectoral and territorial clustering in the context of spatial aspects of industrial restructuring. The participants noted a growing interest of decision-makers in transition countries to this tool of sectoral and territorial development. Clustering is expected to achieve a variety of objectives, including the higher local value added and productivity growth, advanced indigenous technologies, better educated and skilled labour force, import substitution and export expansion. It was emphasized that the establishment of a regional cluster required a certain critical mass of local inputs (e.g. local labour, research institutions, business services) and material infrastructure (roads and railways, pipelines, adequate electricity and ICT supply) without which no synergic effects of clustering would be feasible. The Forum agreed that in transition economies, Government's support was a key condition for clustering.

14. Several presentations have evidenced that the co-operation of regional and municipal authorities with local entrepreneurs and research institutions in the organization of clusters has resulted in the economic revitalization of depressed areas. As an example, the development of clustering in Khmel'nitski, Ivano-Frankivsk, Carpathian and Poles'e regions in the Ukraine has permitted to raise the local value added, develop indigenous technologies, increase the competitiveness of local production and in some cases "re-conquer" the local market through import substitution (construction and sewing clusters in Khmel'nitski region, timber cluster in Poles'e). Having established local roots, the most successful clusters also start developing the export production of goods and services. The Forum agreed that the additional jobs and incomes created, as well as important multiplier effects generated through clustering could trigger a sustainable economic upturn in underdeveloped and declining areas.

15. To raise the efficiency of collaboration between private companies and local authorities, a specialized training of managers on both sides is desirable. Such training should focus on practical problem-solving as well as the methods of reconciling the stakeholders' interests when the latter diverge. The catalytic role of the public sector could include the establishment of easy-to-access information resources on the economic profiles of regions, local products and inputs available, local technologies awaiting commercialization and similar. The information support to potential exporters emerging within a cluster could be also relevant.

16. While in some cases clustering gives immediate economic returns, in other cases, especially those involving capital-intensive or high technology industries, its successful development may require considerable investment external to the region and even to the national economy itself. In this perspective, the use of clusters as instruments of industrial restructuring and growth of innovation will require the inflow of foreign direct investment and close collaboration of national stakeholders with transnational corporations.

17. Close co-operation of local authorities with the external (domestic and foreign) investors has proved to be an efficient instrument of reviving the declining regions in both developed market and

transition countries. For example, the acquisition of the Tekeli lead-ore mining enterprise in Kazakhstan by the TNK Kazkhrom permitted to preserve the production capacity of the former (at the initial stage of restructuring) and subsequently launch a number of alternative entrepreneurial projects, which have diversified the productive basis of the Tekeli area.

18. The international experience shows that central and local Governments often use special incentives to attract external investors to areas suffering from site closures and/or underdeveloped local economy. In France, for example, domestic and foreign investors are encouraged to set up new or restructure old enterprises in depressed areas through the exemption from local taxes, tax credits, reductions in social security payments, as well as state subsidies related to jobs created or retained. The Forum agreed that the regional and local authorities in transition countries should have more freedom versus the organizational and institutional setup, as well as the financial instruments to be used for attracting external investors to single-industry towns and areas.

19. Many of the participants thought that in certain cases the conundrum of single-industry towns and areas can be solved through a re-allocation of tax revenues collected at national level or at least at broader regional levels. Preferential tax regimes for enterprises located in underdeveloped and depressed areas, as well as the mechanisms of special economic zones could be instrumental in financing the local initiative. At the same time, it was argued that government support to individual economic areas should not inhibit competition between local enterprises and producers external to those areas.

20. The participants of the Forum recommended that the OSCE and UNECE secretariats made the materials of the Forum available to the Governments of the region and public at large.

21. The outcome of this Forum will be reported to the UN/ECE Working Party on Industry and Enterprise Development at its sixth session in February 2005.

Recommendations

OSCE-UNECE FORUM “PUBLIC – PRIVATE COOPERATION IN INDUSTRIAL RESTRUCTURING”

held on 2–3 November 2004 in Almaty, Kazakhstan

The participants in the OSCE-UNECE Forum on “Public-Private Cooperation in Industrial Restructuring”, held on 2 – 3 November 2004 in Almaty, Kazakhstan,

Recognizing that:

At the present stage of transition, the restructuring of economic sectors and enterprises remains an important means of raising national competitiveness, revitalizing the economies of decaying towns and territories, and upgrading people’s educational level and skills. The social problems associated with restructuring are particularly painful in single-industry towns and areas, where scaling down and closures of uncompetitive production sites endanger the employment, income opportunities and the quality of life of thousands of people.

The key preconditions for resolving the economic and social problems of single industry towns and areas are:

- Clear and transparent laws and regulations relating to entrepreneurship
- Fully developed property rights and their consistent enforcement
- Simple and predictable taxation
- Local Governments’ support to the establishment of new enterprises
- Adequate financing and combined efforts of central and local authorities in designing social rescue measures.

Successful industrial restructuring, including that in single-industry towns and depressed regions, crucially depends on the close cooperation between the major stakeholders: central, regional and municipal Governments, entrepreneurs, trade unions, employees and local inhabitants. Cooperation with the social partners provides Governments with essential feedback, helping them to establish a regulatory and institutional environment that should create incentives for entrepreneurship, thus encouraging technological change and promoting local economic development.

Regional and municipal authorities often underutilize their potential for transforming the local industrial fabric and revitalizing towns and areas. The experience of many countries shows that local initiative can be instrumental in supplying the laid-off workers with information on alternative employment opportunities, organizing extraordinary public works, advising the unemployed on career development prospects and designing re-training schemes. Local potential for supporting the new entrepreneurs, SMEs in particular, should be also encouraged. At the same time, when delegating the relevant decision-making power to lower-level administrations, central Governments should re-allocate to them a sufficient amount of resources.

Recommend to central, regional and municipal Governments to:

- Use the synergies emerging from the cooperation of Governments, enterprises, employees and local inhabitants to facilitate the industrial restructuring and resolve the associated problems, including those of declining towns and areas;
- Establish clear regional development goals and priorities well coordinated with measures promoting local enterprises. These goals should be based on an honest assessment of the commercial prospects of “core” companies;
- Collect and disseminate information on best practices in industrial restructuring in developed market and transition economies, synthesizing the accumulated experience of its successful organization, management and financing. The databases containing such information could be developed in the regions and should be available to decision-makers from the public and private sectors on-line. On this basis, and in cooperation with interested private companies or entrepreneurs’ associations, regional administrations should initiate training courses for managers of public and private companies that require restructuring;
- Initiate and sponsor the establishment of regional marketing databases containing the information on the supply of products and services by newly established enterprises, SMEs in particular. Such regional databases could eventually be linked to form a national database;
- Consider (a) measures breaking the excessive dependence of local budgets on tax receipts from one or several large local enterprises, and (b) alternative mechanisms for financing the social services hived off by “core” enterprises to municipalities, including those relating to the communal infrastructure. One such measure could be the re-allocation of revenues collected at national level to enable the financing of local programmes supportive of restructuring;
- Favour a regulatory and institutional environment conducive to industrial and territorial clustering;
- Set up stable and predictable local taxation schemes conducive to new enterprise formation; where appropriate and, in particular, in economically depressed areas, to use the special economic zones mechanisms for regional development purposes;
- Consider setting up a network of regional Government-sponsored public-private financial institutions (banks) focusing on financing the restructuring and modernization projects; loans from such institutions and financial support from central and regional administrations should be conditional on the private sector’s commitment to contributing to the goals of regional development programmes.

The Forum requests the OSCE and UNECE organizers to publish the proceedings of the Forum in the three working languages of UNECE as speedily as possible and to distribute this document to member Governments, the private sector, workers’ associations and academic institutions interested in this subject.

