





# Annual Reflection 2015



















## Contents

ME	SOPARTNER PROFILE	3		
FO	FOREWORD: REVISITING TERRITORIAL ECONOMIC DEVELOPMENT			
1.	TERRITORIES MATTER FOR DEVELOPMENT	8		
2.	DEVELOPING A TERRITORIAL ECONOMY: WHAT DO WE NEED TO GET RIGHT?	12		
3.	DESIGNING A TERRITORIAL ECONOMIC DEVELOPMENT (TED) PROCESS UNDER			
	UNCERTAINTY	18		
4.	PROMOTING BOTTOM-UP INDUSTRIAL AND INNOVATION POLICY IN			
	DEVELOPING COUNTRIES	24		
5.	GREEN TERRITORIAL ECONOMIC DEVELOPMENT: PROMOTING MORE			
	SUSTAINABLE SOLUTIONS	30		
6.	PROMOTING LIVING AND INNOVATION SPACES AND THE NEED TO			
	OVERCOME THE SIMPLISTIC URBAN-RURAL DIVIDE	34		
7.	INCLUSIVE TERRITORIAL ECONOMIC DEVELOPMENT	38		
8.	TERRITORIAL ECONOMIC DEVELOPMENT IN CONFLICT ZONES (BADGHIS,			
	AFGHANISTAN)	44		
9.	FACILITATION IN TERRITORIAL ECONOMIC DEVELOPMENT	50		
ME	MESOPARTNER'S STRATEGIC CLIENTS 2014/2015			
CC	COUNTRIES IN WHICH MESOPARTNER IS CURRENTLY ACTIVE (2014/2015)			
TH	E PARTNERS	58		
ME	MESOPARTNER ADMINISTRATION 64			
ME	SOPARTNER ASSOCIATES IN 2015	65		
ME	MESOPARTNER PUBLICATIONS 2014/2015 67			



Mesopartner is a knowledge firm that specialises in economic development, competitiveness and innovation. Our strategic intent is to be globally acknowledged as an innovator in economic development and partnering with strategic customers and associates through capacity building and coaching, as well as programme design, method and tool development and capture, knowledge management and problem solving.

We operate as a service provider both to development organisations (development agencies, ODA (Official Development Assistance) donors, development banks, NGOs, cluster networks and others) and to consultants and consulting firms. Since 2003, the knowledge that we have shared, and the tools that we have developed, have helped development organisations and stakeholders in many developing and transformation countries to conduct territorial and sectoral development in a more effective and efficient way.

Mesopartner offers the knowledge that local actors need to address the challenge of innovation and change. We develop innovative tools based on local and regional economic development, cluster and value chain promotion, strengthening of local innovation systems and related topics. We coach and equip practitioners, and conduct leading-edge learning events for practitioners.







## Revisiting Territorial Economic Development

Owing to the positive feedback on our dedication of the 2014 Annual Reflection to one single topic, namely complexity, Mesopartner decided again to focus this years' Annual Reflection on a specific theme. This time the focus is on Territorial Economic Development (TED), which is back in the spotlight and is attracting increasing attention from the international development community. As Mesopartner has been a pioneer and an active consultant in the field of Local and Regional Economic Development (LRED) for more than a decade, in this 2015 edition of our Annual Reflection we draw on our accumulated experience in this field to discuss to what extent the LRED approach and its methodologies are still beneficial and whether we need to reassess and possibly re-design our approach to respond to new challenges and integrate new concepts.



## Why has TED become so popular again and why is it considered relevant again?

- TED promotion has a key role to play in addressing the crucial challenges of our time, such as social and territorial inequalities, achieving MDGs (and in the future Sustainable Development Goals), responses to climate change, recovery of conflictridden territories, etc.
- All development efforts need to be grounded somewhere. There is no spaceless development.
   Different interventions come together and their results become visible in specific places.
- Development requires traceability. Places are an appropriate level for monitoring and evaluation in order to trace impact over time.
- Development efforts need to be place sensitive, as places differ from each other and territorial context matters. Equally designed interventions can be successful in one place and fail in another.

 Territories do not necessarily need administrative borders. They can be sub-national or extend over national borders. Regional disparities within one country or between countries of a supranational construct are the focus of structural political attention.

### What remains important in the TED/LRED discussion?

- Places still matter, perhaps even more so than previously. In times of globalisation, territories serve as an anchor for development interventions. This is the heart of the discussion on place-based versus place-neutral approaches to economic development (see Article 1).
- Key questions need to be asked when embarking on a process of strengthening a territorial economy, although the answers differ partly from those of ten or twenty years ago (see Article 2).
- Participatory, bottom-up approaches mobilise local knowledge, motivate stakeholders and stimulate innovation (see Article 4).





- Trying to overcome the urban-rural divide by interpreting territories as wider living and innovation spaces (see Article 6).
- Looking out for the role of market-focused TED approaches in highly insecure, conflict-ridden situations, another phenomenon of current times (see Article 8).

Mesopartner's experience in TED has been gained in all types of countries, including least developed countries such as Bangladesh, developing countries such as Peru, middle-income countries such as South Africa and developed countries such as Germany. The partners and associates are continuing to work in parallel in all of these types of countries. We are often considered knowledge mediators between the more industrialised

countries and the developing world. We are highly aware of the complexity of local economies everywhere and that therefore successful development approaches cannot easily be replicated in different locations – this will not ensure success. However, we still believe in the importance of knowing what has been done elsewhere and the relevance of transferring knowledge between places before adjusting it to suit local conditions. Knowledge flow, however, needs to move in both directions: even advanced countries and territories can learn from less-developed places. In the end, territorial development efforts need to be adapted to the specific situation and requirements of a given territory and its people.

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People who work in territorial development are strongly inclined to assume that regions are relevant entities for intervention and change. This assumption, however, is questioned by the New Economic Geography, which advocates place-neutral or "space blind" approaches. The World Development Report 2009, entitled Reshaping Economic Geography, is following this alternative school of thought. The authors argue that in the light of globalisation, the growth of cities increases population density, better connectivity reduces distance, and trade integration lowers divisions between countries. They recommend policies which "... encourage people to migrate to places with economic opportunities."



Following this line of thought, policies designed without explicit consideration of localities or regions "... are the most effective way of generating efficiency, guaranteeing equal opportunities, and improving the lives of individuals wherever they live and work" (The World Bank, 2009). Spatially neutral policies and the building of connective infrastructure are recommended to accelerate the "natural" market forces. Consequently, geographically targeted interventions are seen as useless to help places that are not doing well.

This interpretation of economic dynamics has received strong criticism from economic geographers. They argue that "... space matters and shapes the potential for development not only of territories, but, through externalities, of the individuals who live in them.

Consequently, development strategies should be placed-based and highly contingent on context" (Barca, McCann, et al., 2012). The authors highlight that the placed-based approach is particularly relevant when territories face a changing economic environment and structural change.



This critical perspective is shared by the institutional school of economic development (Rodríguez-Pose, 2013), which emphasises the specific social and institutional arrangements characterising any place and shaping the potential and conditions for economic success. Territorial assets are interpreted as a public good.

 Table 1: Comparison of place-neutral and place-based approaches

Categories	Place-neutral approach	Place-based approach
Vision	Mega-urban agglomerations as natural growth path	All places have their specific development potential (diversity; heterogeneity in spatial arrangements)
Argument	Advantages accumulated with agglomeration effects of large cities (universality of economic principles)	Space matters and shapes the potential for development and the people living in them
	Emerging countries (and regions) will follow the trajectories of developed economies	Interactions between institutions and geography are critical for development
Adjustment mechanism	Migration of people	Building on local assets and knowledge
Policy recommendations	Spatially blind interventions to strengthen institutions and make markets work ("one-size-fits-all approach")	Promote differentiated growth strategies in all regions
Acade <mark>mic</mark> school <mark>s</mark>	New Economic Geography	Regional Geography
Advocates	The World Bank	European Union (Smart Specialization Strategies, S3) OECD (Territorial differentiated approach)

Based on Barca, McCann, et al., 2012

The place-based approach confirms that all territories, including smaller cities and rural areas have a potential to grow and contribute to overall development. The New European Regional Policy and the OECD with its integrated territorial policy are following this approach. This is quite similar to territorial targeted interventions in developing countries where Mesopartner is frequently involved.

Within the framework of development cooperation, Mesopartner supports local communities in identifying their own economic opportunities. Our experience shows that even in the most remote places local stakeholders are able to identify something unique which serves to create a distinctive advantage. To convert these endogenous potentials into territorial competitiveness, local stakeholders can benefit from a supportive policy framework. Successful strategies strike a balance between exogenous and endogenous forces, by which local actors set targets and design projects, while the external support institutions provide additional resources and methodologies.

The proposal to empower places seems more realistic – at least for the vast majority of the population in the developing world – than to encourage people to move to far-away opportunities. In fact, migration is only a possibility for a relatively small number of people globally. The overwhelming majority prefer to live relatively close to the place where they were born (De Blij, 2008). Therefore it is critical to leave people with little more choice than to chase opportunities in large urban agglomerations.

Place-sensitive policies go beyond the "one-size-fits-all" development approach – they mobilise regional assets and exploit synergies (OECD, 2009). This is not only relevant for individual places. If most territories are able to develop their unique value propositions, the whole economic landscape will be more diverse and flourishing.

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Whenever territorial authorities or an external development organisation or both in cooperation embark on an attempt to strengthen a local economy, some essential questions need to be answered immediately, with a series of follow-up questions along the way. The key question remains: what do we need to get right in order to strengthen a local economy? Answers to this question are less straightforward than one might assume, and they have partly changed in recent years. The discussion about systemic approaches to development and the introduction of complexity thinking into the development arena made us reconsider some of the answers.



First and foremost, we need to be aware of our own priorities and constraints. Our development priorities will determine the guiding concepts to apply (such as favouring territorial over sectoral development approaches, inclusiveness, competitiveness, etc.) and principles to abide by (such as market orientation, participation, local ownership, etc.). This will shape our initial set of hypotheses and point us in the direction

of a "better" desired state of the local economy that we want to reach through the development initiative.

Constraints of the development efforts are set by the parameters of the programme itself in terms of budget, personnel engaged, duration and often pre-defined goals and objectives. Constraints are also introduced by the different interests and preferences of organisations, which directly or indirectly exert an influence on the initiative.

Next, we need to understand what is going on in the locality before making any suggestions or even decisions on how to move the local economic system more strongly towards a higher level of economic prosperity and wellbeing of the population. The problem is, though, that we will never fully understand the local economy and everything that is going on in there. However, we should get a proper sense of how the local economic system might respond to any intervention, how to try to change it and whether there is any readiness for change at all. How can we develop such a sense? On the one hand, we need to examine the local economy by doing some kind of analysis, for which appropriate instruments and tools must be chosen. On the other hand, we can probe the system by running safe-to-fail experiments to see what





interventions might work and what might not. Whether the emphasis is on analysis and diagnosis or rather on probing and sensing, depends on the configuration of the territorial economy. Typically, a territorial economic system has both ordered and unordered situations. Therefore it is helpful to use the Cynefin framework to differentiate between different elements. If some situations or elements are simple or complicated by nature, analysis and diagnosis seem more appropriate. If other elements are rather complex, i.e. competing hypotheses plausibly explain the local reality, we need to run experiments in order to find out how to intervene in



the most promising way (see article Designing a TED Process under Uncertainty in this publication).

But in either case we need to gain some sort of understanding of the main parameters of the territorial economy, which include its key characteristics and structures, the types of local actors and their patterns of interaction, the competitive advantages and disadvantages, the history and its repercussions on potential development opportunities as well as options for strategic initiatives. Let us look at these parameters separately.

Key characteristics and structures of the local economy comprise economic sub-sectors, production factors, demand conditions and the institutional setting, their interdependence and cause-effect relationships. Regarding economic sub-sectors, we need to get an idea about their diversity and their recent and current performance. The demand conditions reflect the market forces driving the local economy. Here we also need to understand how and why certain supply and demand conditions do not respond to each other due to market or government failure. Finally, we need to keep an eye on the organisation and practices of knowledge and information flows.

Apart from local structures, the local actors, including enterprises, are another key parameter that needs attention and understanding. Which actors play what role, how do they influence the local economy and how do they interact with each other? In order to get the relevant and important stakeholders involved in the initiatives (in whatever role) we need to understand who is present, what interests they are pursuing and where

they agree and disagree. Understanding social relations and power structures will make it easier to attract those actors into the process who are necessary to make it successful and sustainable. Ultimately, the success of territorial development is strongly influenced by self-selection and the self-involvement of individuals and organisations. However, this process can be shaped and influenced by the design of the overall programme and individual interventions.

Economic assets, structures and actors shape the competitive advantages and disadvantages of a territory. Hence it is important to find out in what configuration the different local elements are combined in order to create a unique advantage (which is not easy to replicate from other locations), and thereby to increase the diversity of local offerings. It is equally important to identify competitive disadvantages that prevent or slow down economic success in some sub-sectors or in the whole local economy.

Competitive advantages are usually the result of long historical development processes that evolved over decades or even centuries. Looking back into the past helps to reveal and understand the current perceptions of reality and myths still profoundly held by local actors. Even more important is that the economic history might affect potential development opportunities in the present and the future. Gaining insight into important shifts, trends and structural changes in the past could provide some indication on how the local system may respond today in a similar situation. What interventions were implemented in the past and which of them failed or succeeded? What are the existing capabilities and





(structural) change of the locality and its actors. Strategic decisions made at the beginning of the initiative and an understanding of the system gained in the early stages of the development effort will help us to devise suitable intervention options, and only those will trigger real change in a sustainable way. Ultimately, each territory needs to explore and find its own path to development, but local stakeholders can draw on a rich variety of practical tools as well as experiences during their development journey.

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experiences that new competitive advantages could be built on? Not every territory follows a straight trajectory; however, path dependency can still be observed in many places. Being able to recognise such a path greatly facilitates the design of future interventions.

Continuous learning is key to keeping a territorial development strategy agile. A monitoring and evaluation system should be part of the intervention design from the beginning. From time to time it is useful to question the belief system of the promotion team and repeat the question "What is really going on?" The practice of pausing for a moment of reflection is helpful for refreshing and adapting the territorial strategy towards new trends and opportunities.

In the end, when attempting to strengthen a territorial economy, we want to come up with strategic initiatives that can create a deep learning experience and





3

Designing a Territorial Economic Development (TED) process under uncertainty<sup>1</sup>

## Introduction: what we mean by uncertainty

In our work in territorial development, we were challenged to learn in the last few years that a system is less resilient and perhaps more vulnerable to external shocks when everyone is aligned and thinks the same way, and that a diversity of views and agendas are important for the long-term wellbeing of the system.

The ideas in this article are based on a more extended article written by the same authors: Jenal, M. and Cunningham S. . Explore, scale up, move out – three phases to managing change in complex contexts. IDS Bulletin.



In the 2014 Annual Reflection, we described complex situations as those where there is little agreement on the problem in the first place and high uncertainty of what actions will lead to what result, or in other words, both what interventions will work and how exactly the outcomes of these interventions could look is unknown. Even the probability of certain things happening is unknown, and people may have divergent views on what must be done and why. These are situations that we call uncertain. In contrast to situations of uncertainty, risk

could be defined as situations where the probabilities of different outcomes can be calculated<sup>2</sup>. Looking at the Cynefin framework (see Annual Reflection 2014), we see risk largely mapping onto the complicated domain, while uncertainty largely overlaps with both the complex and the chaotic domains. Acknowledging uncertainty

This characterisation of uncertainty and risk follows the categories of decisions proposed by Shane Parrish at http://www. farnamstreetblog.com/2013/11/decisions-under-uncertainty/.

has implications for how territorial development is approached. From the perspective of development actors such as donors and implementing organisations, a development initiative should not be seen as a driver for change but rather as a means to inject novelty into a territory, so that the system itself can have more possibilities from which to evolve and develop.

## Starting out: the right team, the right partners and the right conditions for collaboration

The composition of the team that facilitates the change initiative is a critical success factor. The members of the team need to understand their roles as facilitators. coaches, advisers and knowledge brokers. Once the right team is in place, they need to identify who they are going to work with and create a setting for collaboration in which all involved parties feel comfortable. If we are facing uncertainty, it is not possible to predefine which partners are the "right" ones to work with from the beginning, and the collaborations might change and shift over time as champions emerge or are identified. Moreover, the format of collaboration, whether it is a multi-stakeholder platform or forum or purely bilateral interaction with the involved actors, should depend on the circumstances and can change over time. Ideally, there would be a high level of self-selection of participants into the process. Self-selection means that local actors take ownership of the process by actively opting in, contributing to, investing in, and incorporating



change in their own operations based on their interest in a problem or their identification with an issue. How do we find these people? The team can approach all visible stakeholders to find out which organisations or individuals are interested in working with the process and to discover what networks of collaboration and communication already exist. When they screen potential partners they need to look for early adopters, innovators, people who behave differently or who could be role models. This process must be transparent and it must be clear how people can become involved or can closely follow the improvement activities.



## The principle: introducing and exploring a broad set of new options

Since the future cannot be predicted with certainty, results cannot be guaranteed and solutions cannot be designed in advance based on analysis, projection or best practice from elsewhere. Hence, working under conditions of uncertainty requires us to introduce an iterative process focused on creating, testing and adapting a portfolio of improvement initiatives, purposefully introducing variety into the context in the form of new options and different perspectives. The portfolio of interventions is ideally created through a

mix of diverse hypotheses of what could work. These hypotheses can emerge from the situation analysis obtained from the stakeholders involved, and broadened by some external inputs and views. Under conditions of (perceived) uncertainty, it does not make sense to try to create an overarching vision or to get alignment among different actors. Different actors will have different ideas about how to proceed, and indeed, what the problem is and how they can contribute. This variety is healthy and should be encouraged rather than discouraged. This is hard to achieve without a facilitated process that seeks to include dissenters and people with different perspectives.







### The direction: our strategic intent

Exploring many different options may lead to a very dispersed use of our resources. While this is not necessarily bad, there is still a need for some consensus on how to spread resources and effort. We need something that helps us to assess whether a change we observe is desirable or not. We suggest calling this agreement a strategic intent. The strategic intent can be as little as an agreement on the fact that something needs to change. A strategic intent can also be framed narrower, for example by looking at the systemic competitiveness of a given region. The strategic intent does not have to be fixed over the period of the development process but can evolve organically with the increasing understanding of the stakeholders.

It is important that the strategic intent should not limit the diversity of exploratory activity but rather give a broad direction – in particular, it should not project ready-made solutions onto the process. It should allow competing hypotheses and not impose a narrow theory of change. The strategic intent provides a bearing or broad direction for change. It helps us to decide whether a pattern is favourable and working or not and to assess whether the initiative is making any progress towards our desired direction. Having a strategic intent also builds the confidence and social trust among different stakeholders.

## The process: explore, scale up, move out

The classical analysis-design-implementation logic does not work in uncertain situations as we cannot predict the ideal design and the exact measures of success. As an alternative we suggest an approach that is based on three closely interwoven phases that organically evolve into each other and might overlap at times. Instead of starting with an isolated up-front analysis, an initial

VALUE CHAIN

Cluster

ABOUT?

Range of activities to bring a product from Conception to market

Sectoral and geographic concentration of enterprises + institutions

Essence is about proximity, networking + special scation

Strength

Provides a cross view over linked subsectors/industries

Leverages locational factors + knowledge, dunamic relations

Weakness

Narrow, product focused, specialised , linear

Lockin, exclusive or path dependent, takes time

exploratory phase combines the situation analysis with the development and implementation of a portfolio of discovery activities. The exploratory phase then evolves into a scale-up phase that is more focused on exploiting the interventions and solutions that were found to work in a consistent way, spending more resources on them to induce wider-spread change. A move-out phase subsequently focuses on capitalisation and communication, with the intent to capture learning and communicate achievements. This phase seeks to construct a platform for future change by building the confidence of stakeholders.

Continuous monitoring of changes in the system is naturally part of all three phases, and indeed precedes them by evolving out of the rapid analysis of the system that led to the discovery activities. While monitoring has a role to play in the accountability to donors, the main focus should lie on delivering data for day-to-day decision making.

#### Conclusion

These insights do not only challenge many current approaches to territorial development that depend on the alignment of stakeholders and a well-articulated strategy. They question many of the assumptions of territorial development practitioners regarding the certainty with which partners and sectors are selected, improvement initiatives are undertaken and strategies are developed. In reality, we have to make decisions with incomplete information, and we have to acknowledge that there are high levels of uncertainty in the system that we cannot figure out, resolve or avoid. Rather, we have to design our development approaches to work within a context marked by uncertainty.

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Promoting bottom-up industrial and innovation policy in developing countries

This article draws on our experience in promoting innovation systems in developing countries. An innovation system goes beyond the innovative behaviour of individuals and enterprises, and looks at the way that knowledge is generated, absorbed and transformed into desired outputs in a specific context through the interaction and dynamic of a network of public and private institutions. From a territorial perspective, the interaction between enterprises, institutions and the influence on specific kinds of knowledge and technological capability on the region's character and strategic options are important. At a local level, there is little difference between an innovation systems approach and industrial policy. Both approaches seek to stimulate growth, improved



competitiveness and more sustainable use of local resources. While industrial improvement interventions typically aim at firms, innovation systems focus on the interaction of different elements in a broader system. Both require a search and exploration approach to what works and what is possible.

The theory of innovation systems was developed based on post hoc case studies of First World economies. The reality in developing countries is different, and thus the approach must be adapted to work there. For instance, in developing countries:

- There is often a general weakness and instability in the economic environment, for instance created by a weak social market system that is incomplete or non-existing, poor coordination between differing innovation, industry and sectoral policies, a dominance of top-down vs. bottom-up policies.
- The institutional frameworks are different, for instance there is a low level of relevant knowledge



organisations and a lack of diverse knowledge abilities, a disorganised private sector with narrow interests, fragmented support mechanisms in the form of formal institutions and many network failures.

- The business conditions are challenging, for instance there is an absence of innovation-based vs. pricebased competition; there are many persistent market failures, and often there is a high demand for lowcost, less sophisticated products.
- The sophistication and level of interaction of the supply chain to the end user is weak and often not present in a developing country

This means that in a developing country context, it is not sufficient to take a check list approach to see whether certain preconditions, institutions and behaviours exist or are present. It can be assumed that only parts of the system exist, but that the elements are isolated, incomplete and overburdened. Rather, the approach should be to assess how the different parts of the system interact, respond to challenges faced by the private sector and adapt based on global technological practice. In other words, ways to improve the dynamics



and interaction within the system must be found. This can often be achieved by looking at who is innovating and how different actors use, create and diffuse new knowledge, and how different actors exchange ideas, information, knowledge and technology.

While national innovation and industrial policy typically selects sectors and industries based on their potential to create jobs, increase exports or attract investment, a bottom-up approach is less concerned with selection based on data and statistical analysis. Rather, the focus should be on how knowledge is accumulated, applied, disseminated and transformed in the region, and on the dynamics and interaction between different organisations (public and private) in the region.

An important starting point that is part of the ongoing process of improving an innovation system is to understand which enterprises, organisations and even individuals are using knowledge in an innovative way, or which stakeholders are actively accumulating and combining knowledge from local or external sources. Connecting with these actors and also networking the generators and users of knowledge are important.





In a regional approach, tacit knowledge is very important. Tacit knowledge is hard to capture and transfer, and exists because individuals and organisations are shaped by common practice, cultures and other socioeconomic factors. Ways to improve the exposure of individuals and enterprises to new knowledge (new to the context) and new technologies must be found. The absorptive capacity of individuals and enterprises must be developed and stimulated. This can, for instance, be achieved by assisting enterprises to recruit graduates with different kinds of specialisation than the norm in the enterprise, or by fostering closer cooperation between academics and enterprises. While education and skills development is another important way to increase absorptive capacity, it often takes a long time. Creating other ways for individuals and enterprises to experiment with new kinds of knowledge and technology are important, and costs of these technologies are dropping fast. Examples include establishing fabrication laboratories or rapid design and prototyping centres to reduce the costs of trying out new ideas, and making sure that the youth, emerging entrepreneurs, graduates, researchers, enthusiasts and existing enterprises have access to these facilities.







Identifying the disseminators of knowledge is an ongoing process. Knowledge flows do not always follow formal channels (like from universities to businesses). Often important knowledge flows through standards, specifications from buyers, from equipment suppliers and even unintentionally from service providers such as couriers, computer technicians, etc.

However, in a regional approach, the focus is not only on how knowledge is used locally. Attention must be given to those who regularly access knowledge from outside the region. These actors connect the local with the regional or the global markets. They could include exporters (they know what markets outside of the region demand), multinationals (they know something about process combinations and market performance criteria) or academia (they are connected to international knowledge communities).

Lastly, in a territorial approach, unique problems, or resource drains in a region mobilise actors and develop not only unique local solutions, but creative partnerships and new dynamics. However, social pressure from the region can also distract from the pursuit of development opportunities due to political reasons or a shortage of resources. When positive results become visible, more

actors can be mobilised (crowd in) and unlock more resources. Here it is important to identify individuals or organisations that know something about the unique problems in the region. These could be buyers, supply chain development officials, public officials, engineers or even politicians. In our experience, these problems are often related to public infrastructure and can be used to foster new forms of interaction between technical experts in the public, private and academic sectors.

In conclusion, a bottom-up approach to innovation systems and industrial policy should consist of an exploration of knowledge users and knowledge carriers. It is important to find ways to increase the absorptive capacity of industries and institutions. Instead of seeing behavioural patterns in firms as problems to be solved, attention should be given to the broader system that allows firms and individuals to solve problems and experiment with different solutions. Using local problems or resource constraints could provide a starting point for experimentation and confidence building.

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5

# Green Territorial Economic Development: promoting more sustainable solutions

Since the Rio+20 Conference in 2012, Green Economic Development became an increasingly prominent topic in both less and more developed countries. There is a widespread understanding that any kind of development effort needs to be climate compatible and environmentally sound. In the meantime, essentially any territorial development project considers the "Green" topic either a cross-cutting issue or even one of its main parameters.

Climate change and its response requirements in the form of adaptation and mitigation measures create urgent pressure at the territorial level in those regions – often developing countries – that are the most strongly affected. The



greening of territorial economic development cannot be separated from the overall economic development path and needs to follow a systemic approach linked to innovation, industrial development and the promotion of sustainable competitiveness. Green territorial development goes beyond strengthening enterprises in their purely economic dimension of competitiveness. It also includes the wider definition of sustainability, the economic, ecological and social dimensions, and to what extent they are all addressed by a given intervention at the territorial level.

The four most important rationales to green the territorial development approach, which has become increasingly important in Mesopartner's practical work, are the following:







- Territorial economic development primarily targets enterprises that are potentially related to climate change and environmental degradation in three different ways: either they contribute to pollution, or their operations and sometimes their very existence are affected, or they are using it by developing new business opportunities.
- Many value chains are "greened" or focus on green products, but they often span various territories which need to offer the right policy and regulatory framework conditions for eco-friendliness and climate resilience.
- Many national top-down regulations and campaigns to stimulate climate-resilient and eco-friendly behaviour of enterprises and territories need to be enforced and implemented at the sub-national territorial level.
- In both developed and less developed countries, it
  can be observed that municipalities, communities
  and local actor networks have started to promote
  decentralised approaches to increase their resilience.
  An example is striving for local energy supply
  autonomy linked to investment promotion into the
  renewable energy sector, creation of awareness of
  energy efficiency and supporting demonstration
  measures at company and household level.

Existing elements and the principles and tools of LRED can be adjusted and enriched towards an eco-friendly and climate-smart orientation. During the past few years, Mesopartner has started supporting this adjustment process in different ways.

- Promotion of "green" enterprise activities:
   Through an assignment in Chile, Mesopartner moved into a deeper analysis of the international B-corporation business and certification model that certifies enterprises with sustainable business models. Also in sectoral LED analyses we take on a stronger green business lens and thus started to identify more green business opportunities.
- Supporting conceptual work and (re-)design
  of green donor programmes: Mesopartner has
  supported donor programmes in designing concepts
  and activities, such as programmes on renewable
  energy and energy efficiency (Brazil) or conceptualising
  a green LRED approach<sup>3</sup> (Philippines). Within this
  context, we organised several green learning
  visits and study tours about the German "Energy
  Revolution" (Energiewende) as complementary support

This characterisation of uncertainty and risk follows the categories of decisions proposed by Shane Parrish at http://www. farnamstreetblog.com/2013/11/decisions-under-uncertainty/.





to showcase the challenges and opportunities of linking intelligent national top-down regulation policies with bottom-up territorial initiatives.

- Addressing mitigation and adaptation requirements in climate-smart locations:
   Mesopartner supported a development project in the Philippines to devise an approach that helps to assess the vulnerability and preparedness of territories with regard to climate change. This includes identifying, "greening" and applying certain tools – partly originating from the LRED approach – that help to adapt/mitigate climate change impacts.
- Supporting bottom-up municipal and community initiatives: In cooperation with urban climate change organisations (e.g. in Rheine, Germany), Mesopartner organised capacity-building activities in villages and small towns to increase energy efficiency in households and companies, to identify alternative transport solutions (car-sharing models) and to promote more integrative value chain approaches, e.g. by renovating buildings and the construction of energy-efficient houses. In Germany Mesopartner supported medium-sized towns in the reflection process to become certified "future cities"; this included the design of sustainable and innovative development strategies.

Capacity-building activities in green economic
development: Mesopartner has provided several
training activities on the topic of green Territorial
Economic Development. These activities include the
"De-cluttering green" sessions at Mesopartner's
annual Summer Academy in Germany, a series of
green LRED trainings in Indonesia, the Philippines
and Vietnam, as well as workshops with private and
public sector actors on territorial inclusive business
strategies in Chile.

During the coming years, green territorial development will gain momentum. Linking intelligent top-down with dynamic bottom-up approaches in territories will become increasingly important, as will the identification of interventions that consider the complexity of striving for a climate-compatible development solution at the territorial level.

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In territorial development we essentially differentiate between regions, cities, towns and villages. Urban planning models, such as in Germany, are also often organised in this way: "regional centres", "middle centres" and "small centres" in many countries are spatial planning units to define the roles and responsibilities of cities and towns. The higher the centre category, the more inhabitants the place usually has, and the more the supply of services is usually required. In this respect, small centres such as villages and smaller towns are responsible for the supply of basic services. Regional centres have to offer more sophisticated services such as higher education, specialised hospital services, etc. Nowadays, these planning categories are



being questioned. They follow a traditional model of development which assumes that innovation orientation is relevant rather for larger places. What is now getting increasing attention in many OECD countries is the perspective of defining territories as living and innovation spaces which overcome superficial urban-rural dichotomies. The reason for this is that neighbouring locations are no longer able

to pursue isolated approaches. At the same time, such silo approaches have shown a lack of development impact. Public budget constraints, demographic changes, including the aging of the society, brain drain in rural areas, overall population decrease and the need for territories to combine environmental, economic and social solutions more strongly make the creation of synergies necessary.



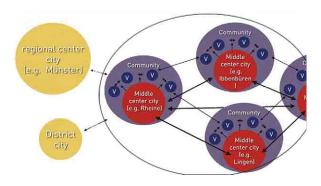
of demographic change. Young villagers are leaving due to a lack of employment opportunities, mobility and innovation dynamics. To slow down or to turn this change around, the villages are expected to define new economic and social roles that go beyond agriculture, nature and community life. They rather need to embrace mobility and find new opportunities in the areas of shopping, employment, innovative business solutions and social entrepreneurship. Rheine has started to increase its regional intermunicipal cooperation with other medium-sized cities that face similar structural change problems. The success in creating new innovation space will depend on the city's ability to follow a dynamic dualinnovation strategy by staying competitive on the one hand, and creating a highly attractive living space on the other hand. This double strategy involves a) promoting new relations and innovative solutions with other surrounding medium-sized cities, and b) stronger integration of rural villages and rural innovation approaches as an integral part of the city approach. Figure 1 visualises this approach. Such a double strategy could also be relevant for territorial development in developing countries:

- To make use of various competitive advantages, an integrative approach is necessary in which closely linked rural and city areas are considered one living space with their diversity and synergies emphasised.
- Medium-sized towns as well as rural areas
  often lack innovation orientation. Enlarging the
  territorial focus will also provide a larger critical
  mass of motivated and engaged stakeholders and
  local experts who search for new solutions.

The definition of a territory as a living space requires the decentralisation of power and stronger bottom-up and participatory approaches for decision making. Villages and cities have to learn to become more innovative and open to learning from each other.

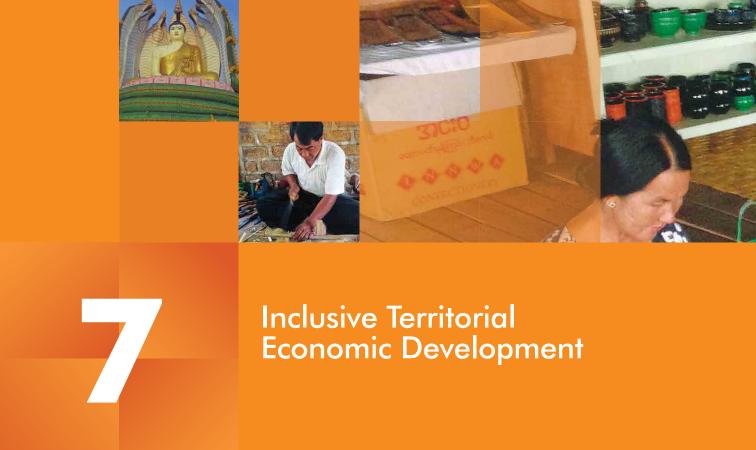
LED approaches are therefore advised to stop falling into the trap of strictly dividing areas into urban and rural, but rather to interpret territories as living and learning spaces in which innovation is initiated through the promotion of new actor networks, different perspectives and the proactive search for creative solutions.

**Figure 1:** Double strategy that promotes city and village linkages to create an innovative living space (example from a German region)



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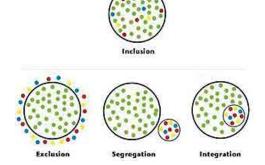


Imagine you are looking at the map of the geographical distribution of actors in a certain territory while using a different lens than usual that highlights the economically and societally marginalised areas and groups of people who have not been able to participate fully in the development process of the region. Such a map cannot usually show the characteristics of those groups and individuals, and hence the underlying reasons for their exclusion, but it could be the starting point for digging deeper and finding out. The resulting insights could encourage policy makers and supporting organisations to consider more inclusive development approaches that could



make disadvantaged groups of people in a territory more resilient, less vulnerable and at the same time increase their contribution to social and economic development. This is in essence what "inclusive territorial economic development" is all about. But what does it mean in detail and how does one ensure such a process?

Figure 2: Exclusion, segregation, integration and inclusion





In general, inclusiveness in development means that different groups or individuals with different backgrounds such as gender, ethnicity, origin, age, education, income and wealth, religion, physical abilities and others are economically, socially and culturally accepted, equally treated and receive the same opportunities to participate just like anyone else. An inclusive economic development process tries to make sure that an economic system is transferred from a state of partial exclusion to a state of inclusion by applying certain tools, instruments and methods. In this respect, inclusion goes beyond integration and aims at ensuring meaningful participation in networks without visible and invisible boundaries (see Figure 2 for a visualisation of these approaches). An economic development approach should encourage inclusiveness to fully utilise the available human capital of all societal groups located in the territory, hence achieving a resource-effective contribution to territorial development, which thus becomes more resilient and competitive.

But how to assure that a development process is inclusive? The degree of inclusiveness of a territorial economy (or a sector or value chain) could, for instance, be measured by the extent to which certain elements of participation are shared and distributed among the economic actors. There is a debate over what these indicators of participation should ideally be. Ownership, voice, risk and reward are used most frequently. Ownership can relate to the economic activity a person is engaged in and its key production assets such as land and production facilities. Voice (or power, for that matter) reflects the ability and its weight to influence key business decisions and business environment decisions, including access to relevant information for making those decisions. Risks include commercial risks as well as political and reputational risks. Rewards, finally, relate to the sharing of economic costs and reaping the benefits. Ultimately there is the assumption that inclusion in production and consumption will lead to more sustainable and increased income.



Other typical instruments of inclusive development are gender mainstreaming, which means addressing the typical gap of economic opportunities between women and men, or a wide array of pro-poor development instruments, particularly those that assist the poor in their struggle to move above the poverty line and remain there, either via direct interventions or via improving framework conditions.

But what exactly is the relevance of inclusiveness for territorial development, and what are its implications? There are different aspects of how inclusiveness can play out in territories.

 As in sectoral economic systems, so too in territories can deliberate choices of a more inclusive development process and outcome be made and implemented. Depending on the relevant groups previously excluded from participation and benefit sharing, the appropriate approaches must be selected, be they the promotion of inclusive business models; ensuring gender equality in territorial development through economic empowerment initiatives for women; or linking poorer businesses in value chains, sectors or specific regions to new markets through the promotion of innovation networks, knowledge creation and market preparation.

In these times of climate change, sustainable
development has also become an imperative
for territories. Here, territorial development
needs to address climate change adaptation
and mitigation as well as environmental
pollution. As in other economic structural
change processes, the economic effects of
climate change on certain sectors, territories
and individuals often aggravate the situation
of segregation or exclusion of certain societal
groups who are not resilient to external shocks.



- Along these lines, poverty, gender and ethnicity are often not consistently recognised in territorial climate change adaptation plans as factors that shape the vulnerability and the adaptive capacity of marginalised groups and their economic activities.
- One of the vehicles to achieve a more inclusive economic system are "inclusive business" models, which are becoming increasingly popular. An inclusive business is a private sector-invested for-profit company which – as a second purpose apart from generating profit – provides decent employment and income opportunities, as well as products and services that enhance the living conditions of the poor, low-income groups and other marginalised groups. Inclusive business models incorporate disadvantaged groups in the company's operations or supply chains as employees, producers and business owners (production side), and/or develop affordable goods or services needed by those previously excluded groups through thrifty innovation and distribution (consumption side). Territories can promote inclusive business ventures at the micro level by setting the regulatory framework conditions at the macro level, sensitising to the approach at the meta level and arranging consultancy and coaching structures at the meso level.
- In addition, inclusiveness in territorial development has another dimension that needs discussion and attention. Inequality and exclusion exist not only within territories (in the form of disadvantaged groups and individuals), but also between territories (in the form of disadvantaged and underdeveloped territories). Such territorial disparities are usually greater in emerging countries than in developed countries. A regional, structural development effort can be made to attempt to better balance the development of different territories within a country and to share the benefits through spill-over effects, e.g. from innovation happening in urban centres, with a positive impact on all the economic actors in those territories. In this context, for instance, the current OECD project on "inclusive innovation" is an interesting endeavour to find answers to the question: "To what extent can innovation be



mobilised to improve the life conditions of lower-income groups?" Spatial inclusiveness relates to participation in decision making at higher administrative levels, access to external public funding in economic infrastructure or R&D, outside private investment in production capacities and service facilities, facilitating connectivity between places through rural-urban linkages, etc.

In the light of the debate on systemic development efforts, it must be pointed out, though, that it is hugely critical (and for that matter, non-systemic) to choose a small group of actors in a territorial system and give them preferential treatment to make it easier for them to participate than previously. From a theoretical perspective this is understandable; however, from a humane perspective, the inclusion of marginalised groups into local economic activities, markets and growth is often a necessity and not a choice. Of course, all efforts to make a territorial economic system more inclusive need to be shaped in a way that is accepted by the system and its actors.

In our experience, there are many such opportunities and synergies that can be identified. In the short term, symptoms of exclusion can be addressed, such as lack of participation in decision making; in the medium to long term the real roots of exclusion, such as wealth, education or the population's general attitude towards minorities, need to be tackled. But again, it requires the initial effort and interest by everyone involved to look at the local territory through a different lens.

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8

### Territorial Economic Development in conflict zones (Badghis, Afghanistan)

Is there a role for market-focused approaches to territorial economic development (TED) in highly insecure, conflict-ridden situations? If there is, what changes are needed to these approaches in such contexts?

This article reflects on the experience of promoting TED in Badghis province in north-western Afghanistan in December 2014, where a Market Assessment and Local Value Chain Analysis (MA-LVCA) was undertaken.<sup>4</sup> This article's focus is on method, not on results.<sup>5</sup>

The MA-LVCA method combined elements of PACA with WV's Local Value Chain Development Approach.

<sup>&</sup>lt;sup>5</sup> A longer paper, spelling out the results, will soon be available on the Mesopartner website.



World Vision (WV) has been operating in Badghis since 2002, supporting farmer groups to improve their production and marketing capabilities. Building on this experience, WV designed a three-year Australia Afghanistan Community Resilience Scheme (AACRS) in 2014. The MA-LVCA exercise in Badghis was designed to launch the AACRS.

With the toppling of the Taliban government in 2001 and the establishment of the Islamic State of Afghanistan, the new government faced immense challenges. Supported by NATO and Western aid, it sought to rebuild an economy and society shattered by decades of conflict, social and economic breakdown and physical destruction.

Parts of Badghis are currently more stable than other provinces. WV operates in four districts surrounding Qala-i-Naw, the provincial capital. The MA-LVCA exercise would not have been possible without WV's security system. This is an elaborate, carefully managed and constantly updated information system based on a network of local contacts including local shura (traditional authorities) and mullahs (religious authorities), government departments, the military and police. It is in effect a local information/support network.



A number of lessons can be learned from the experience in Badghis:

An embedded security/support network: A well-worked-out and managed security/ support network, deeply embedded within the local community and based on mutual understanding and trust between the project and key local power brokers is essential.

**TED** approaches can play an effective role: Rapid, bottom-up, participatory approaches hold the key because they bring conflicting parties together in clearly structured ways that can heal trauma, build trust, encourage practical cooperation and achieve positive results quite quickly.

The methodology: In conflict zones emerging from long periods of violence, social and economic breakdown, a "light touch", purely market-focused approach is not enough. Programme design should combine continued support for improved food security over a transition period as farmers and their families adapt to increasingly market-oriented production. Rapid, participatory appraisal methods are excellent for kick-starting this process, but these methods need to be to be fully understood, taken over and driven by the local team and actors. It is only by learning from working with local complexity that these approaches begin to take effect.

#### Market Assessment and Local Value Chain

Development: the market assessment using the Boston Consulting Group (BCG) matrix was well understood and highly relevant to the team's and the stakeholder's interests, but it needs to be supplemented with statistical data to ensure that stakeholder perception is backed up by statistical evidence, where this is possible. The participatory local value chain mapping also worked well, but here too, findings on the value chains and their environment need to be verified by sources other than the team in order to bring greater rigour to the process.

Embedding the local team: two distinct kinds of team are needed: a programme unit and a local stakeholder team, including not only representatives of farmer groups, but also input suppliers, buyers, traders and transporters, and private and government service providers, all carefully chosen for their knowledge, connections, dynamism and commitment.

The programme unit is best staffed by nationals, supported by expatriates on short-term contracts and specialists brought in on short missions for focused training. To ensure that local power elites do not capture a programme and use it to pursue narrow interests, an inclusive approach is needed. There are







no sure ways of guaranteeing this. A key factor is to have a programme unit driven by committed staff who understand and support an inclusive approach.

The programme should include an exit strategy that provides for the programme unit's capacity to be fully institutionally embedded within the territory as an independent public or private entity providing TED facilitation services.

The involvement of women: in cultural settings that prevent women and men from working freely together, there should, ideally, be two international consultants facilitating the process, one woman and one man. The programme unit itself should have at least one national woman who has specialised in TED. To increase women's involvement while respecting cultural norms,





close attention must be paid to team selection prior to a mission and to ways of increasing women's involvement during the mission. Where possible training, stakeholder and results workshops should be held separately or there should be breakaways to enable women to voice their views freely.

Length of mission and allocation of time between activities: ideally, more time is needed to complete a TED exercise in this kind of setting than in territories that are stable. Three, or preferably four, days are needed for both the hypothesis and results workshops. At least a week, and preferably two, should be allocated to fieldwork.



Iterative learning in conflict situations: from the experience in Badghis, it appears that it is less the content of the proposals than the way the process is set up that makes the difference. The content of the proposals was similar to that in more stable areas, namely to orient production activities towards market demand and build the capacities of farmers and other actors along and alongside the value chains to perform more effectively. In terms of process, one of the keys is to make sure that support for market development does not override continuing humanitarian and food security needs; that it draws in rather than excludes the vulnerable.

Another key is to prioritise small-scale actions that promote rapid learning and adjustment. This enables the team and local stakeholders to monitor closely how the actors respond, to identify trends and to adapt accordingly. Small, rapidly implemented actions are less likely to precipitate power struggles over control of donor resources. They make it possible for the local team to head off negative responses that threaten to renew conflict and to build upon the momentum created by positive responses that fulfil the project's goals.

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### Facilitation in Territorial Economic Development

The development of territories is a complex, dynamic and continuous process, where past successes or failures are not necessarily predictive of future outcomes. This unpredictability is generally a source of discomfort for many people and organisations working on supporting territorial development processes. This can result in desires, often by external players, to seek simple solutions, to search for linear cause and effect relations and ultimately to contain the seeming "disorder" in order to embark on a process of territorial development.

Facilitation in such a context requires openness to mobilise local stakeholders, to promote the sharing of insight and knowledge and to create



a space in which diverse perspectives and opinions can be uncovered, patterns discerned and understanding can emerge. It thus presupposes that there is no one way/truth that one person or stakeholder has, but that different stakeholders hold pieces of that truth, and the facilitator plays a critical role in connecting role players and stimulating organic emergence of bottomup solutions to challenges.

Process facilitation includes a number of interventions,

which may include engaging in critical discussions with different role players to understand the context. Training could be a valid intervention if there is a dearth of important knowledge or insight which could hamper the process. Analysis of value chains or sub-economic sectors is also an example of possible interventions, amongst others. Process facilitation also includes the broader realm of designing and facilitating complex multi-stakeholder processes that may be undertaken over a period of several years.



This calls for a need to design and implement a longterm process that requires an understanding not only of the thematic area of territorial development, but also of process work and the related issues of human social and political behaviour. This facilitation should include the need for good process design – facilitation explores the diversity of views and perspectives, historical patterns of behaviour amongst key stakeholders, power relations and existing conflicts, and it also builds the capacity of stakeholders to effectively participate and create a supportive institutional environment. Workshop facilitation, on the other hand, is rather tightly focused on meeting the objectives of one particular workshop. The tools and techniques are considered on the basis that they will best achieve the predetermined objectives of the workshop and harness individual and group input to achieve results.

Much of this article thus refers to process facilitation, which includes workshop facilitation. An important part of process facilitation is to recognise and be aware of the fact that even when diverse stakeholders and representatives of different organisations reach decisions during a workshop or during the improvement process, change within organisations must still take place. We often assume that when representatives of stakeholder organisations agree to something in a meeting or workshop that they can drive change in their representative organisations. Additionally, facilitators must have an acute awareness of the following factors that are at play in the context of complex territorial processes:

- The interconnection of the economic, social, political, environmental and spatial spheres that impact on territorial development, amongst others.
- The reality of the uncertainty of future desired and undesired consequences.



- Multiple stakeholders have diverse interests at multiple scales, many of these being vested interests.
- Causes and effects and costs and benefits are often separated across time and space with significant implications for human motivation.
- There are externalities in the broader economic system.
- There is a huge variety of tools, instruments and knowledge resources available that need to be selected and deployed carefully in accordance with the current status and requirements of the territorial development process.

Our experience is that much of the territorial economic development facilitation role is conducted by external facilitators who are often contracted for a brief period of time to direct a change process by engaging diverse stakeholders, and by creating a conducive environment for trust building, open sharing of experience and insight, networking, joint analysis and co-operation between the various stakeholders in a territory. Such a facilitator often possesses the core competencies and skills to ensure that different participatory, analytical and communication strategies are used during the process to ensure maximum engagement and ownership of the process. In order to generate an environment of trust and open sharing, it is imperative that the facilitator is seen as neutral and open to the emergent process, rather than being set on a particular outcome, ideology or agenda.

The truth is that facilitators have particular world views developed over years of experience. They are generally directed by the contracting party towards a preconceived and often well-planned, intended outcome of a process. This requires facilitators to be able to understand and own these personal perceptions, world views and desires of the contracting party. At the same time, they need to have the ability to separate these from the reality of the facilitated process as a prerequisite to being open to listening to what is emerging, without judgement, as well as the ability to connect and track thoughts and ideas shared to gain meaning, encourage learning and develop insight into the change process of territorial development. This integrity, knowledge and self-understanding are an imperative starting point for facilitation of complex territorial development. In addition, facilitators have to design processes that enable the use of creative communication techniques as well as innovative instruments and tools that are participatory and developmental in nature. Concretely, in our work we collect narratives about the local stakeholders' vision of territorial development, which can then be quantified. Also, uncovering the stakeholders' myths about their regional economy can be very useful in changing existing mindsets. When assessing local economies we work with tools that permit us to visualise these different (possibly conflicting) perspectives.

The complexity of territorial development requires facilitators to use these facilitation tools, techniques and instruments, to draw in persons with divergent views over and above the "typical" territorial



development stakeholders and to stimulate the challenging and questioning of the status quos in order to grow insight and learning from the change process. This is a process rather than a once-off event, and as such it can be compromised if it is entirely dependent on an external facilitator who is intermittently "on the ground".

Territorial development processes need to be sustained in the relevant context with the relevant



actors participating, rather than being heavily reliant on external facilitators. The active involvement of local actors in the process strengthens their solution-seeking capacities and their ability to sustain development processes. It is thus imperative that the capacity of local stakeholders is developed so that they are able to continue facilitating the territorial development process subsequent to the involvement of the external facilitator. The reality is, however, that many stakeholders who see the value of such

facilitated processes cannot find traction for this additional responsibility within their institutions or organisations. This is why donor agencies and government institutions should increasingly focus on training local multipliers who are able to facilitate processes in complex contexts and that this facilitation task is recognised as a critical job function.

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Central University of Technology, South Africa

Climate Project Office Rheine, Germany

Dorf-Land-Zukunft Elte, Germany

EDA Development Agency Banja Luka, Bosnia and Herzegovina

German Development Institute (GDI)

GFA Technology Transfer, Innovation and Diffusion component, South Africa

GIZ Basic Entrepreneurial Skills Development Programme (BESD) South Africa

GIZ Capacity Strengthening for Private Sector Development, Myanmar

GIZ Eco Emploi Program, Rwanda

GIZ Economic Integration of Women in the MENA Region (WinFra)

**GIZ Eschborn** 

GIZ Private Sector Promotion (Sector-project Innovative Approaches), Eschborn, Germany

GIZ Programme for Economic Growth, Namibia

GIZ Programme for Local Self-Government and Economic Development in Bosnia and Herzegovina

GIZ Programme for Renewable Energy and Energy Efficiency, Brasil

GIZ Promotion of Green Economic Development Project (ProGED), The Philippines

GIZ Regional Economic Development (RED) Programme, Indonesia

GIZ SADC Finance and Investment Protocol (FIP) Programme **GIZ SADC Train for Trade Programme** 

GIZ Sustainable Regional Economic Growth and Investment Programme (SREGIP), Indonesia

GIZ Trade Promotion Programme in Nepal

International Labour Organization (ILO), Entrepreneurship and SME Support Programme, Myanmar

International Labour Organization (ILO), Regional Office for Asia and the Pacific, Bangkok

PTB, International Technical Cooperation of the German Metrology Institute (Physikalisch-Technische, Bundesanstalt), Germany

Mekong Institute, Capacity Development for a More Inclusive and Equitable Growth, Greater Mekong Subregion (GMS) Project, Thailand

Nelson Mandela Metropolitan University, South Africa

North-West University Technology Transfer and Innovation Directorate, South Africa

Practical Action, UK

Several manufacturers and consulting firms in South Africa

Technology Localisation Implementation Unit of the Department of Science and Technology, South Africa

Technology Station in Electronics, Tshwane University of Technology, South Africa

Tshwane University of Technology, Faculty of Engineering and the Built environment, South Africa

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# Countries in which Mesopartner is currently active





Chile
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Panama
Rwanda
South Africa
Thailand
Timor-Leste
Trinidad and Tobago
Vietnam
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## Mesopartner publications 2014/2015

### **CUNNINGHAM, S., WILLIAMS, G. & DE BEER, D.**

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