

Public-Private Dialogue

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Public-Private Dialogue for Sector Competitiveness and Local Economic Development: Lessons from the Mediterranean Region

A report produced by The Cluster Competitiveness Group, S.A. for the Public-Private Dialogue program of the Investment Climate Department of the World Bank Group, and funded through the Catalonia (COPCA) / IFC Technical Assistance Trust Fund

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ABBREVIATIONS/ACRONYMS

ACC1Ó: Catalonia Competitiveness Agency

ACEM: European Motorcycle Manufacturers Association

AEI: Group of Innovation Companies

ASCAMM: Catalan Association of Mould Makers

bTEC: Barcelona Technological Innovation Foundation

CAM: Mediterranean Savings Bank

CAP: Common Agricultural Policy

CEEC: Catalonia Energy Efficiency Cluster

CLIA: Cruise Line International Association

COPCA: Catalonia Export Promotion Agency

CTB: Technological Committee of Bages

CTM: Technological Center of Manresa

ECC: European Cruise Council

ENCC: Egyptian National Competitiveness Council

ERRADA: Egyptian Regulatory Reform and Development Activity

EU: European Union

FAO: Food and Agriculture Organization of the United Nations

FDI: Foreign Direct Investment

FEMAC: Cluster of Agricultural Machinery in Catalonia

FCCA: Florida Caribbean Cruise Association

GDP: Gross Domestic Product

GDS: Global Distribution System

Ha: Hectare

HEIA: Horticultural Export Improvement Association in Egypt

ICAEN: Catalan Energy Institute

ICT: Information and Communication Technology

IMPIVA: Institute for Small and Medium Industry of the Valencian Region

IVEX: Valencian Institute of Export

IVIA: Valencian Agricultural Research Institute

İZTO: İzmir Chamber of Commerce

LARI: Lebanese Agricultural Research Institute

MCN: Malta Cruise Network

MOA: Ministry of Agriculture

MSC: Mediterranean Shipping Cruises

MTA: Malta Tourism Authority

OECD: Organization for Economic Co-operation and Development

OEM: Original Equipment Manufacturer

PA: Port Authorities

PAVACE: Valencian Pact for Growth and Employment

PPD: Public-Private Dialogue

PrS: Private Sector

PuS: Public Sector

SPPD: Sector-Specific Public-Private Dialogue

SME: Small and Medium-Sized Enterprise

USAID: United States Agency for International Development

WTO: World Tourism Organization

EXECUTIVE SUMMARY

STUDY CONTEXT

The Mediterranean region is witnessing a period of unprecedented change. Beneath the upheaval now shaking countries such as Tunisia, Egypt and Libya prevail common political, economic and social pressures, which include widespread corruption, crony capitalism, massive youth unemployment and high income polarization.

Transitions such as the ones unleashed by the 2011 Arab Spring pose significant difficulties but also offer a tremendous opportunity to ignite positive socio-economic change. While the end result of these extraordinary events is still unknown, it is clear that meaningful and enduring political diversity and prosperity—not to mention sustained, broadly shared economic growth—could result from greater inclusion of civil society in the political process. On the one hand, greater inclusion implies building democracies that ensure the rule of law, provide for sound governance frameworks and give citizens equal access to opportunities while providing a "safety net" for the most vulnerable. On the other hand, boosting growth implies sustaining competitiveness levels by creating a fertile ground where companies can grow, generate jobs and compete with other national and international businesses. It has become increasingly clear that in order to prosper, countries need to focus on both competitiveness and inclusion. In that sense, these uprisings are of great importance for the future of countries experiencing changes in their political and economic structures, and offer a lens through which local and sector-specific Public-Private Dialogue (PPD) mechanisms can be considered.

The Mediterranean region thus offers a unique opportunity to conduct a comparative study on PPD experiences and explore the extent of the influence those mechanisms have on the local development of the regions as well as the sector competitiveness issues they address. The study focuses on the citrus fruit sector and the cruise industry. Another reason for the suitability of the Mediterranean region for this type of study is that the countries around the Mediterranean Sea (the study particularly looks at **Egypt, Lebanon, Malta, Spain and Turkey**) share a common market platform and a somewhat similar basic endowments in these sectors, but they also range from one end of the spectrum to the other in terms of political environment, infrastructure, skills, access to finance, innovation and regulatory environment. Specific characteristics also distinguish each country (political transition, conflict-affected, small island economy, OECD/EU country and transition economy respectively), making the lessons learned from this study applicable to a wide range of development contexts.

With the aim of providing a set of guidelines for public, private and development practitioners, the study also provides a comparison of 10 different PPD case studies in one region of Spain, **Catalonia**, in order to explore the variety of results that PPD processes can have on sector-specific development and increased—or decreased—sector competitiveness in a single regional jurisdiction.

This study was produced in Fall 2011 by the consultancy The Cluster Competitiveness Group for the Public-Private Dialogue program of the Investment Climate Department of the World Bank Group, and funded by the Catalonia (COPCA)/IFC Technical Assistance Trust Fund.

THE SECTOR-SPECIFIC CASES: COMPARING FIVE MEDITERRANEAN COUNTRIES

This study's empirical and analytical work at the sector level corroborates that close collaboration between governments and the private sector offers great potential for defining opportunities and removing binding constraints related to factors for building competitiveness such as skills and capability development, access to technology, access to financing, a supportive tax and regulatory environment and industrial infrastructure.

Despite comparable natural endowment, the **Citrus** sectors in the five countries have developed very differently in the countries of study, and the evolution of the market share distribution is only partly attributed to proximity of market access or internal conflicts. The cases clearly demonstrate the importance of PPD initiatives, some of them dating back decades (in Spain established in 1975), or more recent ones (2007 in Turkey), in identifying and solving key constraints to market readiness and export development. These interventions, which have typically identified problems in the logistics value chain, regulatory requirements, financing availability, skills upgrading, innovation and more, have helped promote investment and increase its effectiveness. Until a PPD process was introduced in Egypt in 1998, for instance, citrus exports only grew to the extent that more irrigated harvest areas were added to the existing arable land. Once the HEIA (Horticultural Export Improvement Association) was introduced, the joint public-private engagement efforts managed to take full advantage of the existing land. As a result, sector exports grew five-fold in volume and fourteen-fold in value between 2000 and 2008. A similar pattern can be observed in other countries.

In the **Cruise Tourism** sector, the Mediterranean offers a single, integrated market in which cruise companies are looking for attractive and well-organized destinations. Beyond "must-see" locations, the fact that costs for switching from one stop or destination to another are relatively low has led to fierce competition between destinations, forcing local cruise tourism sectors to establish PPD mechanisms to coordinate, upgrade and offer a competitive and rich tourism product. Barcelona, which grew from half a million cruise passengers in 2000 to nearly 2.5 million in 2010, is a clear example to follow. The public-private institution 'Turisme de Barcelona' managed to coordinate market players and public officials to drive the necessary infrastructure improvements and build the deeper value chain of tourism offerings required by cruise operators. The other countries in the study benefit from the Barcelona market growth in a different way, mostly depending on their level of coordination. While Lebanon, for instance, has little or no coordination, in Izmir (Turkey) a 100-fold increase was achieved through a PPD organized by the Izmir Chamber of Commerce, where the market grew from roughly 3,500 passengers in 2003 to 350,000 in 2010.

THE LOCAL DEVELOPMENT PPD CASES IN CATALONIA AND SPAIN

The local context in which companies compete has a direct impact on their competitiveness. The 10 case studies presented in the report (nine from Catalonia and one from Valencia, Spain) cover examples of how PPD initiatives have had different impact in different geographical and economic contexts: rural areas, small-medium towns, counties with a manufacturing past, metropolitan areas and areas that are parts or links of a larger international value chain. In all cases, despite differences, the study concludes that the PPD has been a very effective change tool which enabled the transformation of the economy with a clear impact on local growth in virtually all cases. In metropolitan areas, public-private initiatives like Barcelona 22@ have attracted more than 1,500 companies and have created

close to 45,000 jobs in less than 10 years. Even in a remote rural mountainous area like the Solsonès, the various actions—mostly focused on rural tourism—undertaken under the "Empresaris pel Solsonès" (Entrepreneurs for the Solsonès) association and involving local entrepreneurs and county representatives, resulted in the local GDP per capita doubling in a ten-year span, from US\$17,407 in 1996 to US\$32,782 in 2006. In some instances, the local PPD initiative did not manage to create new jobs, but managed to slow down the degradation of the local economy and thus save jobs that otherwise would have disappeared more rapidly. Such is the case for the motorcycle industry, which managed since 1995 to slow down the closure of production facilities through PPD and private sector engagement in policy making, despite facing intensifying international competition. Eventually, the final collapse of the sector was the result of the inevitable consolidation of the sector at the European level. Beyond the usefulness of PPD for local sector competitiveness, the study also concludes that PPD at the local level poses a number of risks, especially when local governments start to artificially subsidize PPD platforms for political ends. The array of cases under study allows an interesting time-based comparison. When a government begins subsidizing PPD platforms as an end in themselves, in lieu of the change they are supposed to promote—which started happening in Spain from 2007 onwards—it can create distortions in the local economic environment and result in governance losses. As much as PPD can increase transparency levels and promote inclusion, badly managed PPD mechanisms can lead to capture and collusion between business elites and politicians, eventually resulting in distortions. Such risks render the good practice guidelines outlined in this study that are much more important for practitioners to consider.

LESSONS LEARNED

The study draws lessons for practitioners and policy makers through fieldwork research and analysis, extracting common pitfalls and establishing a set of guidelines to ensure positive outcomes of PPD initiatives at the sector and local level. These should be considered as a local and sector-specific complement to the guidelines offered in the PPD Handbook¹.

The Effect of Global Market Forces on sector-specific PPDs

While the study was aimed at assessing how the various country settings (EU members, access countries, post-conflict countries, etc.) would influence the sector-specific PPDs, the examples have shown that the market forces are much more important than any local or political consideration. Competing in open markets makes the same rules apply to all, regardless of degree of preparation, background or history. Consumers are not willing to adapt their expectations to the different country settings; they expect the same quality from products or services, regardless of their country of origin. Dialogue platforms thus require an inversely proportional effort to the level of development of the sector in question as compared to key competitors. The more ground a sector has to gain, the more efficient and fast its PPD will have to be in order to define and act upon the actions and reforms that will fill key gaps in financing, regulation, skills, infrastructure and technology. It is therefore essential for PPDs to remain market driven and cater to the smallest business segment possible, in order to enable actors of that same segment to interact in a mutually beneficial way and better integrate their value chain and compete on the global market.

¹ Herzberg, B.- Wright, A., The Public-Private Dialogue Handbook: A Toolkit for Business Environment Reformers, The World Bank Group, 2006.

Sector-specificity versus Local Dimension of the PPDs

From a methodological point of view, the citrus and cruise tourism samples are sector-specific cases, and the Catalonia local development samples are focused on territory. However, the reality of all 20 cases studied is that both variables, sector and territory, cannot be isolated. In most cases the sector and the territory are intrinsically related, forming what Becattini and Porter defined as industrial districts² and clusters³ respectively. Most sector-specific PPDs have a local aspect and most local PPDs have some sector specialization, so the study argues that the concept that practitioners should be addressing is the one of Local sector-specific Public-Private Dialogue.

GUIDELINES FOR LOCAL SPPD PRACTITIONERS

The Birth and Development Phases will Shape the Future of the Local SPPD

The study establishes **Guidelines for Local SPPD Practitioners** (summarized in the table on the next page). The Birth and Development phases are where the shape and future of the Local SPPD are defined. These are the critical phases that should draw the attention of practitioners and policymakers. In the same way the education of a person is shaped during childhood, the success of a Local SPPD depends more on having gone through the right steps in its Birth and Development phases, "getting the right education," than on the local or sector context where it was born and developed.

It is critical to define the perimeter for the Local SPPD effort in the **Birth Phase**. For this it is crucial to work on identifying Champions and Facilitators, once a proper definition of the Sector Scope has been agreed upon. The Birth Phase should be brief, no more than 2-3 months, to avoid reaching conclusions or actions too fast, without the proper process of the Development Phase.

In the **Development Phase**, the Local SPPD has to set the strategies to build a sustainable competitive advantage for the companies participating. Most likely, the sources for that competitive advantage will require joint investments (specialized infrastructure, R&D, etc.) and actions (capability building, market research, etc.) as well as work on policy reforms by the public and private sector. Therefore, the Local SPPD should devote particular attention to Sector Scope, International Benchmarks, Outputs and the Structure and Participation principles.

In the **Maturity Phase**, the Local SPPD has to settle into its "natural" form, executing the action lines that were included in its roadmap and eventually reinventing itself in the next phase. This Maturity Phase does not have such clear guidelines as the previous phases, since the shape that Local SPPDs take in their Maturity is very different.

The **Transformation Phase** should evolve positively into a **Reinvention Phase** (basically going back to the Development Phase). Unfortunately, in several of the cases studied, dialogue

² Becattini, G., "Dal "settore" industriale al "distretto" industriale. Alcune considerazioni sull'unità di indagine dell'economia industriale", *Rivista di economia e politica industriale*, 1, 1979.

³ Porter, M., *The Competitive Advantage of Nations*, Free Press, 1990.

mechanisms tend to turn into an imbalanced stakeholders' relationship, usually with the private sector capturing the resources from the public sector, in what has been called an **Exploitation Phase**.

Guidelines for Local SPPD Practitioners

PHASES/ PRINCIPLES	BIRTH PHASE	DEVELOPMENT PHASE	MATURITY PHASE	TRANSFORMATION PHASE
CHAMPIONS	<ul style="list-style-type: none"> Avoid traditional sector leaders Do not endorse yet any champion 	<ul style="list-style-type: none"> Support the possible champions aligned with future strategy 	<ul style="list-style-type: none"> Do not let the professionals become the champion Formally recognize the champions 	<ul style="list-style-type: none"> Establish formal processes to transition to new champions
FACILITATORS (CHANGE AGENTS)	<ul style="list-style-type: none"> Neutral, not depending from Private sector (PrS) Local presence to follow PPD 	<ul style="list-style-type: none"> Strategic and change skills Local and global capabilities (English and travel skills) 	<ul style="list-style-type: none"> Limit to coaching the PPD Engage and supervise project managers for specific actions 	<ul style="list-style-type: none"> Every 3-5 years review strategy Search for more appropriate champions to new strategy
SECTOR SCOPE	<ul style="list-style-type: none"> Do not define scope beforehand Screen for distinct businesses 	<ul style="list-style-type: none"> Identify new Strategic Segments Design new Shared Value System 	<ul style="list-style-type: none"> Extend actions to other sectors Identify implications for policy 	<ul style="list-style-type: none"> Redefine the business scope every 3-5 years
INTERNATIONAL REFERENCES	<ul style="list-style-type: none"> Do not use international references yet (avoid imitation) 	<ul style="list-style-type: none"> Visit Advance Buyers of new Segments abroad and locally Benchmark Value Chain activities 	<ul style="list-style-type: none"> Monitor competitors Collaborate with experts on new activities, not with similar SPPD 	<ul style="list-style-type: none"> Visit again Advanced Buyers abroad and locally Benchmark new Value Chain
OUTPUTS	<ul style="list-style-type: none"> Internal "Kick off meeting" of PuS stakeholders and Kick off document 	<ul style="list-style-type: none"> Shared new Strategic Segment Action Lines to build capabilities 	<ul style="list-style-type: none"> Execution of action lines to support new strategy Keep quick wins as well 	<ul style="list-style-type: none"> Redefinition of Strategic Segments Redefinition of Action Lines
OUTREACH & COMMUNICATION	<ul style="list-style-type: none"> Reach only "friendly" PrS to test No communications at this stage 	<ul style="list-style-type: none"> Inform one by one 20-30 PrS Invite all PrS to 3 Public meetings No press yet 	<ul style="list-style-type: none"> Launch communication once first actions start Publicize actions not structures 	<ul style="list-style-type: none"> Do not promote the old champion Publish success stories abroad to promote change of leadership
STRUCTURE & PARTICIPATION	<ul style="list-style-type: none"> No structure at this stage Participation on one to one basis 	<ul style="list-style-type: none"> Facilitator runs structure Participation open to all PrS 	<ul style="list-style-type: none"> Open participation in projects Structure only to follow projects based at regional/local level 	<ul style="list-style-type: none"> Facilitate transformation by keeping all regional PPD structures under one single legal entity
MANDATE & INSTITUTIONAL ALIGNMENT	<ul style="list-style-type: none"> Agreement at top level PuS to go Understanding of risks by PuS 	<ul style="list-style-type: none"> Formal briefings with key PuS Compromise in public of both sides by co-presenting actions 	<ul style="list-style-type: none"> Yearly "Horizontal policy" seminars with all PuS to align policies 	<ul style="list-style-type: none"> Establish formal transformation process based in strategic reviews at 3-5 years
SUBNATIONAL & LOCAL	<ul style="list-style-type: none"> Redefine initiative perimeter in function of local socio-economy 	<ul style="list-style-type: none"> Involve regional and local levels of government and institutions 	<ul style="list-style-type: none"> Coordinate and integrate support actions at national and federal level Bottom-up policy making 	<ul style="list-style-type: none"> Go back to the local level to redefine strategies
CONFLICT RESOLUTION	<ul style="list-style-type: none"> Consider weight of preexisting conflicts and counterbalance 	<ul style="list-style-type: none"> Identify conflicts on one by one Use first Public Meeting to vent Focus to new goal in second one 	<ul style="list-style-type: none"> Isolate projects from new conflicts Avoid constant rethinking of goals Limit broad meetings (2 x year) 	<ul style="list-style-type: none"> Provoke crisis by questioning existing models formally (seminars with foreign experts)
ROLE OF DEV. PARTNERS	<ul style="list-style-type: none"> Act as guarantors of the neutrality of the process 	<ul style="list-style-type: none"> Pay for the neutral facilitators in the development process 	<ul style="list-style-type: none"> Finance and support actions Do not support structures 	<ul style="list-style-type: none"> Organize international exchanges to facilitate the renewal
MONITORING & EVALUATION	<ul style="list-style-type: none"> Establish milestones and go/no go for DevelopmentPhase 	<ul style="list-style-type: none"> Establish M&E for each proposed action, not for the PPD Control go/no go milestones 	<ul style="list-style-type: none"> Monitor project implementation, discontinuing if needed 	<ul style="list-style-type: none"> Evaluate the competitive position as a measure of need for renewal

While improvements in coordination, regulations, transactions and information are directly linked to sector impact, their intrinsic values in terms of governance improvements should also be recognized: coordination brings more **inclusiveness**; regulatory improvements result in more **fairness** and a level playing field between the economic actors of the area; streamlined transactions mean more **transparency** in who gets awarded what contract, and thus ensure, for instance, a better enforcement of public procurement contracts, which is especially important at the local level when constituents can see a direct impact on service delivery; and finally, the additional information revealed by Local SPPDs translates into stronger **accountability** from the public officials to address the constraints faced by their constituency and deliver on their processes. This study thus argues that, beyond sector improvement, practitioners should not neglect the intermediate governance outcomes of Local SPPDs. Especially because virtually all public sector driven initiatives for empowering sector development are subject to capture and collusion risks, or at the very least create the possibility of having market distortions, the report concludes that intermediate governance objectives are not merely a "nice to have" but a "must have" in attempting to improve sector competitiveness.

CONCLUSION

The lessons and recommendations of this study are intended to help private sector stakeholders, policymakers and development practitioners use Local sector-specific Public-Private Dialogue to improve the business environment and enable sector competitiveness at the local level. Public-Private Dialogue is a means to an end, as it seeks to make companies more competitive and sustainable, while generating more prosperity and inclusiveness for local communities. The lessons of this study are crucial for the Mediterranean region, as companies operating in a crisis environment face increased instability and market challenges. It has become increasingly clear that in order to prosper, countries need to focus on both competitiveness and inclusion. The lessons proposed here should thus resonate beyond the Mediterranean region and have implications for all private sector development initiatives. Such sector development projects, as the case studies and the analysis presented here have shown, can only succeed if they consider Public-Private Dialogue dimensions as an integral part of sector competitiveness at the local level.

A ABOUT THIS STUDY

A.1 OBJECTIVES OF THE STUDY

The objectives of this study are two-fold:

- To explore how an effective PPD process can foster competitiveness and inclusion at the sector and local levels. The World Bank Group has developed a thorough PPD methodology that has been proven in multiple experiences both at the national and sub-national level. Currently, there is a need for further methodological exploration to carry out work at sector-specific and local levels. The Mediterranean region will be used as a laboratory, from which to extract lessons learned from various countries in different contexts.
- To define a set of guidelines that will facilitate the PPD processes at sector-specific and local levels, especially in countries that are currently opening their economies and political systems and are, or will be, facing strong competitive pressures. The purpose of this study is to prepare a framework for practitioners that will provide them with tools to better judge the factors that influence a successful PPD at sector and local levels, and help them to avoid common pitfalls.

A.2 METHODOLOGY OF THE STUDY

A.2.1 Sources

Primary and secondary data have been used to investigate the PPD mechanisms in place in each of the selected five countries and in Catalonia. The field investigation has been carried out through five one-week trips to each country to talk to the relevant stakeholders. In the case of Catalonia, specific interviews for each case have been conducted as well.

A bibliography and a list of interviews are provided at the end of the document in the Annex section.

A.2.2 Organization of the Case Studies

The document has been organized according to two sets of case studies:

- Comparing sector-specific PPD in Egypt, Lebanon, Malta, Spain and Turkey (Section C)

Sectors identified for investigation are the citrus fruits sector and cruise tourism. The reason for this is that countries around the Mediterranean Sea share a somewhat similar endowment when it comes to these two sectors, and they also differ from one end of the spectrum to the other in terms of political environment, infrastructure, skills, access to finance, innovation and regulatory environment. The case studies on citrus fruits will be presented first, followed by the case studies on cruise tourism.

- Analyzing the evolution of local economic development PPD experiences in Catalonia (Section D)

The goal is to have a comparison of ten different Local PPDs in a single region. The study analyzes and searches for key conclusions and warnings, taking advantage of the fact that this region has more than 20 years of experience in implementing PPD processes.

A.2.3 Analysis Tools and Structure

PPD Analysis Tools

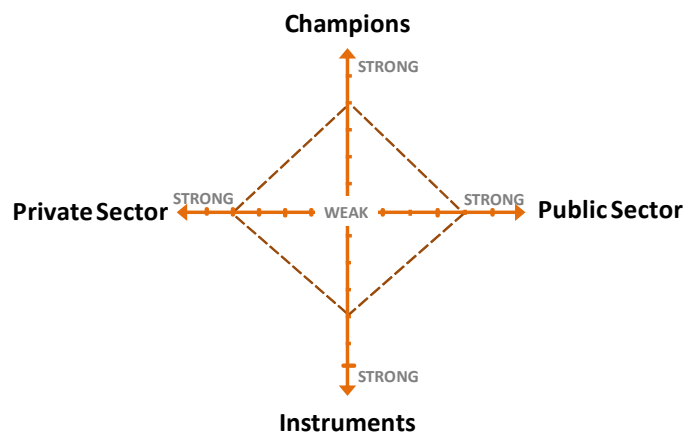
This comparative study builds on previous methodological tools developed for PPDs at national or sub-national levels, such as the PPD Diamond, the Lifespan of the PPD and the Charter of Good Practice in Using Public-Private Dialogue for Private Sector Development.⁴ Based on that work, a number of variations have been carried out in order to adjust the existing PPD tools to the specific goals of this report.

- PPD Diamond

The PPD Diamond is used as a conceptual framework for mapping the strength and weakness of four essential elements of PPD on a vertical and horizontal axis:

- Public sector (capacity, political will to engage, and leadership).
- Private sector (organization, leadership, motivation).
- Champions (existence of credible and respected individuals with the motivation and ability to attract the attention of stakeholders).
- Instruments (quality of programs and mechanisms to help private sector development).⁵

The PPD Diamond

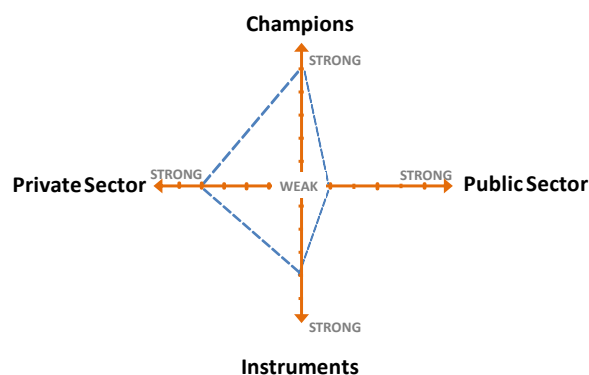


⁴ Most of these tools are thoroughly explained in the PPD Handbook 2006 (Herzberg, B.- Wright, A., The PPD Handbook, The World Bank Group, 2006).

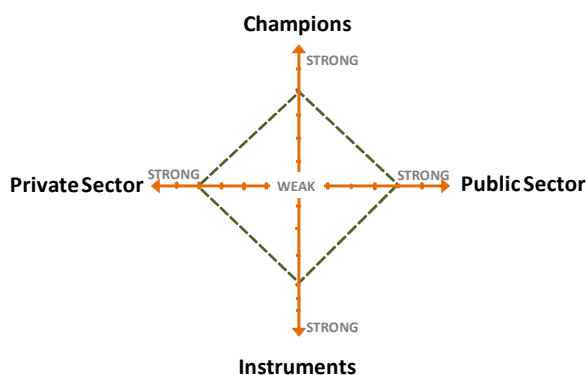
⁵ Herzberg, B., Investment Climate Reform - Going the Last Mile: the Bulldozer Initiative in Bosnia and Herzegovina, World Bank Policy Research, Working Paper n.WPS3390, 2004.

Going from the center to the edge of each axis demonstrates the increased role of each dimension. If, for example, the private sector is well organized, businesses are highly motivated and have a clear and respected leadership, it is considered strong. The opposite case is a private sector composed of businesses acting in an uncoordinated way and resembling a pure rent-seeking behavior type, which consequently makes a united representation of interests in front of the government impossible. Following this pattern, each of the four PPD dimensions is evaluated on a weak-strong scale. The resulting values are plotted into the corresponding axes and connected with straight lines, eventually forming a quadrilateral. As we can see on the examples below, PPD Diamonds can be conceived of various shapes.⁶

Bosnia and Herzegovina: strong champion, weakness in government



Vietnam: a balanced PPD diamond with no weak links



An imbalanced dialogue can be successful, although it will likely face severe challenges if more than two dimensions are in the weak spectrum.⁷ Using the PPD diamond is thus not only a mapping tool, but also a valuable assessment instrument that allows determining the potential for PPD's success as well as identifying of the vulnerable points that need to be addressed (such as weaknesses in the government in Bosnia and Herzegovina).⁸

- Lifespan of PPD

According to the analysis carried out by the PPD Handbook, PPD initiatives evolve in stages, each of which entails its own challenges. Studying PPD processes according to their phases is thus useful for understanding the phase-specific dynamics and addressing the various sustainability issues that stakeholders face. Three different phases can be distinguished (in chronological order):

- Discovery phase: The time span stretches from six months to three years. Establishing trust relationships between public and private actors, learning to interact in a collaborative manner and overcoming the first challenges that occur in this early PPD stage.

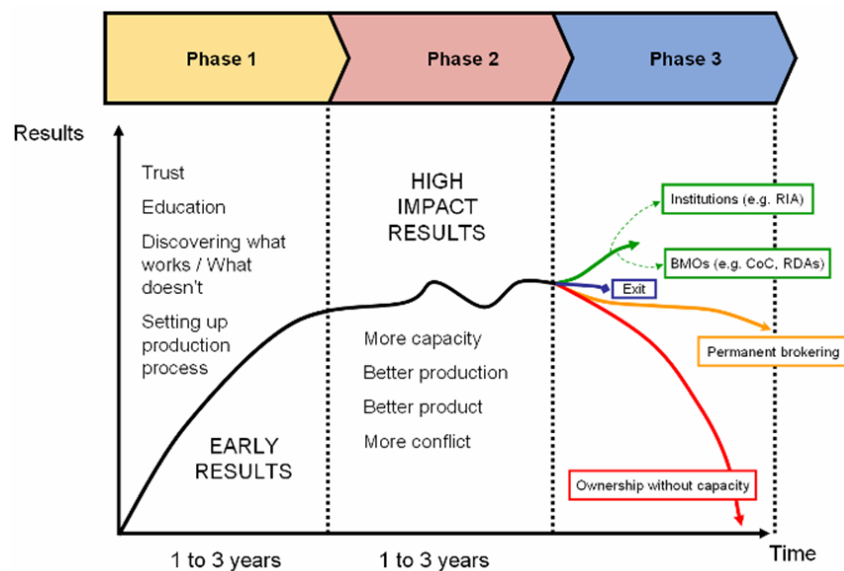
⁶ Herzberg, B., Investment Climate Reform - Going the Last Mile: the Bulldozer Initiative in Bosnia and Herzegovina, World Bank Policy Research, Working Paper n.WPS3390, 2004.

⁷ Herzberg, B.- Wright, A., The PPD Handbook, The World Bank Group 2006.

⁸ Herzberg, B., Investment Climate Reform - Going the Last Mile: the Bulldozer Initiative in Bosnia and Herzegovina, World Bank Policy Research, Working Paper n.WPS3390, 2004.

- High Impact phase: This phase lasts anywhere from a year to three years. This stage is generally more productive than the first one, provided that the first stage has been successful and that stakeholders are motivated by initial accomplishments. Continuous learning and the first implementation of agreed-upon actions occur in this phase.
- Sustainability / transfer / exit phase: the aim of PPD initiatives in this stage depends on the previous stakeholders' experiences. Even if trust and a collaborative spirit are sustained and actions are consistent with formulated strategy, thereby leading to the desired results, the future ahead may still be unclear. Possible development paths involve continuity in the present form, redefinition of vision or strategic focus (if needed), or exiting. Exiting does not necessarily mean that the PPD was unsuccessful. Several PPDs concluded because the stakeholders felt that their expectations had been met and that the sector goals had been achieved. If, on the other hand, frustration from slow progress or lagging commitment of either partner is felt, the PPD ends up being dissolved in this stage. In any case, a revision of the PPD's vision and of each partner's role is necessary in order to be able to predict and prepare for the following future scenarios:
 - Sustaining the PPD through a transfer to institutions and business associations.
 - Transferring the initiative early on to existing institutions.
 - Entrusting the PPD to act as a permanent broker, through institutionalization.
 - Termination and clean exit.

Lifespan of a PPD



- Variations and adjustments for this study: PPD Diamond over the PPD Lifespan

As mentioned above, PPDs evolve through a sequence of stages over their lifetime, each of which brings different challenges. However, in order to analyze these dynamics at sector and

local levels, the authors have also considered the changing roles of stakeholders and instruments, showing the transformation of the PPD Diamond over time. Thus, each stage can be illustrated by a distinct PPD Diamond structure at a different point in time (see chart “PPD Diamond over Lifespan Scheme” below).

Also, to highlight the leading process and the stage-specific challenges, the authors adapted the phases from the PPD Lifespan into four different stages: Birth, Development, Maturity and Transformation. The table below explains each stage.

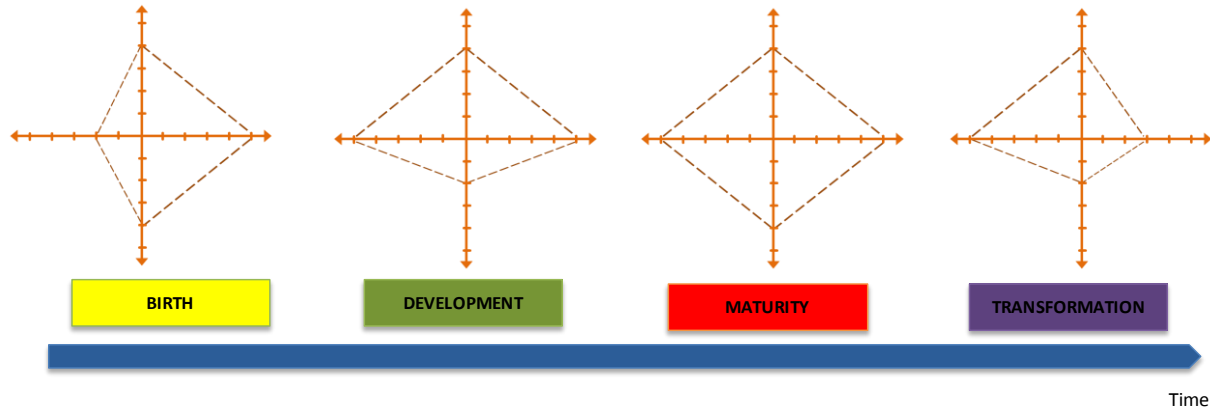
Lifespan of a PPD according to the Leading Process

Stage	Description
Birth (Discovery phase) ⁹	The stage of MAPPING the initial situation of the sector. Several questions need to be answered such as: What are the sector’s opportunities and challenges? What are the gaps in collaboration? Who are the key stakeholders that have an influence over the sector’s performance and regulation? What can be learned from previous collaboration experiences?
Development (High impact phase)	The stage of THINKING and involving new or different stakeholders. Strategic analysis and consideration of competitive advantages in the long term are key here. A concerted formulation of a strategic direction, an in-depth identification of additional leaders and stakeholders, as well as identification of the necessary instruments (reforms, programs, funding, etc.) are the outcomes of the Development stage.
Maturity (Sustainability phase)	The stage involving a broad and coordinated IMPLEMENTATION that means the transformation of the mapping and thinking process into tangible results. The private sector should feel the benefits of collaboration in the form of new business opportunities, while the government caters to this development with all the necessary instruments and improvements in the business environment.
Transformation (Transfer or exit phase)	The stage in which the dialogue reaches a frontier. It can evolve positively into a REINVENTION phase, or turn into a harmful situation for stakeholders, where contribution of stakeholders is unbalanced (EXPLOITATION phase). This stage too involves a lot of thinking about what the future of the PPD should look like, based on new market needs and business opportunities.

The adjusted lifespan depicts a dynamic PPD Diamond throughout the four different phases of a sector-specific and Local PPD:

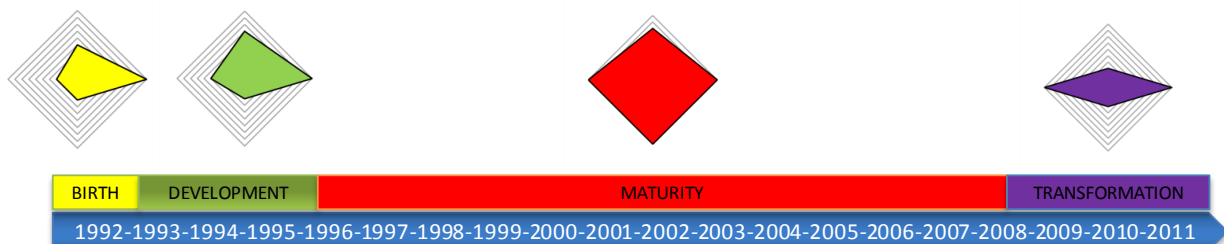
⁹ It refers to the stages identified in the PPD Handbook Lifespan.

PPD Diamond over Lifespan Scheme



For ease of readability, the PPD diamond over Lifespan has been in all cases of this study represented through a set of colored diamond-shaped graphics plotted into “diamond nets” (see below an example of the PPD Diamond Lifespan from Spain). This facilitates an upfront visual identification of the strengths and weaknesses of each of the dialogue’s ingredients as well as their balance. The parameters of PPD dimensions are measured according to the criteria outlined before in the PPD diamond explanation, such as for public sector, its capacity, political will to engage and leadership were considered. Each dimensions is evaluated on a scale from 0 to 10 (10 being the best possible outcome), which is wide enough to capture and demonstrate the versatility of all PPD cases in focus. Last but not least, the authors have taken into account the quality of the PPD, meaning its stability and pertinence as opposed to fragility and ineffectiveness. This characteristic is illustrated by a dashed PPD diamond border line in all concerned cases.

Example: PPD Diamond Lifespan for Cruise Sector in Spain



Strong public sector initiation and championship

→

Successful PPD jointly steered by all public and private partners

→

Partnership fatigue reflected in the lack of instruments

- Charter of Good Practice in Using Public-Private Dialogue for Private Sector Development¹⁰

The Charter, which establishes the good practices in public-private collaboration was established in 2006 and resulted from a process involving a cross-sectoral team from DFID, the World Bank, the IFC and OECD Development Centre as well as PPD country representatives from 30 countries. It aims to serve as a tool for PPD practitioners. The principles of the Charter summarize twelve essential elements to consider when designing and implementing a PPD project and are as follows:

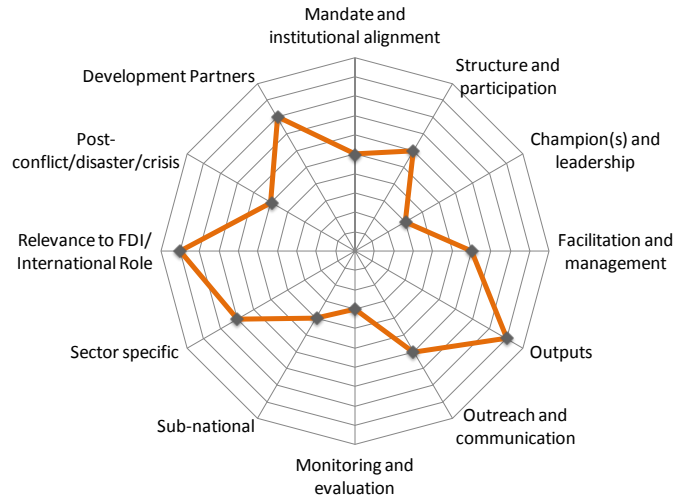
1. Assessing the optimal **mandate** of the PPD and its relationship with existing institutions.
2. Deciding the process under which **participation** to the PPD will be determined and under what **structure**.
3. Identifying the right **champions** and helping them push for reform.
4. Engaging the right **facilitator(s)** and organizing a facilitation secretariat.
5. Choosing and reaching target **outputs**, and setting up a reform tracking system for the working groups and at the secretariat level.
6. Devising a **communication and outreach** strategy.
7. Elaborating a **monitoring and evaluation** framework.
8. Considering the potential for and inclusion of dialogue on a **sub-national level**.
9. Making specific arrangements for **sector-specific** dialogue and considering sector development strategies.
10. Exploring potential use of PPD for FDI-related policy issues and identifying opportunities for dialogue to play an **international role**.
11. Ensuring that **crisis monitoring and aversion** mechanism are built in and adapting the dialogue platform to the specificity of post-conflict, political or economic crisis, and/or disaster recovery environments.
12. Finding the best role for **development partners**, including devising from the get-go a transition and sustainability strategy.

- PPD Evaluation Wheel

The PPD Evaluation Wheel addresses the 12 elements of the Charter of Good Practice considered as essential contributors to an effective PPD process. It is a monitoring and evaluation instrument, which provides the opportunity to cross-check data on similar aspects of different PPDs, or the development of one PPD over time.

¹⁰ For a complete reference see Annex I: The Charter of Good Practice in Using Public-Private Dialogue for Private Sector Development.

Sample PPD Evaluation Wheel



For each of the 12 principles (or elements), a score between 1 and 10 is derived from a subset of indicators assigned to each. The larger and more balanced the PPD wheel is, the more effective the PPD mechanisms.

- Variations and adjustments for this study: Understanding the evolution of the twelve principles of the Charter of Good Practice during the lifetime of a PPD

This study incorporates the aforementioned principles of the Charter of Good Practice.¹¹ While these can be considered PPD fundamentals extracted from good practices worldwide, the outcomes of authors' research have shown that the role of each of them may vary according to the phase of PPD. Hence, while the authors draw on the latest experience of PPD practitioners, the nuance of this study is the refinement of the principles' application through the lens of the PPD Lifespan. This approach has allowed the identification of challenges that are characteristic for each stage of the dialogue as well as deriving of lessons for practitioners, which are summarized in the concluding chapter of the study. For example, while the focal characteristic of facilitators in the Birth stage is clearly their neutrality (in order to avoid some of the actors distrusting the dialogue and stepping aside), in the Development stage, it is essential that they possess the necessary business expertise to help the group make the right decisions. In the Maturity and Transformation stage, it is important that the role of facilitators remains neutral and flexible in order to allow for an objective facilitation of the process according to the sector's new challenges. These, and similar findings for all principles are described later in the study.

¹¹ See Annex I for the definition of each principle.

- Industry-level Collaborative Action Matrix¹²

The Industry-level Collaborative Action Matrix allows the overall competitiveness potential of each sector to be determined by summarizing a series of industry actions coupled with the type of dialogue that originated them. It is based on the assumption that industrial development is often accompanied by strong dialogue, which leads to collaborative actions. The matrix comprises:

- Industry-level collaborative actions focused on five factors: regulatory and tax environment, Infrastructure, Access to finance, Skilled and trained labor, Access to new technologies and R&D. These factors contribute to competitiveness essentials such as quality and timeliness.
- Dialogue based on three categories of actions:
 - Public: industry-specific policy and regulatory reforms, specialized tax regime, incentives regime, industrial land programs, institutional streamlining and coordination, etc.
 - Public-Private: public-private partnerships, joint investment, investment promotion, skill partnerships between academia and the private sector, last mile utility provision, innovation partnerships, etc.
 - Private: joint procurement platforms, joint standard setting, private sector-led certification, joint investment and trade promotion projects, joint training, venture capital, etc.

Industry-level Collaborative Action Matrix

	Regulatory and tax environment	Infrastructure	Access to finance	Skilled and trained labor	Access to technologies and R&D
Public					
Public-Private					
Private					

¹² Kassim, S., Using PPD to build Competitive Industries, 6th PPD Global Workshop Vienna, Austria, June 2011.

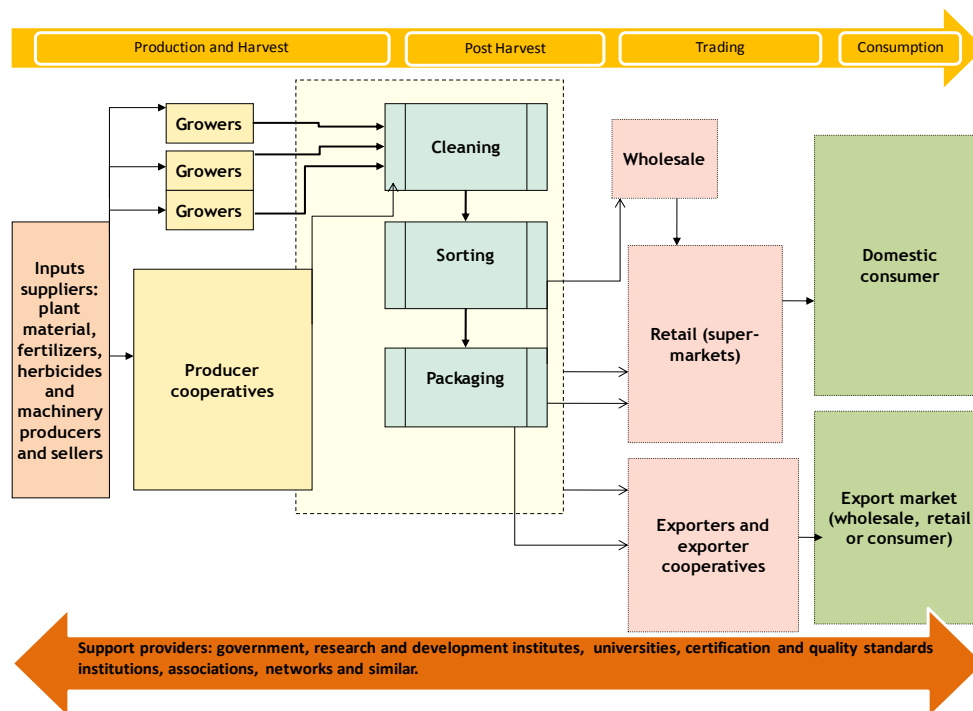
- Using strategic analysis tools

Basic concepts of strategic analysis will be used as a means to understand the strategic challenges of the sectors under study, as well as to evaluate the effectiveness of the PPD process applied to them.

- Value chain

This is a tool from business management that was first explained by Michael Porter.¹³ It depicts the chain of activities in a specific industry or business: products or services pass through all the stages of the chain and, at each activity, the product gains some value. The ultimate goal of a value chain is to understand which underlying activities can generate competitive advantage.

Example: The Citrus Sector Value Chain



Source: Competitiveness, 2011

- Strategic segments

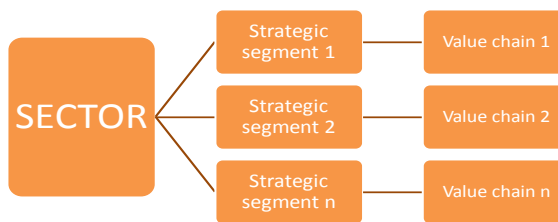
When analyzing an industry, it is important to identify the strategically different business segments available for the sector.

Different strategic segments have different value chains, since the products and processes involved are also distinct. Thus competitive forces impact strategic

¹³ Porter, M., *Competitive Advantage: Creating and Sustaining Superior Performance*, Free Press, 1998.

segments differently.¹⁴ Businesses within a given strategic segment share the same competitive environment in which rival companies compete, hold common challenges, and can look for strategic solutions to their problems. The analysis of each strategic segment will provide different conclusions regarding the strategic desirability of producing in one segment or another. It is imperative to determine the factors that define each strategic segment, and in particular, their implications, when creating business strategies within a sector.

Strategic Segments and their Value Chains



□ Clusters

According to Michael Porter’s definition, “*Clusters are geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated organizations (such as universities, standard agencies, trade associations) in a particular field linked by commonalities and complementarities. There is competition as well as cooperation.*”¹⁵

The concept of cluster is useful while analyzing sector-specific and local economic development PPDs as it is a way of summarizing the reality in which these types of dialogue take place.

Structure of the Cases

The aforementioned analytical tools are present throughout the study. Some of them in particular have guided the way the cases are presented; they all follow the same structure:

- Sector description for the country or case background: explanation of the sector and/or cluster, the value chain, strategic segments, and other.
- Evolution of the PPD: description of the PPD phases.

¹⁴ They should not be confused with different market segments since they do not define who the client is, but rather where the differences in added value are within the same sector.

¹⁵ Porter, M., *The Competitive Advantage of Nations*, Free Press, 1990.

- Public and private ownership in the evolution of the PPD: portrayal of the PPD Diamond Lifespan.
- Impact of the PPD on competitiveness: evaluation of competitiveness factors related to the PPD outcomes (see below).

For the sector-specific PPD (SPPD) cases, the order in which countries are presented corresponds to the level of complexity of their dialogue as well as their sector performance. In the case of the Local SPPD cases in Catalonia, the order follows a specific typology (rural areas, towns, counties (*comarques*), metropolitan areas and international value chain links).

Methodology to measure impact of the PPD on competitiveness/economic development

Evaluating PPD processes is particularly challenging and it has already led to an extensive body of literature. The following quote highlights the most important issues:

“Like any other activity in which time and money are invested, PPD needs to be monitored and evaluated. But PPD poses particular challenges for M&E. First, it is largely process-oriented. This presents quantification challenges including assessing economic impacts, as well as how to assess change and improvement. Secondly, the intangible benefits and ‘outcomes’ of PPD are not easily quantifiable, but are very significant. They include improved levels of trust and greater understanding and cooperation. Thirdly, the PPD process ownership ultimately rests with national [or sub-national] stakeholders, independent of international development partners.”¹⁶

It is therefore also difficult to isolate the PPD process in sector and local economic development from the multiplicity of variables implicated. In this report, the authors will use some of the above-mentioned evaluation tools as well as other specific economic data to compare the accomplishments of each PPD under study.

- Citrus Fruit Sector

To evaluate the impact of SPPD on competitiveness of the citrus fruit sector, two variables were considered:

The evolution of total export volumes: this variable tells us if the country extended its export base in absolute terms and kept pace with the increasing international export volumes.

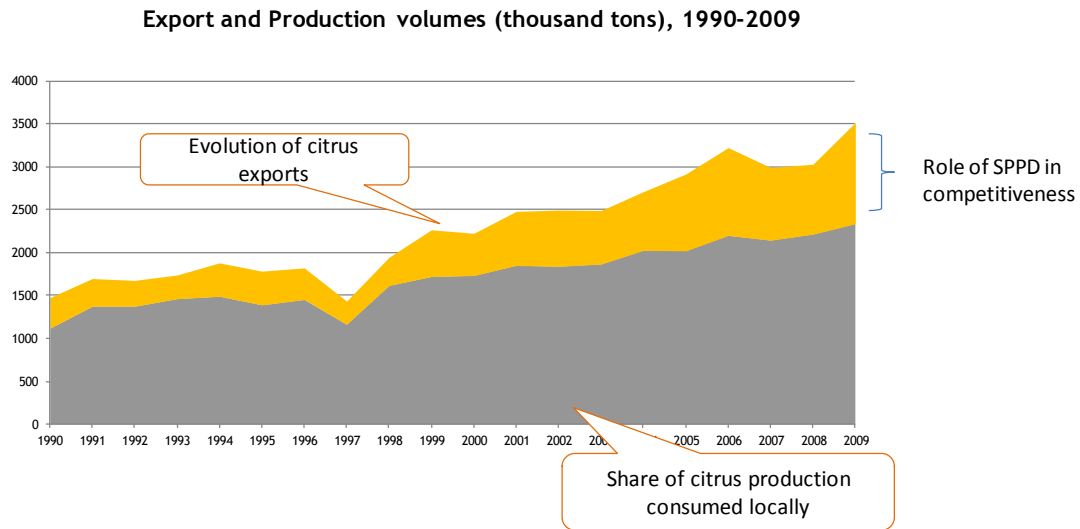
The share of export on the total citrus production: this variable tells us whether the relative significance of the sector in the domestic economy increased.

Both variables over the last two decades were analyzed.

The authors believe that a sector’s ability to react to new market conditions and penetrate sophisticated markets is primarily reflected in these two factors. The assumption is: if citrus exports and export shares have considerably increased over time, SPPD mechanisms are largely attributable to the improvement (directly or indirectly).

¹⁶ Toland, M., PPD M&E position paper, PPD Global Product Team, IFC, 2010.

The following chart represents this evaluation tool for the citrus sector:



- Cruise Sector

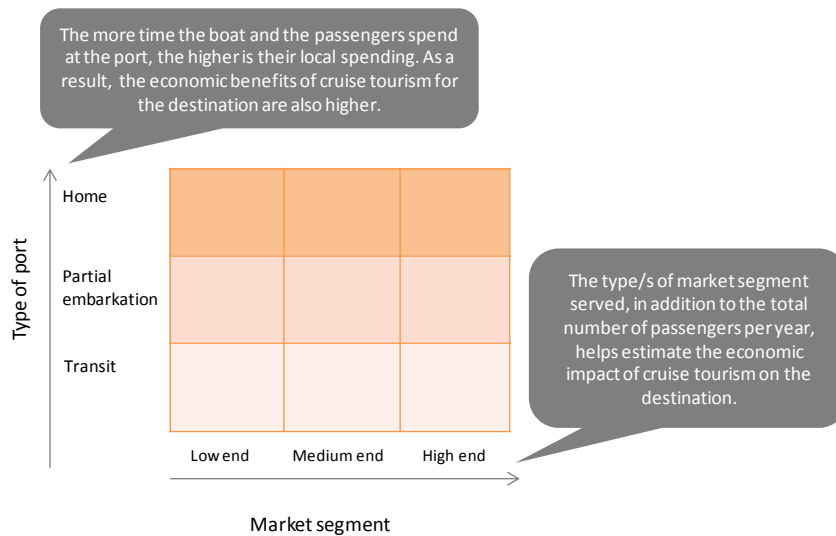
To evaluate the impact of SPPD on the competitiveness of the cruise sector, the authors considered two dimensions:

The type of port: Whether a port classifies as a home, a partial embarkation point or a transit port helps to evaluate how successful the port has been in positioning itself as compared to the competition. The more cruise lines start and end their cruises in the port, and the more time the vessel and crew spend at the port, the higher economic benefit accrues for the port and the destination.

The type of market segment that the port serves: knowing the total number of passengers per year and their market segment complements the estimation of the economic impact. Whether a port serves the low end, medium end or high end segment tells us how successful a port has been in attracting the various types of passengers that the port targets, ranging from relatively cheap family holiday-at-sea packages to a very personalized and luxury service for singles and couples.

The more passengers that embark and disembark in the port and the more versatile the customer base of a port is, the more competitive it can be considered. The authors' assumption is that improvements in these two aspects are largely attributable to the SPPD.

The following matrix served as the evaluation tool for the cruise sector:



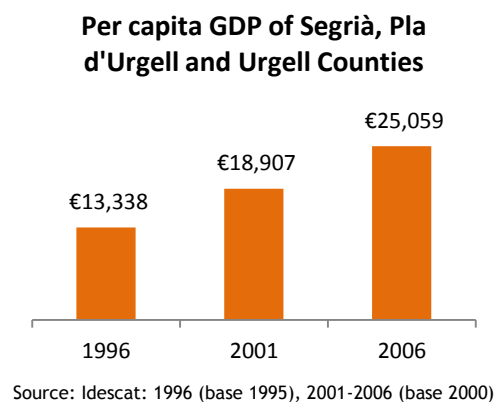
- Catalonia

To evaluate the impact of the Local PPD on the local development in Catalonia, the following variables were considered:¹⁷

- GDP per capita.
- Number of companies in the cluster.
- Turnover.
- Number of employees.

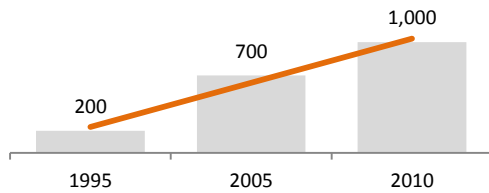
The evolution of GDP per capita in the last two decades served as the main impact evaluation variable. Increased levels of these variables are considered a positive impact on local economic development and the assumption is that these improvements are largely attributable to the Local PPD.

The following charts are an example of the Local PPD impact evaluation tool for Catalonia:

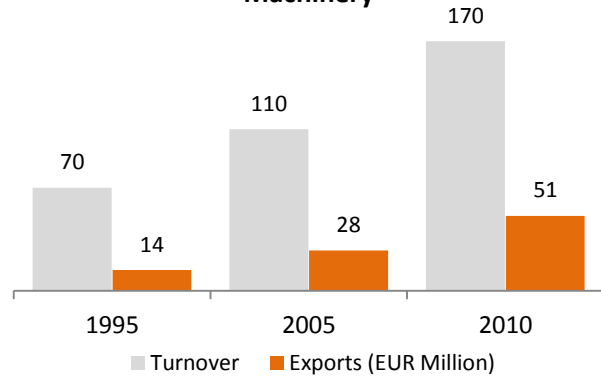


¹⁷ Data availability varies given the very localized character of the cases.

Number of Employees in Agricultural Machinery



Turnover and Exports in Agricultural Machinery



Source: Interviews, Map of Local Industrial Production System in Catalonia

A.2.4 Implications of the study

Finally, based on the field work and the analysis carried out, the study draws lessons for practitioners and policy makers, extracting methodological observations and establishing guidelines. This section intends to transmit to practitioners the lessons learned from the twenty cases studied as well as policy recommendations. It is not a comprehensive manual on how to build a local economic development PPD or SPPD.

B BACKGROUND: PUBLIC-PRIVATE DIALOGUE AND CHANGE IN THE MEDITERRANEAN COUNTRIES

The Mediterranean region is witnessing a period of unprecedented change marked by uprisings that call for the need to rethink countries' national systems. Underlying the commotion now shaking Tunisia, Egypt and other countries, are common political, economic and social pressures, including widespread corruption, crony capitalism, massive youth unemployment and high income polarization.

Transitions, such as the ones untapped by the Arab Spring, present significant difficulties but also offer a tremendous opportunity to ignite positive socio-economic change. While the fate of these extraordinary events is still unknown, it is clear that meaningful and enduring political harmony and prosperity will come through greater inclusion of civil society in the political process, and sustained, broadly shared economic growth. On the one hand, greater inclusion implies building democracies that ensure the rule of law, provide for sound governance frameworks and give citizens equal access to opportunities while providing a 'safety net' for the most vulnerable. On the other hand, achieving higher growth implies sustaining competitiveness levels by creating a fertile ground where companies can grow, generate jobs and compete with other national and international businesses. Thus it has become clear that in order to prosper, countries need to focus on both competitiveness and inclusion. In that sense, these uprisings are of great relevance for the future of countries experiencing changes in their political and economic structures, and should be taken into consideration when analyzing local and sector-specific PPD¹⁸ (SPPD) mechanisms.

In addition, the Mediterranean region offers a unique opportunity to carry out a comparative study on SPPD experiences and to explore the extent of influence that those mechanisms have on the local development of the regions as well as the sector competitiveness issues they address. Each country has different characteristics but the fact that all are located in the same region also makes them homogenous and comparable in terms of the market place they operate in, as well as in terms of their geographical and climate conditions.

This study explores how those processes are being carried out in five Mediterranean countries with varying degrees of experiences. Egypt, Lebanon, Malta, Spain and Turkey have been selected to examine the impact of diverse SPPD initiatives on competitiveness. In addition, a sub-national perspective on the region of Catalonia is provided in order to learn from its vast experience in conducting Local PPDs and the impact the dialogues have had on its economic development in the past two decades.

Several criteria can be considered when comparing Mediterranean countries, but for the purpose of this study, the selection process aims to choose a wide array of contexts. The following three criteria have been crucial in guiding the selection process:

¹⁸ Public-Private Dialogue initiatives are structured partnerships that bring together the government and the private sector with the purpose of engaging them in a constructive dialogue aimed at identifying, prioritizing and resolving key constraints to private sector development.

- Country size: large (Egypt, Turkey), medium (Spain), small (Lebanon) and very small (Malta);
- Income levels: high income (Spain, Malta), upper middle income (Lebanon and Turkey) and low middle income (Egypt);
- Recent political and economic history: developed economies with stable democracies (Spain, Malta), developing economies with stable democracies (Turkey), developing economies with unstable democracies (Egypt), and post-conflict developing economies (Lebanon).

The high level of diversity among the five countries chosen can be regarded as representative enough in order to understand SPPD mechanisms in diametrically different circumstances and in order to provide important recommendations for countries worldwide with similar backgrounds and confronted with comparable challenges.

The following section provides a snapshot of the selected countries and highlights the elements of their political history which are considered relevant for the understanding of the SPPD mechanisms.

B.1 EGYPT: MANAGING POLITICAL AND ECONOMIC TRANSITION

With a population of almost 83 million, Egypt is one of the most populated countries both in Africa and the Middle East. Between 1981 and 2011, Egypt was ruled by President Hosni Mubarak who repeatedly faced criticism for neither protecting civil rights nor the rights of assembly and association in the country. These factors have influenced the nature of the public-private collaboration in Egypt throughout the last three decades.

Prior to the 2011 revolution, H. Mubarak and his collaborators had several initiatives to defend the private sector's interests. At that time, however, small and medium-sized enterprises and members of civil society were mostly excluded from the debate over Egypt's economic reform strategy.

The shift from a state-led economic model to a market-led privatized economy was supported by certain economic sectors. However, it was received with skepticism by state officials and the political elite. A remarkable exception was the support of the privatization process by the business elite in Egypt. The reason for this is that they obtained favorable business terms during the privatization process as they had good connections with the Egyptian Government and the military. One sign that shows the increasing political power of the business elite in Egypt is the appointment of major businessmen to key government positions.¹⁹

In Egypt, the strong government and the role of the business elite have affected the intensity of public-private collaboration. Even though a low level of collaboration between the public and the private sector remains, a few organizations have managed to overcome the void,

¹⁹ Alissa, S., Political Economy of Reform in Egypt: Understanding the Role of Institutions, Carnegie Papers, Carnegie Endowment for International Peace, Middle East Center, 2007, http://carnegieendowment.org/files/cmec5_alissa_egypt_final.pdf.

implementing several new business-friendly regulations and achieving results by interacting with the public sector.

B.2 LEBANON: REBUILDING TRUST AFTER CONFLICT

Lebanon is a small country in the Middle East which has been affected by a number of internal conflicts and regional tensions and wars. It is a republic with a specific political system designed to represent its 18 different religions.

Political divisions, weak governance and security concerns have severely affected several economic sectors in the country, among others, tourism, banking and agriculture. Lebanon ranks as a middle income country, still its distribution of income is highly unequal, with approximately 8% of its population living below the poverty line.

Historically, local governments in Lebanon have been strong. However, a rapid centralization of the economic and political power took place after the civil war (1975 to 1991). Since then, the power of local authorities has been very limited. Furthermore, the government has carried out several privatization processes in key industries to address challenges related to water rehabilitation, wastewater and electricity infrastructure. Although these processes implied a greater role of the private sector in certain sectors, the country's political instability has had a negative impact on trust and long-term development planning. Thus, PPDs and business reforms are developing at a relatively slow pace, but thanks to the support of development partners, stakeholders are gaining confidence in the dialogue.

B.3 MALTA: ENSURING VIABILITY OF A SMALL ISLAND ECONOMY IN A LARGE REGIONAL ENSEMBLE

With a population of 417,700 inhabitants, Malta is one of the smallest countries of the European Union. Malta became independent from the British Empire in 1964. It is a melting pot of different civilizations and has a history that goes back thousands of years. Malta is an important trade and tourism destination as it is very strategically located. Today, Malta is a member of the Commonwealth of Nations, the United Nations, the European Union (including the Eurozone) and the World Trade Organization. The country faces difficult challenges derived from competing with much larger trading partners from the EU and being relatively vulnerable to economic and natural shocks.

The prominent role of the government has been declining over time. Malta has substantially reduced state interventions and has opened some of its strategic sectors for privatization. The role of the private sector has grown and so have PPD linkages in the form of targeted assistance aimed at industrial investments, exports of locally produced goods, small enterprise promotion, and tourism. Tourism is one of Malta's main sources of income and is therefore among the main priorities of the government. The PPD has undergone considerable development, especially after accession to the EU in 2004, when companies had to become more competitive to be able to face competition from other EU businesses. Being a small country has been an advantage in terms of the accessibility and openness of the government to engage in dialogue with the private sector.

B.4 TURKEY: MANAGING FOR INCLUSIVE GROWTH

Turkey is a Eurasian country with a dynamic, young population. In the past, Turkey has been affected by successive weak coalition governments, poor economic policies and years of civil conflict. All of these issues have frustrated broader political and economic reforms. However, Turkey has increasingly become integrated with other international structures such as the Council of Europe, NATO, OECD, OSCE, and the G-20. Turkey reached a customs union agreement with the EU in 1995 and started full membership negotiations in 2005.

Although economic and political decisions are carried out at the central level, efforts to reduce regional income disparities have forced certain regionalization in the country in recent years. The emergence of Regional Development Agencies and a significant level of decentralization of the nation's administrative system have opened the space for public-private initiatives at provincial level. Although in the past Turkey has been very government-led, the private sector has recently taken a more proactive stance with regards to PPD. Strong private sector unions are nowadays a typical feature of the Turkish agriculture and services sector. Nevertheless, the dialogue still has not lived up to its full potential. A more involved and responsive government and greater inclusion of SMEs in the PPD process will help to address some of the remaining competitiveness hurdles in the country.

B.5 SPAIN: DRIVING LOCAL ECONOMIC DEVELOPMENT THROUGH DIALOGUE

Located in the southwest of Europe, Spain is the twelfth largest economy in the world (measured by nominal GDP). It is a member of the United Nations, the European Union, NATO, OECD, and WTO. Before the economic crisis hit in 2008, the Spanish economy was regarded as one of the most dynamic within the EU, with a highly qualified workforce and a strong capability to attract foreign investment.

25 years ago, when full trade liberalization came into effect after Spain's accession to the EU, the private and public sector had to make drastic adjustments. Thus the country has undergone a remarkable decentralization and privatization process that had a profound impact on PPD. As it will be described in the following pages, Catalonia is one of the best examples of this process.

B.5.1 The PPD in the Transition to Democracy

After the death of the dictator General Franco in 1975, Spain went through a peaceful transition towards democracy and decentralization. Catalonia, a region of great historical importance in the country, recovered its autonomy and government. However, after fifty years of dictatorship, Catalonia had neither a strong political class nor an efficient and independent public administration. In this sense, civil society and the private sector had to step in and get involved in the new regional government of Catalonia. In a way, this was a very similar situation to the one that can be seen now in Arab spring countries.

The first years of dialogue in Spain focused on social stability and the consolidation of democracy with a paramount agreement between trade unions, employers and the government, called the Moncloa Pact in 1977. Meanwhile, in Catalonia, an intense exchange of ideas was established among political parties and civil society to reach a consensus on

basic issues, among others, the role of the Catalan language, the education and health systems, and the role of the Catalan police force.

B.5.2 The Need to Further the Dialogue at Local Level

In 1986, Spain entered the European Union. By 1992, the nation was fully integrated into the European single market. Spanish companies immediately started feeling the pressure of the full blown European and global competition from better products. The fact that this happened at a moment when the Spanish currency was overvalued only accentuated the shock.

All this meant that governments at that time were forced to deal with a very different set of problems. They needed to talk about competitiveness. Regional governments such as the one in Catalonia were under stronger pressure to do so, as they were much closer to companies. However, regional governments lacked the necessary tools to face company demands, as fiscal and monetary policy still belonged to the national government.

It became clear that a new level of discussion was needed. Conversely, there was no experience as previous sector associations had been created with objectives that did not consider competitiveness promotion, but rather trade promotion, tax allocation and labor negotiations.

The appointed Minister of Industry of Catalonia, Antoni Subirà (an MIT trained business school professor with strong contacts within the Catalan management class) understood that establishing a series of PPD initiatives could help him better understand sector-specific competitiveness issues. He was not concerned about engaging in a dialogue with the private sector, of which he felt part, but rather, about making sure that the new Catalan administration did not follow Spanish bureaucratic tradition.

He was aware of Michael Porter's manuscript of *The Competitive Advantage of Nations*, and embraced the idea of using the existing clusters in Catalonia as the units for the PPDs to be developed. His tenure lasted 11 years. He carried out 30 PPD initiatives in sectors as diverse as leather tanning and digital entertainment, creating a culture of dialogue between government and industry that persists today in spite of government changes.

B.5.3 Catalonia as a Worldwide Reference

In his book *On Competition (1998)*, Michael Porter chose Catalonia as the case study through which to illustrate his ideas. He stated: *"In one of the major benefits of the cluster process, government officials were transformed into an informed audience for firms. The dialogue among the various agencies and departments within the Catalonia government increased and coordination improved"*.²⁰

Later, as the cases in this study show, the tool for understanding PPDs at a cluster level became an end in itself and an object of political desire in Catalonia, almost destroying its original spirit. However, the Catalonian case is still a sound example from which countries

²⁰ Porter, M., *On Competition*, Harvard Business Review Press, 1998.

undergoing a transition towards greater prosperity can learn. Catalonia managed to double its GDP per capita and to consolidate its democracy and social system in less than 20 years.

Comparing the following case studies from Egypt, Lebanon, Malta, Spain and Turkey, as well as the examples from Catalonia, will allow drawing lessons and guidelines for practitioners for both, sector-specific and Local PPDs.

C SECTOR-SPECIFIC PPD: COMPARING CITRUS AND CRUISE TOURISM IN EGYPT, LEBANON, MALTA, SPAIN AND TURKEY

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices... But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less to render them necessary."

Adam Smith, The Wealth Of Nations.

To Meet Together or Not to Meet

While nobody can argue that the national PPD can be harmful to the people of any country, the same has not been so clear when the PPD is narrowed down to a sector-specific group, to the "people of the same trade", as Adam Smith called them.

Sector-specificity should be a natural aspect of a PPD, since the dialogue usually arises between a particular industry in the private sector and the part of government regulating or providing some of the public goods (infrastructure, education...) for that specific field. But it brings its own challenges.

On a national level PPD, reducing regulatory burdens or improving the efficiency of public services does not imply harm to anybody's economic interest, but in a SPPD it may not be so clear. One of the principles of competition is the threat to incumbents of new entrants into the market; any dialogue with the incumbents alone could lead to the preservation of their position and rent-seeking behaviors. Unfortunately, it is not easy to incorporate the new entrants into the PPD, because they do not exist yet.

On the other side, since the publication of Michael Porter's book "The Competitive Advantage of Nations" in 1991, there has been a strong movement across the world to encourage companies and institutions in industry clusters to work together, not to conspire but to build together common sources of sustainable competitive advantage.

The Complexity of Dialogue at the Sector-specific Level

After almost twenty years of experience with PPD at the sector level, the results are mixed, showing the complexity of this type of dialogue. While there have been many examples of value creation in clusters that have brought productivity increases and prosperity to their regions, there are also many instances of publicly funded structures that have not created any value.

Any dialogue that focuses on or involves only a division of the existing "pie" does not create any economic value. The opposite is true of dialogues that lead to a larger "pie". In other words, the dialogue per se is not good or bad. It depends on the direction, on where it leads.

And the direction that will make an industry grow is not always clear, and most importantly, in a global economy; it is not decided only by the participants in the PPD, but also by the actions of the markets, their competitors, and possible new entrants that will appear unexpectedly. Thus, SPPD will have to take into account not only the complexity of managing the participants in the dialogue, but also to listen, understand and incorporate the views and inputs from the markets, competitors and customers. These are all aspects and factors which make a sector-specific PPD much more complex than others.

There may even be problems of understanding the sector's real strategic challenges by SPPD stakeholders. The ability to formulate and maintain a clear focus on the agenda, the stakeholders involved and the actions implemented therefore presents an even more challenging task. Low prioritization of the sector compared to others, weakness of sector institutions or rent-seeking activities on the side of businesses are examples of other challenges more usual in sector-specific than in broader economy dialogues.

Recognizing these difficulties, the following sections seek to extend the effectiveness of the dialogue at the sector level by highlighting the challenges of the dialogue in the citrus fruits and cruise sectors in five Mediterranean countries and by proposing possible mitigation strategies and recommendations at each stage of the SPPD.

C.1 FIVE SPPD MEDITERRANEAN EXPERIENCES IN THE CITRUS FRUIT SECTOR

This section investigates SPPD efforts in the Mediterranean citrus fruit sector. In order for an agricultural sector such as that of citrus fruit to be successful, those leading the SPPD efforts need to be closer to producers and have the ability to develop combinations of product and technology that will allow producers to attain greater added value. Implications for business environment improvement involve, for example, upgrading logistics facilities and developing and adopting technologies and know-how that can help businesses to develop innovative solutions.

The Mediterranean's favorable geographical and climate conditions have allowed for a robust production base for several agricultural crops in the last decades, including cereals, rice, fresh vegetables, fresh fruit, grapes, olives and dates. Production has flourished in many countries. Citrus fruit specifically has been chosen for the purpose of the SPPD analysis for two reasons. First, it is widely available in most countries in focus (the region as a whole ranks among the main citrus producers on the global level) and second, the sector's evolution paths have varied significantly in each of them. For example, while Egypt, Turkey and Malta had similar starting positions back in the 1960s, today, the role of citrus fruits in their national economies varies significantly. Thus, narrowing down the analysis to citrus fruits will help us understand better what role (if any) the SPPD has played in this regard. In addition, by identifying the collaboration gaps, conclusions will be drawn about the consequences of a weak SPPD on citrus and other agricultural sectors confronted with similar challenges.

To illustrate the opportunities and challenges faced in the SPPD efforts in the selected Mediterranean countries, the section starts with an overview of the global and Mediterranean citrus markets, highlighting the specifics of the latter, which counts as a fresh citrus fruits producer and marketer. The focus on this specific strategic segment entails distinctive challenges for the competitiveness of the sector as well as the SPPD, compared to other citrus competitors, which specialize in citrus fruit processing. Drawing on this introduction and the comparative perspective on the Mediterranean region vis-à-vis other citrus producers, specific SPPD efforts will be scrutinized.

C.1.1 The Citrus Sector

C.1.1.1 Overview

Definition of the Sector

Citrus fruit refers to fruit coming from trees that belong to the Rutaceae family. Citrus fruit are full of fragrance, flavor and juice, and include the following layers:

- A rough, robust and bright-colored skin or rind that ranges from yellow to orange covers the fruit and protects it from damage.

- A white, thick and spongy layer, which, together with the skin, forms the peel of the fruit.
- The inner part that forms the pulp. This part is divided into individual segments or juice sacs. It is rich in soluble sugars, significant amounts of vitamin C, pectin, fibers, different organic acids and potassium salt, which give the fruit its characteristic citrine flavor.²¹

According to this definition, the fruits included in this study under the category of citrus fruits are: oranges; tangerines, mandarins and clementines; lemons and limes; grapefruits including pomelos and other small citrus varieties.²²

There are two different value chains in the citrus industry:

- Fresh citrus fruits: including oranges, lemons, limes, small citrus (tangerines, mandarins, clementines and satsumas) and grapefruits.
- Processed citrus products: this refers to orange juice (most important) and other juice flavors.

The countries included in this study focus mainly in fresh citrus fruit production. Consequently, most of the analysis of the sector will be centered on the fresh citrus fruit value chain.

Citrus Fruit Production

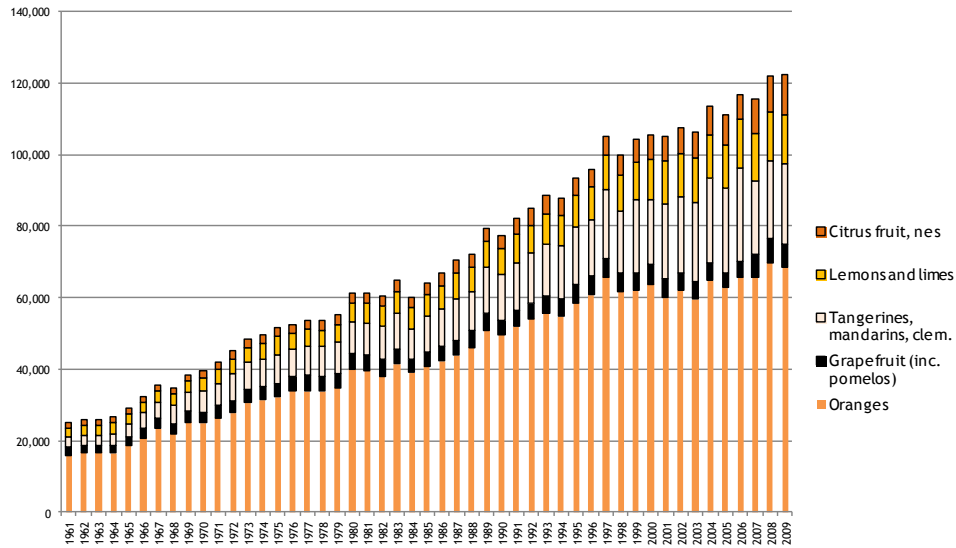
In the last five decades, global citrus fruit production has increased by 4.9%, exceeding 122 million metric tons in 2009. The rise in citrus production has been boosted by the extension of cultivation areas; improvements in quality; advances in processing, storage and packaging technology; prices that are increasingly competitive; increases in promotional activities, and overall healthier consumer lifestyles and rising purchasing power. Oranges constitute the bulk of citrus fruit and account for more than a half of global volume.²³

²¹ Citrus Fruit Characteristics, Info Comm - Market Information in the Commodities Area, UNCTAD. <http://www.unctad.org/infocomm/anglais/orange/characteristics.htm#description>.

²² Other small citrus varieties include: bergamot (*Citrus bergamia*); citron (*C. medica* var. *cedrata*); chinotto (*C. myrtifolia*); kumquat (*Fortunella japonica*).

²³ Ibid.

Global Citrus Fruit Production, 1961-2009 (in thousands tons)



Source: Faostat (2011)

Citrus global production is spread across 140 countries. However, most of that production is concentrated in the following countries: Brazil (18.5 million metric tons), the U.S. (9.1), India (4.8), Mexico (4.3), China (4.3) and Spain (3.4).²⁴ Most citrus fruit used for fresh consumption comes from California and Spain. Processed fruit accounts for approximately one third of the total global production. The two main orange juice producers are Brazil and Florida, which together cover 85% of the global market. However, while Brazil exports 99% of its production, Florida's orange juice is mainly consumed domestically.²⁵

Citrus Fruit Consumption

Citrus fruit is primarily consumed in developed countries, where consumers have more advanced preferences. However, according to the Food and Agriculture Organization of the United Nations (FAO), fresh citrus fruit consumption (particularly of oranges) seems to be declining in developed countries, while expanding in many developing countries as their income levels increase. This trend is especially strong in emerging economies such as Mexico, India, Argentina, Brazil and China.²⁶

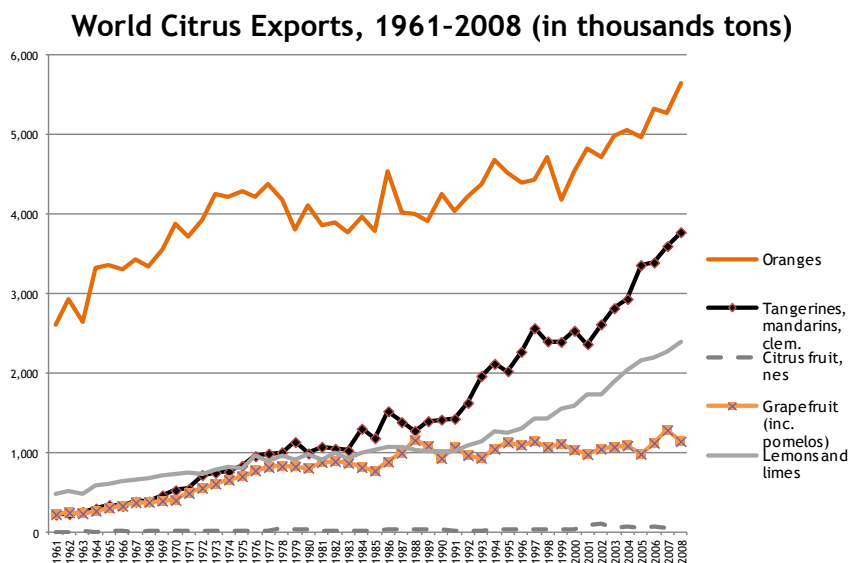
²⁴ Ibid.

²⁵ Mediterranean Agriculture in the Global Marketplace: A Project Comparing Policy Approaches in California and the Southern EU State, Institute for International Studies, Stanford University, 2005. http://aic.ucdavis.edu/research1/patt_jos_med_ag_glob_mkt.pdf.

²⁶ Citrus fruit: Market, UNCTAD. <http://www.unctad.org/infocomm/anglais/orange/market.htm>.

International Trade

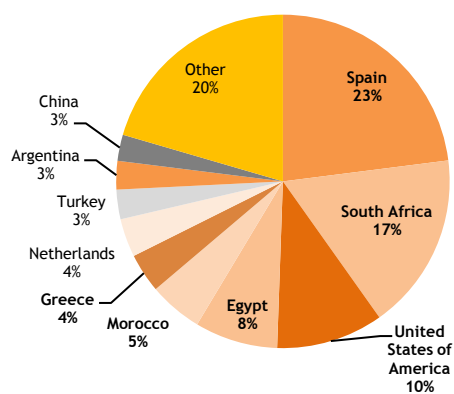
In 2008, the export volume of citrus fruit accounted for roughly 10% of total global production. This figure suggests that this fruit type is mainly consumed locally.²⁷ While oranges and orange juice lead exports, there has been a major growth in small citrus trade at the expense of fresh orange since the early 1980s. The following charts show the evolution of world citrus exports in the last five decades:



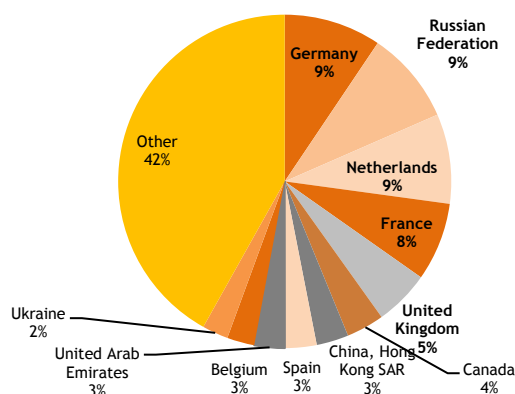
Source: Faostat (2009)²⁸

The major exporters of oranges in 2008 were Spain, South Africa, the U.S., Egypt and Morocco. The major importers were EU member countries, mainly Germany, the Netherlands, France and the United Kingdom, with Russia and Canada also being major importers.²⁹

Major Exporters of Oranges



Major Importers of Oranges



Source: Faostat (2009)

²⁷ Ibid.

²⁸ Citrus fruit, nes: Include minor varieties of citrus such as bergamot, citron, chinotto, and kumquat. Source: Faostat.

²⁹ Faostat.

The Mediterranean region plays a prominent role as a fresh citrus exporter, accounting for nearly 60% of total exports. In 2008, the Mediterranean region accounted for 48% of the world's orange exports.³⁰ The main destination of Mediterranean exports is the European Union (EU). The major export destinations for U.S. fresh citrus exports are Japan, Canada and the Southeast Asian countries.³¹ As a result, there is not much overlap between these two export markets.

As for future prospects, demand in mature markets such as the EU and Russia, is expected to boost additional exports from South Africa, Morocco and Turkey. U.S. exports are forecasted to grow due to strong demand in countries such as Canada, Japan and Korea.³²

In terms of variety, Spain, the United States and South Africa count as major exporters of all citrus varieties.

Fruit	Country
Oranges	Spain, South Africa, the United States, Greece, Morocco, the Netherlands, Turkey, Egypt, Australia, Italy
Small citrus	China, Israel, South Africa, Cyprus, India, the Netherlands, Pakistan, the United States, Spain, Mexico
Lemons and limes	Spain, Argentina, Mexico, Turkey, the United States, South Africa, the Netherlands, Brazil, Italy, Greece
Grapefruit	The United States, South Africa, Israel, Turkey, the Netherlands, Belgium, Spain, Argentina, Cyprus, Bahamas

The Citrus Fruit Value Chain and the Global Market Structure

A value chain is a series of agents along the entire production, processing, distribution and marketing spectrum who enable the delivery of a product 'from farm to fork'. The chart below is a simplified demonstration of the various interactions that take place in the citrus industry. The value chain is composed of four phases, namely (1) production, including pre-cultivation, cultivation, harvest or extractive activities, (2) post harvest handling and processing, (3) trading and (4) consumption. Furthermore, the entire chain is supported by institutions, which represent the common interest of the value chain operators through policy, research, promotion or networking type activities.

The citrus industry is increasingly dominated by large-scale producer-packers or producer-processors. For example, in the U.S., most citrus growers are owned by investment groups, insurance companies, large-scale grower groups, grower-packers or packer shippers that have

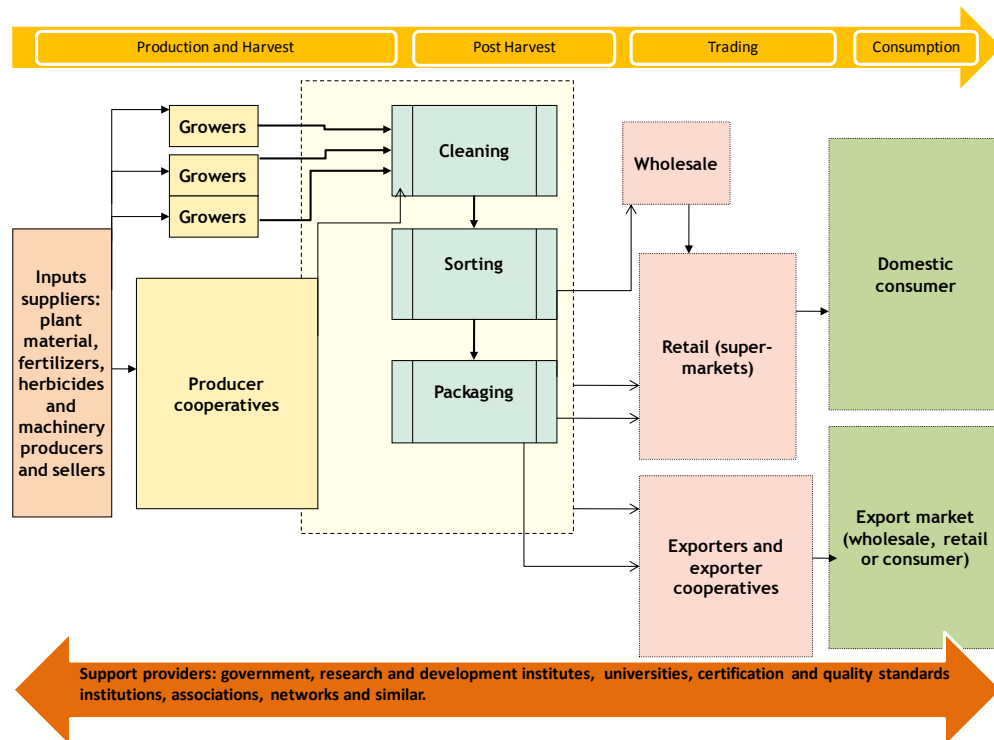
³⁰ Faostat

³¹ Mediterranean Agriculture in the Global Marketplace: A Project Comparing Policy Approaches in California and the Southern EU State, Institute for International Studies, Stanford University, 2005.
http://aic.ucdavis.edu/research1/patt_jos_med_ag_glob_mkt.pdf.

³² Citrus: World Markets and Trade, Office of Global Analysis, USDA - Foreign Agricultural Service, January 2011.
http://www.fas.usda.gov/htp/2011_Jan_Citrus.pdf.

sufficient financial capacity to achieve economies of scale through purchases of large pieces of land and infrastructure.³³

The Fresh Citrus Fruit Value Chain



Source: Competitiveness, 2011

Cooperatives also play an important role in the European citrus sector as they enhance producers' and sellers' negotiating power. The largest cooperatives in the citrus fruits sector are Sunkist (over 6,500 growers in California and Arizona) in the U.S. and Anecoop in Spain, which is a union of cooperatives.

Vertical integration and consolidation has been an increasing trend in reaction to the ever more stringent requirements of supermarkets. Supermarkets tend to build long-term relationships with preferred suppliers in order to guarantee continuous supply at the required levels of quality. As a result, the wholesale sector, which used to be an important intermediary between citrus producers and retailers, has declined dramatically as the long-term relationships between growers and retailers have strengthened.³⁴

Citrus Fruit Quality Standards and Diversity

The demand for high quality agrifood has forced the citrus industry to change. Currently, the industry needs to follow a number of minimum quality criteria that regulate fruit safety,

³³ Mediterranean Agriculture in the Global Marketplace: A Project Comparing Policy Approaches in California and the Southern EU State, Institute for International Studies, Stanford University, 2005. http://aic.ucdavis.edu/research1/patt_jos_med_ag_glob_mkt.pdf.

³⁴ Ibid.

taste, color, appearance and shape. Also, consistency, purity and freshness are important aspects of citrus marketing.³⁵ As a result, high innovation and product variety have become a must to compete in the market. For example, Brazil, a major producer of oranges worldwide, is looking to invest in new high-density orchards to improve soil conditions to achieve ideal levels of temperature, water and irrigation.³⁶ India, a major player in the lemon and lime market, has invested heavily in acid lemon plantations, fertilizers and drip irrigation systems.³⁷

In recent decades, food safety has also become an important topic. International quality standards for citrus fruits and products are normally set by Codex Alimentarius, a joint commission of the World Health Organization and FAO. In this sense, many quality protocols have been launched, such as EUROGAP, ISO HACCP, NATURE'S CHOICE, GLOBALGAP, BRC and others. Additionally, products may have to meet specific quality standards imposed by destination countries.³⁸

C.1.1.2 The Mediterranean Citrus Sector

As mentioned above, the Mediterranean region is a significant player in the citrus industry, both in terms of production and demand. Due to favorable climate conditions, citrus production is spread basically in almost all countries surrounding the Mediterranean Sea, but the main citrus growers are Spain (mainly Valencia), Italy (mainly Sicilia), Turkey (Anatolia), Egypt (Alexandria) and Morocco. The total citrus land in the Mediterranean region is 1,289 thousand ha, which is the equivalent of 14.5% of the world area harvested by citrus.³⁹

The main fruit types are oranges, which accounted for 58.1% of production, followed by mandarins, tangerines and clementines with 25.2%.

³⁵ Safe and High Quality Supply Chains and Networks for the Citrus Industry between Mediterranean Partner Countries and Europe, EuroMedCitrusNet, November 2007.

<http://www2.spi.pt/euromedcitrusnet/Documents/Sector%20Analysis%20Report/EuroMedCitrusNet%20Sector%20Analysis%20Report%20-%20Pests%20and%20Diseases%20Report.pdf>.

³⁶ Brazilian orange production to rise 26% in 2011, Fresh Fruit Portal. July 2011.

<http://www.freshfruitportal.com/2011/07/12/brazilian-orange-production-to-rise-26-in-2011/>.

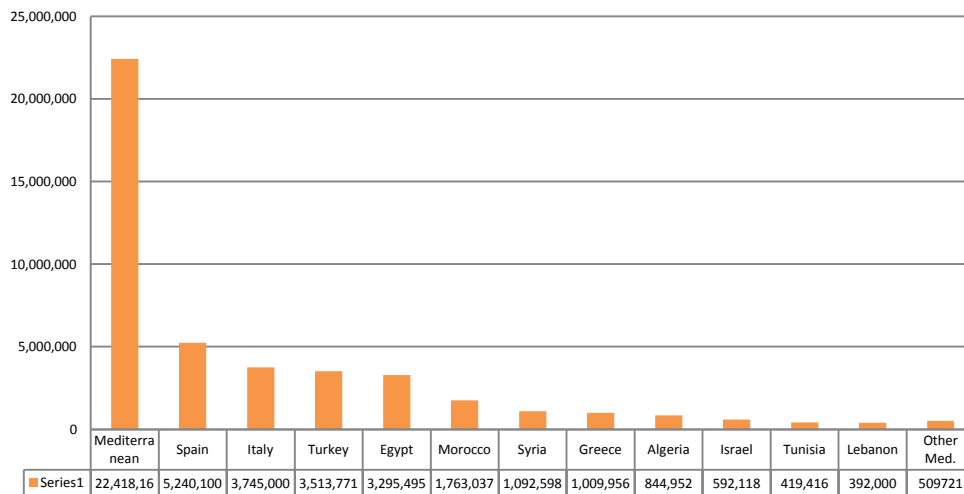
³⁷ India: Boost to acid lemon cultivation. Fresh Plaza. June 2008.

http://www.freshplaza.com/news_detail.asp?id=23174#SlideFrame_1.

³⁸ Ibid.

³⁹ Faostat.

Citrus Fruit Production in the Mediterranean, 2009 (in tons)



Source: Faostat (2011)

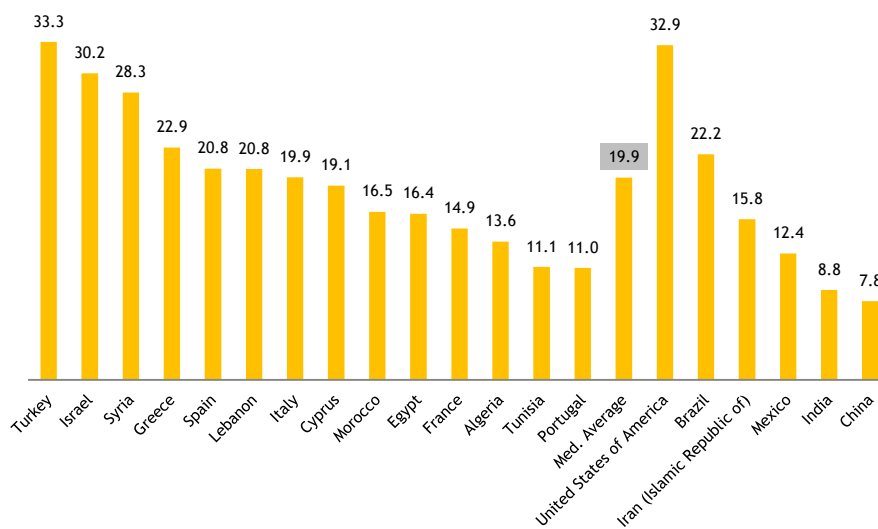
In 2009, with 22.4 thousand tons of citrus fruit, the region accounted for 18.32% of world production.⁴⁰ The figure has not changed significantly compared to 1999 when it stood at 18.12%, but marks a decrease of 3% in favor of other world competitors from China, the U.S., Brazil and South Africa compared to 1989. Spain counts as one of the largest citrus producers worldwide (4.28%) and in 2009, the nation ranked seventh. In 2009, together with Italy, Turkey and Egypt, they accounted for 12.9% of world citrus production and 70.5% of produce in the Mediterranean.⁴¹

The region, in global terms, has not achieved high productivity yields compared to their main competitors, the U.S. and Brazil. However, individually, some countries such as Turkey, Israel, Syria and Greece have the highest average orange yields between 2000 and 2009, as shown in the chart below.

⁴⁰ Ibid.

⁴¹ Ibid.

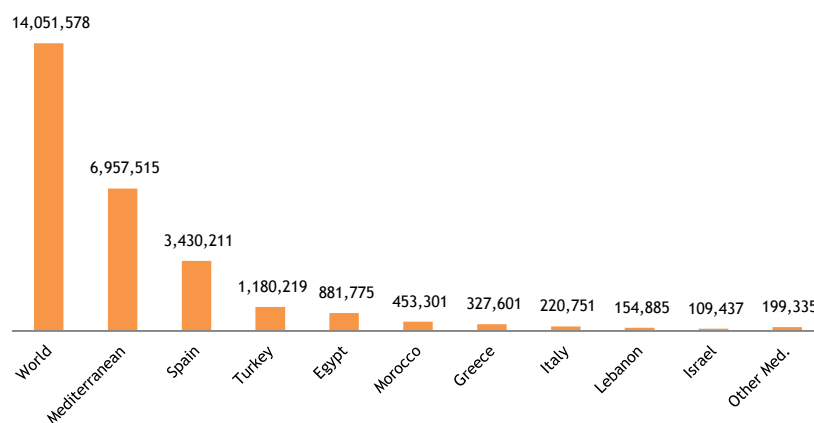
Average 2000-2009 Orange Yields, (ton/ha)



Source: Faostat (2011)

Finally, the Mediterranean region also represents one of the most important hubs for citrus fruit trade and in 2009; it accounted for 49.51% of the world citrus fruit exports. Spain was the largest regional exporter and in global terms recorded a 24.41% share, followed by Turkey (8.4%), Egypt (6.28%), Morocco (3.23%), Greece (2.33%), Italy (1.57%), Lebanon (1.1%) and Israel (0.78%). In fact, Spain ranked as the number one world exporter of oranges, and together with mandarins, tangerines and clementines, accounted for 20.8% of the world export of citrus fruit.⁴²

Export of Citrus Fruit in 2009: The World and the Mediterranean Region (in tons)



Source: Faostat (2011)

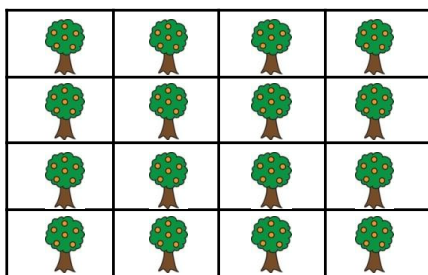
⁴² Ibid.

A Fresh Fruit Producer

One of the most important characteristics of production in the region is that most of the European citrus production serves the fresh segment and only a small fraction is aimed at processing. There are two main reasons that could explain this:

- Due to a long history of family farming in the sector, there is a high level of land fragmentation, so it is more difficult for citrus growers in the Mediterranean to have economies of scale than in other countries with large consolidated citrus farms, such as Brazil or the U.S. Thus, they cannot compete in a segment requiring high volumes and low prices such as the processed fruits segment.
- In the Mediterranean region, the offer and the demand for fresh citrus fruits are geographically very close to one another. Therefore, it is a comparative advantage for growers to compete in the fresh segment in the European market. Other regions cannot get their produce from the farm to the shelf as fast (and fresh) and have higher transportation costs.

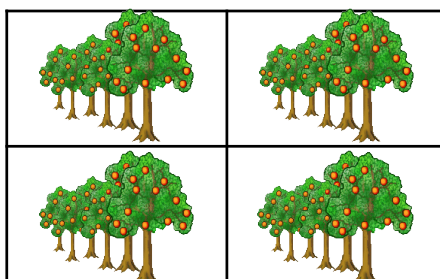
Fragmented land structure



COMPETITIVE ADVANTAGE IN
FRESH CITRUS STRATEGIC SEGMENT
EXPORTED REGIONALLY



Consolidated land structure



COMPETITIVE ADVANTAGE IN
PROCESSED CITRUS STRATEGIC SEGMENT
EXPORTED WORLDWIDE



As will be explained in the case studies, this characteristic of the Mediterranean citrus sector has a great impact on how the SPPD evolves as it has to deal with challenges related mainly to micro and small entrepreneurs facing increasing pressure from bigger players and sophisticated consumers.

Common Challenges for SPPD Processes

In the Mediterranean region, the most common challenges for citrus growers are:

- Quality and safety: development of new varieties and rootstocks; management of pests and diseases with emphasis on biological control; optimization of the use of inputs such as fertilizers and water; and use of new technologies to reduce dependency on labor.
- International trade: strategic analysis and understanding of the consumer of fresh fruit, packaging, sales and marketing support, logistics for fresh produce, and financial support.
- Research: difficult knowledge and innovation technology transfer.⁴³
- Training: programs for students, growers and managers on economic, environmental and social development matters.

Depending on local circumstances and history, each of the five countries in focus deals with these issues in different ways. However, the goal of this study is to extract common lessons with regards to their sector SPPD. In the subsequent pages, each of those realities will be analyzed and compared following the same structure:

1. Sector description for the country.
2. Evolution of the SPPD.
3. Public and private roles in the evolution of the SPPD.
4. Impact of the SPPD on competitiveness.

The order in which countries are presented corresponds to their sector performance and their level of SPPD complexity. In the case of citrus fruits, the order is as follows: Spain, Turkey, Lebanon, Egypt and Malta. Finally, a conclusion on the lessons be derived from these cases is provided at the end of this chapter.

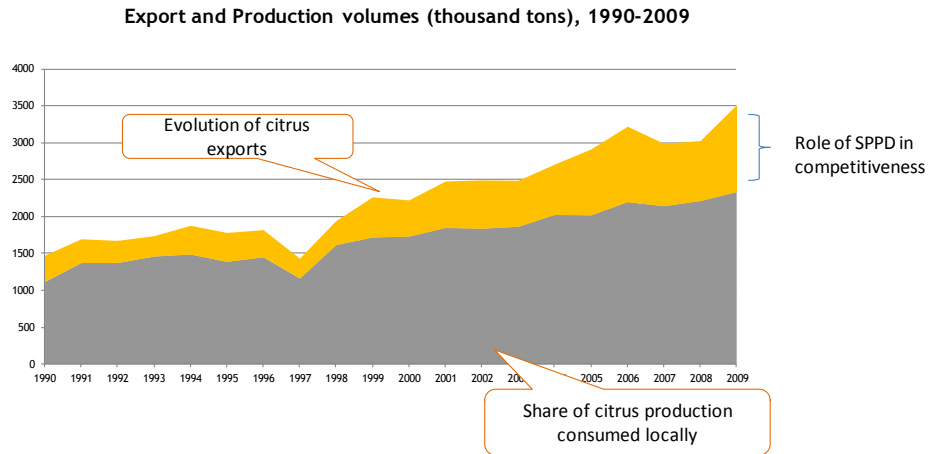
Methodological Note on the Impact of the SPPD on Competitiveness

Although it is difficult to isolate the SPPD process from the multiplicity of variables implicated in the development of a sector, the authors consider that in the case of citrus fruits in the Mediterranean region, the evolution of total export volumes and of the share of export on the total citrus production describe the sector's ability to react to new market conditions and penetrate sophisticated markets. The assumption is: if citrus exports have considerably increased over time, it means that SPPD mechanisms have contributed to this

⁴³ EuroMedCitrusNet Sector Analysis Report - Mediterranean Synthesis.
<http://www2.spi.pt/euromedcitrusnet/Documents/Sector%20Analysis%20Report/EuroMedCitrusNet%20Sector%20Analysis%20Report%20-%20Mediterranean%20Synthesis.pdf>.

improvement, directly or indirectly. The same tool is used to understand the evolution and competitiveness in all five countries over the last two decades.

SPPD Evaluation Tool for the Citrus Sector



C.1.1.3 The Citrus Industry-level Collaborative Action Matrix

As a foreword to the description of the cases, the following matrix aims to present examples of actions undertaken under the auspices of the SPPDs studied. This matrix allows the overall competitiveness potential of each sector to be determined by using a series of industry actions coupled with the type of dialogue that originated them. The assumption is that industrial development is often accompanied by strong dialogue which led to collaborative actions. While the list itself is not exhaustive, it seeks to provide a snapshot of some of the main reforms and activities carried out. As can be observed, initiatives undertaken span across the entire public, public-private and private palette and include regulatory reforms, institutional streamlining, innovation partnerships, private sector-led certification, trade promotion projects and many others. The following section seeks to understand at which stage of the SPPD these actions were developed, who initiated and implemented them and how they contributed to the sector’s competitiveness in each country.

Industry-level Collaborative Action Matrix

	Regulatory and tax Environment	Infrastructure	Access to finance	Skilled and trained labor	Access to technologies and R&D
Public	<p>Egypt: The Government launched the Sustainable Agriculture Development Strategy towards 2030 (includes horticulture). Egyptian Regulatory Reform and Development Activity (ERRADA) collaborates with the Ministry of Agriculture and conducts an inventory of regulations in agricultural areas (incl. citrus).</p> <p>Malta : The Government coordinates and regulates the control of major pests and diseases.</p>	<p>Lebanon, Turkey, Egypt: Physical infrastructure (transportation networks, ICT and electricity infrastructure), some certified seeds, etc., are financed or subsidized by the Government partially or fully.</p> <p>Malta: The Government established the Pitkali Market Centre where locally grown fruit and vegetables are sold, and proposed to open a new Farmers Market, in order to help producers avoid middlemen and sell their produce directly to consumers.</p>	<p>Malta: The Ministry occasionally provides aid to promote citrus, including the Citrus Fest at San Anton Palace in 2010.</p> <p>Spain: IVEX promotes access to finance for export and foreign investment.</p>	<p>Lebanon: The Lebanese Agricultural Research Institute (LARI) institute trains farmers on cultivation practices.</p> <p>Spain: IMPIVA provides technical support services to businesses, collaborates with business associations and helps them develop strategic plans, delivers trainings and similar.</p>	<p>Lebanon: The LARI institute develops new quality seeds, conducts food quality controls, soil analysis and oversees pest management.</p> <p>Hariri Foundation for Sustainable Human Development, provides improved species through nurseries.</p> <p>Spain: Instituto Valenciano de Investigaciones Agrarias (IVIA) is a highly specialized research institute in citriculture focusing on production of new varieties, cultural practices, physiology and mechanization. IVIA established a citrus med network concentrating research results shared by research centers, public and private sector companies.</p>
Public-Private	<p>Spain: Citricos Valencianos (a mixed public-private institution) regulates and issues GI certificates for Valencian citrus.</p> <p>Lebanon: A public-private citrus committee established to develop a strategy plan to improve the production of citrus and to decrease the use of pesticides is in place.</p>	<p>Spain, Malta: Physical infrastructure (transportation networks, ICT and electricity infrastructure) is financed or significantly subsidized by the Government.</p> <p>Egypt: HEIA together with the Ministry of Foreign Trade Export Promotion contributed to the construction of the Perishables Terminal at Cairo Airport.</p>		<p>Egypt: HEIA (supported by USAID) established a Citrus Council and conducts farm and field visits for growers.</p>	<p>Spain: Intercitrus helped the sector respond to the strategic challenges of dealing with the European competition and regulations through research and development, knowledge sharing, information access for consumers and producers and similar.</p> <p>Turkey: The Mersin Agro-food Platform (public, private and non-governmental organizations) serves as an international base for innovative, high-quality agriculture and food production and processing. The Cukurova University conducts research projects on citrus and collaborates with companies.</p>
Private	<p>Lebanon: ALOA (Association for Lebanese Organic Agriculture) promoted the creation of regulation for Organic Products, despite the fact that the goal has not yet been achieved and the association is currently not active.</p>			<p>Spain: ANECOOP promotes implementation of high production quality /traceability quality systems and trainings for cooperatives about quality systems.</p> <p>Malta: Farmers Central Co-operative Society Limited organize educational seminars for members.</p>	<p>Spain: ANECOOP owns experimental field stations and promotes research into new varieties.</p> <p>Turkey: The Fresh Fruits and Vegetables Exporters and Packagers Cluster promotes innovation in citrus. Also, a group of 28 businessmen was created who have organized an innovation forum and also have a citrus festival.</p>

C.1.2 Spain

C.1.2.1 Sector Description for the Country

Citrus fruits have a long tradition in Spanish economy and history. The first historical references of orange trees date from the 7th century; they were probably introduced to the peninsula through the Mediterranean trade coming from Italy. Through the Middle Ages there are several references to citrus orchards, particularly in Southern Spain where Arabs planted orange and lemon trees coming from Africa during the 11th-12th centuries.⁴⁴



Orange farmers in Valencia, early 20th century

Source: <http://www.garciaballester.es/gb1/historia.html>

Gradually, citrus plantation flourished along the Mediterranean coast in the provinces of Tarragona, Castellón, Valencia, Murcia, Almería and Málaga and on the Atlantic coast in the province of Huelva. The most important region has always been Valencia with a long tradition of citrus farming (today it concentrates more than two thirds of Spanish production).⁴⁵

Agriculture has traditionally played an important role in the Spanish economy. In 2009, the share of the sector in GDP was 3%, while 10 and 20 years previously it was 5% and 6% respectively. From an employment perspective, in 2008, agriculture accounted for 4.7% of the country's workforce, while 10 years earlier it was 7.7% and, in 1988, 14%. Hence, the significance of the sector has been declining, but the fact that employment decreased at a faster pace than the GDP share suggests that increases in productivity hastened the process. The value of citrus fruit⁴⁶ in the total gross agricultural production in Spain in 2009 was 3.5%.⁴⁷

Agriculture has traditionally played an important role in the Spanish economy. In 2009, the share of the sector in GDP was 3%, while 10 and 20 years previously it was 5% and 6% respectively.

Production, Land and Yields

Spain is the second largest producer of tangerines and mandarins and the sixth largest producer of oranges (exceeding all of its Mediterranean neighbors) worldwide.⁴⁸ Most of the citrus production is designated to fresh consumption, given that the profit for processing is less attractive than the margin for fresh produce.⁴⁹ Following are the varieties cultivated at national level: navel orange, Valencia late, tangerines (satsuma and clementines), Lemons (verna and mesero) and pomelo.

⁴⁴ "La introducción de los agríos en España," http://www.comarcarural.com/carp1/carp1/lasnaranjas/historia_texto.htm.

⁴⁵ EuroMedCitrusNet - Safe and High Quality Supply Chains and Networks for the Citrus Industry between Mediterranean Partner Countries and Europe: National Citrus Sector Analysis, Sociedade Portuguesa de Inovacao. 2007. <http://www2.spi.pt/euromedcitrusnet/Documents/Sector%20Analysis%20Report/EuroMedCitrusNet%20Sector%20Analysis%20Report%20-%20European%20Synthesis.pdf>.

⁴⁶ Measured as gross production value at constant 2004-2006 million US\$, Faostat.

⁴⁷ Faostat.

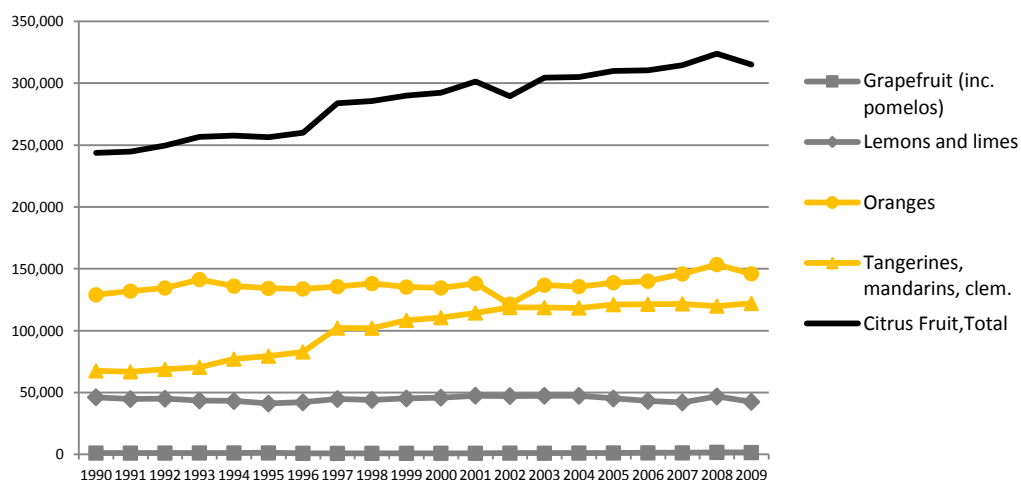
⁴⁸ Faostat.

⁴⁹ EU-27 Citrus Annual 2009, USDA Foreign Agricultural Service, Global Agricultural Information Network.

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/EU-27%20CITRUS%20ANNUAL_Madrid_Spain%20EU-27_12-18-2009.pdf.

Citrus land covers approximately 1.1% of the total agricultural land. In the 1990-2009 period, it grew at a compound annual growth rate of 1.3%, while compared to 1965 the total citrus area was extended 2.7 times in 2009. Valencia covers around 52,000 hectares, which is approximately one seventh of the total citrus area in Spain.⁵⁰

Area Harvested (ha), 1990-2009



Source: Faostat (2011)

Between 1990 and 2009, citrus production levels in Spain grew only 8%, with a maximum in 2006 of 6.9 million tons and ending 2009 at 5.2 million tons. Compared to 1965, production in 2009 increased 2.6 times.⁵¹ The recent fluctuations in production volumes are associated with weather conditions, alternate bearing after successful yield years and abandonment of unprofitable orchards. In 2009/2010, orange production in Valencia dropped by nearly 25% as compared to the previous season.⁵² In fact, the citrus sector has faced a challenge over the past 15 years attributable to unfavorable terms of trade. Due to a continuous drop in prices, many small farmers were forced to close their business and abandon orchards. Prices in the most important varieties of citrus culture in Valencia - Clemenules and Navelina - dropped by 23% and 14% respectively in the last 15 years.

⁵⁰ Cítricos De La Comunidad Valenciana, Instituto Valenciano de la Exportación, 2011.

http://www.ivex.es/estudios/informacion_sectorial_cv.html.

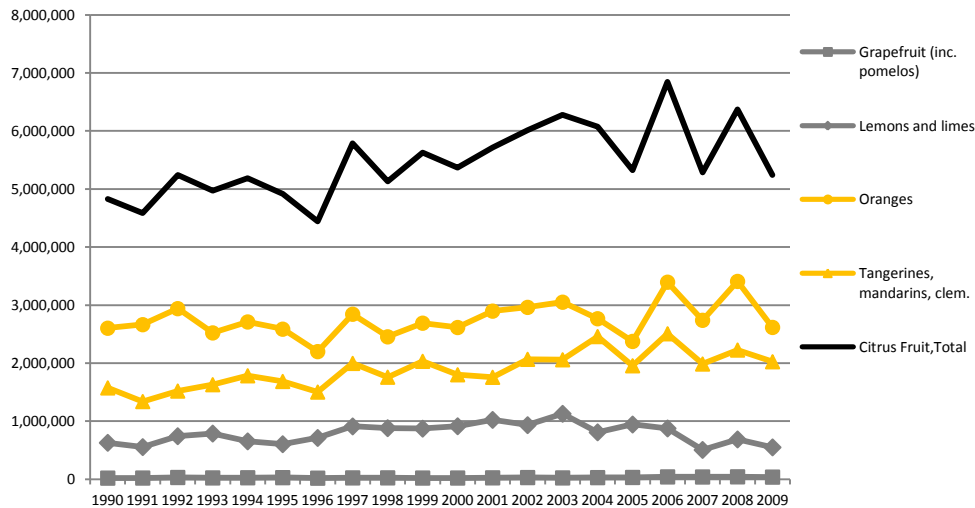
⁵⁰ Ibid.

⁵¹ Ibid.

⁵² EU-27 Citrus Annual 2009, USDA Foreign Agricultural Service, Global Agricultural Information Network.

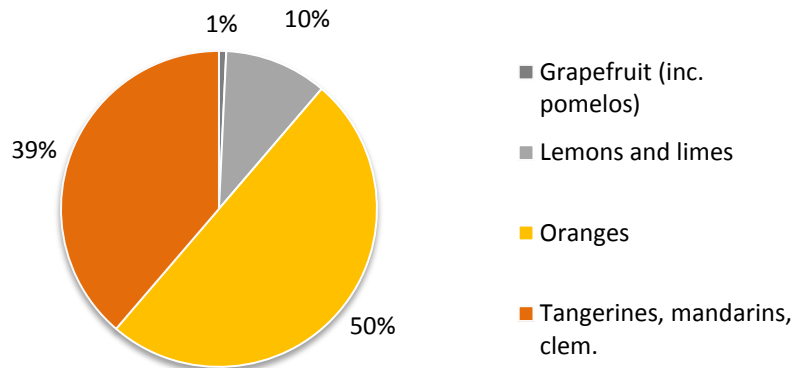
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/EU-27%20CITRUS%20ANNUAL_Madrid_Spain%20EU-27_12-18-2009.pdf.

Production of Citrus (tons), 1990-2009



Source: Faostat (2011)

Production Composition, 2009



Source: Faostat (2011)

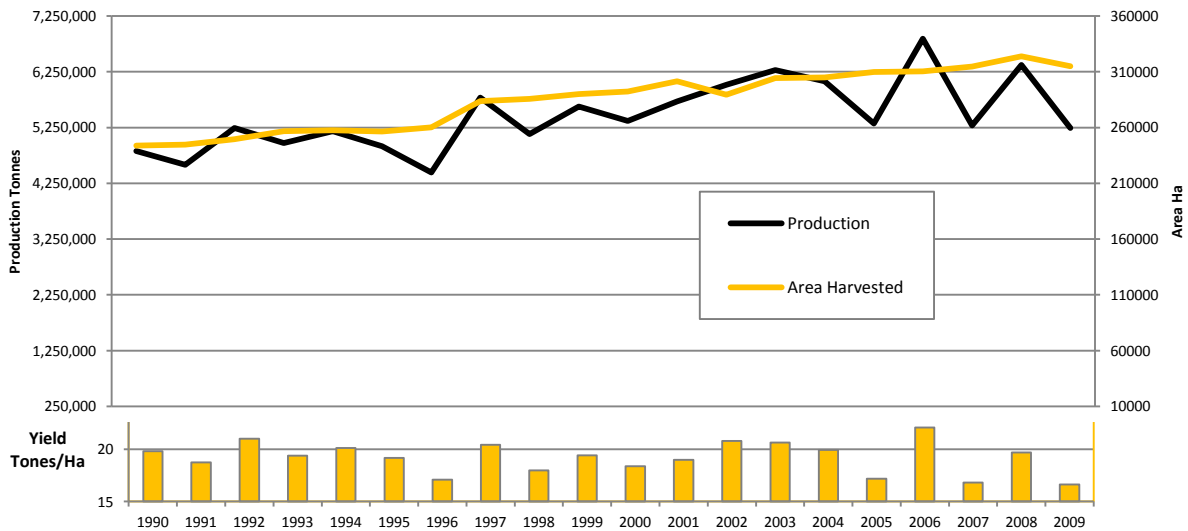
Export incomes, on the other hand, recorded steady increments: in 1995, the exported value of citrus was EUR 1,298 million (US\$1,679 million); in 2000 it was EUR 1,539 million (US\$1,423 million), in 2005 it was EUR 1,679 million (US\$2,090 million) and last year it reached EUR 1,944 million Euros⁵³(US\$2,581 million). As a result, growers were forced to produce more for less and saw their incomes declining. The area of abandoned citrus soil in 2010 was 13,953 hectares, which is twice the drop in 2007.⁵⁴ Traders, on the other hand, are benefiting from the situation since their margins depend on quantities exported, which grew over time.

⁵³ Spain: Citrus exports grow by 4.5% in 2011, while price drops by 10%, Fresh Plaza: Global Fresh Produce and Banana News, June 2011. http://www.freshplaza.com/news_detail.asp?id=82711.

⁵⁴ Spain: Thousands of hectares abandoned due to citrus low price, Fresh Plaza: Global Fresh Produce and Banana News, August 2011. http://www.freshplaza.com/news_detail.asp?id=85034.

Citrus yields have fluctuated, partly as a result of changing weather and overall conditions; they have gone from 17 ton/ha to 22 ton/ha. Given that the area harvested increased slightly, more plantations have partially compensated the lower yields and the overall production tonnage has not been affected significantly.

Citrus Yields (ton/ha), Production (tons) and Area Harvested (ha), 1990-2009

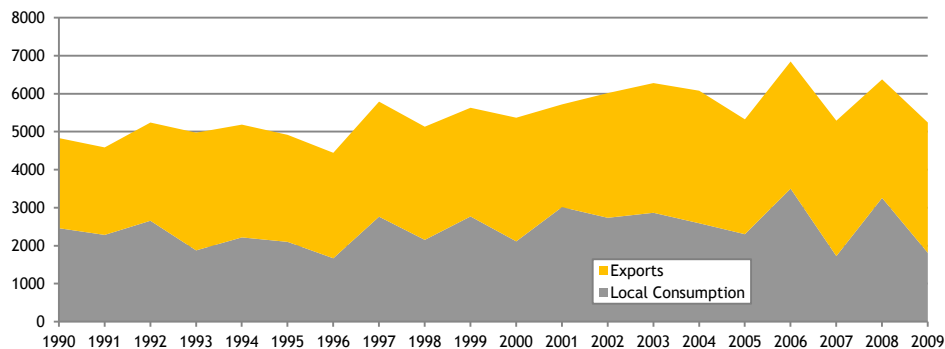


Source: Faostat (2011)

Export

Spain is the first exporting country of fresh fruit in the Mediterranean region, with more than half of the production being commercialized abroad.⁵⁵ Export levels remained high in the last decade although there were declines that copied production levels depicted above. The economic crisis in the European market is also factored into the drop-off in 2007-2009.

Export and Production Volumes (thousand tons), 1990-2009

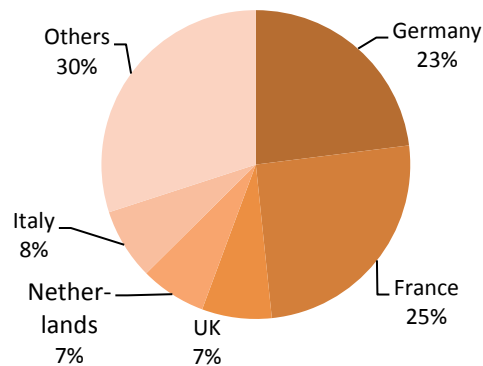


Source: Faostat (2011)

⁵⁵ Citrus Congress 2012 Valencia. <http://www.citruscongress2012.org/>.

Spanish citrus exports are heavily dependent on EU demand, with Germany, France, the UK, the Netherlands, Poland and Switzerland (EEC) as the main importers. Germany is the leading trading partner and in 2009 it accounted for approximately 26% of exports. In 2010 and 2011, Russia was Spain's biggest market for clementines and exports registered a growth of 200% (reaching 33,134 tons), which is a historical amount.⁵⁶

Top Five Citrus Export Partners 2009



Source: Faostat (2011)

Although the quantity of citrus exports did not change significantly (6%), the value in US\$ increased by 92%. This was a result of the increase in fruit prices for all types of citrus fruit during the period.

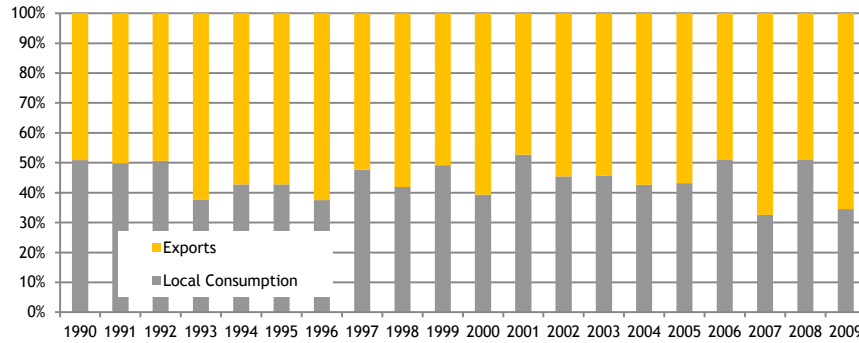
Valencia was the first region in Spain to export citrus fruit and, in 2010, accounted for 76% of total Spanish citrus exports. The percentage is even higher for mandarins (86%) and oranges (78%).⁵⁷

Exports are increasingly important and since 1990 they account for more than 50% of local production, reaching 68% of citrus fruit exported in 2009. As for processed products, the quantity of exported juices increased during the decade and was equivalent to about 6.5 % in 2009.

⁵⁶ Spain: Citrus exports to Russia triples and improves 26% to US, Tucuman Citrus Association. <http://www.atcitrus.com.ar/english/noticia.asp?seccion=principales&id=848>.

⁵⁷ Cítricos De La Comunidad Valenciana, Instituto Valenciano de la Exportación, 2011. http://www.ivex.es/estudios/informacion_sectorial_cv.html.

Citrus Fruit Export/Production Ratio 1990-2009 (%)

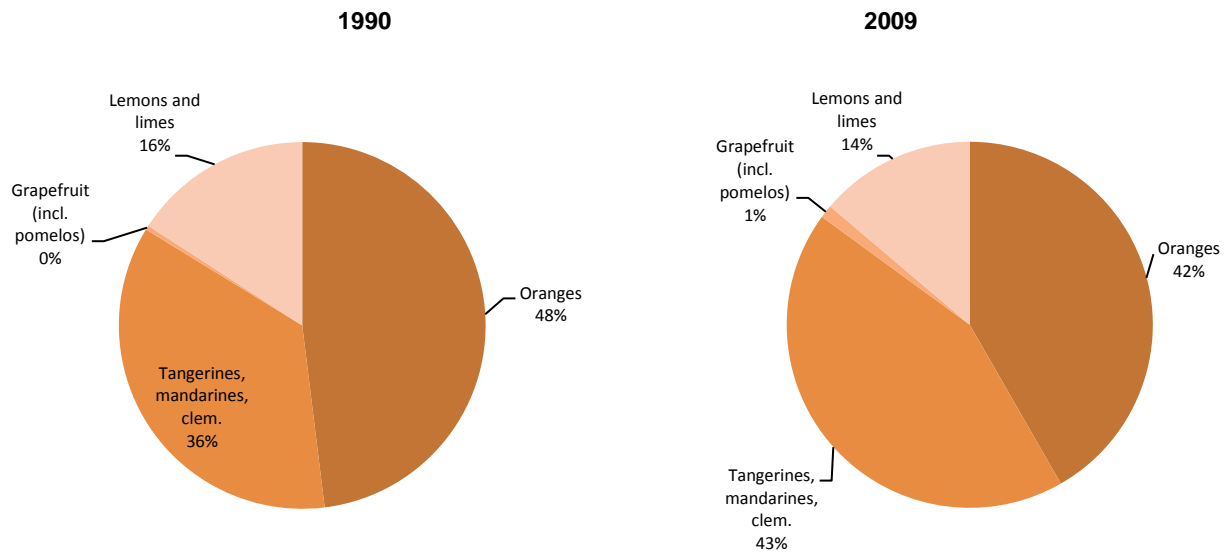


Source: Faostat (2011)

The share of citrus fruit in agricultural export earnings has been growing. In 2008, Spain exported over 3.12 million tons of citrus fruit worth US\$3.45 billion. From total agricultural exports (valued at US\$36.46 billion)⁵⁸ this represents a 9.46% share in total export earnings (in 2007, it was 10.4%).⁵⁹

Oranges, and increasingly tangerines and mandarins, are the main exported fruit types. As for processed production, orange juice is the main exported juice (52% of total citrus juice and concentrate exports).

Evolution of Citrus Export Mix (tons)



Source: Faostat (2011)

⁵⁸ Faostat.

⁵⁹ Faostat.

SPPD Structure Inventory⁶⁰

Private	<ul style="list-style-type: none">•Anecoop Group•Comité de Gestión de Cítricos
Public-private	<ul style="list-style-type: none">•Regulatory Council Citricos Valencianos•Intercitrus
Public	<ul style="list-style-type: none">•The Valencian Institute of Export•The Institute for Small and Medium Industry of the Valencian Region
Research	<ul style="list-style-type: none">•Instituto Valenciano de Investigaciones Agrarias

I. Private Organizations

Institution: Anecoop Group (Anecoop)

- **Mandate:** Anecoop was founded by a group of cooperatives in 1975 to enable the commercialization of fresh products in the Spanish agricultural industry with citrus products as its core business. Today, Anecoop represents thousands of farmers working for its 79 member cooperatives. It is one of Spain's most internationalized institutions in the food industry, selling its products in over 40 countries. Their main mission is to maintain direct contact with member cooperatives and their farmers and to keep them up-to-date with production, supply and marketing strategies. Anecoop represents all of Spain and is located in Spain's major agricultural areas: Valencia, Seville, Murcia and Almería.
- **Ownership and funding:** Anecoop is a private sector initiative and is privately funded.
- **Management:** The main governing bodies are identical to those of primary cooperatives: the General Assembly and Executive Council. The General Assembly consists of one representative from each partner of the cooperatives. The vote in the General Assembly is assigned in proportion to the business done by members within Anecoop in the last two years. As a result, the votes of cooperatives in the assembly can vary from year to year.
- **Sector activities:** Anecoop promotes high quality production among its members. Examples of activities include the implementation and monitoring of improvement plans, implementation of product traceability systems, quality system protocols, food safety certificate issuance, compliance checks with customer specifications and others. Anecoop also organizes trainings for cooperatives about quality systems. It also owns experimental field stations and promotes research into new varieties.

Institution: Comité de Gestión de Cítricos (CGC)

- **Mandate:** CGC is a professional organization, operating at a national level. It includes citrus exporting companies, cooperatives and business corporations accounting for about the 65% of national citrus exports. It was founded in 1972, with the objectives of defending their members' interests and representing them in administrations, institutions and international organizations.
- **Ownership and funding:** CGC is a private organization funded mainly from membership fees.
- **Management:** CGC is managed by the president, who is selected from the ranks of committee members.
- **Sector activities:** CGC offers a variety of services for its members such as monitoring, survey and

⁶⁰ The research of SPPD structures in Spain has focused on the Valencia region, which is one of the main citrus growing regions in Spain, as well as worldwide. The importance of this part of the country is underlined by the presence of several regional authorities as a result of the decentralized administrative system, but also of specialized citrus associations exercising authority over the whole territory of Spain.

information sharing of national and EU regulations, provision of premiums for export refunds, document processing and business training services, preparation of export statistics, advice on labor issues, guidance on implementing the "Hazard Analysis and Critical Control Points" in companies handling and packaging fruits and vegetables for fresh consumption, promotion and advertising, citrus insurance and others. The CGC belongs to national and international organizations, such as the European Union of Wholesale, Import and Export Trade (EUCOFEL), Liaison of the Mediterranean Citrus (CLAM), Intercitrus and others.

II. Public-private Organizations

Institution: Regulatory Council Cítricos Valencianos

- **Mandate:** In Valencia, Cítricos Valencianos is a regulatory council organization for the certification of the "Protected Geographical Indication (PGI)" of the Valencian citrus. It is a local government body that certifies oranges, mandarins and lemons that are grown in Valencia and comply with all the requirements. The Council's 15 members represent farmers' unions, private and cooperative trade organizations and the regional government's Ministry of Agriculture, Fisheries and Food.
- **Ownership and funding:** The Council is a mixed public-private institution and its funding comes from farmers' fees for registration of plots, fees for registration of shops and facilities for preparation and packaging, PGI fees and grants from the Authority for Agriculture, Fisheries and Food.
- **Management:** The Council president is elected by members representing the public and private sectors.
- **Sector activities:** Besides issuing the PGI certificates, the Council conducts monitoring inspections in orchards, suppliers' stocks and the market. The purpose of these visits is to ensure that certified products continue to fulfill the requirements set by the regulatory council. As for promotional activities, the Council attends major Spanish and international trade exhibitions, organizes promotions (Tastings, handing out gifts, leaflets) and promotes the consumption of citrus fruit.

Institution: Intercitrus

- **Mandate:** Intercitrus is one of Spain's main inter-professional citrus institutions. It was formed in 1993 and represents the entire Spanish citrus industry through associations in orange and mandarin production, marketing and industry sectors. Intercitrus promotes the quality of products and value chains, research and development, knowledge sharing, information access for consumers and producers and environmentally friendly production. It is based in Valencia, but its territorial scope covers all of Spain.
- **Ownership and funding:** Intercitrus is a cooperative that was based as a joint public-private initiative. Today, the ownership of the organizations lies mostly in the hands of the private sector and funding consists of membership contributions, income from shares and extra fees, grants and contributions from government agencies, private entities and similar.
- **Management:** The General Assembly is the supreme expression of the will of Intercitrus. For the adoption of agreements within the General Assembly, consensus among the 126 members needs to be reached. The presidency annually rotates among the different sectors - commerce, industry, cooperatives and producers.
- **Sector activities:** Intercitrus conducts monitoring and analysis of annual harvest campaigns, organizes promotional campaigns for oranges and clementines, sets priority lines of research, such as those aimed at investigating the relationship between the consumption of citrus fruit and health, and the consumers' sensorial acceptance of citrus fruit according to its ripeness. Intercitrus also coordinates groups of exports. All activities related to the production, marketing and industrialization of citrus fruit are studied and analyzed in specific work groups throughout Intercitrus.

III. Public Organizations

Institution: The Valencian Institute of Export (IVEX)

- **Mandate:** IVEX is an instrument of the government responsible for the internationalization of the business of Valencia. IVEX is an institution created as a joint initiative of the Ministry of Economy, Trade

and Industry and the Chambers of Commerce of Valencia. Headquartered in Valencia, IVEX has an extensive overseas network consisting of 28 delegations located in major international markets. Sixteen of these delegations have business centers, which provide business advisory in the target market. The support services include tailor-made business advisory service including training delivery.

- **Ownership and funding:** IVEX is a public agency funded from public funds as well as service fees.
- **Sector activities:** With citrus as one of the main export commodities of Valencia, IVEX collaborates with other local agencies active in international citrus promotion, such as CGC. These two have signed a collaboration agreement with the primary objective of strengthening the competitiveness of citrus in the European markets, which will be supported by government funds. The agreement is focused on external promotion, management of exports' assurance, promotion of access to finance financing for export transactions and foreign investment and project management.

Institution: The Institute for Small and Medium Industry of the Valencian Region (IMPIVA)

- **Mandate:** IMPIVA is a public entity of the Valencia region created by law. It operates under the Ministry of Industry, Trade and Innovation. Its role is to develop policies for promoting innovation among small and medium enterprises. Specifically, IMPIVA provides technical support services to businesses, collaborates with business associations and helps them develop strategic plans, delivers trainings and similar. It works with public, private and research entities, coordinates several programs targeting small enterprises in Valencia and promotes the transfer of research results. IMPIVA also assist enterprises' participation in EU programs.
- **Ownership and funding:** IMPIVA is a public institution. Besides public resources, the institution has resources from the European Union through the European Social Fund and the European Regional Development Fund articulated in the Comunidad Valenciana 2007-2013 Operational Program.
- **Management:** IMPIVA is headed by the general director appointed by the Ministry.
- **Sector activities:** The Valencia Region's economic activity is distinguished by the predominance of small and medium enterprises and by its specialization, IMPIVA's activities and programs naturally involve citrus producers.

IV. Research Organizations

Institution: Instituto Valenciano de Investigaciones Agrarias (IVIA)

- **Mandate:** One of Spain's most important centers for citrus research. The IVIA is an autonomous institution of the Regional Government of Valencia, assigned by law to the Agriculture, Fisheries and Food Authority. Its goal is to promote and implement projects, agreements or contracts for research in the agro-food industry. The institute trains research and technical personnel in this sector, works to transfer scientific and technological results obtained and fosters relationships with other scientific institutions. Its history dates back to 1868, when it served as a provincial garden of the Royal Palace of Valencia. Since then, it transformed into a school of agriculture and later a research institute with a farm. Over time, several other research sites across Valencia have been affiliated to IVIA, such as the Plant Pathology Station or the Orange Station located in Castellón, Alzira, Alicante and Murcia. The research institute became a part of the government later in the 1980s.
- Some of the main research areas are the selection and improvement of plant material, plant nutrition and physiology, cultivation methods, plant protection, agricultural engineering and mechanization and post-harvest methods. These research subjects are, among others, applied to citrus fruit, fruit trees and grapevine horticultural and ornamental production. IVIA employs about 350 employees consisting of scientists, laboratory assistants, high-level technicians and others. IVIA currently participates in more than 20 international projects, particularly with other research centers of the European Union, and in a number of bilateral agreements with European and Latin American partners.
- **Ownership and funding:** IVIA is a public institute. Most of its funding comes from the National Institute for National Agricultural and Food Research and Technology (INIA), which is a public institution annexed

to the Ministry of Science and Innovation. Project funding is a mixture of public, private and EU's financial contributions. 45% of the funding goes to citrus research.

- **Management:** IVIA is headed by the governing council. The council is chaired by the head of the Agriculture, Fisheries and Food Authority, and is further composed of business organizations and trade unions, professional agricultural organizations and agricultural cooperative organizations in the Valencia region.
- **Sector activities:** Citriculture and other fruit tree departments include five research teams, focusing on current problems in citriculture and fruticulture in Valencia. The research covers the most important aspects of production through studies on rootstocks, varieties, cultural practices, physiology and mechanization. IVIA also has a Center of Genomic, which conducts gene analysis.
- Besides research, the institute established a citrus network with full information concerning technology transfer, publications, projects, international citrus networks, plant health resources and similar. This citrus network is open and shared by research centers, public and private sector companies, and serves to identify gaps in the collaboration of these stakeholders, to develop mechanisms for information and technology transfer to the different socioeconomic actors, to increase collaboration with other networks and working groups at the European or international level. IVIA also takes steps to transfer the results of research to the private sector in relation to new virus-free citrus rootstocks, computerized programs of fertilization and irrigation of citrus, cultural practices, control methods and detection of various pests and diseases and technology for fruit conservation. This transfer is enabled directly by the researchers or through the Office for Transfer of Results of Investigation, which in addition, collaborates with the Agricultural, Fisheries and Food Authority.

C.1.2.2 Evolution of the SPPD

Spain's citrus exports started in the 19th century, mainly to France, England and Germany. By this time the first formal attempts at SPPD began. For instance, small farmers in Valencia demanded the creation of public organisms that would help them face the increasing financial pressure resulting from the fast expansion of their business and their limited access to capital.⁶¹ Also, this period was characterized by the emergence of cooperatives that would be used as primary interlocutors for SPPD.

In 1975, ANECOOP was founded by a group of cooperatives producing mainly citrus fruits. Today, ANECOOP represents thousands of farmers working for its 79 member cooperatives and has become a key player in the SPPD.

Becoming a European Member: a New Era for the SPPD

The last two decades have been marked by a fundamental factor: Spain's adhesion to the European Union in 1986.⁶² Being part of the European Union meant a tremendous transformation to Spanish agriculture as several issues had to be placed at the top of the agenda: modernization, compliance to higher standards and understanding a more sophisticated market. Exports then became the main instrument to measure a sector's performance.

⁶¹ Roncalés Soriano, V., "Propiedad y riesgo en los inicios de la expansión citrícola valenciana durante el último tercio del siglo XIX," [http://roderic.uv.es/bitstream/handle/10550/12786/6.%20HISTORIA%20AGRARIA,%2016%20\(1998\)%20Roncal%C3%A9s.pdf?sequence=1](http://roderic.uv.es/bitstream/handle/10550/12786/6.%20HISTORIA%20AGRARIA,%2016%20(1998)%20Roncal%C3%A9s.pdf?sequence=1).

⁶² Mili, S., "L'agriculture, l'agro-alimentaire, la pêche et le développement rural en Espagne," CIHEAM-IAAM, 2008.



Intercitrus presenting their promotion campaign in Brussels

Source: Generalitat Valenciana, Fundación Comunidad Valenciana - Región Europea.

Website link: www.uegva.info

Throughout this period, Spain had to absorb several reforms coming from the Common Agricultural Policy (CAP), having direct implications for the SPPD. New challenges and the need to integrate different instruments generated the creation of SPPD organizations such as Intercitrus. This was created in 1993 as an inter-professional organization based on a joint public-private initiative. It integrates a diversity of stakeholders (production, private trade, associate trade, industry and different levels of governments) and its main goals clearly respond to the strategic challenges of dealing with the European market: quality of products and value chains, research and development, knowledge sharing, information access for consumers and environmentally friendly production.⁶³

A Dual Reality for Citrus Farming

Spain has greatly benefitted from admission to the European Union both in terms of subvention inflows and in terms of a complete adoption of European policies in rural development. However, the sector overall has not been transformed equally: a modern agriculture coexists with family farming.⁶⁴ This duality is one of the most relevant facts of Spanish agriculture today and in that sense it remains similar to other Mediterranean countries where this issue is also present in most SPPD agendas. This phenomenon is leading, on the one hand, to abandoned orchards - causing a complicated social problem and increasing the risk of diseases spreading to other farms⁶⁵ - and on the other hand, a concentration of land. In Valencia, it is called the "small farmer's crisis."⁶⁶

Several companies that are now fully competing in the world markets (with consistently higher production yields) are making an effort to become more efficient and integrated by buying small farmers' orchards, progressively changing the extremely fragmented landscape of the citrus regions in Spain.

Today, competitiveness means, for the most sophisticated companies, not only integration but also innovation, mainly for new citrus varieties, creating extra pressure in research institutions and public organizations in order to rapidly cope with market needs. Some private actors are now even hiring researchers and organizing privately owned laboratories (*clubs*), financing themselves the creation of new varieties and bypassing some of the public-private mechanisms that could be available to them.

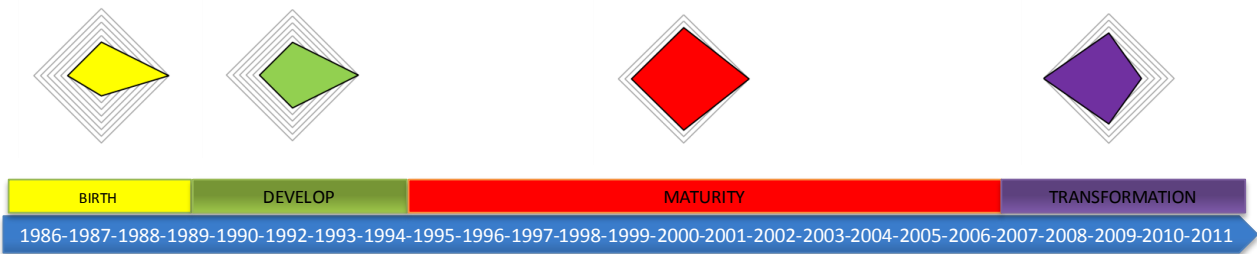
⁶³ Intercitrus, The Spanish Inter-professional Citrus Body, www.intercitrus.org.

⁶⁴ Mili, S., "L'agriculture, l'agro-alimentaire, la pêche et le développement rural en Espagne," CIHEAM-IAAM, 2008.

⁶⁵ Currently they are all threatened by the "greening," a disease affecting thousands of citrus hectares in Florida which could also affect European plantations.

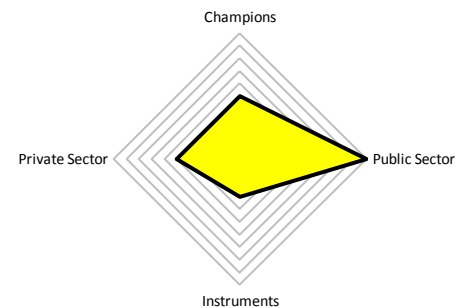
⁶⁶ Interviews.

C.1.2.3 The Public and Private Ownership in the Evolution of the SPPD



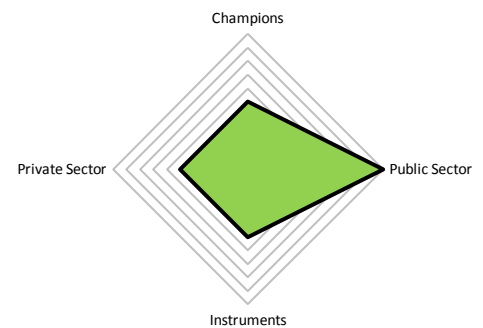
- Birth

Due to the sector’s long history in Spain, many examples of public-private interaction in the past could be taken as reference. However, the most significant moment in the recent development started with Spain’s adhesion to the European Union in the late 1980s. At this point, the public sector pushed for a new dialogue with two incentives: using instruments coming from European institutions and preparing for the challenges of new markets and competitors. Thus, the main champion at this time was public (at the national and European level). The private sector was mostly waiting for public action and the new instruments were not yet in place.



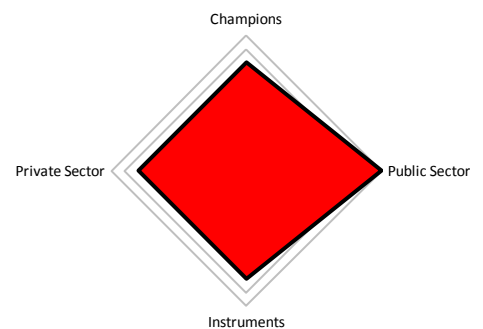
- Development

In the early 1990s, the private sector gets more involved, changing its mindset and using public incentives to become market oriented. Some champions in the private side take the lead, basically companies starting to export. The SPPD process is institutionalized with a business perspective (the creation of Intercitrus). New instruments for research, production and export are created.



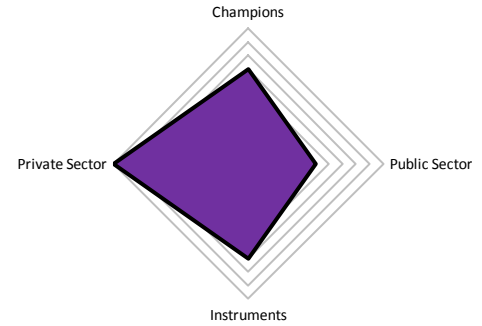
- Maturity

At this stage (2000s), the SPPD becomes more balanced, having private and public champions. Actions are being accomplished using regional, national and European funds (research projects, export fairs, international agreements, disease control plans) and involving, in particular, medium sized companies.



- Transformation

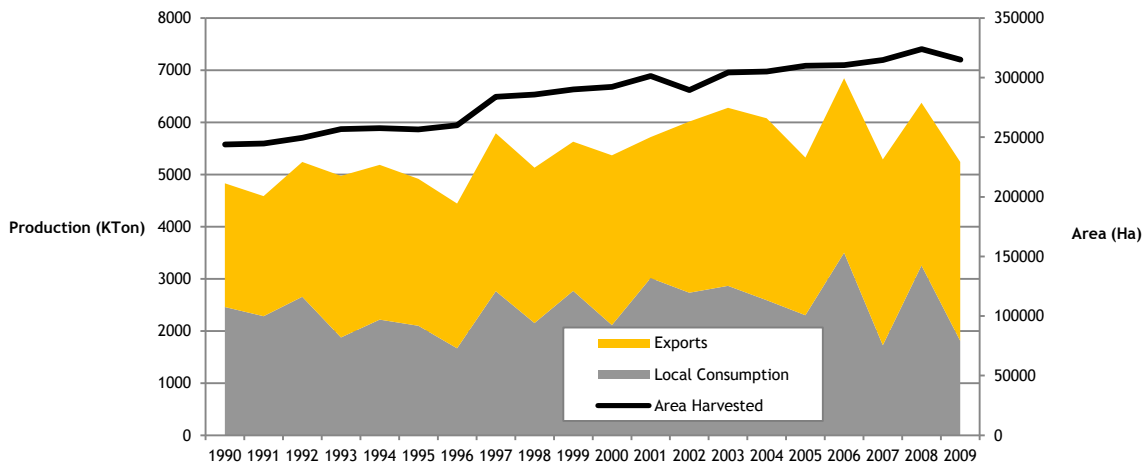
The SPPD has now arrived at a limit, not responding to the sector's new challenges due to the heterogeneity of its agents (medium and big market-driven companies vs. small farmers abandoning their orchards). Thus, instruments are not quite adapted to the new reality and innovative actions are taking place at the private-private level.



C.1.2.4 Overall Impact of the SPPD on Competitiveness

As mentioned above, exports between 1990 and 2009 increased in absolute as well as relative terms. The total export volume in this period grew by 45%, while the share of citrus exports in production increased from 49% to 65%. This speaks for an increased competitiveness of Spanish citrus on international markets. This increase was hastened by extensions in land and production, rather than increases in productivity, which is reflected by the relatively constant levels of yields in the period.

Area Harvested vs. Export and Local Consumption Volumes (thousand tons), 1990-2009



Source: Faostat (2011)

Although it is difficult to isolate the SPPD process from the multiplicity of variables implicated in the positive development of the Spanish citrus sector since the late 1980s, the type of dialogue has certainly changed. Both sides are much more involved in relevant issues responding to sector competitiveness challenges such as market needs, innovation and strategy. For instance, a glance at the websites of key organizations reveals their common vocabulary and concerns.

The SPPD has also helped Spain to absorb several reforms coming from the Common Agricultural Policy (CAP) and address new challenges. The creation of one of the largest

cooperatives worldwide (ANECOOP) and internationally known professional organizations (Intercitrus) in the 1990s not only helped to forge an atmosphere of trust and collaboration, but also helped to integrate a diversity of stakeholders to address the strategic challenges when dealing with the European market. In this sense, the SPPD mechanisms in place were crucial to master a major transition of the industry.

The positive impact of the SPPD on sector competitiveness can be also observed in the changing market structure, namely the evolution of the actors involved in the process. Garcia Ballester, a family-owned company founded in 1906, is an example of the transition from small farmers to companies competing today in international markets (see box below). Also, until recently, the current CEO of the company also acted as the president of Intercitrus.

“Satisfy our customers and supply total quality

We are a firm with more than 100 years in the business. All the know-how that we have gathered has put us into a sound position; we have adapted and became renowned experts in the citrus industry. We are proud of our long history and tradition, our business culture runs deep within our firm, and our values have been passed from father to son. At the same time, we have evolved, changed and improved to adapt to markets and trends, to supply the best product to our customers and set the future market trends.

Right now at Garcia Ballester, we take our products to the furthest markets always ensuring the best delivery conditions. We don't care about distances; we care about our customer always receiving the best product”.

Source: Garcia Ballester Healthy Fruits, company website, <http://www.garciaballester.es/gb1/index.html#>



On the other hand, this case also provides lessons to learn from a long and complex SPPD process. As explained above, the SPPD has reached its Transformation Phase and has to adapt to new challenges, the main issue being the increasing heterogeneity of agents' involved (medium and big market-driven companies versus small farmers abandoning their orchards). The described duality of the private sector hampers dialogue since each side speaks their own language. Instruments, therefore, have to accommodate both the large successful companies in need of high-end innovation implementation and smaller farmers who are losing market power compared to large exporters and are forced to abandon their businesses. In other words, if the SPPD is to continue its success, a redefinition of focus areas will be essential.

C.1.3 Turkey

C.1.3.1 Sector Description for the Country

Turkey is among the largest citrus exporters in the world and is a major citrus producer by EU standards. Agriculture is among the most important economic activities of the country, accounting for 9% of the GDP, with citrus representing 1.2% of the GDP.⁶⁷ About 30% of Turkey's total fresh produce export is citrus. This speaks for the economic importance of citrus fruit exportation.⁶⁸ 80% of Turkey's citrus fruit is grown on the Mediterranean coast. Turkey's citrus orchards cover approximately 70,000 hectares and the main production areas are Mersin, Adana and Hatay, which are in the region of Cukurova.⁶⁹

The country has large extensions of land suitable for growing citrus, with optimal conditions in terms of weather and water availability, especially in the Mediterranean Basin. Citrus production in Turkey has rapidly increased in the last two decades, due to its geographic location and its association, through a customs union, with the EU. In the last years, however, production has slowed down because prices in Turkey are declining in real terms for citrus products, with a reduction in the profitability for citrus growers.

Agriculture is important in Turkey's economy, considering that 9% of GDP comes from this sector, which at the same time accounts for about 30% of the country's jobs.⁷⁰ The share of citrus fruit in the total agricultural production in 2009 was 13.56%,⁷¹ which is equal to approximately 1.2% of GDP. This figure does not include indirect impacts of the sector, such as employment, and hence, the contribution of the citrus sector to GDP is even higher.

The climate conditions along the Turkish coast (typically mild or cool subtropical) are very favorable for citrus and there is a proven track record showing that citrus fruit has been known in Turkey as a traditional activity. In addition, Turkey is taking advantage of its clean soil, which is well suited for organic production, which has been growing recently. Citrus production is distributed as follows: Mediterranean coasts (91 %; Eastern 76%; Western 15%), Aegean coasts (8.5%) and Eastern Black Sea (0.5%).⁷²

Production, Land and Yields

Turkey today belongs to the top four citrus producers in the Mediterranean Basin. Globally, it ranks seventh in production of tangerines and mandarins, eighth in lemons, limes and grapefruits and thirteenth in oranges.⁷³ Citrus production has been growing steadily since 1997 and reached over 3.5 million tons in 2009. Compared to 1990, this is an increase of 138% and more than a seven-fold increase when compared to 1965 when the production was at 430 thousand tons.⁷⁴ Since 1965, citrus plantations have been continually replacing cotton fields.

⁶⁷ Faostat.

⁶⁸ Turkey: Growing Importance of Citrus, December 2008. http://www.freshplaza.com/news_detail.asp?id=35358.

⁶⁹ Ibid.

⁷⁰ World Bank Data: Turkey. <http://data.worldbank.org/indicator>.

⁷¹ Faostat.

⁷² EuroMedCitrusNet: "Safe and High Quality Supply Chains and Networks for the Citrus Industry between Mediterranean Partner Countries and Europe," EuroMedCitrusNet. Sector Analysis: Turkey, Cukurova University, une 2007. <http://www2.spi.pt/euromedcitrusnet/Documents/First%20Project%20Workshop/ANNEX%202.6%20Presentation%206%20EuroMedCitrusNet%20Sector%20Analysis%20Turkey.pdf>.

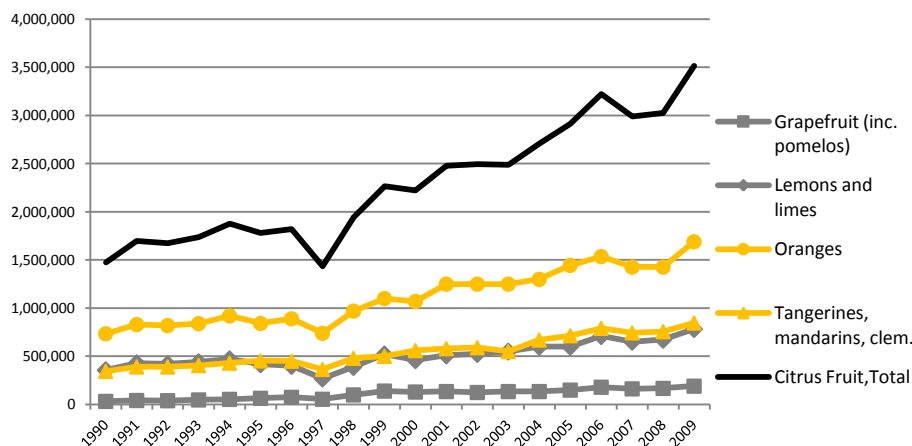
⁷³ Faostat.

⁷⁴ Ibid.

However, due to the relatively higher initial investment required for citrus production, this pace did not achieve its full potential.⁷⁵

As for production trends, oranges have remained by far the dominant variety, accounting for almost half of the production in 2009. Similar to other Mediterranean countries, the share of mandarins has been growing, and together with lemons and limes these fruits recorded an average growth rate between 5% and 6%. Looking at the long-term perspective, mandarins stand out with their share increasing more rapidly compared to other fruit types.

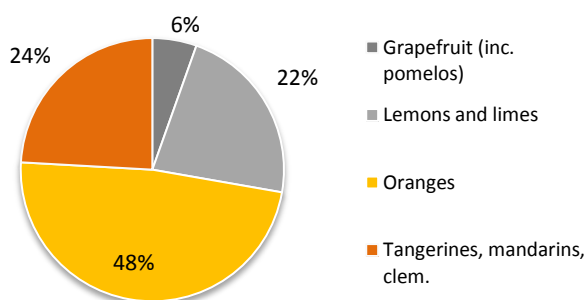
Production of Citrus (tons), 1990-2009



Source: Faostat (2011)

The main varieties of oranges grown in Turkey are Navel oranges (comprise about 75% of the crop), and Valencia (20%). Satsuma is the main tangerine variety (60%) and Interdonato is the main lemon variety (40%). Star Ruby is the prime grapefruit variety (about 65%).⁷⁶

Production Composition, 2009



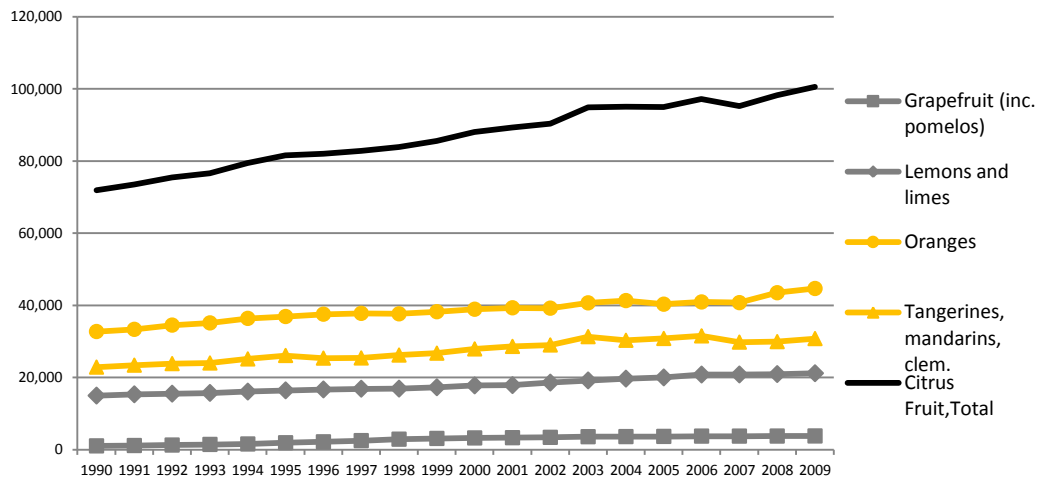
Source: Faostat (2011)

⁷⁵ Safe and High Quality Supply Chains and Networks for the Citrus Industry between Mediterranean Partner Countries and Europe, Deliverable 9: National Citrus Sector Analysis, Turkey, 2007, EuroMedCitrusNet, <http://www2.spi.pt/euromedcitrusnet/Documents/Sector%20Analysis%20Report/EuroMedCitrusNet%20Sector%20Analysis%20Report-Turkey.pdf>.

⁷⁶ Ibid.

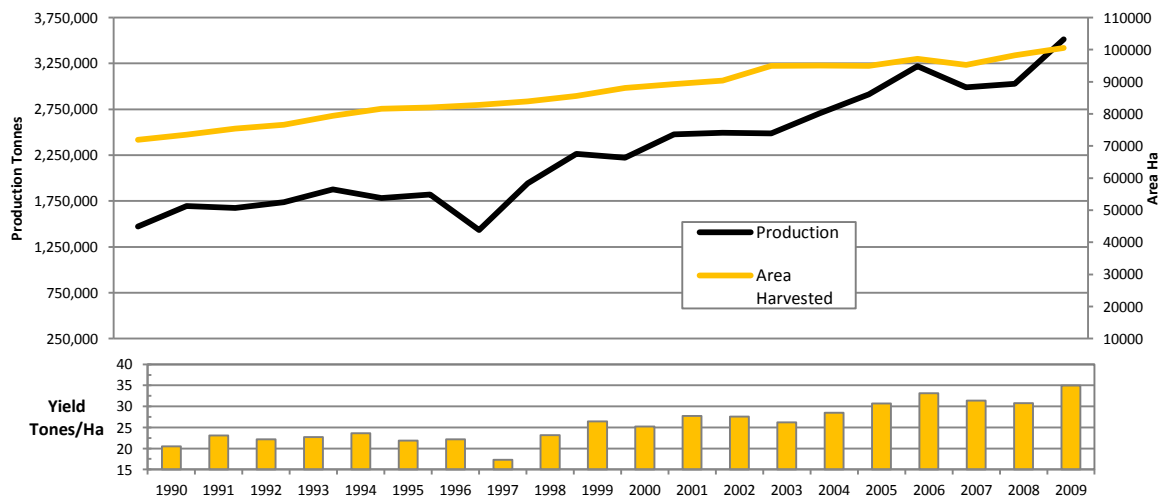
Citrus land on the other hand, grew at a slower but steady rate. Between 1990 and 2009, the total harvested area increased by 40%. Between 1965 and 2009, the harvested land was extended and grew 2.6 times.

Area Harvested (ha), 1990-2009



Source: Faostat (2011)

Citrus Yields (ton/ha), Production (tons) and Area Harvested (ha), 1990-2009



Source: Faostat (2011)

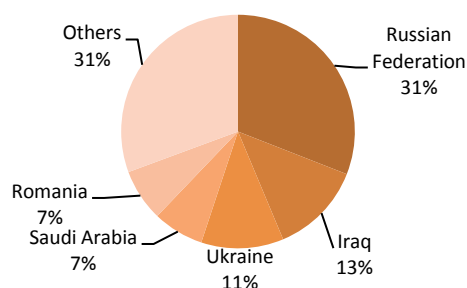
Compared to the much higher increments in production levels, this suggests that productivity levels have grown significantly in Turkey. **Turkish citrus stands out with high yields.** In 2009, overall citrus yields stood at 35 ton/ha. Compared to 1990, this marks a productivity increment of over 71%. Moreover, significant productivity increases have occurred in all fruit

types, while grapefruit traditionally accounted for the highest yields, the yield increases oscillated within a 25-43% range for all fruit types, with lemons and limes at the top.⁷⁷

Export

Turkey is the largest producer and exporter of agricultural products in the Near East and North Africa.⁷⁸ Most of Turkey's exports are composed of various types of fresh fruits. Russia was the main export partner; exports began in 1992 with 17 thousand tons and in 2009 Russia accounted for almost 390 thousand tons. Ukraine and Iraq are among the top three importers of Turkish citrus fruit. Iraq is the most dynamic importer and in 2008, it overtook Saudi Arabia and Bulgaria, the traditional trade partners of Turkey.

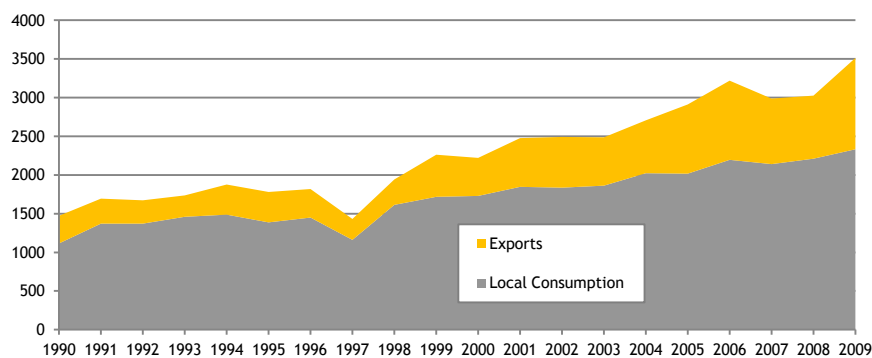
Top Five Citrus Export Partners, 2009



Source: Faostat (2011)

In 2007 and 2008, exports of citrus were much lower than in previous years as a result of hot and dry weather that reduced yields.⁷⁹ This crisis affected mainly small and medium farmers.

Export and Production Volumes (thousand tons), 1990-2009



Source: Faostat (2011)

⁷⁷ Faostat.

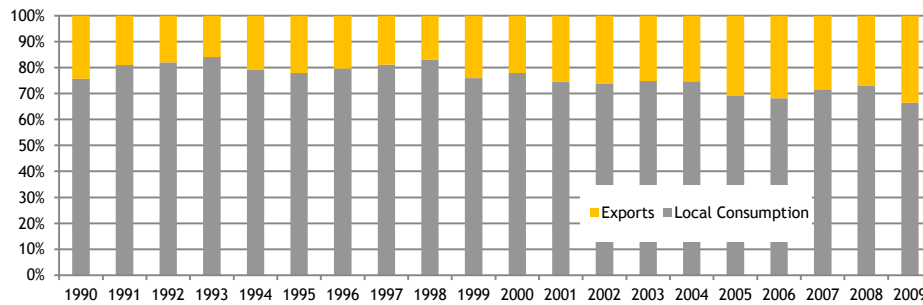
⁷⁸ Turkish agriculture and food industry, İGEME - Export Promotion Centre of Turkey, 2009.

<http://www.ulkemasalari.gov.tr/Assets/sip/tar/Turkish-agr-food-industry.pdf>.

⁷⁹ In 1997, Turkey was affected by a large earthquake on the Anatolian Fault, and political turmoil caused by military coup at the beginning of the year.

As the chart below demonstrates, approximately 34% of fresh and dried citrus is exported. The rest is aimed at local fresh market consumption and processing.

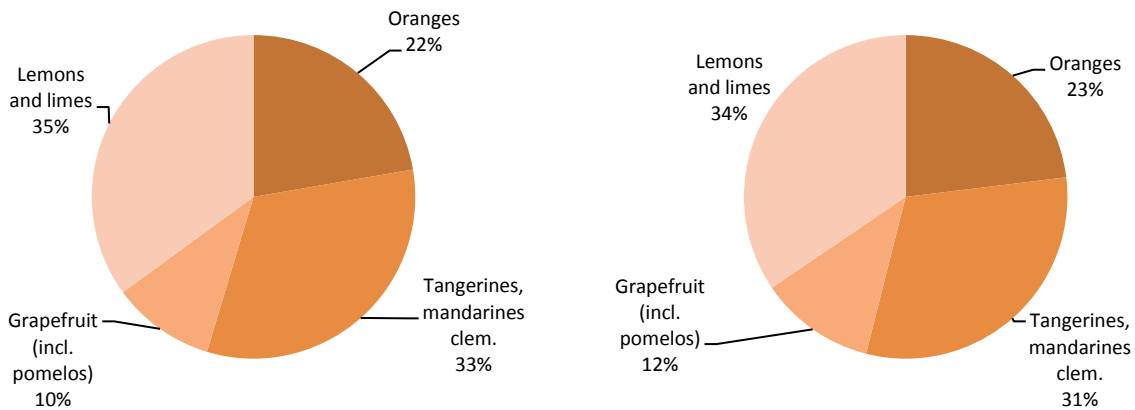
Citrus Fruit Export/Production Ratio 1990-2009 (%)



Source: Faostat (2011)

The share of citrus fruit in agricultural export earnings has been growing. In 2008, Turkey exported over 815 thousand tons of citrus fruit worth US\$576.4 million. From total agricultural export earnings, this represents a 5.5% share (in 2007, it was 4.8%).⁸⁰ The share of citrus export in the total export of fresh fruit and nuts was 20%.⁸¹ In addition, exports have increased significantly more in value than in quantity, namely by 230% and 65.8% respectively. As for export trends for each fruit type, tangerines remain the main exported citrus fruit and their share has been maintained over the 1990-2009 period.

Evolution of Citrus Export Mix in 1990 and 2009 (tons)

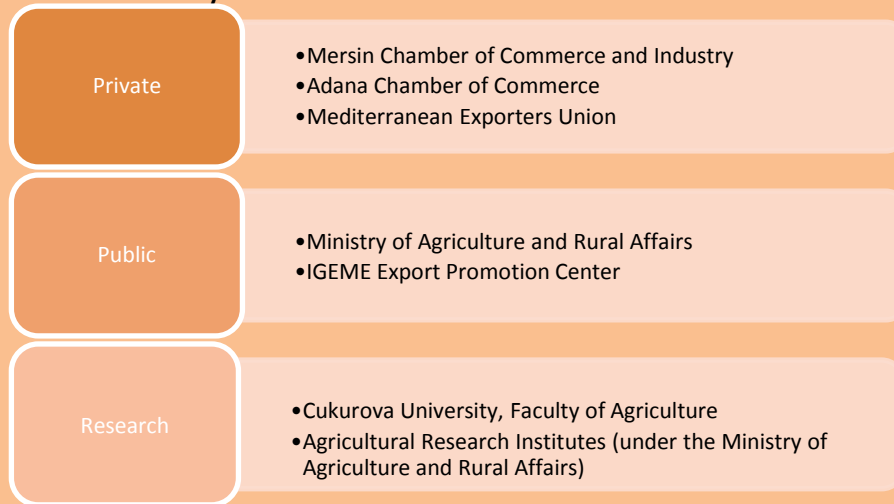


Source: Faostat (2011)

⁸⁰ Faostat.

⁸¹ Based on Trade Map data, International Trade Center.

SPPD Structure Inventory⁸²



There is a strong presence of local institutions in Turkey as a result of the decentralized character of the Turkish political and administrative system. However, several national institutions also have a significant impact on the local citrus sector and are relevant in understanding the dynamics of the local public-private collaboration.

I. Private Organizations

Institution: Mersin Chamber of Commerce and Industry

- **Mandate:** The Chamber plays an active role in promoting the province and city and provides various services for its members and potential investors. The Chamber registers and issues export approvals, conducts studies for integration of the province and its members with the world economy, facilitates business contacts for enterprises and investors, delivers training services and similar. Founded in 1886, it has over 20,000 members, most of which operate in the fields of construction, engineering, transportation and agriculture (2,368 members are in the agriculture and food industry). The Chamber supports entrepreneurship by participation in numerous promotion projects, such as the Mersin Trademarks Project, Young Innovative Entrepreneurs Project and vocational education projects.
- **Ownership and funding:** As a member of the Union of Chambers and Commodity Exchanges of Turkey, the Chamber is regulated by law and membership is obligatory. Main source of funding are membership fees and service fees.
- **Management:** The Chamber has 11 members of the board of directors elected by members.
- **Sector activities:** The Chamber supports several competitiveness and innovation related projects. Both the first agro-food science park and agro-food innovation center in Turkey were established under the Chamber's leadership. The EU-funded RIS-Mersin (Regional Innovation Strategy for Mersin Region of Turkey 2005-2008) helped building an innovation and R&D system for the region's agro-food sector. As for PPD initiatives, in 2007, the Mersin Agro-food Platform was established. The platform brings together participants from public, private and non-governmental organizations and serves as an international base for innovative, high-quality agriculture and food production and processing. The Chamber was also the leading actor for the AGFORISE project, which seeks to build a regional network of agro-food clusters. At present, it is also managing the Mersin Fresh Fruits and Vegetables Exporters and Packagers Cluster.

⁸² For the purpose of this study, the research of SPPD structures has focused on Turkey's Mediterranean region, particularly on Mersin and Adana, both of which count as the country's major citrus growing provinces.

Institution: Adana Chamber of Commerce (ACC)

- **Mandate:** Founded in 1894, ACC is one of the oldest chambers of commerce and industry in Turkey. The foundation of ACC is regulated by law and its goal is to promote several business sectors and encourage enterprise creation in Adana. The present membership exceeds 20,000 members.
- **Ownership and funding:** Membership is compulsory⁸³ and funding is a mix of registration and membership fees, publications, services and other tariffs and penalty fees, company participation profits, donations and aids.
- **Management:** The Chamber Council is the main managing body. There are 45 groups representing different professions. Every four years, members choose five to seven members to represent their particular professions in professional committees. Each professional committee in turn elects two or three of its members to represent their profession at the Council, which has 105 members. The Council then elects its president, two vice-presidents, and the executive board of 11 members from Council members. The legal representative of the Chamber of Commerce is the chairman of the executive board.
- **Sector activities:** ACC unites and promotes business interests and participation in international and domestic fairs and exhibitions for seed product merchants, food product manufacturers and wholesalers, fertilizers and pesticides manufacturers and merchants.

Institution: Mediterranean Exporters Union

- **Mandate:** The Mediterranean Exporters Union is one of several unions in Turkey uniting major agricultural and industrial commodities, including fresh fruits and vegetables, processed fruits, tobacco, dried fruits, grains, textiles and similar. Exporters' unions are organizations with their own budgets, established to regulate professional activities and relations of their members and increase the country's exports. The unions operate under the auspices of the Under Secretariat of Foreign Trade, which appoints some of the top union officials. The vast majority of Turkey's private sector exports are sold by union members. In Turkey, there are 13 general secretariats of exporters unions and 52 exporters unions reporting thereto.⁸⁴ The Mediterranean Exporters Union represents the interests of the private sector in relationship to the government, works to increase exports of its members, conducts studies, distributes market information relevant to foreign trade, organizes business matchmaking, trainings, fairs and delegations, and similar. It has around 6,000 members located in Mersin, Adana, Antakya, Karaman, İskenderun and Kayseri.
- **Ownership and funding:** Membership is compulsory for exporters. The Union's revenues are mainly the admission fee, the annual membership fee, various tariff fees and other revenues determined by the board of directors of the Union. The government also sponsors the Union's marketing activities
- **Management:** The board of directors is chosen for four years and consists of twelve members, three vice-chairs and a treasurer from among its members. The board is elected by its members, and a poll committee and an independent judge are obliged to oversee the process.
- **Sector activities:** Activities of the Union are not citrus specific but they naturally deal with citrus exporting companies (Adana is one of the major citrus regions in the country). The Union also co-ordinates with the Fresh Fruit and Vegetable Exporters Union and the Cereals Pulses and Oily Seeds Exporters Union in Turkey.

II. Public Organizations

Institution: Ministry of Agriculture and Rural Affairs

- **Mandate:** The Ministry of Agriculture and Rural Affairs is the main government authority responsible for the formulation of agricultural policies and regulations that promote the development of the sector. Its mission is to work for the development of rural areas and improvement in agriculture and livestock

⁸³ In Turkey, merchants registered in the trade registry and all corporate bodies possessing the title of industrialist and maritime merchants are obliged to register with the respective regional chamber.

⁸⁴ Socio-Economic Study Report (Adana, Mersin), Cukurova Development Agency, ADANA, 2007.

http://www.dpt.gov.tr/bgyu/abbp/italya/docs/6.Toolbox/13.Supporting_documents/4.cukurova_sector_analysis.pdf.

production. The Ministry sites the General Directorates of Agricultural Businesses, Production and Development, Agricultural Research and Agricultural Reform, which make the necessary investigations to detect the priorities that need reforms. There are 20 provincial agricultural directorate authorities.

- **Funding and management:** As a public authority, the Ministry is governed by public officials and receives allocation from the state budget.
- **Sector activities:** The Ministry invests considerable amounts in the Turkish agricultural research system. The research system under the Administration of General Directorate of Agricultural Research is decentralized (seven central, 21 regional, 40 subject-oriented research institutes and seven authorized stations throughout the country) and encompasses research topics such as plant breeding and production, protection, food, postharvest technologies, genetic resources, soil and water. The Ministry's agricultural research institutes help identify better varieties for export and improve agricultural practices. They collaborate with Cukurova University, conduct research on improved varieties and better horticultural practices.

The government provides support to any producer who establishes a fruit orchard using certified seedlings. The Ministry therefore established the Variety Registration and Certification Centre, which conducts the variety registration trials and provides the seed and sampling certification services.

The Ministry also financially supports exporters unions, including the Mediterranean Exporters Union in Adana, and provides subsidies for exporters through the unions.

Institution: IGEME Export Promotion Center (IGEME)

- **Mandate:** IGEME is a public organization for developing and promoting Turkish exports. It conducts research, delivers training, and provides market information and marketing services domestically and internationally. The headquarters of IGEME are located in Ankara. The administrative structure of IGEME consists of the general secretariat, directorates, specialized departments and affiliated sections. With the aim of rendering services to exporters more quickly and monitoring regional needs and requirements more closely, IGEME has two local branch offices in Istanbul and Izmir. The first overseas office of the center, the Turkish Trade Promotion Office, was opened in Rotterdam, the Netherlands, in 1988.
- **Ownership and funding:** IGEME is a public institution located under the Office of the Prime Minister and working with the Under Secretariat of Foreign Trade.
- **Sector activities:** Most of IGEME's agricultural promotions focus on higher-value, processed commodities exported mainly to Europe and the Middle East. Recent activities have focused on developing new markets in Syria, North Africa, and the former Soviet and Turkish Republics. Traditional markets in Russia and the Far East are also not neglected.

III. Research Organizations

Institution: Cukurova University, Faculty of Agriculture

- **Mandate:** The Faculty of Agriculture offers multiple educational programs and supports the internationalization of education and research. The research mandate of the Faculty is to improve the economical and social welfare of small farmers, introduce modern agricultural techniques in collaboration with centers of excellence (universities and research institutes), and improve research capacity of the regional institutes through collaborative research. Also, deliver training, education and extension, introduce sustainable agricultural production techniques for environmental safety, preserve exceptional genetic material, etc.
- **Ownership and funding:** The University is a public institution funded from state budget, grants and donations.
- **Sector activities:** The recent research projects conducted at the Faculty focused on topics such as citrus breeding and genetics, growing, irrigation, post-harvest practices, storage and fruit quality, fertilizers, diseases and marketing. There is also a record of collaboration with companies, such as the production and distribution of disease free nursery plants and the delivery of trainings on plant protection.

Examples of Other Institutions in the Citrus Sector:

- **Public:** Prime Ministry State of Planning Organization.
- **Private:** Antalya Exporter Unions, Denizli Exporters Association, Eastern Anatolian Exporters' Associations, Eastern Black Sea Exporters Association, Aegean Exporters' Associations, Southeastern Anatolia Exporters' Union, Istanbul Exporters' Associations, Black Sea Exporter Unions, Uludag Exporters' Associations and similar.
- **Research:** The Scientific and Technological Research Council of Turkey, Alata Horticultural Research Institute, Batı Akdeniz Agricultural Research Institute, Adana Plant Protection Research Institute.

C.1.3.2 Evolution of the SPPD

SPPD mechanisms were initiated very recently at a regional level to better deal with growers' problems directly. In the case of Mersin, since 2007 the Chamber of Commerce has led a process starting with the Agro-Food Platform initiative. In 2010, they launched the Fresh Fruits and Vegetables Exporters and Packagers Cluster, which includes citrus. A group of 28 businessmen was created, composed of different actors of the value chain, such as growers, packagers and exporters. They meet on a regular basis and are coordinated by a facilitator designated by the Chamber of Commerce. They have organized an innovation forum and also have a citrus festival.

The SPPD has contributed to building mutual trust among the businessmen in Mersin, where such an extent of cooperation is unprecedented. According to the local Chamber of Commerce (SPPD facilitator), *"having 28 competitors sitting together and discussing how to address jointly their common problems is already a major progress"*. Before the creation of the SPPD, companies used to handle their problems through the Mediterranean Exporters Union, their regional Chamber of Commerce, or on their own.

Efforts to Improve the Sector's Competitiveness

Some of the challenges that the sector faces are uneducated farmers, lack of knowledge regarding the use of pesticides, hygiene and best farming practices; government being too bureaucratic and having limited capabilities to act; having very few instruments at their disposal for farmers; completing the adoption of EU standards and certification processes; improving the marketing capabilities to increase sales and opportunities for doing business; and a better and faster response to market demands.

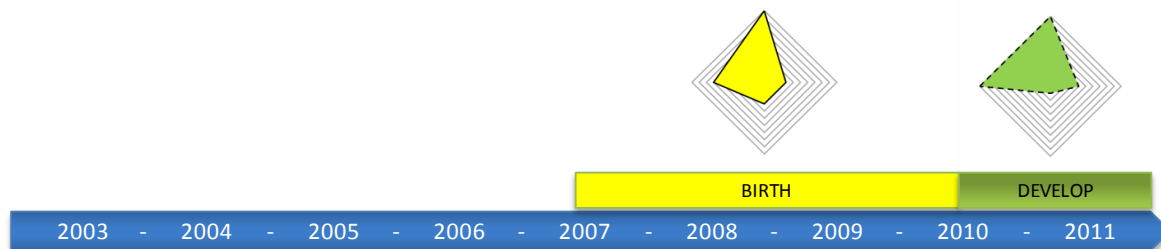
There are some significant public actions that can be related to an incipient SPPD process:

- As for production policy, there are no citrus-specific production support programs, but the government provides support to any producer who establishes a fruit orchard using certified seedlings. All Turkish farmers receive direct income support payments.
- As for trade policy, in order to support citrus growers and exporters, the Turkish government makes support payments to exporters, and rates vary each year. Each citrus crop received US\$100 per metric ton exported in 2008 and in 2009 the Ministry of Agriculture provided US\$75 per metric ton in export subsidies to producers through

the Mediterranean Exporters Union in 2009.⁸⁵ For 2011, the Ministry was considering increasing this subsidy to US\$125. Exporters can only use the subsidy to make tax and social security payments or pay utilities such as telecommunications, electricity and natural gas.

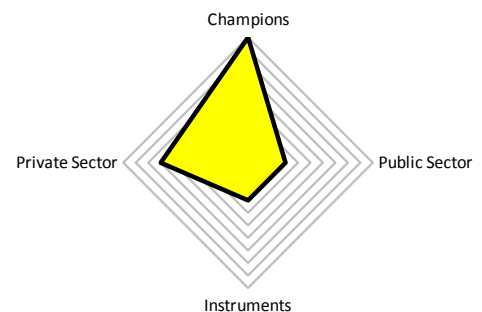
- In order to protect domestic producers, Turkey continues to maintain high tariff rates on many food and agricultural product imports. In 2010, import tariff on citrus fruit was 54% and on juices 58.5%.⁸⁶
- The government-sponsored Exporters' Unions, which play a role in market promotional activities, mostly market research and information. In addition, the Mediterranean Exporters' Union, Adana Farmers' Union and Adana Yuregir Citrus Producers Union keep statistical information, communicate producers' problems to government officials and conduct research.
- In order to help producers diversify varieties, the Ministry of Agriculture and Rural Affairs' Agricultural Research Institutes, along with Cukurova University, conduct research on varieties improvement and better horticultural practices. These researchers help identify better seeds for export and improved agricultural practices, therefore increasing their export potential.

C.1.3.3 The Public and Private Ownership in the Evolution of the SPPD



• Birth

The SPPD was started by the private sector, in this case by the Chamber of Commerce of Mersin. Since 2007, the Chamber has studied different models for promoting regional development (looking into the Nordic model, California, the South of France, Italy and Spain, among others) and finally launched their own model. Specific efforts for citrus were launched mid-2010.

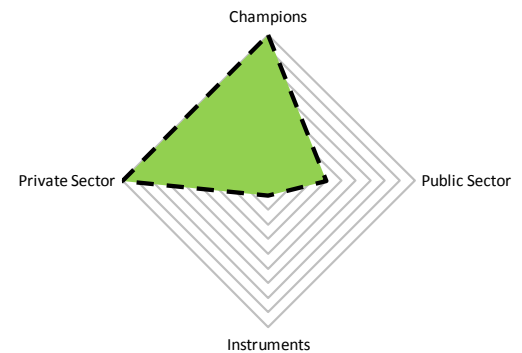


⁸⁵ Turkey Citrus Annual 2010, USDA Foreign Agricultural Service, Global Agricultural Information Network (GAIN), 2010. http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Citrus%20Annual_Ankara_Turkey_12-14-2010.pdf.

⁸⁶ Turkish Custom Tariffs 2010, Prime Ministry Undersecretariat of Custom, Turkey. <http://en.gumruk.gov.tr/trader/TurkishCustomsTariff2010.pdf>.

- Development

The group is composed of 28 businessmen who are considered to be leaders in the sector. It works following four steps: 1) identify the problem; 2) define the way to fix it; 3) designate a person responsible for implementation; 4) communicate. There is still low involvement from the public sector, which is the reason why the SPPD is illustrated here with a dashed line.



* Note: a dashed line means that the SPPD is in a weak situation.

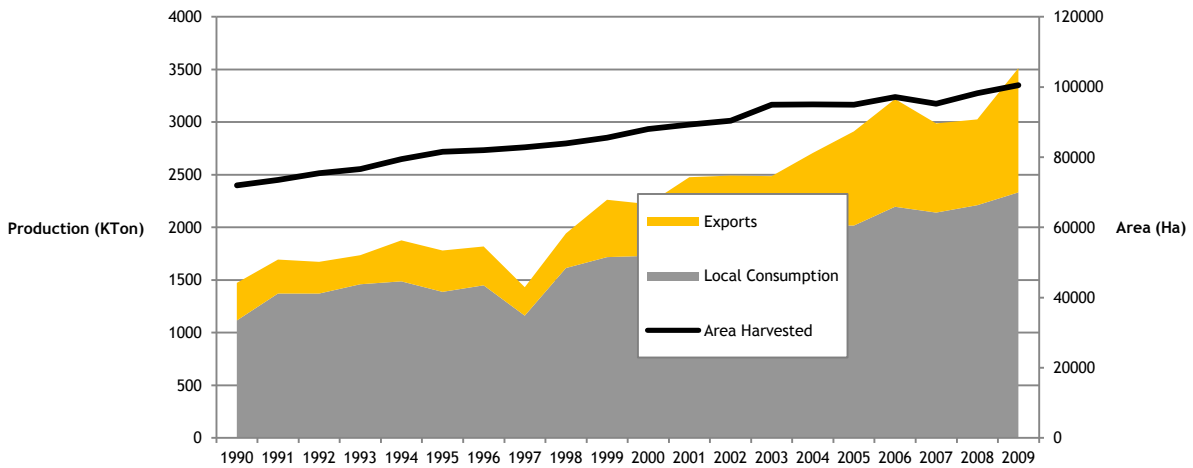
C.1.3.4 Overall Impact of the SPPD on Competitiveness

As stated above, Turkey counts as the largest producer and exporter of agricultural products in the Near East and North Africa and the citrus sector has traditionally benefited from large areas of land suitable for growing citrus, optimal conditions (weather and water availability), positioning Turkey among countries recording the highest yields for citrus fruits.

Citrus exports have been growing at a fast pace between 1990 and 2009. Their share in production increased from 24% to 34% (see chart below). In this sense, the export competitiveness of Turkey definitely increased although in the past two years the sector has been suffering from oversupply. This applies mainly to the smaller producers who were particularly hard hit by this situation as well as the lower fruit market prices.

Since the SPPD was only launched in focus in 2007, it is too early to have conclusive “hard” impacts. However, there is enough evidence to assume that the present efforts are following the right path in terms of understanding the needs of the sector and markets as exports are steadily increasing. For instance, the SPPD has a solid starting position for bringing its efforts to fruition due to strong linkages with the research sector and the high level of entrepreneurship of local businessmen in Mersin, visible though the organization of citrus promotion and forums and events related to innovation.

Area Harvested vs. Export and Local Consumption Volumes (thousand tons), 1990-2009



Source: Faostat (2011)

As a conclusion, the proximity to large high-demand countries and a well-organized private sector have positioned the country among the most successful exporters. The recent SPPDs emerged as a reaction to the deteriorating price and market conditions: the dialogue in Mersin was clearly driven by the local private sector and brought together all types of businesses (growers, traders, packers and exporters), including those that were previously neglected. Similar to the case of Spain, the decentralized administrative system in Turkey has facilitated communication with the local government. Although the dialogue is still a young initiative, the first signs of success are seen in the highly collaborative atmosphere that evolved in the past two years.

C.1.4 Lebanon

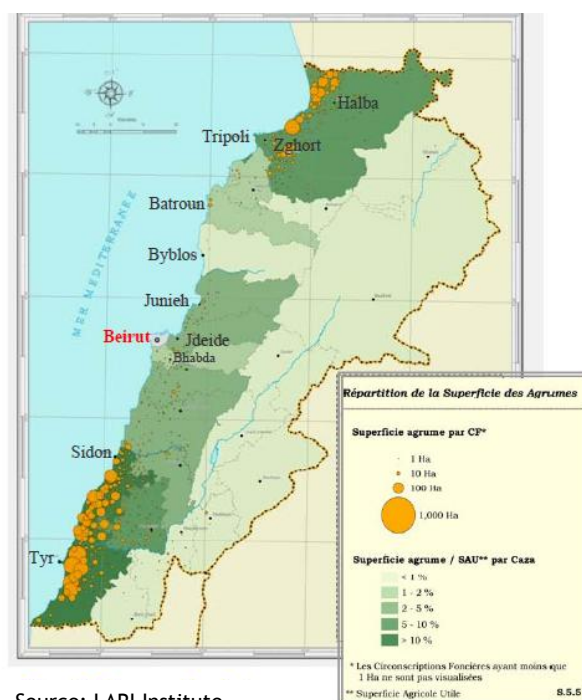
C.1.4.1 Sector Description for the Country

The role of agriculture in the economy has been eroding gradually since the mid-1990s. In 2009, the sector accounted for 5.3% of GDP, which is low compared to other countries in the Middle East and North Africa region. In 2009 the share of citrus fruit on the total gross agricultural production in Lebanon was only 8.1%.⁸⁷

Citrus have been one of the main agricultural products exported through the years in Lebanon and is grown all along the coastal zone. The total citrus production area increased from 5,000 to 12,000 ha between 1950 and 1970. Lebanon was once the tenth country in the world among citrus exporting countries. However, the sector has been declining since 1993 due to several wars and conflicts that have affected the country, including 16 years of civil conflict (1975-1990) and several successive wars (the last one was in July-August 2006). This situation resulted in decreasing yields due to growers neglecting their citrus orchards throughout the years of the civil conflict, absence of agricultural export organizations and lack of quality control.

Regardless of its political context, Lebanon is an ideal place for the development of agricultural activities in terms of water availability, soil fertility and climate diversity. Production of citrus is spread along the coastal area. Citrus are grown mostly in the south, accounting for 65% of the total area allocated for citrus production, followed by the north with 26%. Recently, the area of citrus production is decreasing in the south as banana production is becoming more attractive for its higher financial returns. In the south, citrus are cultivated mainly in Tyr and Sidon reaching 80% and 73% of the total area respectively. In the north, the citrus spots are Akkar and Zgharta.⁸⁸

In Lebanon, the budget allocated to the agricultural sector has never exceeded 0.8% of the annual national budget, despite the importance of the sector for food production and export considerations.⁸⁹ Consequently, agricultural services have been limited and have lacked sufficient funds, staff and skills to adequately meet farmers' needs.



⁸⁷ Faostat.

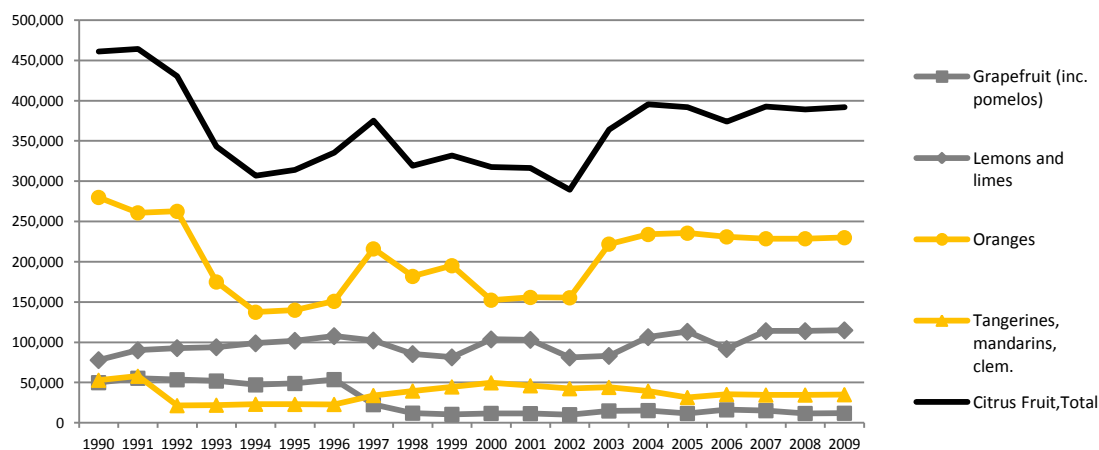
⁸⁸ Citrus production in Lebanon, Pre-Feasibility Study of IPM of Citrus, LARI - Lebanon 2010.

⁸⁹ LEBANON: Second report on the State of Plant Genetic Resources for Food and Agriculture, "Establishment of a National Information Sharing Mechanism on the Implementation of the Global Plan of Action on Plant Genetic Resources for Food and Agriculture", WISM-GPA, 2007. <http://www.pgrfa.org/gpa/lbn/lebanon2.pdf>.

Production, Land and Yields

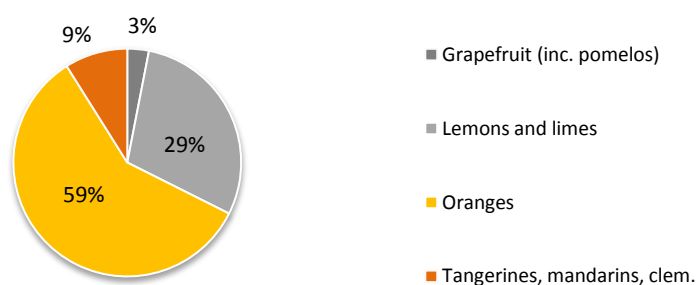
The total production of citrus fruit reached 392 thousand tons in 2009, but it is still below the maximum reached in 1991 with 464 thousand tons.⁹⁰ As mentioned above, after 1991, when the Lebanese Civil war ended, postwar social and political instability led to a decline in citrus production and a slow recovery until 2002. Since then it has grown at an uneven pace and was negatively affected by the 2006 political crisis. Compared to 1990, production levels declined by 15% in 2009.

Production of citrus (tons), 1990-2009



Source: Faostat (2011)

Production breakdown, 2009



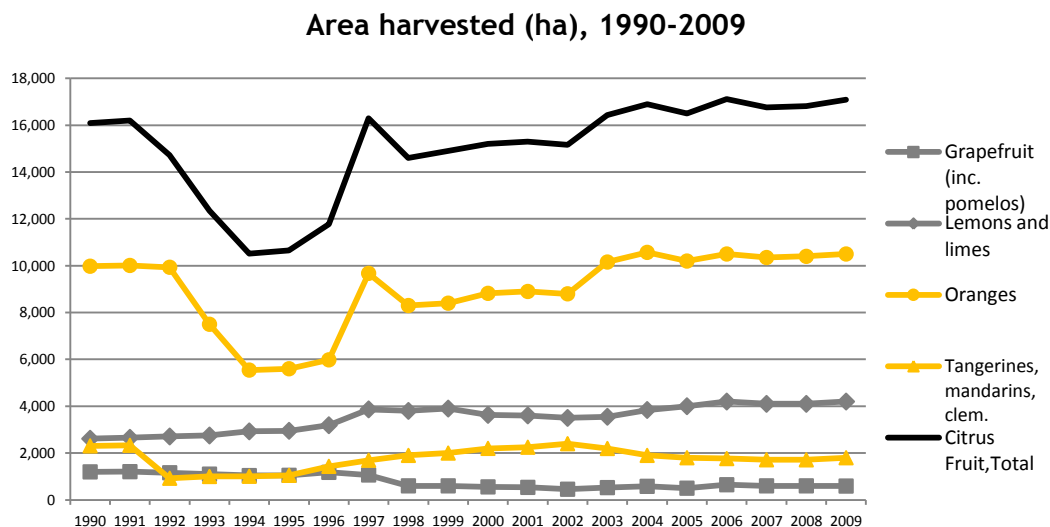
Source: Faostat (2011)

Most citrus varieties in Lebanon were introduced in the 1960s. Shamouti has always been the most cultivated orange variety (65% of all oranges in Lebanon), followed by Navel Orange and Valencia. Other varieties like Blood Orange are less grown. Main lemon varieties are Interdonato, Monachello and Meyer, which are characterized by their resistance to diseases.

⁹⁰ Faostat.

Mandarins are also produced in Lebanon on a smaller scale at around 20-30 thousand tons per year.⁹¹

Citrus land has grown slightly due to a small increase in orange plantations. In 2007, the citrus production area was estimated at 23% of the total area of cultivated fruit trees (about 16,700 hectares in 2007).⁹² Given that the harvested area in 2009 was 17,100 hectares, the current percentage might be only slightly higher.



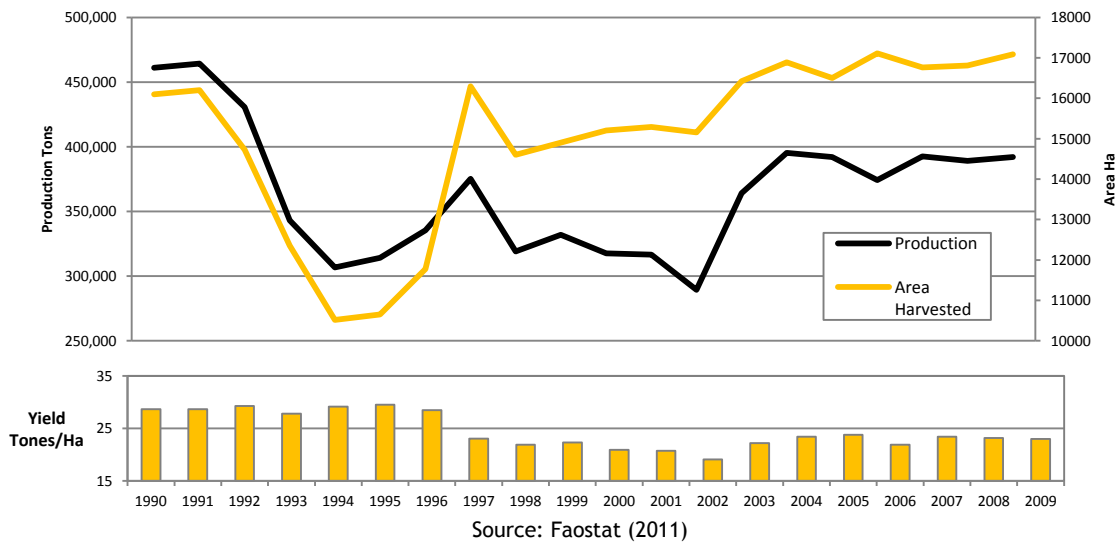
Source: Faostat (2011)

In terms of yields, with 22.9 tons/ha, the sector can be described as stagnating with no significant improvements in productivity or significant extensions of land. Overall yields have decreased since 1997, when productivity reached 29 tons/ha.

⁹¹ Citrus production in Lebanon, Pre-Feasibility Study of IPM of Citrus, LARI - Lebanon 2010, <http://www.lari.gov.lb/LinkClick.aspx?fileticket=da%2bPNJGwAvU%3d&tabid=68>.

⁹² Moussa, Z., Kader el Hajj, A., Citrus production in Lebanon, Pre-Feasibility Study of IPM of Citrus, Lebanese agricultural Research Institute, 2010. <http://www.lari.gov.lb/LinkClick.aspx?fileticket=da%2bPNJGwAvU%3D&tabid=68>.

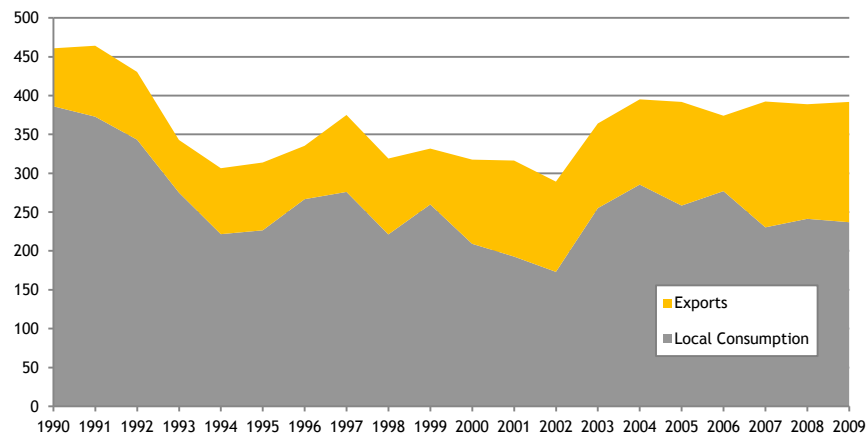
Citrus yields (ton/ha), production (tons) and area harvested (ha), 1990-2009



Exports

Citrus exports rank first of total agricultural exports in Lebanon.⁹³ Export volume reached 155,000 tons in 2009. According to customs, citrus exports saw an increase of 16.5% between 2005 and 2009 with a clear decline in 2006 influenced by the July crisis.

Export and local consumption volumes (thousand tons), 1990-2009



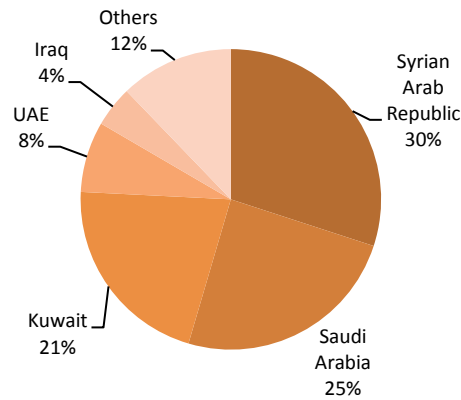
Source: Faostat (2011)

About 40% of citrus exports go to the Arab countries. The main importing countries of Lebanon's oranges in 2009 were Syria (30%), which for the first time exceeded exports to Saudi Arabia, followed by Saudi Arabia (24%) and Kuwait (21%). In fact, 30% of Syrian citrus fruit imports come from Lebanon. However, Egypt's market share in Syria is growing at a

⁹³ Moussa, Z., Kader el Hajj, A., Citrus production in Lebanon , Pre-Feasibility Study of IPM of Citrus, Lebanese agricultural Research Institute, 2010. <http://www.lari.gov.lb/LinkClick.aspx?fileticket=da%2BPNJGwAvU%3D&tabid=68>.

much faster pace (exports increased more than 8-fold compared to 2-fold in the case of Lebanon).⁹⁴

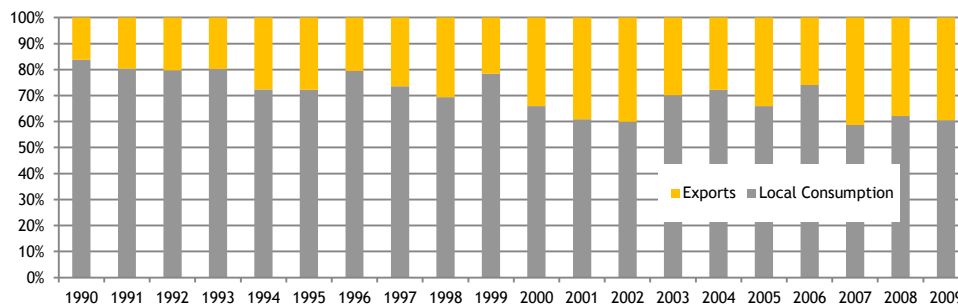
Top Five Citrus Export Partners 2009



Source: Faostat (2011)

As for the share of exports on the total production, the export/production ratio has increased 2.5 times in the 1990-2009 period; however, the overall setback during the crisis years was recently hampered by the steep growth of exports to Syria, which helped Lebanese citrus exports get back to pre-crisis levels, exporting nearly 40% of the local production.

Citrus Fruit Export/Production Ratio 1990-2009 (%)

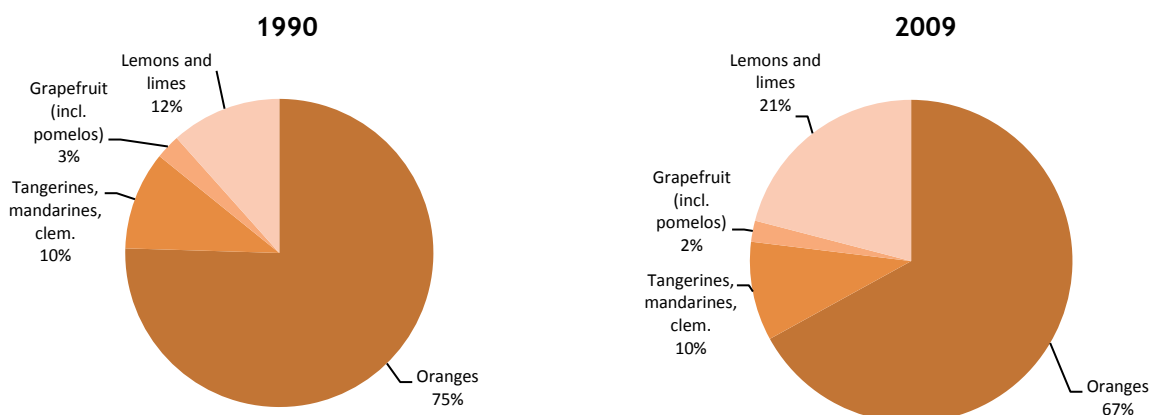


Source: Faostat (2011)

As for the export mix, lemons and limes have increased their share from 12% in 1990 to 21%. Even if exported tons of tangerines have doubled in the 1990-2009 period, their share remained steady at 10%. Oranges have decreased from 75% to 67% in the same period.

⁹⁴ Trademap: Trade statistics for international business development. International Trade Center. http://www.trademap.org/index.aspx?ReturnUrl=/Country_SelProductCountry_TS.aspx.

Citrus Export Mix in 1990 and 2009 (tons)



Source: Faostat (2011)

SPPD Structure Inventory

Private	<ul style="list-style-type: none"> •The Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon •Syndicate of Importers & Exporters of Vegetables & Fruits •Beirut Traders Association
Public: National	<ul style="list-style-type: none"> •Ministry of Agriculture •Investment Development Authority of Lebanon
Public: International	<ul style="list-style-type: none"> •Food and Agriculture Organization of the United Nations
NGOs & Research	<ul style="list-style-type: none"> •Lebanese Agricultural Research Institute •American University of Beirut •Hariri Foundation for Sustainable Development

I. Private Organizations

Institution: The Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon (CCIABML)

- ❑ **Mandate:** The CCIABML is the principal and largest economic organization in Lebanon and is regulated by law. CCIABML was established in 1887 and today represents 10,000 Lebanese businesses, most of which are small and medium enterprises. The Chamber is involved in Lebanon's regional and international economic relations and focuses on the promotion of exports and attracting FDI.
- ❑ **Ownership and funding:** The Chamber is a private organization that represents businesses to the government. Membership is voluntary and financed from membership fees.
- ❑ **Management:** The Board of Directors is composed of 24 members, 16 of whom are elected for a four-year term by the Chamber's General Assembly, and the remaining eight appointed by the government.
- ❑ **Sector activities:** The Chamber has established an Agricultural Committee headed by the president, two

members and five employees responsible for providing a wide range of services to farmers, agricultural companies, private and public institutions, as well as national and international organizations. One of its accomplishments was the submission of a law proposal to the government to establish a Register of Agriculture (an alternative to the Register of Commerce) to allow farmers and agricultural associations to join the Chamber. In addition, the Chamber was involved in the implementation of the Agricultural Development Project in collaboration with the Lebanese Agricultural Research Institute.

Institution: Syndicate of Importers & Exporters of Vegetables & Fruits

- **Mandate:** The Syndicate serves as a private sector liaison, acting as a market information platform and as a liaison between the agrifood traders and government authorities. The Syndicate unites the major commodity traders in Lebanon given that agrifood trade exceeds one third of the total of Lebanese trade volume.
- **Management:** The Syndicate is managed by a 12-member Board of Directors.
- **Sector activities:** Out of 41 members, 24 member companies are dried fruit and nuts traders, which mean that a large part of the Syndicate's services naturally extends to fruit traders as well.

Institution: Beirut Traders Association (BTA)

- **Mandate:** BTA is an economic organization which promotes the interests of the merchant sector in Lebanon and as such plays an important role on the national economic scene. BTA also represents services firms registered at the Commercial Registry in Beirut, with the aim of establishing a comprehensive platform for inter-business relations in and outside of Lebanon. BTA conducts research on socio-economic issues and delivers training to members.
- **Ownership and funding:** BTA is a business association and privately funded.
- **Management:** BTA is managed by the 16 members of the Board.
- **Sector activities:** The benefits of membership extend to agricultural exporters.

II. Public: National Organizations

Institution: Ministry of Agriculture

- **Mandate:** The Ministry formulates agricultural policies, regulations and funding schemes that promote the development of the sector.
- **Funding and management:** As a government body, the funding and management of the Ministry are public.
- **Sector activities:** The Ministry undertook several actions related to citrus. Between 2004 and 2008, the Ministry coordinated the EU-funded 'Agriculture Development Project' (ADP) aimed at increasing farmers' revenue and export in the fruit and vegetable sub-sector.

Furthermore, it established laboratories in Kfarchima (near Beirut) to analyze pesticide residues in fresh fruits and the composition of imported pesticides and took steps in the area to introduce new citrus varieties. Example was the "Production and Delivery of Certified Plant Material in Lebanon" project, the result of which was the introduction and planting of new fruit tree varieties at LARI. Nowadays, these are available at the nurseries of the Mashatel Lebanon Association under the Ministry of Agriculture supervision.

As of 2010, the Ministry hosts a Citrus Committee established with the support of FAO. The Committee involves the following members from the public, private and research sector: the Lebanese Agricultural Research Institute (LARI), the Chamber of Commerce, Industry and Agriculture, Hariri Foundation, the Mashatel Lebanon Association and the American University of Beirut. The main objective of the Committee is to develop a strategy plan to improve the production of citrus and to scale down the use of pesticides. So far, the Committee has prepared a brochure on integrated pest management to help farmers prevent infestation and a farm record to be distributed to farmers.

Institution: Investment Development Authority of Lebanon (IDAL)

- **Mandate:** IDAL is a government agency that was established in 1994 with the aim of increasing FDI inflows to Lebanon and supporting the government's efforts in simplifying bureaucratic procedures. The institution is regulated by Investment Law No. 360 and its priority sectors are, among others, industry, agriculture and agro-industry. IDAL provides investors with comprehensive services throughout their operations in Lebanon, mediates contacts between entrepreneurs and potential investors and promotes agricultural exports.
- **Ownership and funding:** IDAL is funded through money allocated from the public budget and its own revenues such as fees for studies and services and revenues generated by its participation in companies working in the field of information technology or packaging, and production or processing of Lebanese agricultural, industrial, animal and other products. Other sources of income are grants, donations and contributions.
- **Management:** IDAL is administered by the Board of Directors made up of seven members appointed for a period of four years, by a decree issued by the Council of Ministers based on a proposal of the President of the Council of Ministers. The Board reports to the President of the Council of Ministers who exercises a tutorial authority over it.
- **Sector activities:** To encourage agricultural exports, IDAL has launched the Export Plus program. Cash subsidies are directly provided to exporters and from 2001 until 2006 the program subsidized a large portion of farmers' transportation costs. Products eligible for the subsidy include fruits (oranges and lemons), vegetables, eggs and flowers. In addition to the financial support, IDAL sponsors international food fairs and provides exporters with technical assistance.

III. Public: International Organizations

Institution: Food and Agriculture Organization of the United Nations (FAO)

- **Mandate:** FAO helps the Lebanese government and the farming community to modernize and improve agriculture, forestry and fisheries practices, and to ensure good nutrition for all.
- **Funding and management:** FAO is an international organization financed and managed by its member countries.
- **Sector activities:** FAO intensely collaborates with the Ministry of Agriculture. It acted as an important stakeholder in developing PPD mechanisms in the Lebanese citrus sector. As a result of one of their projects, a Citrus Committee was organized involving the key players of the industry, academia and the public sector. FAO also provided early recovery assistance for horticultural small-holder farmers after 2006. It also recently worked with the government to improve the quality and safety of agricultural products through strengthening institutional and operational capacity of the Ministry of Agriculture and an adequate delivery of services to farmers.

IV. NGOs & Research Organizations

Institution: Lebanese Agricultural Research Institute (LARI)

- **Mandate:** LARI is a governmental research organization under the oversight of the Ministry of Agriculture. The institute conducts applied and basic scientific research for the development and advancement of the agricultural sector in Lebanon. Research is undertaken in all major fields: field crops, horticulture, crop protection, animal production and health, food technology and socioeconomics.
- **Ownership and funding:** Although affiliated to the Ministry, LARI is a relatively autonomous institution in the sense that funding does not flow from the Ministry of Agriculture but from the Ministry of Finance and international donors.
- **Management:** LARI is governed by a Council, which includes representatives of the main scientific institutions and agricultural stakeholders.
- **Sector activities:** The institute follows and implements the Research Strategy for the Lebanese Agriculture Sector published in 1994 by the government. Out of approximately 50 engineers at LARI, nine work in the field of citrus plant protection (pest monitoring, plant certification and other). The

institute trains farmers and develops new quality seeds, conducts food quality controls, soil analysis and oversees pest management. It receives technical assistance from several international organizations, such as the EU (Agricultural Development Project 2004-2008), FAO, International Centre for Advanced Mediterranean Agronomic Studies and others.

Institution: American University of Beirut

- **Mandate:** Through the Faculty of Agricultural and Food Sciences, the American University of Beirut promotes higher agricultural education, teaching and research in agriculture, food and nutrition, environment, natural resources, and community and rural development as a basis for sustainable improvement in the lives of people throughout Lebanon and the Middle East region.
- **Funding and management:** The University is governed by a private autonomous Board of Trustees.
- **Sector activities:** The Faculty conducts research on plant protection and tissue culture for citrus fruit. It has a representative in the Citrus Committee and thereby interacts with public and private sector representatives.

Institution: Hariri Foundation for Sustainable Human Development

- **Mandate:** The Foundation aims to improve Lebanese citizens' economic, social and cultural situation through reinforcing their participation in achieving sustainable human development. In the field of agriculture, the Foundation works to improve farmers' socio-economic conditions and enhance their knowledge by introducing new agricultural technologies and farming strategies.
- **Ownership and funding:** The Foundation is a non-governmental organization funded by donations.
- **Management:** The Foundation is headed by the president (Bahia Hariri, the sister of former Lebanese Prime Minister Rafic Hariri) who currently holds the position of the Minister of Education.
- **Sector activities:** In order to address the infestation of citrus orchards with fatal diseases, the Foundation established a Subtropical Fruit Tree Nursery that provides certified and new variety plants to farmers at competitive prices (at least 50% less than the price of imported avocado and citrus plants). The program was launched in 2006 and is ongoing. The project is located in Southern Lebanon and is part of the Hariri Foundation's Agricultural Development Center, which includes a packing facility for bananas and vegetables, ripening and cooling rooms, and a nursery for flower production and storage rooms for cut-flowers. USAID participated financially on the project. The Foundation is also a member of the Lebanese Citrus Committee.

Other institutions involved in the citrus sector

- **Private:** Mashatel Lebanon Association
- **Research:** American University of Science and Technology (AUST)
- **Bilateral Chambers:** The American Lebanese Chamber of Commerce, Canadian Lebanese Chamber of Commerce and Industry, Brazil Lebanon Chamber of Commerce, Lebanese Canadian Business Association

C.1.4.2 Evolution of the SPPD

SPPD could hardly happen until sufficient stability in the country and basic needs (like general infrastructure) were met. However, some initiatives affecting public-private relations took place during the conflict years. Most of them were started by international players: a project was established between Lebanon and the Mediterranean Agronomic Institute in 2003 and financed by Italian Cooperation (called "Production and Delivery of Certified Plant Material in Lebanon")⁹⁵ and another project focused on new citrus varieties in order to replace the old

⁹⁵ Moussa, Z., Kader el Hajj, A., Citrus production in Lebanon, Pre-Feasibility Study of IPM of Citrus, Lebanese agricultural Research Institute, 2010. <http://www.lari.gov.lb/LinkClick.aspx?fileticket=da%2BPNJGwAvU%3D&tabid=68>.

rootstocks with new ones resistant to viruses and diseases. It was executed by the Ministry of Agriculture, LARI and the Mashatel Lebanon Association, which is now in charge of providing those new varieties to growers under the supervision of the Ministry of Agriculture.

The Beginning of Dialogue Mechanisms

In the post-conflict period, the first effort from the government to start a new dialogue with the citrus sector occurred in 2010 when the Ministry of Agriculture (MOA) published a Strategy of Agricultural Sector Revival for 2010-2014. The action plan prioritizes and identifies key areas such as agriculture legislation reform, public/private institutional development, natural resource management and infrastructure, agricultural extension, regulations, quality enhancement, value chain development and rural finance. This document officially started the current SPPD in Lebanon.

The government launched 24 commissions organized by relevant products being produced in the country, with the aim of discussing in a specific way the problems affecting each of them. These groups have about 20 people each, and aim to have complete representation from all types of players participating in the value chain of those products. Each group has an agenda and it meets regularly, especially now that they still are in the development stage. The MOA is giving strong support to the groups, by having high-ranked officials participating in them. Even the Minister attends at least one session of the groups once a year. Also, a citrus committee was established in the MOA and involved members from all public and private institutions.⁹⁶ The main objectives of this committee are to develop a strategy plan to improve the production of citrus and to decrease the use of pesticides. For instance, a brochure was prepared to inform on how to keep the infestation level very low.

In the conception and birth of this SPPD, FAO has played an important role by giving guidance to the MOA in the setting up process. Despite the fact that agriculture has not been a priority for the government in the last years (the allocated budget for agriculture is 0.4% of the total national budget), farmers, exporters and other agricultural actors have a positive perception of this SPPD process, since this is the first time that they see a clear will from the government to listen to the needs of the agro world and to create new instruments accordingly.⁹⁷ However, this SPPD has a long way to go to achieve results and fix the problems of citrus in Lebanon, and at this point actions designed by the commissions have to be implemented in a satisfactory way to keep the interest and motivation of the parties involved. This will fight the lack of concretion that the MOA has despite its institutional efforts, by providing precise actions to impact where needed.

⁹⁶ Ibid.

⁹⁷ Additionally, Lebanon being a relatively small country, it is easier for stakeholders to reach government officials and this should be an advantage compared to larger countries, that sometimes spend a lot of time discussing non-relevant problems. Nevertheless, a significant part of the growers do not have access to the government through any means.

Challenges to Be Solved by the New SPPD

Some of the common problems that citrus growers are facing at the moment are the higher price of labor compared to its neighboring countries, together with an expensive oil price for the energy required for irrigation. There is also real estate pressure, since most of the best land for citrus farming is located on the coast (also suitable for tourism activities). Thus, increasing prices reduce the availability of land to be used for agriculture and existing orchards are being transformed in building apartments. Also, since there has been little innovation in the citrus species, other varieties of fruits turn out to be more profitable than citrus, incentivizing the replacement of citrus trees. Some corruption seems to be present in different areas of the government, and customs was among the most mentioned during the interviews. Finally, there is a need for regulation concerning the internal citrus market for new categories, like organic citrus, because no organization is able to control and define what can be considered organic or not.

Citrus production faces several obstacles such as old plantation, high production costs, lack of regulations and standards for nurseries, absence of quarantine control, bad agricultural practices, pest and disease problems, improper use of pesticides and fertilizers and lack of postharvest processing.⁹⁸ In order to cope with these problems, the Lebanese government—along with research organizations, farmers and the private sector—is working to develop a certification program for the sanitary improvement of citrus. The private sector is also considering new techniques and processes through organic agriculture and products of high added value. Despite this, some of the plantations in the south are being replaced by bananas which offer higher revenues

Citrus Orchard at Dmul-Ansar (The Largest Citrus Orchard in Lebanon)

Source: Competitiveness

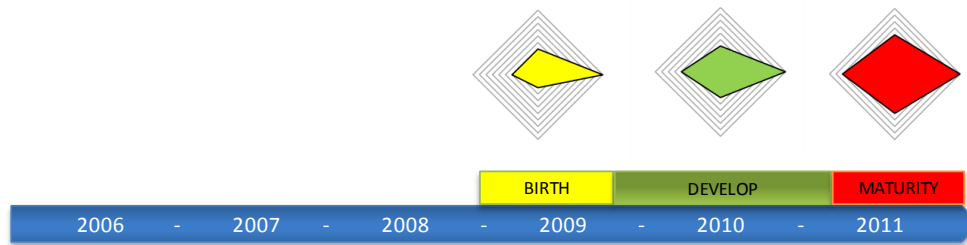


On the left, visiting the Citrus & Avocado Nursery at Hariri Foundation, with Mr. Dbouk (member of the Farmers Cooperative of Citrus and tropical fruits and of the Union of the Farmers of the South, on the right) Albrak- Zahranil (Sidone)

Source: Competitiveness

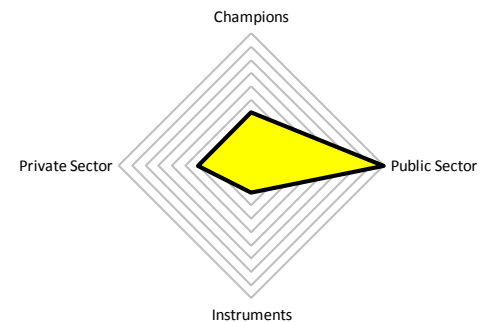
⁹⁸ Ibid.

C.1.4.3 The Public and Private Ownership in the Evolution of the SPPD



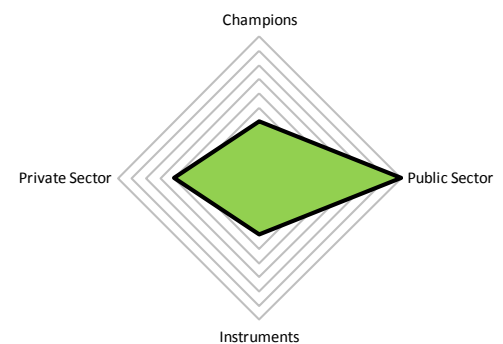
- Birth

During the Birth Phase of the SPPD, the predominant role came from the public sector, which organized everything that was needed to be able to start it. FAO was a key agent behind the scenes, as it helped in training and promoting a SPPD for the agricultural sector with in MOA. Thus, it has been a top-down process originated and driven by the public entities.



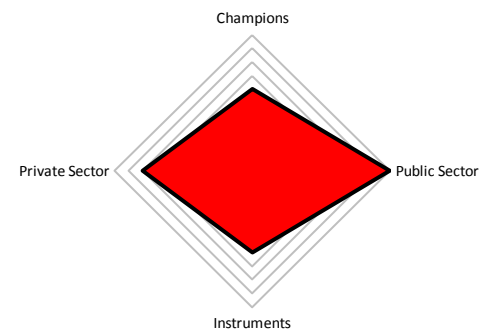
- Development

During the Development Phase, the private sector got more involved because companies saw the opportunity to be heard and to solve their problems working together with the MOA, a situation that could not happen before due the high instability of the country. Also, an effort has been made to include all actors of the value chain. From the private sector: farmers (both SMEs and large companies), exporters, packaging houses, association of farmers, syndicates of engineers and consultants. From the public sector: research centers (LARI), the Chamber of Commerce, universities and representatives of the Ministry of Economy.



- Maturity

At the moment, the SPPD is starting to enter its Maturity Phase, with its first implementations taking place. The private sector is getting fully involved in trying to implement what has been agreed, with the support of the public sector and some instruments. The main challenges are still the scarcity of resources assigned to the MOA by the government, limiting its ability to act.

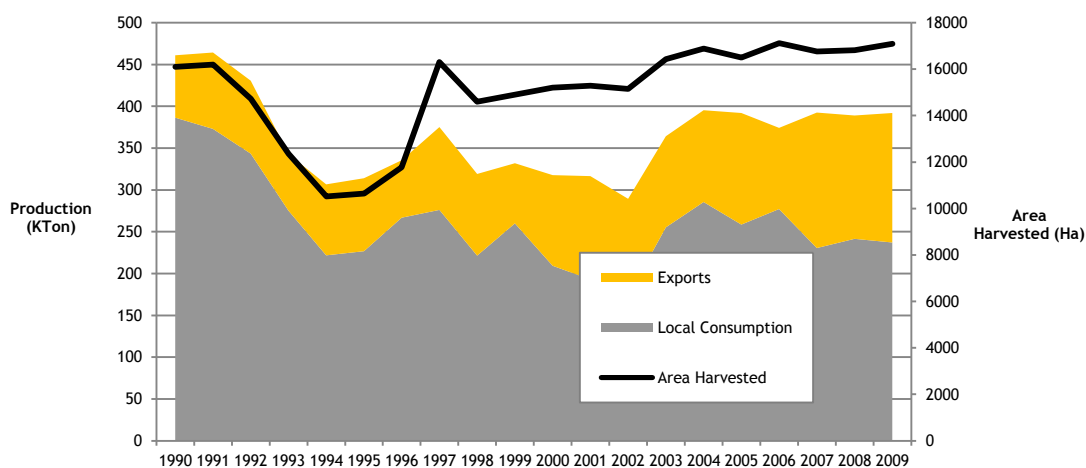


C.1.4.4 Overall Impact of the SPPD on Competitiveness

Since the current SPPD under study was launched less than two years ago and is only now entering into the Maturity Phase with the first actions to be implemented, it is still too early to measure the impact of recent SPPD developments on citrus sector competitiveness. However, previous improvements in the sector that were largely driven by international organizations, such as FAO or the Mediterranean Agronomic Institute, clearly had a positive impact on the sector, as seen in the fact that a significant share of Lebanese citrus fruit production is able to compete today in international markets.

As can be seen in the chart below, in the last two decades there has been a strong correlation between the levels of export and domestic production and the increases of area harvested translated into increases in exports as well (with the exception of periods of political instability). Looking at the share of export on total production, this has grown significantly from 16% in 1990 to 40% in 2009. In fact, the highest shares were, with the exception of 2006, recorded after 2003 and varied from 30-41%.

Area harvested vs. export and local consumption volumes (thousand tons), 1990-2009



Source: Faostat (2011)

Even if there are not concrete results to be reflected on export figures, there are intangible results of the SPPD that are worth mentioning as they will probably have an impact on competitiveness in years to come. For instance, it is an exceptional opportunity local stakeholders have to establish a real dialogue. Quoting some of the agents interviewed, the SPPD "gives for the first time the chance to have all layers [of the sector] in one room to discuss, set the priorities and follow up on them."

Some possible outcomes of the SPPD:

- Increase in production yields: new citrus species are being introduced and farmers are receiving training on good farming practices.

- Improvements on fruit quality: there are projects to enhance post-harvest practices and include new varieties in order to strengthen the export base. According to interviews conducted with local specialists, this will make a significant difference on quality and facilitate new investment inflows into the industry (as happened after similar interventions of international organizations were undertaken).

In conclusion, Lebanon represents the case of a country where the emergence of the SPPD and the development of the citrus sector were negatively impacted by the civil war and recent instances of political instability. In addition to the economic losses that followed, the fading of the mutual trust and of a long-term economic development vision postponed the SPPD by several years. International organizations in the role of donors and technical assistants played a crucial role in supporting the sector and brought relevant stakeholders to the table again in 2009-2010. Also, the more inclusive approach of the government towards the private sector has already managed to forge a more collaborative spirit. At this point, the actions designed by the commissions have to be implemented in order to keep the interest and motivation of all parties.

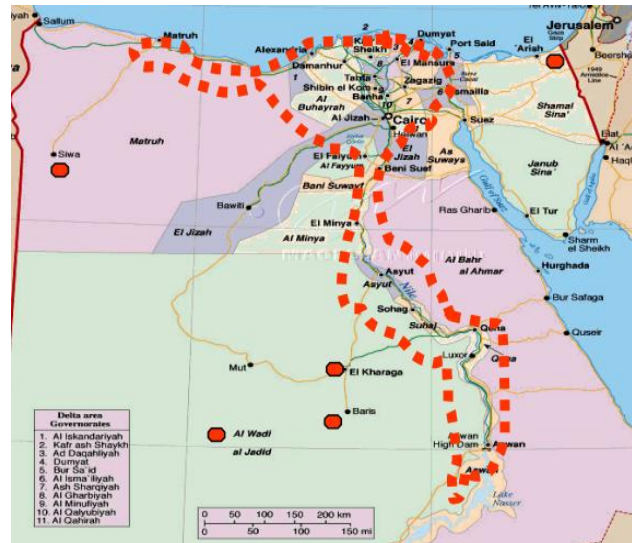
C.1.5 Egypt

C.1.5.1 Sector Description for the Country

Agriculture has traditionally played an important role in Egypt's economy. In 2009, the value added of the sector to the GDP was 13.7% (compared to 7.4% in the Middle East and North Africa Income Group) and the sector accounted for 31.2% of national employment.⁹⁹

The production of citrus fruit in Egypt has benefited from availability of water for irrigation (River Nile), which allowed for a consistent harvest year-round, good quality soil, favorable climate, low labor costs and a strategic position close to the sea and river ports. Most citrus growers are located in the Nile Delta (70%), where historically early tribal peoples settled and developed a relatively centralized society built on an agricultural economy.¹⁰⁰ Other production zones are located in the newly re-claimed desert areas. The major citrus producing governorates are: Sharkiya, Beheira, Qualubia and Menofiya. As for the new reclaimed lands, citrus production is concentrated in the Noubaria area (Beheira Governorate), which is where most of the expansion has taken place in the last two decades.¹⁰¹

A large part of the plantations in the old lands are over 50 years old, while trees in the newly reclaimed lands are generally younger and have not yet entered their maximum yield stage. Today, newly reclaimed desert areas represent an important alternative for expansion of younger citrus plantations.¹⁰²



Source: EuroMedCitrusNet

Production, Land and Yields

Citrus production has been growing steadily over the last decade and reached over 3.2 million tons in 2009. Compared to 1990, this is an increase of almost 47% and a more than 6-fold increase compared to 1965 when the production was 482,000 tons.¹⁰³

⁹⁹ World Bank Data.

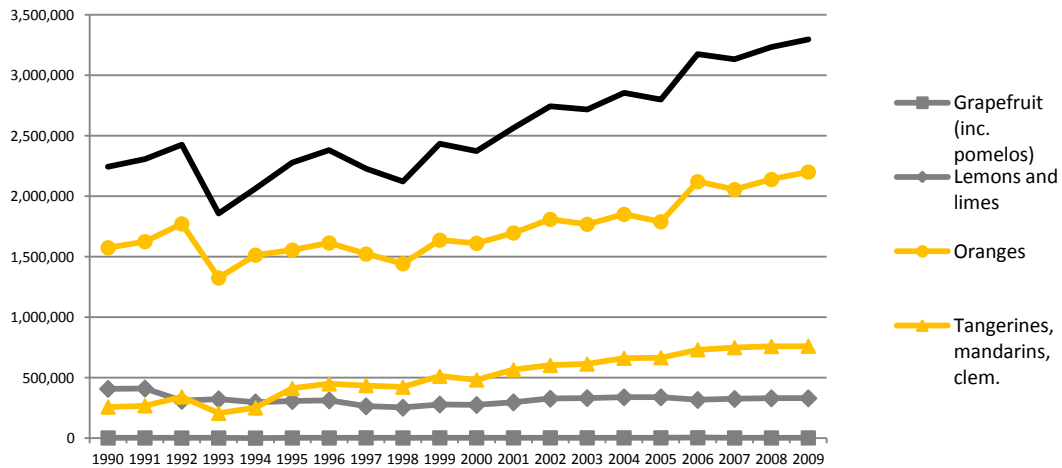
¹⁰⁰ Central Agency for Public Mobilization and Statistics in Egypt, April 2011.

¹⁰¹ Safe and High Quality Supply Chains and Networks for the Citrus Industry between Mediterranean Partner Countries and Europe, national Citrus Sector Analysis: Egypt, EuroMedCitrusNet, November 2007, <http://www2.spi.pt/euromedcitrusnet/Documents/Sector%20Analysis%20Report/EuroMedCitrusNet%20Sector%20Analysis%20Report%20-%20Egypt.pdf>

¹⁰² Ibid.

¹⁰³ Faostat.

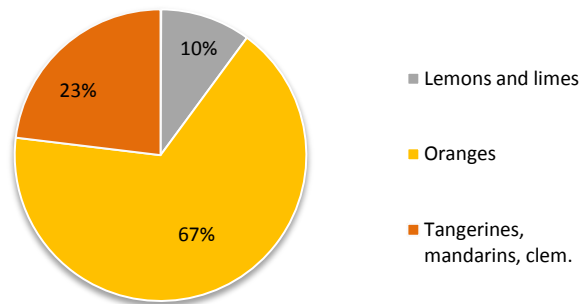
Production of Citrus (tons), 1990-2009



Source: Faostat (2011)

The main citrus species are oranges (10th biggest producer in the world¹⁰⁴), mandarins and limes. Dominant orange varieties are Navels, Valencias and Balady oranges.¹⁰⁵ Although oranges remain the dominant fruit, the share of mandarins has recently been growing. As for future expansion, both mandarins and Valencia oranges are expected to be oriented towards the newly reclaimed areas, especially easy peelers varieties (highly demanded by the foreign markets).¹⁰⁶

Production Breakdown, 2009



Source: Faostat (2011)

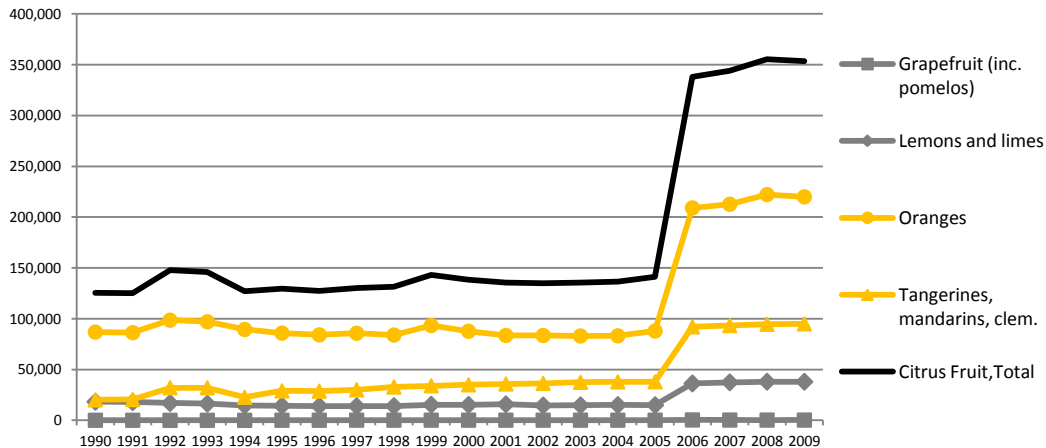
¹⁰⁴ Faostat.

¹⁰⁵ Safe and High Quality Supply Chains and Networks for the Citrus Industry between Mediterranean Partner Countries and Europe, Citriculture in Egypt, S. Eid, L. Guindy, Euromed CitrusNet, 2008, http://www2.spi.pt/euromedcitrusnet/Documents/Non_EU_RegionalConferenceProceedings/ANNEX%202.6%20Citriculture%20%20in%20Egypt.pdf

¹⁰⁶ Ibid.

The cumulative citrus land area, including old and newly reclaimed land, has remained quite stable from 1990 to 2005, with almost 140,000 hectares. In 2006 the area increased by 139%. This growth can be attributed to the investment of the private sector into new plantations in the desert outside the Nile valley.¹⁰⁷

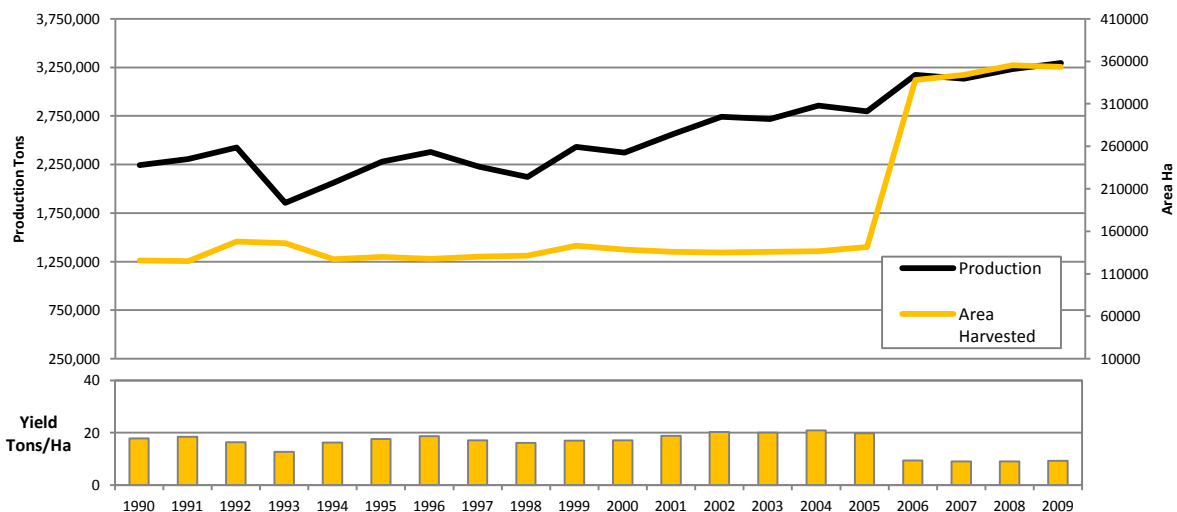
Area Harvested (ha), 1990-2009



Source: Faostat (2011)

With a growing production and no significant citrus land extension, yields increased from 18 tons per hectare to 20 from 1990 to 2005 (11% increase).¹⁰⁸ Despite the extension in the 2006-2009 period, new plantations in the desert have affected the overall productivity, which is at nine tons per hectare in 2009, very low with respect to other world producers.

Citrus Yields (ton/ha), Production (tons) and Area Harvested (ha), 1990-2009



Source: Faostat (2011)

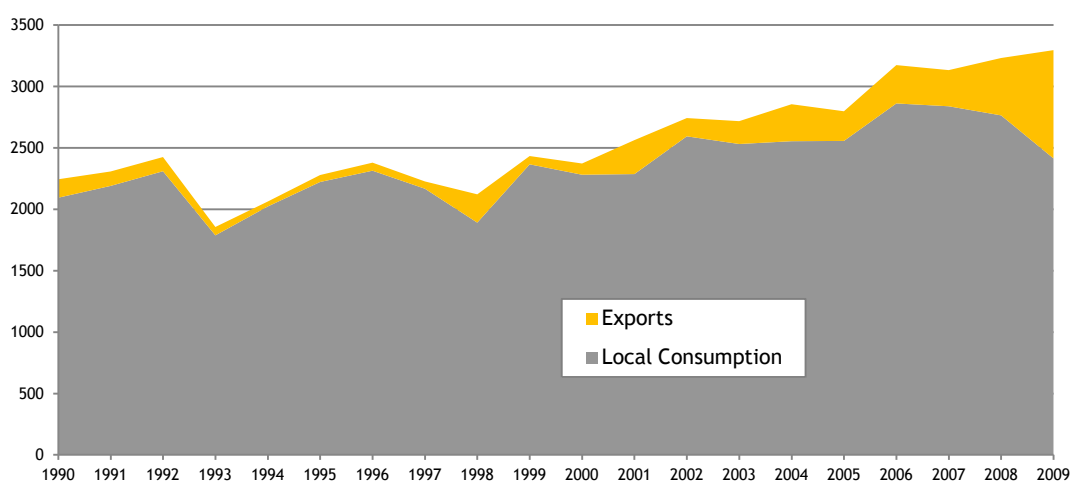
¹⁰⁷ Ibid.

¹⁰⁸ Faostat.

Exports

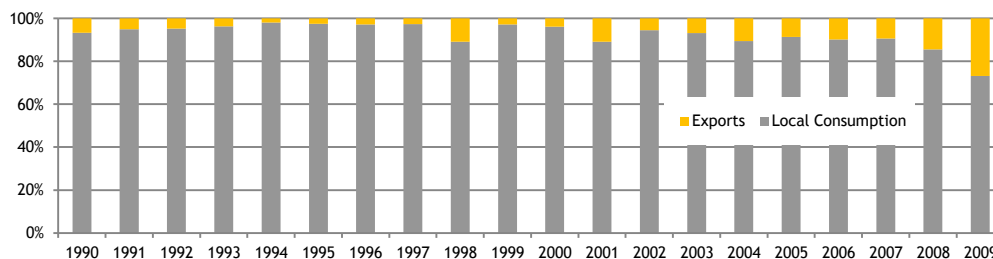
Overall citrus exports have remained between 5% to 10% of citrus production in the 1990-2007 period. Exports have grown significantly only in 2008 and 2009, with approximately 27% of the total citrus production exported.¹⁰⁹ The following table illustrates the increase of exports over the last years.

Export and Production Volumes (thousand tons), 1990-2009



Source: Faostat (2011)

Citrus Fruit Export/Production Ratio 1990-2009 (%)



Source: Faostat (2011)

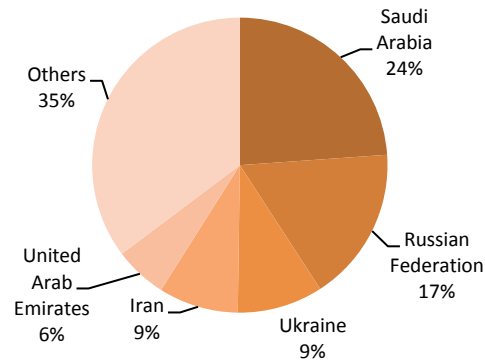
Russia, Ukraine and the Gulf countries, including Iran and Saudi Arabia, have been the primary export markets. The share of Saudi Arabia has declined recently, while Russia and Iran have become more dominant. Despite the short-term slowdown, the share of exports on the total citrus production increased from 7% to 27% between 1990 and 2009.¹¹⁰

¹⁰⁹ Eid, S., Guindy, L., Citriculture in Egypt. Sixth Framework Programme, October, 2008.

http://www2.spi.pt/euromedcitrusnet/Documents/Non_EU_RegionalConferenceProceedings/ANNEX%202.6%20Citriculture%20in%20Egypt.pdf.

¹¹⁰ Faostat.

Top Five Citrus Export Partners 2009

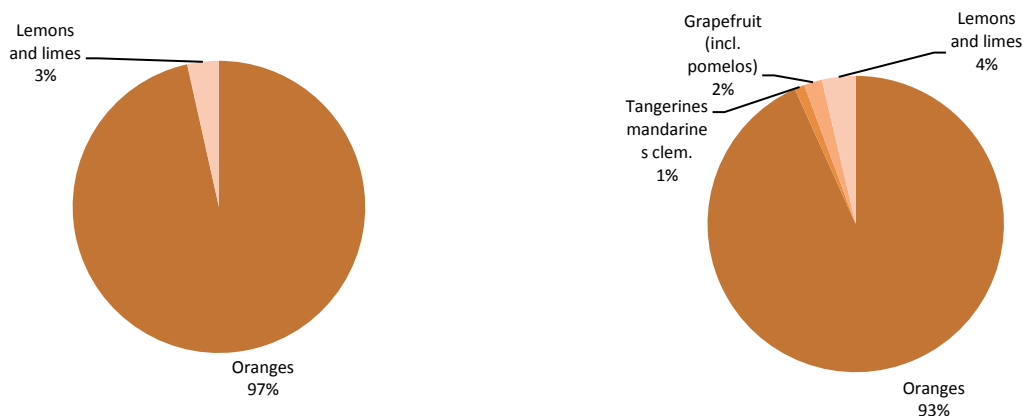


Source: Faostat (2011)

Egypt has not successfully managed to penetrate the European market yet. Less than 10% of the exported volume went to the EU mainly because of the uneven quality of the product. However, the recent launch of the EU-Egyptian Partnership agreement, under which Egypt received duty-free access of all quantities of fresh or dried oranges as of June 2010, is expected to have a positive impact on orange exports (although competitors such as Morocco and Turkey also received similar benefits).

The share of citrus fruit on agricultural export earnings has been growing. In 2008, Egypt's exports of citrus fruit stood at US\$248.5 million, representing a 13.6% share on the total agricultural exports. This is an increase compared to 2007 (7.1%) and 2000 (3.4%).¹¹¹ In addition, the value of exports has increased much more than the quantity, namely 14.1 times and 5.1 times respectively. As for export trends for each fruit type, oranges remain the main exported citrus fruit and their share has been above 90%, between 1990 and 2009.¹¹²

Evolution of Citrus Export Mix in 1990 and 2009 (tons)



Source: Faostat (2011)

¹¹¹ Ibid.

¹¹² Ibid.

SPPD Structure Inventory

Private	<ul style="list-style-type: none">• Horticultural Export Improvement Association• Egyptian Chamber of Commerce in Alexandria• Union of Producers and Exporters of Horticultural Crops
Public: National	<ul style="list-style-type: none">• Ministry of Agriculture and Land Reclamation• Regulatory Reform and Development Activity
Public: International	<ul style="list-style-type: none">• Food and Agriculture Organization of the United Nations
Research & NGOs	<ul style="list-style-type: none">• Agricultural Research Institute/Horticultural Research Institute• Egyptian National Competitiveness Council

I. Private Organizations

Institution: Horticultural Export Improvement Association (HEIA)

- **Mandate:** HEIA is a major private sector association promoting the expansion of sustainable exports of horticultural crops in Egypt. Since its establishment in 1998, HEIA has provided its members (horticultural producers, exporters and service providers) with modern production technology, post-harvest practices and market information. It aims to strengthen institutional capacity through networking, training, quality certification, product technology adaptation, outreach and publications.
- **Ownership and funding:** HEIA emerged as a private sector initiative when 25 Egyptian horticultural exporters recognized the need for a forum to share information on technology for their horticultural operations, equipment and packaging. Supported by the USAID-sponsored Agricultural Technologies Utilization and Transfer project, this initiative resulted into the formation of HEIA. HEIA has 500 members and participation is voluntary and fee-based. There are several types of membership with various fees to allow for inclusion of smaller companies. As for funding, since 1999 the main funding came from USAID. Over time, the government's participation increased. In an effort to become self-sufficient, the association has progressively increased its membership fees and the charges for its services. However, there is still a significant gap between expenses and revenues.¹¹³
- **Management:** The Board of Directors has nine members. HEIA leadership selection is based on a Rotary Club model of former board members (called the Committee of Trustees) who screen future board candidates.
- **Sector activities:** HEIA has several crops councils, including the Citrus Council, which is a network of specialized producers and exporters. HEIA's support activities include farm and field visits, demonstration and on-station experimental activities on new products, varieties and technologies, seminars by experts and crop specialists, facilitation of contacts with potential buyers and similar. As for linkages with other institutions, HEIA cooperates with the Ministry of Trade and Industry and the Ministry of Agriculture and Land Reclamation. The major result of the association's advocacy efforts was

¹¹³ Horticultural Export Improvement Association (HEIA), Final Evaluation, Development Associates, 2005. <http://www.oecd.org/dataoecd/9/58/35894037.pdf>.

the construction of the Perishables Terminal at Cairo Airport, financially supported by the Ministry of Foreign Trade Export Promotion Fund's grant.

Institution: Egyptian Chamber of Commerce in Alexandria (ACC)

- **Mandate:** ACC was founded in 1922 and is considered one of the oldest chambers in the Middle East region. Today it constitutes part of the Egyptian Federation of Chambers of Commerce. ACC's mission is to promote the cooperation between its members.
- **Ownership and funding:** In Egypt, membership is compulsory by law. The Federation has 26 chambers serving over three million business leaders, and chambers are considered public corporations serving private interests. The main source of income for the chambers is from the contributions of its members. Similar regulations apply to the ACC.
- **Management:** The highest body of the ACC is the Board of Directors comprised of 16 members. Half of them are elected and the rest are nominated by the minister of supply and home trade. According to the Chamber of Commerce Act, each chamber member has one vote in the assembly.
- **Sector activities:** The Chamber does not have a Citrus-specific Committee, but it runs a wholesale market of vegetables, fruits and fish, and by mandate promotes business interests of all members.

Institution: Alexandria Business Association (ABA)

- **Mandate:** ABA is a non-governmental, not-for-profit organization based in Alexandria. Its objective is to contribute to the improvement of the business climate through research, advocacy and boosting efficiency of human resources. ABA is also an active contributor to community development and manages one of the most successful micro-finance projects.
- **Ownership and funding:** ABA is a professional business association composed of 350 members based on membership fees.¹¹⁴
- **Management:** ABA is privately managed.
- **Sector activities:** ABA has a citrus committee. In addition, its microfinance program is available for the farming community and constitutes a comprehensive credit program that now covers six governorates through 60 branch offices and employs more than 900 staff.

Institution: Union of Producers and Exporters of Horticultural Crops (UPEHC)

- **Mandate:** UPEHC is the biggest union in the field of agriculture in Egypt. It was established in 1971 under a law endorsed by the Egyptian Parliament with the goal of promoting the quality and quantity of horticultural production.
- **Ownership and funding:** UPEHC is stationed at the Ministry of Agriculture and Land. UPEHC is viewed as a quasi-government agency.
- **Management:** UPEHC's chairman is named by the Minister of Agriculture and Land Reclamation.
- **Sector activities:** UPEHC has a Citrus Council and its role is to develop and define related policies and advocate with public institutions in all areas relevant to the development of the export industry. UPEHC's strategy as of 2005 sets the goal to deal with transportation impediments as well as tax and phytosanitary issues as these impede the competitiveness of businesses including those in the citrus sector.

II. Public: National Organizations

Institution: Ministry of Agriculture and Land Reclamation

- **Mandate:** The Ministry formulates agricultural policies and regulations that promote the development of the sector and help farmers improve their produce.
- **Funding and management:** As a government body, the funding and management are purely public.
- **Sector activities:** Between 1999 and 2006, the Ministry collaborated with the Ministry for Economic Co-

¹¹⁴ Membership fee is 6,000 Egyptian pounds and the sons of members enjoy the right to pay a half.

operation of the Federal Republic of Germany and launched the Citrus Improvement Program.¹¹⁵ The program assisted relevant local actors to supply 40% of the local demand with improved planting material (1.6 million trees) through public and private nurseries and growers. Establishment of a certification scheme with strict regulations for the citrus nursery sector has helped increase citrus productivity in Egypt.

Besides agricultural policy formulation and financial support such as subsidies for pesticides, the Ministry administers the Agricultural Research Institute and the Horticultural Research Institute, both of which also target citrus fruit.

The Ministry has recently prepared the Sustainable Agriculture Development Strategy towards 2030,¹¹⁶ which includes provisions aimed at achieving productivity improvements in horticulture.

Institution: Egyptian Regulatory Reform and Development Activity (ERRADA)

- **Mandate:** ERRADA is a government initiative launched in 2008 to build a regulatory management system, based on a dialog between public and private institutions and civil society, aimed at increasing efficiency, competitiveness and creating more job opportunities. ERRADA developed the required institutions, tools and processes to enable the inventory and revision of existing business regulations. Since its establishment, ERRADA has expanded and today has three stations (Cairo, Alexandria, and Red Sea).
- **Ownership and funding:** The ERRADA project was launched in 2008 as a non-profit initiative with the support of USAID and later transitioned to government's ownership. After three years of operation under the Minister of Trade and Industry, in 2011, the Sub-cabinet Committee for Monitoring Economic Performance chaired by the Minister of Finance gained oversight over ERRADA. Since its inception, the initiative has received funding from donors (USAID) and from the government.
- **Management:** The executive director heads the organization.
- **Sector activities:** The initiative collaborates with the Ministry of Agriculture via the so-called Government Management Unit established by a Minister Decree. The Minister of Agriculture assigned to the Unit conducts an inventory and provides opinions on regulations in agricultural areas. Examples include recommendations to improve regulation on the registration of plant and seed varieties, on the production, inspection, approval and trading of seeds and other.

III. Public: International Organizations

Institution: The Food and Agriculture Organization of the United Nations (FAO)

- **Mandate:** FAO Egypt actively collaborates with local governments and farmers in addressing issues ranging from food security, intensification and diversification of agricultural production systems and animal health.
- **Funding and management:** FAO is an international organization financed and managed by member countries.
- **Sector activities:** FAO intensely collaborates with the Ministry of Agriculture and Land Reclamation and assists in the preparation of agricultural development strategies. One of the recent accomplishments was the creation of crops sub-groups, including the citrus group, with the goal of building capacity and streamlining policy efforts aimed at the sector development.

IV. Research & NGO organizations

Institution: Institute/Horticultural Research Institute (HRI)

- **Mandate:** HRI is one of the major research institutes of the Agricultural Research Center. HRI consists of

¹¹⁵ Achievements and Impact of the Citrus Improvement Program (CIP) in Egypt, Deutsche Gesellschaft für Technische Zusammenarbeit, 2006. <http://globalfoodchainpartnerships.org/cairo/papers/JoachimHoferEgypt.pdf>.

¹¹⁶ Methodology of Preparing the Sustainable Agriculture Development Strategy Document, Agricultural Research Center (Egypt), http://idc.sci.eg/PDF_files/SUSTAINABLE%20AGRICULTURAL%20DEVELOPMENT%20STRATEGY%202030/Methodology%20of%20Preparation%20the%20Strategy%20Document.pdf.

18 research departments, four central laboratories and 13 special units. In addition, six botanical gardens located in Cairo, Aswan and Alexandria belong to the HRI. The research activities of the HRI are carried out in 16 research centers and farms. Horticulture research institute objectives can be summarized as improving and developing horticultural crops, enhancing water use efficiency, preserving the environment and other.

- **Ownership and funding:** As a public research institute, HRI falls under the Ministry of Agriculture and Land Reclamation and receives government funds.
- **Sector activities:** HRI has a Citrus Department with 29 staff members and defined objectives. HRI collaborates with other research organizations and universities. Some of the institute's achievements are the domestic and international propagation of citrus, the development of new crop hybrid varieties and establishment of citrus extension farms.

Institution: Egyptian National Competitiveness Council (ENCC)

- **Mandate:** ENCC was founded in 2004 by a group of prominent Egyptian business leaders and academics. It is an NGO that aims to provide a platform for business, government, academia and civil society in order to raise awareness and advocate policies that will enhance competitiveness. ENCC's main accomplishment is the publishing of the annual Egyptian Competitiveness Report.
- **Ownership and funding:** ENCC is composed of members mostly from the private sector and aims to serve the public interest. USAID continues to provide technical assistance including financial support for issuing the annual Egyptian Competitiveness Report. USAID is also supporting efforts to strengthen ENCC as an institution and to improve its financial sustainability.
- **Management and Sector activities:** ENCC's Board is mostly composed of business representatives. ENCC established the Agriculture Competitiveness Council, which brings together stakeholders active in the development and competitiveness of Egypt's agricultural sector who wish to advocate for the recommendations in the Egyptian Competitiveness Report.

Examples of other institutions in the citrus sector:

- **Public (policy and standard setting):** The Central Administration for Agricultural Extension Services, The Central Administration for Horticulture, The Central Administration for Pest Control, The Central Administration for Quarantine, The Central Lab for Expert System.
- **Public (export):** Centre for Developing Egyptian Exports, General Authority of Supervising Exports and Imports, International Trade Unit, General Authority of Fairs and International Markets, The Council of Agricultural Commodities and Crops, The Supreme Council of Commodities, The Egyptian Bank for Developing Exports, Council of Facilitating Export Procedures, Agricultural Commodity Council of Egypt (ECC), Export Promotion Center.
- **Bilateral Chambers:** British Chamber of Commerce, American Chamber of Commerce in Egypt (and Alexandria), Canadian Chamber of Commerce, French Chamber of Commerce, German-Arab Chamber of Commerce, Italian-Arab Chamber of Commerce, Japanese Foreign Trade Association and other.

C.1.5.2 Evolution of the SPPD

As mentioned above, citrus have been historically important crops for the country and its agriculture, representing the most important fruit among all the fruit production. Consequently, most of the public efforts have focused on citrus improvement programs with the aim of increasing production and fruit quality. However, as Egypt is a very centralized country where most of the decisions are taken in Cairo, Chambers of Commerce and other institutions or associations have a bigger regional dialogue and they try to lobby on behalf of their members (usually, these institutions have commissions created to deal with the problems of each sector). At a national level, the government tries to develop large

companies mainly (because they have reputation and capabilities), hoping that they will help develop smaller companies around them at a regional level.¹¹⁷

Public-Private Efforts in the 1980s and 1990s

Several SPPD efforts have taken place since the 1980s, with different purposes, aimed at improving farmers' knowledge regarding new production techniques, controlling diseases, use of new varieties and increasing yields. These SPPD efforts were often carried out with the help of development partners. For example, in order to address the very low average citrus yield and export prices in the 1990s, the German Ministry for Economic Co-operation (BMZ) launched the Citrus Improvement Program (1999-2006) in conjunction with the Egyptian Ministry of Agriculture (MOA) and Land Reclamation (MALR).¹¹⁸ The program assisted relevant local actors to supply 40% of the local demand with improved planting material (1.6 million trees) through public and private nurseries and growers.

Other public interventions were carried out in cooperation with the private sector such as the development of a common strategy for the sub-sector with participation of all relevant stakeholders, the elaboration of the legal framework for citrus certification and the drafting of a law for the licensing procedures for citrus nurseries.

However, the government paid attention mainly to large companies, while SMEs felt excluded from the dialogue.¹¹⁹ For example, when subsidies were created to help citrus growers overcome some difficulties, the companies that had access to these subsidies were only the large—and well connected—ones. Thus dialogue with SMEs was almost inexistent.

2009: The Formal Dialogue Starts

The government launched the Sustainable Agriculture Development Strategy towards 2030.¹²⁰ This program aims at improving agricultural productivity in horticulture; it is organized in nine groups, containing 88 sub-programs according to the type of produce grown in Egypt and to other relevant topics affecting their agriculture. The document is a clear indication of the growing public-private collaboration.

The strategy was prepared in coordination with the National Agricultural Research and Development Council, FAO, with inputs from the International Fund for Agricultural Development and the World Bank. It was prepared based on inputs of agricultural experts in the various ministries, concerned institutions and representatives of the private sector and the civil society (including farmers' associations, service institutions in each region, leading staff of the faculties of agriculture and research centers in the region).

The program took two years to be developed (including the design and the many interviews done around the country) and since it was launched in 2009, the first implementations have

¹¹⁷ Interview with the Egyptian National Competitiveness Council.

¹¹⁸ Achievements and Impact of the Citrus Improvement Program (CIP) in Egypt, Deutsche Gesellschaft für Technische Zusammenarbeit, 2006. <http://globalfoodchainpartnerships.org/cairo/papers/JoachimHoferEgypt.pdf>.

¹¹⁹ Interview with the Chamber of Commerce in Alexandria.

¹²⁰ Sustainable Development Strategy 2010, Agricultural Research Center, Egypt. http://idc.sci.eg/PDF_files/SUSTAINABLE%20AGRICULTURAL%20DEVELOPMENT%20STRATEGY%202030/Methodology%20of%20Preparation%20the%20Strategy%20Document.pdf.

started to take place in many different areas. However, the future of this effort remains uncertain today. In the aftermath of the revolution, new public sector initiatives are paralyzed while the new administration gets in place, but the running ones continue in deployment and development. As the creation of the 2030 Agenda included such a variety of involved actors, and the technical public servants that led the effort will most probably continue in their positions, good chances are that it will be resumed by the new authorities.

Challenges to Be Solved by the Existing SPPD Mechanisms

On the one hand, the private sector is not well organized: there are too many Chambers of Commerce that overlap in many aspects (e.g. the French Chamber of Commerce, the American Chamber of Commerce, ABA, etc.). On the other hand, the Public sector does not perceive that Chambers of Commerce properly represents the voice of the private sector. Also, in terms of inclusion and transparency, the previous government used to be involved in informal dialogue mechanisms mainly related to the elite. This has generated a lack of trust by those companies that were left out. In fact, corruption is still present at different levels in most of the transactions that happen between the private and the public sector.¹²¹

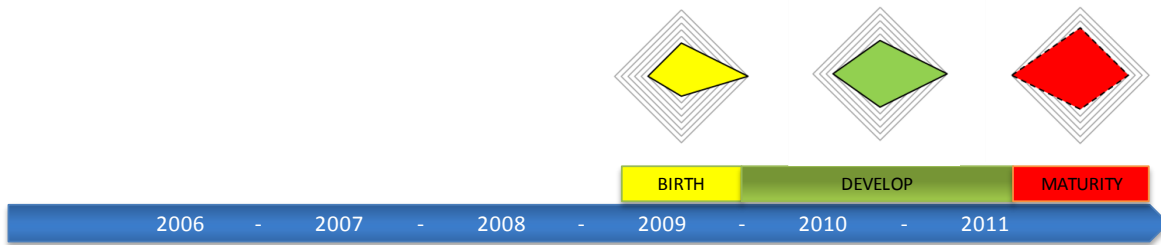
On top of it, there is a lack of coordination among different public institutions which are extremely inefficient and have “deep-rooted” ideas. For instance, the MOA has hired very few people for two decades, which means that the average employee age today is around 55 years old.

Other issues related to production are:

- Disappearance of lands especially in the Delta: there is a lack of effective control of construction of new buildings, meaning that cities are growing in an uncontrolled way.
- Land fragmentation: orchards are becoming smaller and smaller with each new generation. This means they lose the minimum optimal size required for optimizing production costs.
- Old trees: they have an average age of 60 years in some parts of the Delta. This causes low production yields, varying qualities and a lack of response to what markets are demanding.
- Logistics: infrastructure and procedures are not adapted to allow a faster processing and shipping of the fresh produce.

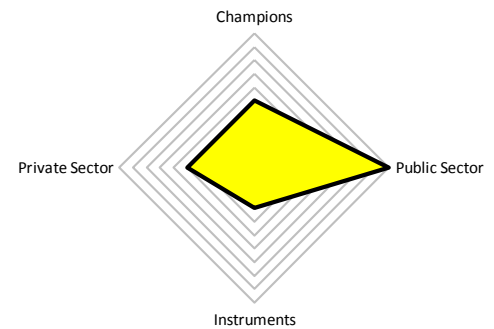
¹²¹ Major scandals have surfaced recently in the high spheres.

C.1.5.3 The Public and Private Ownership in the Evolution of the SPPD



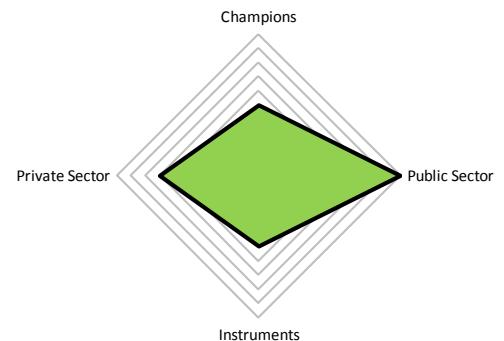
- Birth

Traditionally, the private sector has been very active in presenting to the government the needs of the companies and in doing by themselves what the government was not able to do for the sector. Associations and private institutions have been the champions, pushing the government to do what was required. In this case, the SPPD has been initiated by MOA, consulting the main actors regarding the strategy for the whole sector towards 2030. Institutions of the private sector were reluctant at the beginning, because they were very autonomous and did not consider the government would be able to help them.



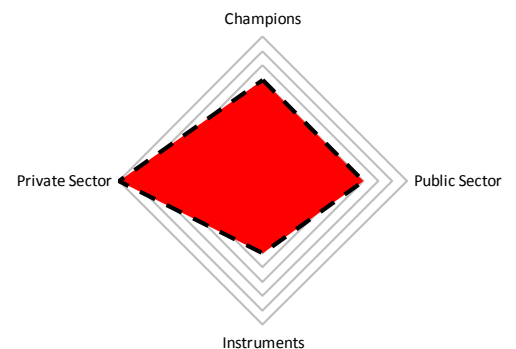
- Development

During the Development Phase, the private sector got more involved but not many champions appeared in the SPPD. Potential champions were already doing business and they did not feel the SPPD would make a difference (probably due to the influence of the elite and the lack of transparency).



- Maturity*

The SPPD is now in the Maturity Phase, with the first implementations taking place. Since there is no good coordination among public institutions, there is lack of commitment to achieve some of the changes. The private sector is taking the lead as was the case before the SPPD started. With the current political situation (after the revolution started), it is important to make sure actions designed are inclusive and follow a strategy that benefits all actors, observing a sub-sector and regional approach to solve concrete needs.



* Note: a dashed line means that the SPPD is in a fragile situation.

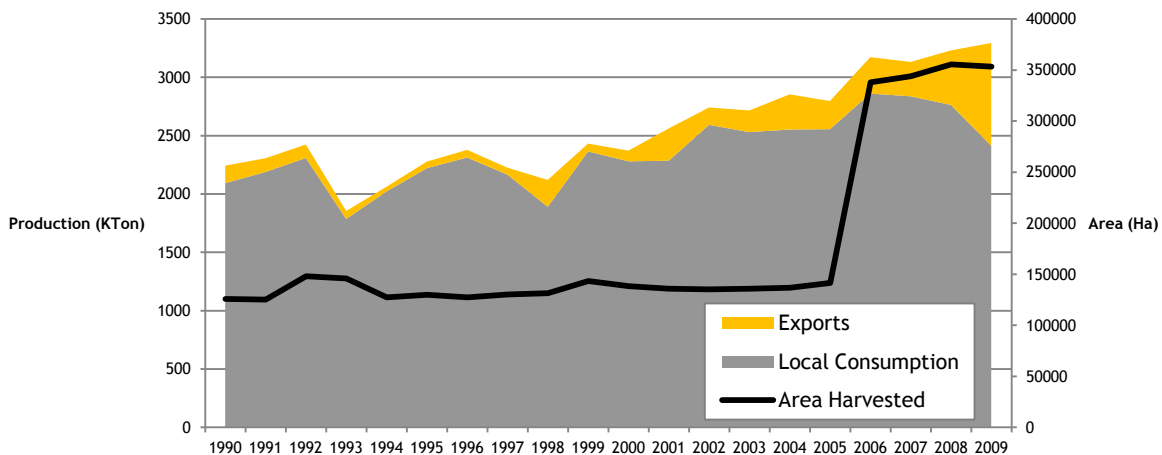
C.1.5.4 Overall Impact of the SPPD on Competitiveness

Today, despite Egypt's role as the world's ninth largest exporter of oranges and an important supplier of citrus in the Middle East and Eastern Europe, the majority of produced citrus remains in the domestic market. Egypt's export levels to the European Union remain hampered by the relatively lower quality of citrus compared to its competitors from Spain or Turkey. In that sense, the Egyptian citrus sector has had a poor performance in competitiveness for the last 20 years and it is mainly due to the lack of proper public-private development instruments which could help solving most of the challenges mentioned above.

There is a parallel with Lebanon in that for many years, development in the citrus sector was largely driven by external actors. Thus, past accomplishments in the sector were not linked to domestic public-private instruments.

The SPPD mechanism launched in 2009 is at present entering the Maturity Phase, where most of the actions are still to be implemented and the impact of this initiative is not yet in the stage where it could demonstrate measurable impacts. On a positive note, however, the development of the strategic agenda for 2030 has created positive reactions among the private sector, which feels that for the first time many relevant actors previously excluded from the dialogue are on board. Some of them hope that SMEs will have a chance to voice their concerns more persuasively now.

Area Harvested vs. Export and Local Consumption Volumes (thousand tons), 1990-2009



Source: Faostat (2011)

With the current political situation in the aftermath of the Arab Spring, it will be crucial for the SPPD to prioritize two principles: including all relevant stakeholders, especially SMEs, and achieving a higher transparency of actions, not only among the government but also the still fragmented businesses.

C.1.6 Malta

C.1.6.1 Sector Description for the Country

Citrus fruits in Malta have a long tradition and date back to ancient times. Citrus trees were introduced by the Arabs in the 9th century, when they arrived to the island. After years of cultivation, a specific variety was developed on the island, gaining recognition among European palates:

*"An important, high quality semi-blood variety, the Maltese Sanguine is of unknown origin, but Malta is the most probable. It is grown extensively in Tunisia and to a lesser extent in Morocco. The Tunisian Maltese has outstanding flavor, which is regarded by many as being the finest quality of any non-navel orange; in France it is spoken of as the 'Queen of Oranges'. It is very sweet but with adequate acidity and has a particularly delicate flavor which, when combined with its tenderness, seedlessness and high juice content, forms the near ideal desert fruit."*¹²²

Despite its historical prominence, the situation nowadays is much different. Citrus orchards are disappearing from the island. They are being substituted by more profitable fruit trees. This trend was even exacerbated by the entrance of Malta into the European Union in 2004. The opening up of markets and the continuous decline in produce prices brought new challenges for the agricultural sector. Today, only 10% of the Island's citrus consumption is supplied by local producers and the rest is imported from Italy, Egypt, South Africa and the Netherlands.

It is worth mentioning that the overall economic development process in Malta has been characterized by a general decline of the agricultural sector. The share of agriculture on Maltese GDP is at 2% and the sector accounts for only 1.7% of the nation's employment.¹²³ Furthermore, citrus land accounts for 1.5% of the already scarce agricultural land (11,619 ha).¹²⁴

The underlying factors have been the shrinking labor force, the contraction of agricultural land, lack of water and financing facilities, and low education among farmers. Most farms are small and family owned, thus land fragmentation discourages investment as is the case in Spain, Egypt and other Mediterranean countries.¹²⁵

Production, Land and Yields

Citrus production has been growing at a slow pace over the last decades and reached 2,292 tons in 2009. Compared to 1990, when production was 1,700 tons, this amount represents a compounded annual growth rate of 1.6% in the 1990-2009 period. Over time, there has been a slight increase in the production of oranges, while for lemons and limes the trends were the opposite.

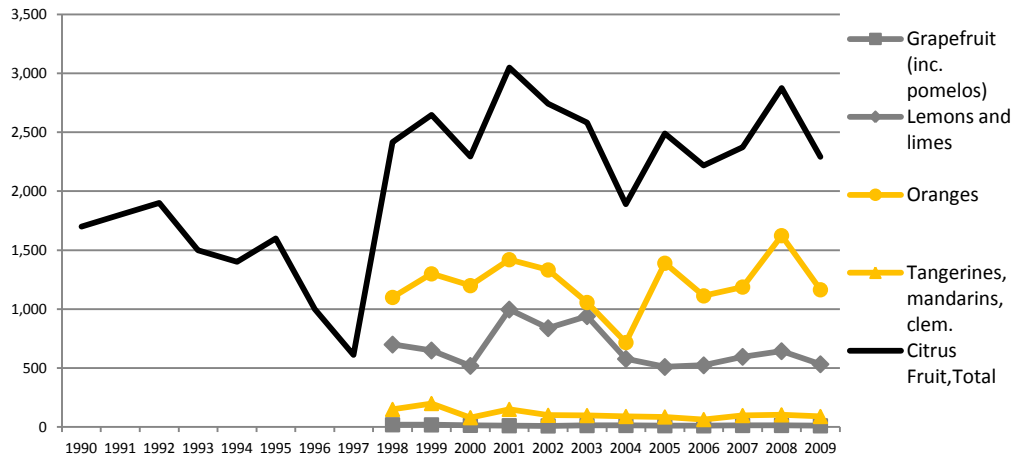
¹²² Saunt, J., Citrus Varieties of the World, Sinclair Int., 2000.

¹²³ World Bank Data.

¹²⁴ Faostat and Ministry for Rural Affairs and the Environment, Malta. <http://www.elo.org/UserFiles/File/Marica%20GATT.pdf>.

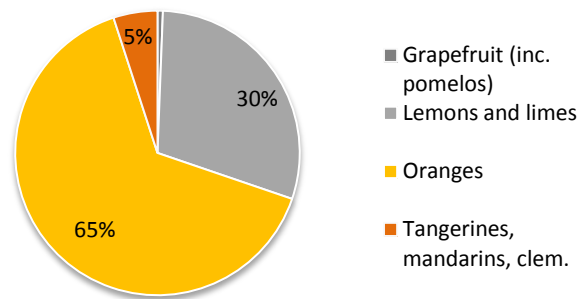
¹²⁵ Malta Factfile, Ministry for Rural Affairs and the Environment, Malta, <http://www.mrra.gov.mt/loadfile.ashx?id=19ac4b75-1d48-4ba4-a43b-8762f78c48c5&content=application/pdf>.

Production of Citrus (tons), 1990-2009



Source: Faostat (specific variety data available only after 1998) (2011)

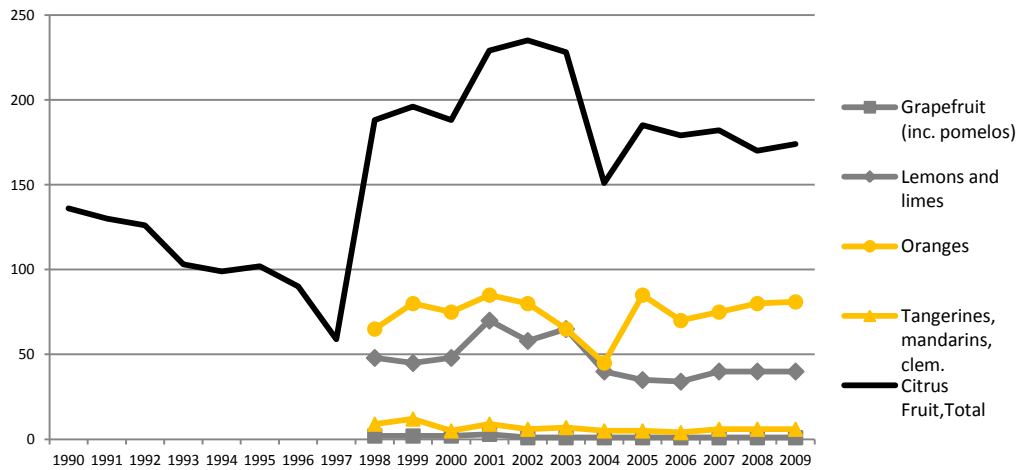
Production Breakdown, 2009



Source: Faostat (2011)

The total area harvested has increased slightly in the 1990-2009 period from 136 to 174 ha. It is noteworthy that the area increased between 1997 and 2002, while the opposite trend was the case in the 2002-2009 period, which is likely attributable to the stronger focus on services and higher value added industries after the integration of Malta to the European Union in 2004, as was mentioned earlier.

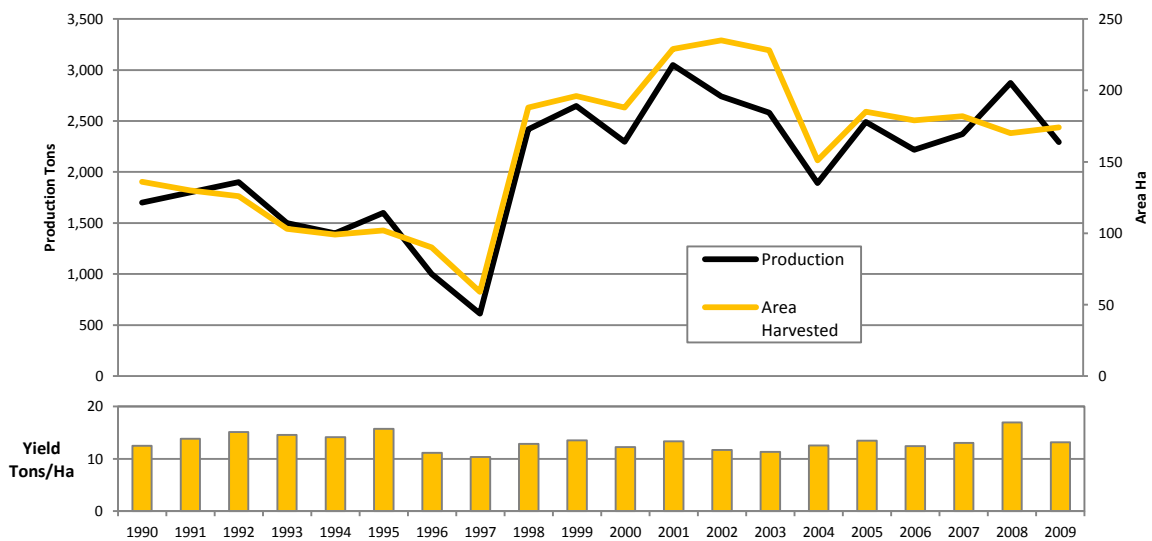
Area harvested (ha), 1990-2009



Source: Faostat (specific variety data available only after 1998) (2011)

Compared to other Mediterranean citrus producers, yields are very low. The chart below illustrates the strong relationship between area harvested and production levels, pointing to stagnating yield levels. Average citrus yields between 1990 and 2009 fluctuated between 10 and 16 tons per hectare, with the exception in 2008 (over 17 tons/ha). Without any advances in cultivation techniques, the production/area ratio will likely continue to remain constant.

Citrus yields (ton/ha), production (tons) and area harvested (ha), 1990-2009

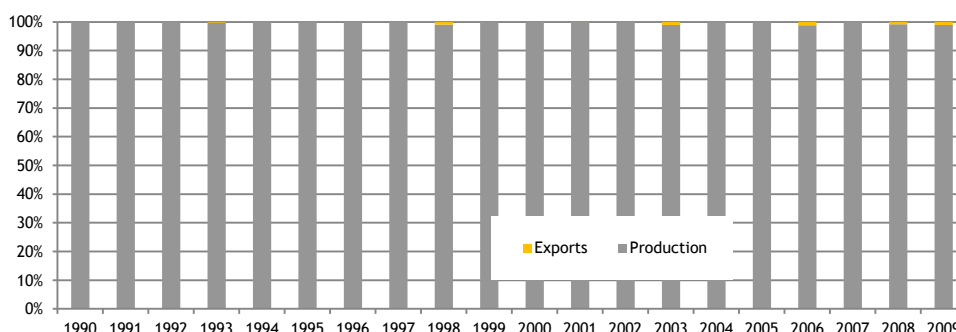


Source: Faostat (2011)

Export

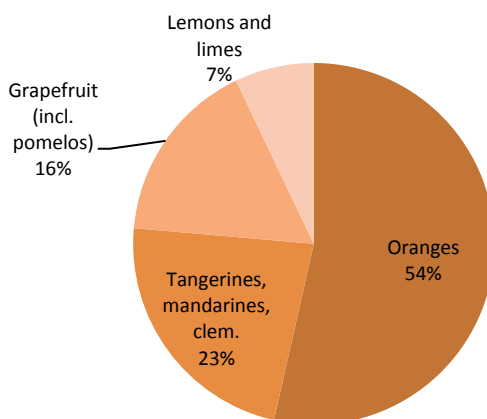
Maltese exports of citrus are negligible both from the international and domestic perspective. Between 1990 and 2009, Malta occasionally exported citrus to Italy, Egypt, Libya and Argentina but these trade flows were sporadic, less than 130 tons in the 1990-2009 period, and no more than 26 tons a year.¹²⁶ Imports, on the other hand, by far exceeded export levels, which makes the country a net citrus importer. In 2010 Malta was exporting a record 50 tons while importing 5,000 tons of citrus.¹²⁷ Oranges accounted for 54% of the exports in the 1990-2009 period.¹²⁸

Citrus Fruit Export/Production Ratio 1990-2009 (%)



Source: Faostat (2011)

Export Mix, 1990-2009 average (tons)



Source: Faostat (2011)

¹²⁶ Faostat.

¹²⁷ United Nations Commodity Trade Statistics Database.

¹²⁸ Faostat.

SPPD Structure Inventory



I. Private Organizations

Institution: Malta Chamber of Commerce, Enterprise and Industry

- **Mandate:** The Chamber is a private sector initiative that represents the businesses' interests and works to influence policy formulation on the national and European levels. The Chamber works to cultivate mutual understanding between the government, unions and other employer organizations. It groups the country's business community, including several associations and corporate and individual members. Traditionally, it has had representation in various councils of government. Members are aligned in economic groups (importers, distributors and retailers, manufacturers and other industries and service providers). The Chamber provides a number of services aimed at networking, knowledge transfer, education, training and internationalization. The Executive Board of each group meets regularly and discusses concerns and initiatives. As for general services, it issues certificates of origin, verifies export documents, issues licenses to commercial agents, ATA licenses and similar.
- **Ownership and funding:** The Chamber was established on a voluntary basis and officially recognized in 1848. It is an independent organization financed mainly by membership fees.
- **Management:** The Chamber is managed by a Council of 19 elected members, who hold their post for a period of two years. The Council includes the Chairpersons of the Chamber's Economic Groups, as well as all past presidents who continue to be members of the Malta Chamber.
- **Sector activities:** The Chamber promotes internationalization of agricultural businesses by hosting seminars on business opportunities abroad. It also has a separate Small and Medium Enterprises Committee with a focus on micro enterprises. The Committee is devoted to providing assistance related to trade queries and business opportunities, improving access to finance for SMEs, reviewing EU legislation related to SMEs (Small Business Act), and organizing related seminars and information meetings.

Institution: Farmers Central Co-operative Society Limited (FCCS)

- **Mandate:** Established in 1947, FCCS is one of the oldest producer cooperatives in Malta. It is composed of eight primary cooperatives, which are spread across the island of Malta and which group producers of various agricultural products, including oranges, lemons and grapefruits. FCCS represents about 1,100 farmers.
- **Ownership and funding:** The cooperative is a private sector initiative and funding sources come mainly from members in the form of commission from sales and fees for services provided.
- **Management:** FCCS is managed by a committee (currently eight members) elected by members from each of the primary cooperatives.
- **Sector activities:** FCCS helps its farmer members' market their produce at the best possible prices in the main local fruit and vegetable market called Pitkalija. The whole amount of produce marketed by the FCCS represents over 25% of the products sold at the market. Another objective is to centralize and coordinate the administrative work done by primary co-operatives. FCCS organizes educational meetings

for members and promotes their communication with the government and local authorities.

II. Public Organizations

Institution: Ministry of Resources and Rural Affairs

- **Mandate:** The Ministry is the main government body responsible for agricultural policy development and programming as well as issues related to climate change and resources policy, rural development policy and fisheries policy. One of the Ministry's main departments is the Agriculture and Fisheries Regulation Unit that deals with plant health.
- **Funding and management:** As a government body, the Ministry is funded from the state's budget and managed by elected government officials. As an EU member, the agricultural policies follow the guidelines of EU's common agricultural policy.
- **Sector activities:** The Agriculture Department promotes the introduction of improved methods of production in agriculture, horticulture and animal products. The Plant Health Directorate, serving as the Maltese National Plant Protection Organization, coordinates and regulates activities to control the introduction and dispersion of major pests and diseases harmful to plant production as defined by the International Plant Protection Convention and the European Union's legislative provisions. The Directorate also carries out surveys and annual reports to monitor diseases, the local market and produce. The Ministry's Crop Husbandry Unit works to introduce new varieties of crops and to maintain citrus fields. Sanitation of infected plant material and the eventual establishment of a gene bank are envisaged. The Ministry occasionally provides aid in several forms to local Councils and other organizations that organize events with agricultural themes, including the Citrus Fest at San Anton Palace in 2010.

In addition, to help fruit and vegetable producers sell their production at the highest possible prices through auctions, the Ministry established the Pitkali Market Centre. Locally grown fruit and vegetables are deposited by farmers and sold to licensed hawkers through middlemen. Recently the Ministry also proposed to open a new Farmers Market, in order to help producers avoid middlemen and sell their produce directly to consumers.

Institution: Malta Enterprise

- **Mandate:** Malta Enterprise is a public agency responsible for the promotion of foreign investment and industrial development in Malta. The agency offers assistance and advice to potential investors as well as domestic businesses seeking to expand their activities domestically and internationally. Malta Enterprise maintains regular contacts and business relationships with various local and international business associations such as chambers of commerce, federations of industry, business bodies as well as diplomatic missions and international business and trade promotion organizations. Malta Enterprise's strategy is to maintain these strong links for information sharing, knowledge management and the organization of joint business events.
- **Ownership and funding:** Malta Enterprise is a public agency and is fully financed from government's budget.
- **Management:** The Corporation operates under the Executive Chairman and the Board of Directors appointed by the Minister of Finance, Economy and Investment. The Board is composed of 8 members, many of whom come from the private business sector and are appointed by the Minister.
- **Sector activities:** Malta Enterprise has a wide assortment of business advisory services and financial state incentives that focus on manufacturing, service enterprises and innovative start-up. As for the agricultural sector support, according to the Common Agricultural Policy of the EU, member states are not to provide state aid for activities linked to the primary production of agricultural products (regulated separately by the EU itself). However, businesses active in the processing and marketing of agricultural products are eligible for aid from the state, in this case via Malta Enterprise.

C.1.6.2 Evolution of the SPPD

Citrus is not among the priorities of the Ministry of Agriculture (MOA). There is neither a formal nor an informal SPPD taking place. There are no citrus-specific regulations that apply to trade and production policies.

General Agricultural Policies for Citrus Farmers

Malta's trade policy and agricultural policy follow the rules of the Common Agricultural Policy of the European Union. It benefits from agriculture subsidies to farmers and agricultural land owners that were negotiated prior to EU membership. However, these subsidies are being gradually cut back and will come to an end by 2013. As for investment attraction, Malta Enterprise is responsible for the distribution of various types of incentives for local and foreign businesses investing in Malta. However, no direct measures are directed to agricultural production itself (as this issue is separately addressed by the EU), although the state aid scheme may be applied to processing and marketing of agricultural products.¹²⁹

The public sector focuses its action on disease controls, some modest technical assistance and subsidies, research and regulations adjustments. Another government initiative was the establishment of a farmers' market, Pitkali, where only locally produced food could be sold. However, this initiative has been criticized by local farmers who often complained that they were inadequately compensated for their produce, while customers were subjected to high prices. This was a result of several middlemen involved in the value chain that charged high margins. The Pitkali fruit and vegetable market was a government operation but it ended up controlled entirely by private individuals. To address this, the government decided to create another farmers' market, which would allow growers to sell their produce directly without the need of middlemen or 'hawkers'. *"In this way, both customers and farmers will be getting a fair deal"*, according to Fenech Gonzi, the Director of the Wholesale Markets Department within the Resources and Rural Affairs Ministry.¹³⁰

Farmers' cooperatives do have an active role in organizing seminars, courses and other activities for its members. Nevertheless, if an interaction among farmers occurs, it is mostly attributable to the initiative of the public sector. The vast majority of farmers does not belong to any of the existent associations and are completely isolated and uncoordinated. Many of them work only part-time on their orchards as they are unable to rely on their farming revenues only. This is also one of the reasons why the motivation to become involved in associations is so low.

In terms of the challenges of the sector, varieties being produced are old and have low yields compared to other Mediterranean citrus producers. Land fragmentation and the lack of water resources also put a strain on their competitiveness. Farmers in general are not familiar with the best farming practices and farms are run by older generations which threaten also the continuity of citrus production in Malta. Competition from other modern producers in the EU also makes it very difficult for them to compete without more support from the government. Finally, the citrus value chain is also unbalanced, as farmers' market power is much weaker

¹²⁹ Support Measures, Malta Enterprise. <http://support.maltaenterprise.net/>.

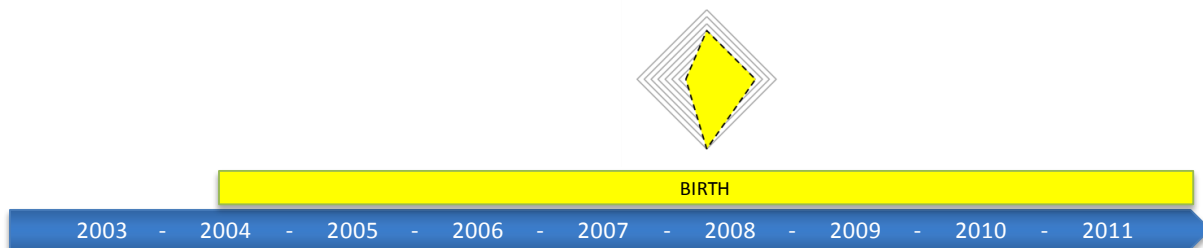
¹³⁰ Times of Malta, Maltese Newspapers, July 2010. <http://www.timesofmalta.com/articles/view/20100719/local/new-farmers-market-to-bypass-pitkali.318503>.

compared to the middlemen operating on local fruit markets. Hence, measures to address this, such as supporting more efficient production practices or stronger cooperatives, are necessary.



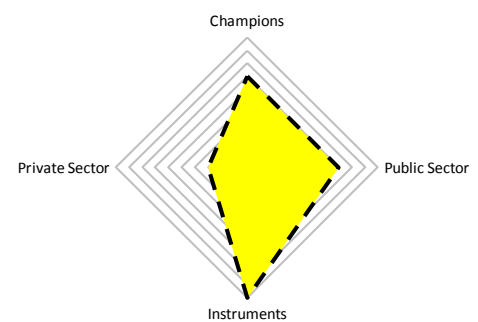
Orchard in an old Maltese quarry to protect the trees from the wind. On the right picture, Mr. de Guerra (farmer, left) and Mr. Briffa (MRR, right). Source: Competitiveness.

C.1.6.3 The Public and Private Ownership in the Evolution of the SPPD



- Birth*

The citrus SPPD in Malta is in a birth (or pre-birth) status. There is no formal SPPD taking place, and dialogue happens only when needed. The fact that Malta is a small island does not facilitate the access of farmers to the government (something that happens in cruise tourism, for instance). The private sector (mainly farmers) is not well organized and does not have a unified voice to establish a dialogue with the public sector because farmers usually do not belong to any of the associations. Some of the relevant champions are individuals mostly from the public sector, going far beyond their responsibilities to help farmers solve their problems. There are several instruments trying to help local agriculture thrive, but a review would be necessary in order to see whether these are dealing with farmers' and sector competitiveness needs.

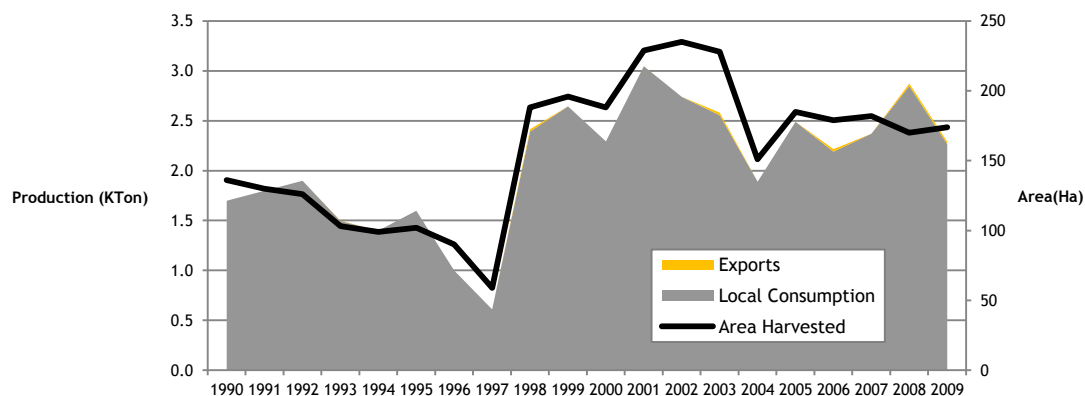


*Note: a discontinued line means that the SPPD is in a fragile situation.

C.1.6.4 Overall Impact of the SPPD on Competitiveness

The incipient public-private efforts in Malta have not produced any significant impact on the sector's competitiveness. As stated above, Maltese citrus exports are negligible from both the international and the domestic perspective. Malta has occasionally exported citrus mostly to neighboring countries but has largely depended on imports, which by far exceeded export levels. Export share on production in the last two decades has been close to zero.

Area Harvested vs. Export and Local Consumption Volumes (thousand tons), 1990-2009



Source: Faostat (2011)

In order to be competitive, citrus orchards need to be renewed with new varieties and farmers have to learn best practices to produce higher quality products. The entrance into the EU put a higher pressure to compete on the sector, which has not been able to make sector changes that would help it face the new market rules. This is quite unfortunate, given the long tradition of citrus fruit on the island and its high-quality fruit, which would have great appeal for export markets.

Considering the history of successful production of high quality citrus fruit, the Maltese citrus sector seems to have been rather forgotten in the recent years. The government has introduced certain ad hoc measures to support local farmers, but these lack a strategic vision and a more comprehensive approach to the citrus sector's development. Farmers remain fragmented in their actions and their cultivation practices are increasingly obsolete compared to international competition. Hence, dialogue will need to be adjusted on many levels, including stakeholder involvement, agenda and funding. Without a more formalized structure and more involvement from state officials and farmers, the future of the citrus sector will remain uncertain in Malta.

C.1.7 Learning from the Citrus SPPD Implementation in the Mediterranean Region

As a conclusion of the case studies in the citrus sector, the five Mediterranean countries under study will be compared to see how each of them managed SPPD processes throughout the different phases (Birth, Development, Maturity and Transformation). This comparison will illustrate different ways of carrying out SPPDs in the citrus sector and what successes, risks or failures can occur during the lifetime of the dialogue. The aim of this comparison is to identify where the potential red flags are and to point out lessons that will be then summarized in the concluding chapter of the study.

All five countries are compared using the 12 Principles of the Charter of Good Practice.¹³¹

The Champions

- Birth

In many successful **Birth Phases**, the public sector leads the SPPD process, promoting a new structure and pushing traditional companies to integrate into an open and more sophisticated market. In Spain, the process took place at a nationwide level, with consequences at local and sector levels, although there was not a specific policy for citrus fruit yet. This implied that traditional sector leaders (mainly cooperatives)¹³² had to learn the new rules of the game as the old structure was not valid anymore. In Malta, the potential champions belonged to the public sector and acted in an isolated way, trying to persuade the government about what should be done to improve the conditions for citrus. Maltese champions are highlighting the need to start an SPPD. In the case of Lebanon, champions were part of a development partner. In this sense, some members of FAO (driven by their conviction) persuaded the MOA to start a proper SPPD by giving support and guidance. In Turkey, the most important champion belonged to the private sector: the Chamber of Commerce of Mersin. The Chamber launched the initiative, hosted the meetings and also put in place the facilitator.

Lesson: In most of these cases, champions in the Birth Phase were neutral and have helped the SPPD move forward. In the same way that having champions is important, having the wrong champions can make the Birth of the SPPD difficult. Moreover, at Birth point, the focus is still unknown and it is therefore hard to know what type of champions will be needed.

- Development

During the **Development Phase**, Spanish private agents willing to enter into the dialogue (and to benefit from the European subsidies) appeared as advocates for new ways of communicating and managed to adapt to the new strategic context, eventually becoming champions. In Lebanon, some participants of the private sector got more involved, but the leading role was played by the MOA and by other public institutions (like LARI, the Lebanese research center). In Egypt, in this stage there was a need to review what type of champions

¹³¹ See Annex I.

¹³² The most representative is ANECOOP, founded in 1975.

were needed from the private sector, since only companies well related to the government (or belonging to the elite) were the ones playing this role. In Turkey, the Mersin Chamber of Commerce continued with the role of champion, but no clear champions were involved from the public side.

Lesson: Not having the right profile of champion can create distrust from the rest of the participants, or these champions may represent only their interests. Also, not having champions in the public sector creates the risk that the private sector may not find a public counterpart to take the lead on that side.

- **Maturity and Transformation**

During the **Maturity Phase**, many small Spanish farmers were transformed into key business leaders helping introduce market-led reforms, during a 20 year period. They were empowered and frequently played the champions' role in the dialogue. In other countries, the SPPD has not yet reached that phase or has just started.

Lesson: In the Maturity Phase, initial champions partially lose their relevance, because the dialogue is starting to work well by itself and many actors get involved.

Finally, during the **Transformation Phase** in Spain, there was not a transition to a new leadership in the sector. New private sector leaders could not find an echo in their public interlocutors anymore. Nowadays, champions are mainly private agents acting in clubs.

Lesson: Once the SPPD has reached the Transformation Phase and most of the goals have been achieved, the SPPD may fail to include new innovative players.

The Facilitators

- **Birth**

During the Birth Phase, facilitators usually play a low profile role. In the case of Spain, the European Union acted as a neutral facilitator as it provided standard procedures and rules that helped structure the SPPD around specific needs, leaving behind other traditional demands at the regional and national level. In other countries, the bodies or entities starting the SPPD acted as initial facilitators as well. In the case of Lebanon, the facilitator was the same institution that was championing the process, FAO.

Lesson: Facilitators should be neutral (meaning someone not depending on the private sector), in order to avoid that some of the actors distrust the dialogue and step aside.

- Development

During the Development Phase, in the case of Spain, the European Union continued to be the main facilitator pushing for change and for a new strategic perspective. Other countries, like Lebanon, created commissions in charge of each SPPD. Each commission has a President, who has been voted into office. These presidents act as facilitators and organize the logistics for the meetings, the general agenda and represent the group with the Minister. They also summarize the agreements of the commission and send them to the appropriate authorities. Usually they do not exercise further responsibilities. Also, it is not clear whether these presidents are neutral enough to facilitate the dialogue, or whether they have the analytical capability to lead the group through the strategic decisions it has to make.

In the case of Turkey, the facilitator is an employee of the Chamber, who is not paid for the activities specifically related to the SPPD management. She works in the Project Directorate, and when she was nominated to be the facilitator of this group she accepted because she was convinced that an SPPD was the best tool to improve the competitiveness of the region. She carries out an excellent work in motivating business leaders to get involved in the dialogue and in building trust among participants. Nevertheless, the strategic vision for the sector is being defined by common agreement among members of the group. The risk here is not identifying the best model that could be adopted for the region: it is very difficult to have business leaders self-defining what they need in order to be more competitive, because they are not currently competing in the most attractive business and therefore they do not usually understand the strategic changes that have to be made.

Lesson: There is a danger of facilitators not having the capability of analyzing the business in order to help the group make the right decisions. If they are not able to identify the most attractive strategy, neither would they be able to find the right actions for future challenges.

- Maturity and Transformation

In the Maturity Phase, new organisms were created in Spain to play the role of facilitators. However, they were not considered totally neutral or efficient. There was too much focus on institutionalizing the SPPD process which led to a lack of flexibility towards market changes.¹³³ As a result, today in the Transformation Phase “Old” and institutionalized facilitators are no longer adapted to their stakeholders needs. Consequently, an unstructured and parallel dialogue appears mainly at private-private level with a scattered use of public instruments that fit the new needs.¹³⁴

Lesson: SPPDs have to avoid a rigid institutionalization which undermines the flexibility of the sector to react to changes. Since the current SPPD cannot help the private sector anymore, companies will look for other ways to achieve their goals.

¹³³ Intercitrus only pass unanimous decisions. This procedure blocks many initiatives; since interests from cooperatives are not always aligned to interests from professionalized companies.

¹³⁴ Some companies in the region of Valencia are participating in a European funded research project into the citrus genome (five million Euros).

Sector-Specific Scope

- Birth

During the Birth Phase, in the case of Spain, as a result of joining the European Union, citrus fruits received the same treatment as any other agricultural activity during the birth of the SPPD, which was too broad a scope. Lebanon created the Citrus, Bananas and Exotic Fruits Commission, which was a step forward compared to the previous situation (almost no SPPD), but still too broad a focus to tackle citrus' needs in a concrete way. In Turkey, an initiative was launched for the cluster Mersin Fresh Fruits and Vegetables Exporters and Packagers.

Lesson: Not having a proper process for defining the scope of the SPPD has the risk of failure due to a wrong geographic or business scope. If the scope is set beforehand without doing some analysis, chances are that it will follow predefined agendas and not adapt to market needs.

- Development

In Spain, once the SPPD reached the Development Phase, new challenges were identified specifically for citrus fruits, understanding the strategic segments in which they could best compete (fresh segment, mainly oranges and mandarins) and sector-specific instruments were created through appropriate SPPD channels. In the case of Lebanon, citrus are handled together with bananas and exotic fruits. Despite having 24 groups for each type of produce, it has been an important step forward towards analyzing each business; this is still not enough, however, for the case of citrus due to the different forces (and requirements) that citrus, bananas and exotic fruits receive from the market. It is not possible to design specific and tailored actions to improve the competitiveness of all three types of produce at the same time (especially when bananas are replacing citrus in many areas as well).

Turkey's situation is similar to Lebanon's, by bundling fresh fruits, vegetables and packaging businesses in the same group.

Lesson: Each business has its own requirements and demands, and to be able to compete, actors will need different capabilities and skill sets depending on the strategic segment chosen. A wrong or not accurate definition of the business scope will mean that existing gaps will not be overcome. If no strategic analysis takes place, stakeholders will probably focus on solving current business model problems (when most likely what they need to do is change their business model).

- Maturity and Transformation

During the Maturity Phase, Spanish companies benefitted from sector-specific instruments, being able to enter and compete in new markets (mainly in Europe). Support actions were introduced at different levels of the value chain (production, trade, research) taking advantage from cross-sector instruments (IMPIVA and IVEX).

Lesson: If sector-specific actions during the Maturity Phase do not efficiently coordinate with institutions at a federal or national level, there is a risk that instruments designed at those levels will not be adapted to fulfill the sector's requirements based upon future market demands.

For the case of Spain, today, during the Transformation Phase, sector-specific policies are not adapted to the new challenges. SPPD is not having or building new capabilities for best serving companies needs (e.g. importance of logistics at EU level, packaging technology, production consolidation integrating abandoned orchards, etc.)

Lesson: There is a risk of not designing new policies that would allow the sector to constantly get ready for future market demands. This can be due to a structural rigidity in the SPPD or a lack of mechanisms to update the strategic analysis.

International Links and References

- Birth

At the beginning, the natural reference point for Spain was the European market. At the same time, Spain was already considered a reference point for other Mediterranean countries.

Lesson: Adopting models and benchmarks without knowing which will be the SPPD strategy entails the risk of looking for models similar to the current one and letting conventional wisdom become the strategy, without doing analysis.

- Development

In Spain, once the Development Phase was reached, strategic analysis was carried out and the most attractive business segment for the country was detected. Actions were structured and designed after studying international benchmarks for understanding what the need for multiple varieties was (tasty, easy peelers, all year round, etc.) and what the product quality requirements were.

In the case of Lebanon, exporters are quite exposed to international markets and they are at the moment the best source of information for learning from best practices and updated customers' demands. This fact involves the risk of them monopolizing the SPPD if a proper strategic analysis is not done by the facilitator and presented to all members. In the case of Malta, exporters have a dominant position because they can have a strong influence in the prices of certain citrus in the island thanks to knowing what the stocks for those fruits are and how easy it is logistically to import from a nearby European country. In Turkey and Egypt, international reference trips have been already organized and carried out.

Lesson: International benchmarks will be relevant for competitiveness if they are the result of a strategic analysis to identify the appropriate business model and to strengthen the local businesses value chain accordingly.

- Maturity and Transformation

In Spain, during the Maturity Phase, the U.S. and European competitors were constantly monitored. Agreements and informal communications were established, mainly regarding diseases, but also dealing with strategic issues (visit to the California citrus cluster and communication with Israeli universities to develop new varieties and packaging).

In the Transformation Phase, links with sophisticated international research players are not yet sufficiently strengthened in order to keep the innovation pace required for Spanish companies to be competitive.

Lesson: There is a risk of visiting and establishing agreements with similar non-innovative SPPDs in other countries, instead of collaborating with international experts that could help the sector build the missing capabilities of the new activities needed.

Outputs: Action Lines and Recommendations

- Birth

During the Birth Phase in Spain, all initial actions and recommendations were generated by the European adhesion framework. This was the first agreement on private sector development objectives that gave birth to the subsequent sector-specific outputs.

In Lebanon and Egypt, different outputs were produced during this phase, such as strategic agendas and memorandums of understanding.

Lesson: The risk of not having a formal commitment among the main relevant institutions as an output during this phase may generate a lack of support later on.

- Development

In the case of Spain, once the strategy was defined during the Development Phase, new strategic needs were shared through SPPD organizations such as Intercitrus, public institutions (IMPIVA, IVEX) and private cooperatives (ANECOOP). As a result, actions and instruments were tailored accordingly. In Lebanon, coordination is taking place between the Ministry of Agriculture and all commissions created (citrus among them), and decisions are taken now considering the inputs of these groups. In Turkey, action lines are designed within the specifically created cluster's workgroups to discuss each of the prioritized topics.

Lesson: Risks of the Development Phase are to try to get too fast into actions, plan only actions that will not have quick results or let the design of the actions be influenced by conventional wisdom distorting their original aim. Another risk is designing actions that are not oriented to new strategic requirements.

- Maturity and Transformation

In the case of Spain, the Maturity Phase was, for the majority of activities, successfully carried out (export promotion, subsidies for production efficiency, academia-private sector link, etc). All these actions were designed to gain the capabilities needed for competing in the new business segment. However, progressively structures became less active and less adapted to new market realities. Thus, in the Transformation Phase some private-private outputs begun to be produced without the intervention of the public side. This is a signal that the time for SPPD renovation has arrived. Current SPPD actions are only supporting the previous change but are no longer pushing innovation.

Lesson: Success comes with the risk of SPPD becoming too rigid and not being able to adapt at the necessary pace.

Outreach and Communication

- Birth

In Spain, joining the European Union was the most important national policy at that moment, so it was largely publicized and every local and SPPD in the country had to prepare for the new era.

In the SPPDs taking place in Turkey, Lebanon and Egypt, communication happened mainly amongst stakeholders launching the SPPD.

Lesson: In the Birth Phase, SPPDs may avoid being publicized. Risks of having the media involved at this stage should be taken into account as there may be interferences or pressures from external agents that could harm the rest of the process if they get to know so early about the SPPD.

- Development

Observing the case of Spain, during the Development Phase its SPPD in citrus was not very publicized. Basically, public champions were adapting their instruments and reaching out to private players, sharing the new challenges and goals.

In the case of Lebanon and Turkey, communication takes place mainly between the public and the private sector involved in designing the actions. In Egypt, communication happens mainly with the publication of the document containing all the strategies defined for the agriculture sector until 2030, after the interviews and the drafting work was done.

Lesson: At this stage, it is important to maintain close communication with the participating private sector, to keep them engaged in the SPPD. Exposing the process to high notoriety before it has a defined strategy has the potential risk of receiving pressure from external lobbies or agents to include their interests (or to prevent the SPPD from continuing).

- Maturity and Transformation

In the Maturity Phase, Spanish SPPD actions were publicized, particularly because they were successful and enabled the communication of a shared vision and tangible activities.

Lesson: Reaching out to general media before concrete activities have been launched or achieved has the risk of receiving external pressures. Conversely, publicizing actions once they are achieved reinforces the credibility of the process.

During the Transformation Phase in Spain, a strong outreach effort is underway by current SPPD structures, but it is not getting the results it used to have as the dialogue content is no longer what the sector is demanding. Small farmers are not hearing the solution to their problems (exiting the business due to the difficulties to compete in a big players' game) and vertically integrated companies are not getting the level of sophistication they are expecting from public instruments (i.e. logistics infrastructure, rapid creation of new varieties, etc.).

Lesson: Continuing to promote instruments related to the established (outdated) model may harm the process. Innovative and adequate information has to be generated (implying a new strategy) in order to maintain stakeholders' interest.

The Structure and Participation

- Birth

In the Spanish case, during the Birth Phase the initial structure was based in the European guidelines and the national roadmap for economic development. Previous structures were subordinated to the new SPPD scheme. So it was almost like a *tabula rasa* start.

In Lebanon, all the initiative was taken by the Ministry of Agriculture with the support of FAO, the development partner, with no structure during this phase. A similar case happened in Egypt with the conception of the 2030 Agenda. In the case of Turkey, the Chamber of Commerce was in charge of launching the SPPD. And in Malta there is no formal SPPD, so public and private sectors interact only when needed.

Lesson: As seen in all the cases, not having a structure was not an impediment to starting the SPPD. In fact, establishing a structure without knowing what the focus of the SPPD would be has the risk of creating rigidities.

- Development

In Spain, as new instruments were established during the Development Phase, some organizations adapted and others were created. Intercitrus is a good example of an SPPD structure of relevant representatives participation.

In Lebanon, their structure is composed of a secretariat (hosted in the Ministry of Agriculture) and 24 working groups organized by type of produce. Many members of the secretariat are employees working for Ministry of Agriculture. Participation is good, since there is a high involvement by the Ministry of Agriculture's decision makers and also at a private sector level (exporters, large companies and SMEs, entrepreneurs, packagers, unions, etc.). Chambers of Commerce also play an important role. However, there is a lack of higher involvement of other related Ministries and there is also no communication between the Ministry of Agriculture and academia. Not having the involvement of other relevant public sector players poses the risk of limiting the reach of the SPPD, and the SPPD losing credibility amongst its participants.

In Egypt, SPPD has happened mainly with elite players. Not making an effort to include those players that have been left out of the dialogue poses the risk of limiting the SPPD scope and not reaching those players who most need it. Possible changes in the structure are required as well as in participation, in order to grant everyone the opportunity to be involved.

In Malta there is no formal SPPD taking place and most of the interactions happen when the public sector gets in contact with the private sector. Nevertheless, some cooperatives also take the lead and meet with the government from time to time to expose their problems.

In Turkey, the SPPD is hosted by the Chamber of Commerce of Mersin. The group has a steering committee which decides the issues to work on and their priority. In terms of participation, the group is probably lacking more participation from the public sector. All members have the same rights and all of them are granted the opportunity to participate on an equal basis.

Lesson: During the Development part, not opening the SPPD to all the private sector agents interested in participating entails the risk of limiting the reach and losing engagement.

- Maturity and Transformation

In the Spanish SPPD, during the Maturity Phase there was open participation in projects and the structure followed implementation. During the Transformation Phase, however, the structure became progressively rigid after the first wave of actions and reforms. For instance, Intercitrus' goal of transparency and neutrality, through a unanimous decision-making process, blocks any introduction of new strategies nowadays.

Lesson: Designing complex structures and institutions poses the risk of creating systems that will tend to perpetuate themselves.

The Mandate and Institutional Alignment of the SPPD Stakeholders

- Birth

In Spain, the initial mandate is the integration into the European Union with clear objectives and coming from the highest level. However, at the Birth stage there is no formal SPPD mandate.

In Egypt, the Ministry of Agriculture has the mandate to transform Egypt into the fruit and vegetable basket of the region, allowing the country to change from being an importer of some of the fruits already produced nationally to only export them. From this generic mandate to an SPPD-level mandate they still have to go further, mainly engaging with the regions.

Lesson: Not reaching the necessary agreement among the required institutions during the Birth Phase has the risk of misalignment and lack of support.

- Development

During the Development Phase, the Spanish SPPD was developed through different channels with their specific mandate and a clear commitment from public and private sectors. Intercitrus is the most representative organization as it was established to institutionalize sector-specific public-private actions.

In Lebanon, there is weak institutional alignment since there is a clear lack of coordination among the ministries. Nevertheless, some efforts are being made, as shown by the fact that, for example, a representative of the Ministry of Economy is attending the citrus commission.

In Turkey, the SPPD assumes indirectly the mandate of the Chamber of Commerce, namely to support entrepreneurs, competitiveness and innovation in the region. The Chamber has good relationship with government institutions, generally speaking, as well as with the undersecretaries.

Lesson: If public stakeholders are not kept constantly informed, support can be lost during the SPPD. Also, if the private sector companies do not see a formal commitment from the public sector, they may abandon the dialogue.

- Maturity and Transformation

In the Spanish case, during the Maturity Phase there was a strong institutional alignment of public and private organizations, sharing information and trying to jointly design instruments and policies.

Lesson: Institutional alignment is crucial at the Maturity stage, because horizontal policies have to be modified and updated, and related institutions have to adapt their instruments.

Finally, the Spanish SPPD still has a strong public alignment today but it is not directed towards the right strategic needs of private stakeholders.

Lesson: Not having a mechanism for allowing dialogue renewal risks getting it frozen with the old strategies.

Involvement of Sub-national and Local Levels

- Birth

In Spain all levels were involved in joining the European Union. Local realities had to redefine their objectives following this larger initiative.

In Egypt, in this stage, the SPPD was run mostly at a national level, as also happened in Lebanon. Conversely, the SPPD in Turkey was born already in Adana, at a regional level.

Lesson: SPPDs can be started from the central government, but if local institutions are not involved and businesses and geographic scope are not properly defined, the risk of limiting to general actions is significant.

- Development

In the Spanish SPPD, regional and local levels of government and institutions were involved, mainly in the region of Valencia. National-level institutions were located there (Intercitrus), reflecting the overwhelming role of this particular region compared to others in the Spanish citrus fruit sector.

In Egypt, there is still a need to take the SPPD to a regional level, observing the different geographic and social characteristics. Some interaction already takes place through the agricultural extensions, but in a very broad way.

In Lebanon, a relatively small country, national and sub-national often means the same level. In any case, there are differences between the community of citrus farmers in the north and those in the south and thus special attention focus on considering each region's specificities (like the south being in a more unstable geopolitical area). If two groups are not created (for each region), there is the risk of many players not taking part in the SPPD, because distances to travel to the meetings will be considerable and specificities will not be taken into account.

Lesson: If regional and local governmental institutions or regional entities or associations are not considered in the SPPD, there is the risk of limiting the reach of the dialogue or slowing it down.

- Maturity and Transformation

In Spain, local entities adapted and managed to coordinate all instruments and projects (IVEX, IMPIVA, IVIA) at other levels (national and European).

Lesson: If the local SPPD does not get higher-level institutions involved, instruments and policies created at a federal or national level will not be adapted to promote building capabilities or to fill the existent gaps.

During the Transformation Phase, the Spanish SPPD needs to go back to the micro-level (successful entrepreneurs) in order to redefine new strategic goals.

Lesson: Not revisiting the strategic analysis locally when needed entails the risk of stopping innovation and losing competitiveness.

Conflict Recovery Capabilities of the SPPD

- Birth

In Spain, all previous SPPD conflicts were eclipsed by the challenging new context of entering in the European Union.

In Lebanon, the lack of stability and the destruction of infrastructure has been a reality for many years in any PPD process. So, when the very basic is missing, it is very difficult to have a fruitful dialogue, because actors focus on basic things before doing further activities.

Lesson: Not taking into consideration previous conflicts can provoke having an unbalanced SPPD if measures are not planned conveniently in order to compensate for it.

- Development

For Spain, entry into the European Union during the Development Phase can be considered a positive crisis as all previous structures had to adapt. The SPPD was valuable for sharing resources and building capacity. It focused on very tangible issues such as market requirements and European instruments implementation.

In Lebanon, another aspect where the SPPD is being useful is in bringing all players together by putting them to work in detecting common problems to find common solutions. This helps in getting over possible past tensions resulting from the war conflicts.

Lesson: If past conflicts or problems are not identified, the risk is that the SPPD will suffer from not acknowledging it at some point.

- Maturity and Transformation

In Spain, the SPPD was able to manage some conflicts related to the actions implemented as they had very clear scopes. Also, it proved to be efficient in preventing some disasters such as plagues or diseases.

Lesson: Clarity of scopes is very important in order to solve problems as they appear and to implement actions quickly. If scopes and goals are not assumed by participants, there is the risk of re-thinking them every time and not achieving them.

During the Transformation Phase, the economic downturn was disastrous for Spanish small farmers particularly. The SPPD is still unable to deal with the situation. It is not responding to the questioning of the existing model either.

Lesson: If the SPPD is not able to respond to new challenges, chances are that actors will look for other ways of solving their problems, parting ways with the established dialogue instruments.

Role of Development Partners

- Birth

For Spain, the European Union was the primary Development partner and it played a fundamental role as a champion but also as a guarantor of the process.

For Lebanon and Egypt, institutions like FAO were also fundamental in starting the process and giving it support, guidance and neutrality. In Turkey, the EU also plays an indirect role, since many of the farmers export to this market and are subjected to its standards.

Malta, despite not having a formal SPPD, also benefited from many institutional-level changes when the country joined the EU which were impossible to make before then. The strict regulations that the EU requires for products being sold in its territory has raised the required standards for Maltese produce. Unfortunately, this has not contributed yet to having a stable SPPD.

Lesson: Development partners can play a relevant role as guarantors of the process and of neutrality in those situations in which the SPPD is born with low institutional credibility or not having a positive reputation. They can also provide guidance and support during the conception phase.

- Development

The Spanish SPPD benefited from the input and support of the European Union (reform design, direct subsidies, access to new markets, technical cooperation, etc.).

In Lebanon, development partners still give support to the government in other aspects that also affect the current SPPD, like building and maintaining a database containing information regarding production and quality, participating in the Lebanese Observatory for Agricultural Development, among others. There is collaboration among research institutions and governments of other countries (like LARI, member of the SPPD who has played an important pre-SPPD role).

In Turkey, development partners have helped the Chamber understand how clusters could be used in order to promote regional development through SPPDs. They have been recipients of different projects funded by the EU and other donors, in order to build capacities locally, to promote innovation (Regional Innovation Systems), implementation of international platforms like AGFORISE (Agro Food Clusters Platform with Common Long-Term Research and Innovation Strategy towards Economic Growth and Prosperity), etc.

In Egypt, development partners are very active in the country. They have encouraged conditions for dialogue by strengthening the private sector (development partners supported the birth of HEIA) and the public sector (ERRADA and ENCC). They help build capacity and disseminate international best practices. There is some criticism towards the low coordination existing among the various multilateral institutions (studies are repeated again and again) and for the low impact they achieve (studies are rarely translated into actions and reality). With the situation that the country is currently going through, trust has been undermined in the face of rising doubts regarding the true intentions of the multilateral institutions.

Lesson: Development partners can be an important support to help the SPPDs become stable. However, when they are supporting SPPDs in a highly unstable political environment, there is the risk of being seen as disruptors.

- Maturity and Transformation

During the Maturity Phase, the European Union's role is still very important in financing and supporting actions in the Spanish case. Nevertheless, national and local stakeholders also developed their capacities and their own instruments.

Lesson: To avoid the risk of dependency, development partners have to clarify the agenda for their participation, with a decreasing participation scheme. The SPPD has to become self-sufficient once it reaches the Development Phase.

As seen in different countries where the EU has influence, during the Transformation Phase the EU funding and policies have to adapt quicker to local needs (currently they have a structure which is too bureaucratic and slow) and it should also strengthen international exchanges to facilitate the renewal.

One of the main criticisms heard in interviews in Egypt towards development partners was that they are so rigid that they carry out evaluations at the end of every small action, as a part of their normal evaluation process, but they are not able to take into account the feedback and they repeat the same problems in the next project.

Lesson: Development partners face some risks when supporting SPPDs in the Transformation Phase, because a quick adaptation to changing conditions is needed.

Monitoring and Evaluation

- Birth

In Spain, any SPPD activity (inputs, outputs, impacts) was monitored by European standards. In Lebanon and Egypt, results were monitored by the Ministry of Agriculture itself; and in Turkey, it was done by the Chamber of Commerce.

Lesson: In this phase, some indicators should be defined and controlled referring to the process for creating the SPPD, to ensure it fulfills what is needed to be successful. Defining too many indicators poses the risk of spending time in defining indicators that will not be needed once the scope has been established in the Development Phase.

- Development

During the Development Phase, most of the projects and actions were established with a structured timeline in Spain, Lebanon and Turkey. Egypt also has a timeline, but less detailed at a regional level.

Lesson: In all cases, there is a risk of having a predefined set of indicators that won't be adapted to what the focus should be, because they have been defined before the strategic analysis was carried out.

- Maturity and Transformation

In Spain, deadlines were met for most of the projects during the Maturity Phase. However, concrete impact evaluation was not analyzed.

Lesson: Actions and their results need to be evaluated rather than the SPPD itself.

Finally, in the Transformation stage, the competitive position of private stakeholders should be used as a measure and standard of renewal requirements.

Lesson: It is important to evaluate the factors that can foster the competitive position of companies (locally and internationally).

C.2 FIVE SPPD MEDITERRANEAN EXPERIENCES IN THE CRUISE SECTOR

This section researches SPPD efforts in the cruise sector. The Mediterranean has numerous advantages compared to other cruising areas, namely the diversity of cultures, peoples and languages, the combination of which suits most types of passengers. Considering these endowments, the diversity of the ports, ranging from well-established destinations which receive millions of cruise passengers to small ports striving to at least offer on-shore excursions for major cruise lines' clients, arouses curiosity. Also, when comparing the experiences under study, establishing proximity to final clients (international exposure), understanding their needs and the overall ability to innovate, the combinations of services seem to be key assets that have a direct impact on local income generation and job creation in this type of tourism.

Similar to the citrus fruit sector, all of these countries share some important features, such as warm climate conditions and the marketplace they all operate in. Studying the role of SPPD in the sector evolution will help us understand the variations in their development and competitiveness. In addition, the need to understand these SPPD dynamics becomes even more important at this time, considering that the Mediterranean is the world's fastest growing cruise market and more ports could capitalize on this situation.

In order to understand the opportunities and challenges faced in the SPPD efforts in the selected Mediterranean countries, the section starts with an overview of the global and Mediterranean cruise markets, highlighting the specifics of the Mediterranean region. Drawing on this introduction specific country SPPD efforts will be scrutinized.

C.2.1 The Cruise Sector

C.2.1.1 Overview

According to the World Tourism Organization (WTO), the modern cruise sector originated in the early 1970s and emerged as a fusion of the entertainment industry and maritime passenger transport, thereby creating a distinct segment within the tourism sector.¹³⁵

Throughout the three decades following 1970s, cruise passengers increased significantly. It started with half a million passengers, rose to 1.4 million passengers in the 1980s and reached 3.8 million passengers in 1990 (a 7-fold increase).¹³⁶ By the time this type of leisure tourism reached Europe, Asia and Oceania in the 1990s, the industry started to experience high growth. Annual growth rates of the subsector stood steady at around 8% since 1989, making it the fastest growing tourism subsector. The growth trend was reflected in the expansion of guest capacity. In the U.S., around 40 new ships were built in the 1980s and around 80 during the 1990s. Between 2000 and 2010, over 100 new ships were introduced and seven new vessels were on their way for 2011.¹³⁷

¹³⁵ Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

¹³⁶ Brida, J.G. and Zapata, S., Cruise tourism: economic, socio-cultural and environmental impacts, *Int. Journal of Leisure and Tourism Marketing*, Vol. 1, No. 3, 2010.

¹³⁷ 2011 CLIA Source Book, Cruise Lines International Association, 2010.

<http://www.cruising.org/sites/default/files/PDF/sourcebook/2011CLIASourceBookFinal.pdf>.

The drivers of growth can be associated with the evolution of the cruise business itself, one example being the expansion of itineraries offered by cruise lines. Also, the concept of “cruise ship = floating resorts” has become popular. The state-of-the-art cruise packages include versatile ports, convenient embarkation and innovative onboard amenities and facilities such as cell phone access; wireless fidelity zones; rock-climbing walls; bowling alleys; surfing pools; and multiple themed restaurants and SPAs that easily rival land-based resort tourism.¹³⁸

Associations are a distinctive feature of this sector. The first major cruise association, the Florida Caribbean Cruise Association (FCCA), came into existence in 1972. Today, FCCA is composed of 14 member cruise lines operating more than 100 vessels in the Floridian, Caribbean and Latin American waters.¹³⁹ Its mission is to promote the growth and development of the cruise industry and it provides a discussion forum on legislation issues, tourism development, ports, safety, security and other cruise industry issues. Three years later, the American Cruise Lines International Association (CLIA) was created with the aim of providing a collaboration forum for companies involved in the marketing of cruise passages in the U.S. and Canada, as well as discussing issues related to policy development, advocacy and the like. Today, CLIA represents the interests of 25 member lines and is engaged in travel agent training, research and marketing communications.¹⁴⁰ The biggest cruise association in Europe is the European Cruise Council (ECC), which represents 28 cruise members and 32 associate members.¹⁴¹

World Demand

International demand for cruises in 2009 exceeded 17 million voyages, with the North American market remaining dominant and accounting for almost 60% of the total.¹⁴² European demand ranked second, with five million voyages. The rest of the world continued to account for only a marginal share of total demand showing an enormous growth potential.¹⁴³

International demand for cruises, 1999-2009 (millions)

Region	1999	2004	2005	2006	2007	2008	2009
North America	5.86	9.14	9.96	10.38	10.45	10.29	10.40
Europe*	1.88	2.80	3.15	3.44	4.05	4.46	5.00
Rest of the world**	0.85	1.13	1.21	1.29	1.37	1.45	2.10
Total	8.59	13.07	14.32	15.11	15.87	16.20	17.50

*Including Russia and Eastern European countries outside the EU-27

** The rest of the world figure is an estimate but has been increased for 2009 to take account of the recent dynamic growth in South America, China and Australasia.

Source: ECC - The Cruise Industry 2010¹⁴⁴

¹³⁸ Ibid.

¹³⁹ Florida Caribbean Cruise Association. <http://www.f-cca.com/>.

¹⁴⁰ 2011 CLIA Source Book, Cruise Lines International Association, 2010.

<http://www.cruising.org/sites/default/files/PDF/sourcebook/2011CLIASourceBookFinal.pdf>.

¹⁴¹ The European Cruise Council. <http://www.europeancruisecouncil.com/Default.aspx>.

¹⁴² Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

¹⁴³ European Cruise Council. The Cruise Industry. 2010. <http://www.irm-research.com/files/4513/0224/9897/ECC-Report-20107-LR.pdf>.

¹⁴⁴ Ibid.

It is worth mentioning that passenger origin and cruise destination is strongly bound together. European cruisers prefer European destinations, mainly the Mediterranean, while the choice of U.S. cruises is mostly directed to the Caribbean and Bahamas. This suggests that there is a strong regional dependence of demand.¹⁴⁵ Nevertheless, the recent trend shows the increasingly global nature of the industry. North America dominates but the growing demand from new markets in Europe and Asia has reduced its global share by more than 10% between 1990 and 2007,¹⁴⁶ while the European Union's participation has tripled between 1999 and 2009. In addition, there has been a shift in passenger sourcing by CLIA members. North Americans' share declined from 90% to 75% during that period. The 25% decline has been captured mostly by Europe.¹⁴⁷

In Asia, Singapore has been the main Asian cruise hub. According to the ECC, Singapore appears to be close to achieving its 1.6 million passenger target by 2015. China is an untapped potential especially considering its growing economic power and the market's rising purchasing power.

According to WTO, cruise tourism demand is composed of a high number of first-time cruise travelers from various population segments. Contrary to conventional wisdom, the clientele in this sector are not just the seniors or the affluent. The average tourist is 49 years old, has an annual income above US\$ 104,000, is married, has a university education and works full-time.¹⁴⁸ Cruises compete to cater for this demand by increasing the supply of shorter and cheaper itineraries (3 to 4 days), thereby attracting a wider customer base.¹⁴⁹

Prospects for the future of cruise tourism are promising. The cruise market has still not reached full maturity and is only embryonic in some regions.¹⁵⁰ According to CLIA, only 20% of U.S. adults have ever taken a cruise vacation and nearly 51 million Americans expressed their interest in cruising within the next three years.¹⁵¹ Hence, this market also remains a source of enormous market potential. WTO and CLIA expect a continuous growth of the industry after 2010, with Europe, Asia and the Pacific as the drivers of the expansion. CLIA foresees the world demand over the next three years at 28 million passengers.¹⁵²

¹⁴⁵ Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

¹⁴⁶ Brida, J.G. and Zapata, S., Cruise Tourism: Economic, Socio-cultural and Environmental Impacts, *Int. Journal of Leisure and Tourism Marketing*, Vol. 1, No. 3, 2010.

¹⁴⁷ 2010/2011 Report, European Cruise Council, 2011.

http://www.europecruisecouncil.com/downloads/ecc_report_2010_2011.pdf.

¹⁴⁸ Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

¹⁴⁹ *Ibid.*

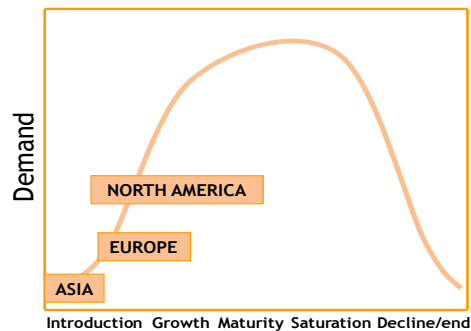
¹⁵⁰ *Ibid.*

¹⁵¹ 2010 CLIA Cruise Market Overview, Statistical Cruise Industry Data Through 2009, Cruise Lines International Association.

<http://www.cruising.org/sites/default/files/misc/2010FINALOV.pdf>.

¹⁵² Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

Life cycle of the cruise product



Source: WTO¹⁵³

Value Chain

Given the diversity of actors involved in the value chain, it is important to understand their different roles as well as the way in which they are adapting to market changes and taking advantage of information and communication technologies.

The cruise package is composed of land destinations, the itinerary and the ship itself. Various agents are engaged in the shipping business, one being Port Authorities (PA). They play a significant role in shaping the cruise package by investing in facilities and infrastructure, and shaping tariff policies. Shipping agents are the main distribution channel in the chain. They have divisions that act as general sales agents, hotel accommodation organizers and planners of land activities.

Generally, interdependence is high among the city, the port and the private sector operators who are increasingly getting involved in infrastructure investments, thus complementing the local PA. For example, two of the world's major cruise lines, Carnival Corporation and Royal Caribbean, were involved in the development and management of local port terminals in Miami, the world's biggest cruise port.¹⁵⁴

As the cruise value chain below demonstrates, the main silo of the cruise business is the relationship between the cruise line and the customer. Two conflicting trends have been identified in this part of the value chain, both of which challenge the large number of existing intermediaries which today control 90% of total sales.¹⁵⁵ The first one is the emergence of online travel agents as a result of the introduction of information and communication technologies (GDS, computer reservation systems). According to WTO, the sale of cruise packages on commission has become one of the best sources of profitability for travel agencies. This explains the increasing popularity of online distribution. On the other hand, travel agents are increasingly concentrated and specialized as a response to cruise customer

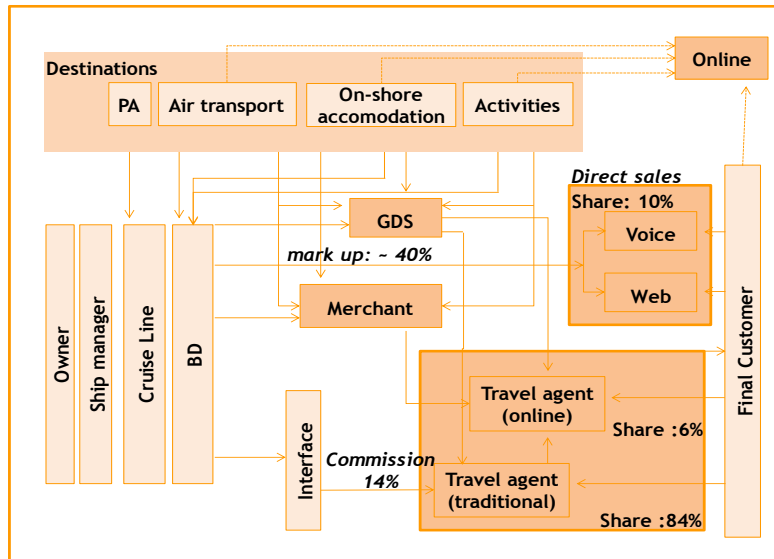
¹⁵³ Ibid.

¹⁵⁴ Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

¹⁵⁵ Ibid.

demand for personalized service and advice.¹⁵⁶ Hence, both value chain actors are expected to become increasingly popular in the near future, and to continue to challenge the large number of intermediaries as they continue to concentrate.

Value chain of the cruise package



Source: WTO¹⁵⁷

A good example of concentrated business efforts are tour operators. They are becoming an essential factor in the development of the cruise industry in Europe.¹⁵⁸ Usually, a tour operator in the cruise sector is made up of five components: a local representative, an airline charter company, a cruise line, hotel chains and a network of travel agencies. The following three factors have enabled extensive growth for tour operators: economies of scale (= better prices), focus on specific market and knowing your demand (= product adaptation) and aggressive marketing and concentrated promotional efforts (= successful promotion).

Cruise Destinations

A wide range of cruise destinations has developed and expanded in recent years, with the Caribbean, Alaska and the Bahamas as the top 3 spots.

The Caribbean is the world's prime cruise region, which during the northern hemisphere's winter months attracts over 50% of North America's demand.¹⁵⁹ The region's main strengths are its mild and relatively stable climate; its sun and beach resort brand image; its language (English); its political stability; and its geographical and economic proximity to the U.S.

¹⁵⁶ Ibid.

¹⁵⁷ Ibid.

¹⁵⁸ Poggio A., MedCruise, World Cruise Tourism Summit, March 2005.

<http://www.medcruise.com/filebank/documents/Miami%20Speech%20Albert%20Poggio.pdf>.

¹⁵⁹ Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

Miami is the leading port with 2.5 million passengers in 2009.¹⁶⁰ The city is the world's leading base port, stationing more than 20 megaships in total. In terms of marketing, Miami brands itself as a 'home port of call' and offers on-shore activities to attract local spending before, after or during cruises. Most of other Caribbean destinations serve as either transit ports or the ships are themselves considered destinations due to the ample selection of activities on board. As a result, there is a significant price rivalry between cruise ships and their shore side destinations.¹⁶¹ The strategy of some large companies has been to buy parts of some of the islands (Dominican Republic, Bahamas, Grenadines and other) in order to gain full control over activities offered on land, such as sailing and diving.

Cruise Capacity

In order to keep pace with demand, North America's average passenger capacity rose by 7.7% between 1981 and 2009. The region's capacity is the largest worldwide. In 2009, it was almost 295,000 beds (members of CLIA) with further investments planned for the future. As for Europe, current capacity is 127,000 beds (203,000 non-European lines are considered).¹⁶² With regards to ship size trends over the last five years, the average size of ships (per cruise) increased by 14.2% to 2,272 passengers.¹⁶³ The largest cruise ships built in 2009 and 2010 (i.e. Oasis of the Seas and Allure of the Seas) had a capacity of between 3,600 and 5,400 passengers.¹⁶⁴

Market Structure

As for the main international players on the cruise tourism market, the three leading groups are Carnival Corporation & plc (which acquired P&O Princess in 2002-2003), Royal Caribbean Cruises Ltd and Star Cruises. Seventy-eight percent of the global supply of beds is controlled by three major groups: Carnival Co. & plc, Royal Caribbean Ltd. and P&O Princess Group.¹⁶⁵ The largest, Carnival Co.& plc., recorded a market capitalization of over US\$40 billion (2006) and a return on equity exceeding 30%.¹⁶⁶ Business confidence in the future performance of these groups is solid, with 10% expected annual growth.¹⁶⁷

Industry growth has been driven mainly by these three groups but there are several independently-owned regional, national or niche brands, which serve the broad passengers' tastes and match their socio-economic and demographic characteristics.¹⁶⁸

¹⁶⁰ The Overview: 2010 CLIA Cruise Market Overview, Statistical Cruise Industry Data through 2009, Cruise Lines International Association. <http://www2.cruising.org>.

¹⁶¹ Ibid.

¹⁶² The Cruise Industry, Contribution of Cruise Tourism to the Economies of Europe, prepared by G.P. Wild (International) Limited and Business Research & Economic Advisor, European Cruise Council, 2010. <http://www.irn-research.com/files/4513/0224/9897/ECC-Report-20107-LR.pdf>.

¹⁶³ Ibid.

¹⁶⁴ North American Cruise Statistical Snapshot, U.S. Department of Transportation Maritime Administration, 2011. http://www.marad.dot.gov/documents/North_American_Cruise_Statistics_Quarterly_Snapshot.pdf.

¹⁶⁵ CLIA 2011 Cruise Market Overview, <http://www.cruising.org/sites/default/files/misc/2011FINALOV.pdf>.

¹⁶⁶ Ibid.

¹⁶⁷ Ibid.

¹⁶⁸ 2010/2011 Report, European Cruise Council, 2011. http://www.europecruisecouncil.com/downloads/ecc_report_2010_2011.pdf

Current Trends in the Cruise Line Business

Some of the main trends driving the development of the sector have already been indicated above; other significant ones are:¹⁶⁹

- Innovation and improvements in business models: New business models are mainly a result of the introduction of information and communication technology and increasing specialization to cater for changing customer preferences.
- More global business: As can be seen in the North American experience, cruise businesses penetrate new markets with the goal of diversifying sources of income and meeting international customer demand.
- Larger ships: Larger vessels match well with the popular concept of the ‘floating resort’ as they allow for a better passenger experience, more on-board entertainment facilities, and the like.
- Strong and sustained demand growth: As indicated, the cruise sector is still in full expansion and has not yet reached maturity.
- Strong negotiating power of major cruise line groups: The vertical integration of major cruise line groups allow these players to increasingly expand into the real estate business or investments in cruise terminals or commercial complexes on dry land.
- Increasing regulation of the sector: The relationship between cruise lines and destinations has many times been tilted in favor of the former’s stronger negotiating power. To make this business sustainable over time, regulations need to ensure that benefits are to be shared by both actors.
- Environmental sustainability: Coastal resort tourism development has a number of destructive effects on land and cause habitat degradation, while the daily operations of resort facilities consume natural resources and pollute waterways.¹⁷⁰ Environmental considerations are likely to increasingly affect cruises via, for example, Special Protection Areas for conservation of marine and land ecosystems, which limit the number of cruise passengers who may disembark on the coast.
- Voyage and operations’ security: With security being the number one consideration for clients, cruise businesses need to ensure traveler and staff safety. For example, the ECC closely cooperates with the EU’s Maritime Security Centre. Security compliance

¹⁶⁹ Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

¹⁷⁰ Global Trends in Coastal Tourism, Center on Ecotourism and Sustainable Development, Stanford University and Washington DC, 2007.

http://www.responsibletravel.org/resources/documents/reports/Global_Trends_in_Coastal_Tourism_by_CESD_Jan_08_LR.pdf.

also extends to issues such as terrorism, drug smuggling, sexual attacks, kidnapping, and the like.

C.2.1.2 The Mediterranean Cruise Sector

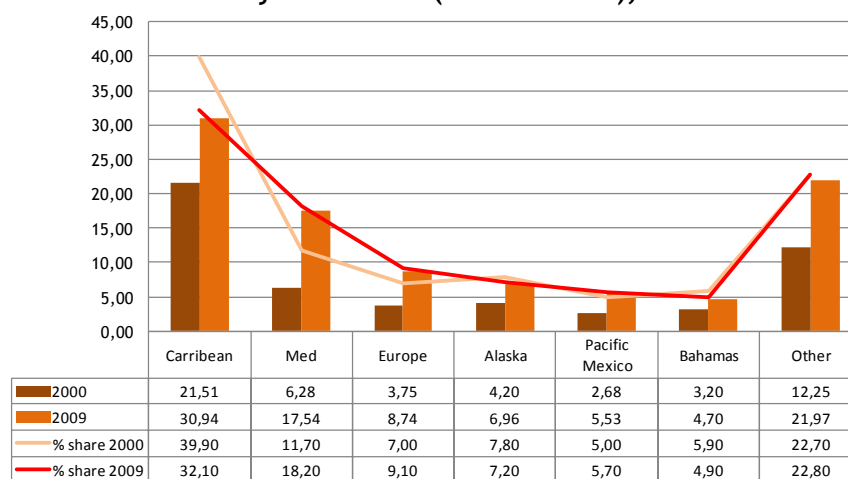
As stated above, the Mediterranean is an attractive cruise destination due to the number and variation of itineraries that capitalize on the diversity of its cultures, peoples, languages and history. The region is surrounded by three converging continents and its seas and lands have played a significant part in the evolution of civilizations. In this sense, no other place on Earth offers so much diversity that cruisers can visit within a short period of time.

The Mediterranean's share of the global cruise market has grown over the past decade to some 30% in the summer and has reached 5% in the northern hemisphere's winter.¹⁷¹ Cruise passage is highly seasonal in the Mediterranean in contrast to the Caribbean: 74% of all passenger movements take place between June and November.¹⁷²

Cruise traffic growth has been significant. In 2005, total demand stood at 2.1 million cruise passengers with 126 ships in operation, which was a 127% increase compared to 1996. In 2009, 152 cruise ships were active in Mediterranean waters carrying 3.33 million passengers.¹⁷³

According to the Cruise Line International Association (CLIA), the cruise industry offered 96,274 cruise bed days in 2009, a 56% increase compared to 2000. Although the Caribbean has the highest market share (32%), it is followed by the Mediterranean with 18%. Also, comparing 2009 with 2000 shares, the Mediterranean recorded the highest increment in terms of number of additional bed days available (+ 11.259, which amounts to a 6.5% increase).¹⁷⁴

Global Bed Days Evolution (in thousands), 2000-2009



Source: CLIA in Medcruise

¹⁷¹ Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

¹⁷² MedCruise Statistics Report 2010, MedCruise, <http://www.MedCruise.com/filebank/documents/Statistics%20Report%202010%20edition.pdf>.

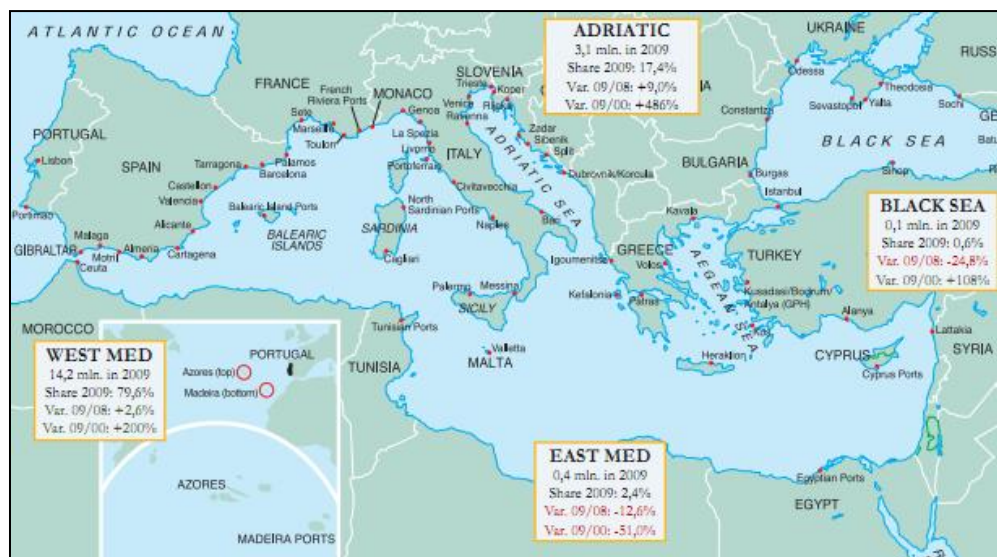
¹⁷³ Ibid.

¹⁷⁴ CLIA in MedCruise Ibid., MedCruise Statistics Report 2010, MedCruise, 2010. <http://www.MedCruise.com/filebank/documents/Statistics%20Report%202010%20edition.pdf>.

The Mediterranean ports serve all types of market segments: low-end, medium end and high-end. Also, all major cruise lines operate there. Among the factors that have contributed to the growing attractiveness of the region were the continuous growth in British demand since 1996, the arrival of VLCVs (very large cruise vessels of more than 100,000 Gigatons as part of the quest for cruise destination alternatives to the Caribbean), the rapid expansion of the fleet operated by European affiliates of Carnival, Royal Caribbean and P&O Cruises, and exponential growth in the European demand. According to the World Tourism Organization, the region has attracted most of European passengers followed by North American cruise passengers. According to the European Cruise Council, 58% of Europeans cruised in the Mediterranean and Atlantic Isles in 2009.¹⁷⁵ While the instability in the Middle East has lately led to a withdrawal of cruise ship capacity from the Mediterranean (affecting the eastern more than the western Mediterranean), the overall demand was strengthened after 9/11, mainly from the European Union.¹⁷⁶

West Mediterranean records the highest numbers and percentage shares for passengers and cruise calls (around 79.6% and 71.4%) as a consequence of the size of the area and the number of ports located there. The Adriatic (17.4%, 21.9%), East Mediterranean (2.4%, 4.6%) and Black Sea (0.6%, 2.1%) follow the ranking (see chart below).¹⁷⁷

Cruise Market Shares across the Mediterranean



Source: Medcruise

The following table lists all major ports in the region that are Medcruise members.¹⁷⁸ Five ports achieved a passenger total of more than one million and three of them were Italian.

¹⁷⁵ Contribution of Cruise Tourism to the Economies of Europe 2010, G.P. Wild and Business Research and Economic Advisors (BREA) for European Cruise Council. <http://www.europeancruisecouncil.com/MediaRoom.aspx>.

¹⁷⁶ Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

¹⁷⁷ MedCruise Statistics Report 2010,

MedCruise, <http://www.MedCruise.com/filebank/documents/Statistics%20Report%202010%20edition.pdf>.

¹⁷⁸ In 2009, MedCruise consisted of 66 port members representing over 90 ports in the Mediterranean, the Black Sea, the Red Sea and the Atlantic Ocean. The data do not include Piraeus (Greece), which is a home port and in 2009, 1.5 million cruise passengers visited the port. Data represent 2/3 of the entire Mediterranean cruise industry and geography and include Barcelona, Alexandria and Valletta ports.

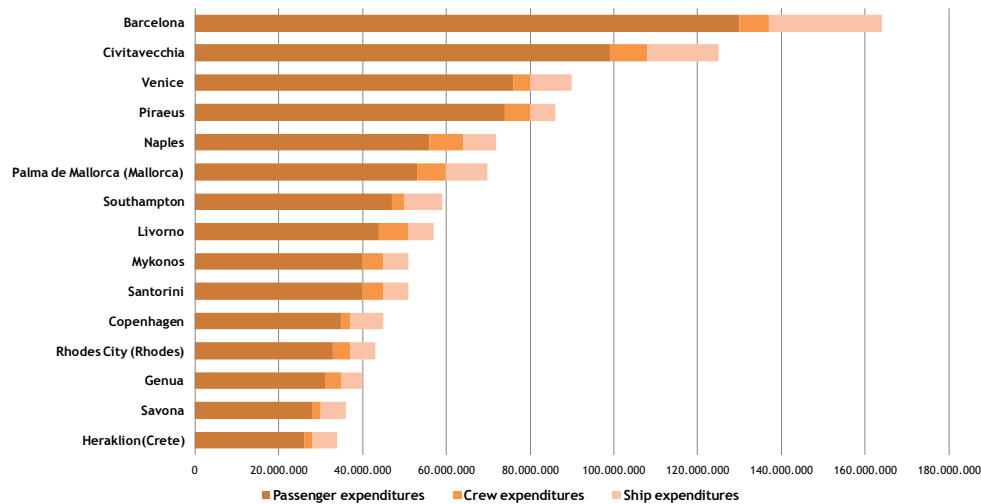
Major Ports, Medcruise Members, 2009

	Port	Passengers (Thous.)			Total	Cruise calls
		Home in	Home out	Transit		
1	Barcelona (Spain)	587	593	971	2151	799
2	Civitavecchi (Italy)	367	353	1082	1802	793
3	Venice (Italy)	589	581	251	1421	543
4	Naples (Italy)	73	73	1155	1300	613
5	Balearic Islands (Spain)	223	225	790	1237	630
6	Dubrovnik/Korcula (Croatia)	0	0	901	901	810
7	Livorno (Italy)	20	20	755	795	458
8	Tunisian ports	0	0	752	752	358
9	French Riviera ports	18	18	708	745	497
10	Genoa (Italy)	219	218	235	671	238

Source: Medcruise (2009)

The largest port by far is Barcelona. In 2009, not only more than 2.15 million passengers cruised in Barcelona, but also passengers who embarked and disembarked in the port outweighed passengers in transit. Barcelona, Naples, Civitavecchia, Dubrovnik/Korcula, Balearic Islands and Livorno were the main transit ports. Valetta ranked 11th and accounted for 414,000 transit cruise passengers. The leading home ports were Barcelona, Venice (1.7 million), Civitavecchia, Balearic Islands, Genoa, Bari, Marseille and Naples. The European Cruise Council ranks Piraeus as one of the top Mediterranean home ports, accounting for 1.5 million passengers in 2009.¹⁷⁹

Top 15 EU Cruise Ports Based on Expenditures



Source: European Commission, Directorate-General for Maritime Affairs and Fisheries¹⁸⁰

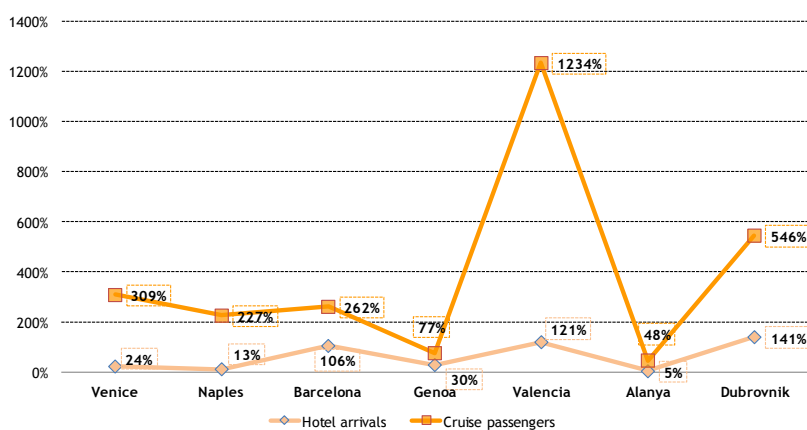
¹⁷⁹ Contribution of Cruise Tourism to the Economies of Europe 2010, G.P. Wild and Business Research and Economic Advisors (BREA) for European Cruise Council. <http://www.europeancruisecouncil.com/MediaRoom.aspx>.

¹⁸⁰ Tourist facilities in ports. Growth opportunities for the European maritime economy: economic and environmentally sustainable development of tourist facilities in ports, Study report, European Commission. http://ec.europa.eu/maritimeaffairs/tourist_facilities/report_en.pdf.

Home ports and partial embarkation ports are generally better positioned to reap the economic benefits of cruise tourism, as they provide more opportunities for various spill-over effects (more overnight stays, spending by tourists and other). The following chart demonstrates the top European ports according to passenger expenditures. The top four—Barcelona, Civitavecchia, Venice and Piraeus—which are also the main home ports, clearly recorded higher passenger spending than transit ports, such as Naples.

The following chart also confirms the higher economic benefits of cruises for home ports. It compares the variation between cruise tourist arrivals and hotel arrivals in the main ports. Barcelona, the main home port, has recorded a 262% increase in cruiser arrivals and a 106% increase of hotel arrivals between 2000 and 2009. Compared to Naples, which is the main transit port and where the 227% increase of cruisers was accompanied by a significantly lower increase of hotel accommodations, this goes in line with the assumption that the local economic development impact on destination is higher in the case of home ports.

Comparison of 2000-2009 Variations of Cruise Passengers and Tourists



Source: Medcruise (2009)

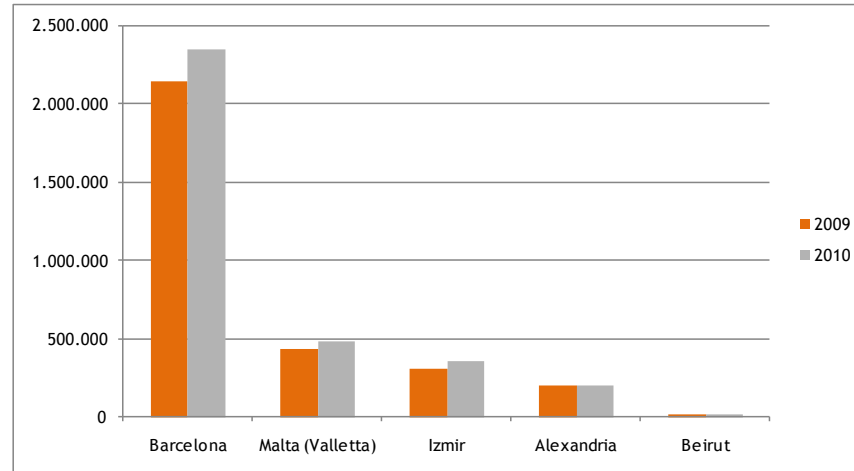
The economic impact of cruise tourism is significant. According to the European Cruise Council, which unites most European ports, the majority was concentrated in six countries, which accounted for about 80% of the cruise industry's impacts (measured as direct expenditures) throughout Europe, namely Italy, Germany, UK, Spain, France and Greece. In the Mediterranean, Italy was the leader and accounted for 4,538 million Euros (US\$6,353 million) in direct expenditures and over 99,000 jobs, followed by Spain with 1,186 million Euros (US\$1,660 million) direct expenditures and over 25,000 jobs, followed by France and Greece. These expenditures include all direct expenditures in the sector, such as manufacturing (shipbuilding), cruise lines employee compensation, hospitality and retail expenditures and other.¹⁸¹

¹⁸¹ Contribution of Cruise Tourism to the Economies of Europe 2011, G.P. Wild and Business Research and Economic Advisors (BREA) for European Cruise Council. <http://www.europeancruisecouncil.com/content/Impact-Report-20117-LR.pdf>.

The Five Countries under Study

The following chart demonstrates the breakdown of cruise passengers specifically for the five ports under consideration.

Cruise Passengers in Barcelona, Malta, Izmir, Alexandria and Beirut, 2009 and 2010



Source: Miscellaneous sources (extracted from “Sector description” sections), 2009-2010 data for Alexandria: based on interviews.

Barcelona is clearly the leader, while Beirut, with approximately 19,000 passengers in 2010, is the least visited (and developed) port. While Barcelona serves as a home (or turnaround) port, Izmir and Valletta serve as partial embarkation ports and Beirut and Alexandria are mainly transit ports. Izmir and Valletta, however, which already serve as the start or the end point for cruisers, are striving to become home ports as well in order to increase the economic benefits of the cruise business for their port destinations.

Additional information on each country will be provided in the following sections. Each case will be analyzed and compared following the same structure in order to draw common lessons with regards to their SPPD:

1. Sector description for the country.
2. Evolution of the SPPD.
3. Public and private roles in the evolution of the SPPD.
4. Impact of the SPPD on competitiveness.

The order, in which countries are presented corresponds to their sector performance and their level of SPPD complexity. In the case of cruise tourism, the selected order is: Spain, Malta, Turkey, Egypt and Lebanon. Finally, a conclusion on the lessons that can be derived from these cases is provided at the end of this chapter.

Methodological Note on the Impact of the SPPD on Competitiveness

Although it is difficult to isolate the SPPD process from the multiplicity of variables implicated in the development of a sector, the authors consider that to evaluate the impact of the SPPD on cruise sector competitiveness, two dimensions of the ports in focus can be considered:

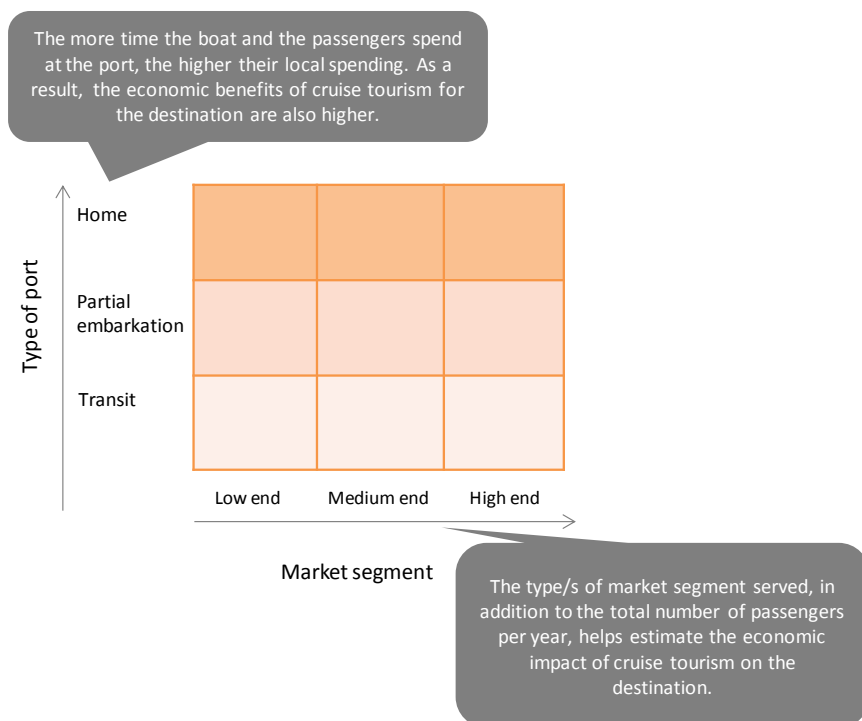
1. **The type of port:** home port, partial embarkations port or transit port. The port type helps evaluate how successful the port has been in positioning itself as compared to the competition. The more cruise lines start and end their cruise in the port, and the more time the vessel and crew spend at the port, the higher economic benefit accrues for the port and the destination.
 - **Home port:** Home ports are the point where passengers start or end their voyage. Home ports generally translate into higher economic benefits for the destination as cruisers spend more days in the city, book hotel stays, visit restaurants, use public transportation and other, all of which means higher total spending per visitor. Cruise lines often invest in local infrastructure development and passengers spend more time prior to the arrival and after the trip in the location. The most developed ports worldwide, such as Miami and Barcelona, classify as home ports.
 - **Partial embarkations port:** these types of ports are a middle ground between transit ports and home ports. A partial embarkation port is a place where passengers start or end their voyage with the cruise lines. This type has less economic impact on the destination than home ports, but more than transit ports.
 - **Transit port:** this type of port is typical for emerging ports or those with less developed infrastructure or generally smaller touristic sites, which are suitable for very short one-day excursions. The transit ports benefit the least from cruise tourism since the stays on the ground are so short.
2. **The type of market segment that each of the ports serve:** low end, medium end, high end. This criterion tells us what type of passenger demand the port in focus targets, ranging from relatively cheaper family holiday-at-sea packages to a very personalized and luxury service for singles and couples. Knowing the number of passengers per year and their market segment complements the estimation of the economic impact.
 - **Low end:** The business model applied by cruise line operators is based on the intensive application of economies of scale. There is a strong emphasis on on-board and off-shore activities, services and entertainment programs for all types of clientele: young couples and also families with children. This segment is thus less specialized and tries to target various needs. Itineraries are typically shorter and last 3-4 to 7 days and ships are larger with *Las Vegas-style* interior decoration.
 - **Medium end:** This segment is the middle ground between the luxury and the contemporary ones. Cruise lines target professionals over 40 years, trips are usually more than 7 days, interior is relatively sophisticated and on-shore

excursions are also important profit generators. This segment focuses more on repeat customers.

- **High end:** The other less frequent types of segments are the luxury and the premium segment. The high-end segment is a luxury one marked by exclusivity, fewer passengers and spacious accommodations with a sophisticated interior design. The ships are smaller, itineraries longer (more than 10 days) and the target groups are couples and singles with a taste for super luxury resorts on land. Most time is spent on board and onshore excursions represent an important profit generator.

Finally, the following matrix evaluating these two criteria is provided to estimate the overall impact of SPPD on sector competitiveness. The same tool is used in all five countries considering their current performance.

SPPD Evaluation Tool for the Cruise Sector: Port Matrix



In terms of the typology of the port, the impact of the SPPD is determined according to the time the vessels spend at port, with home ports being considered the most competitive and as the best possible result of the SPPD.

It is worth mentioning that, according to the WTO, the premium and contemporary segments, which are comparable to the medium and medium-high end markets, have a relatively lower economic impact on the destination as they generally keep passengers on board and include less on-shore activities. The opposite is the high-end segment, which involves specialized and

expensive excursions.¹⁸² However, given the size (and thereby number of passengers) of the ships in the medium-end segment, these also constitute an attractive clientele. Therefore, the more versatile the customer base of ports is, the more competitive it can be considered.

C.2.1.3 The Cruise Tourism Industry-level Collaborative Action Matrix

As a foreword to the description of the cases, the following matrix aims to present examples of actions undertaken under the auspices of the SPPDs scrutinized. This matrix allows the overall competitiveness potential of each sector to be determined by using a series of industry actions coupled with the type of dialogue that originated them. The assumption is that industrial development is often accompanied by strong dialogue, which led to collaborative actions. While the list itself is not exhaustive, similar to the citrus case, it seeks to provide a snapshot of some of the main reforms and activities carried out. Initiatives span across the entire public, public-private and private palette and include sector development strategy formulation, institutional streamlining, public-private partnerships in case of infrastructure investments, private tourism related training and others. The following sections thus seek to understand at which stage of the SPPD these actions developed, who initiated and implemented them and how they contributed to the sector's competitiveness.

¹⁸² Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010. ISBN: 978-92-844-1364-5.

Industry-level Collaborative Action Matrix

	Regulatory and tax environment	Infrastructure	Access to finance	Skilled and trained labor	Access to technologies and R&D
Public	<p>Egypt: ERRADA collaborates with the Ministry of Tourism and conducts an inventory of regulations in areas indirectly related to cruises.</p>	<p>Egypt, Lebanon: Construction and renovation of port terminals. Spain: Investment into transportation networks between port-city-airport.</p>	<p>Turkey: IZKA (Izmir Development Agency), which is a public-private institution, has prioritized tourism (including cruises) among the projects they support with public funding.</p>	<p>Malta, Turkey: Training is offered by public education institutions.</p>	<p>Spain, Malta: Indirectly, public universities of these two countries have specialized departments for tourism and have active research activity (which is coherent with the fact that tourism is one of the most important economic activities for both countries).</p>
Public-Private	<p>Spain: Turisme de Barcelona creates tourism development plans, supporting partnership initiatives aimed at promoting the cruise-and-stay niche market in Barcelona.</p> <p>Malta: Malta Tourism Authority creates tourism development plans, supporting partnership initiatives aimed at promoting the cruise-and-stay niche market in Malta. These initiatives are undertaken in collaboration with the Malta International Airport, Valletta Port Cruise and cruise liner operators.</p>	<p>Spain: A modernization project of the Port Authority and private sector resulted in the construction of 7 terminals, replacing the previous rudimentary infrastructure the port had. It is able to receive more than 2.5 million passengers per year. Turkey: Thanks to the push of the Chamber of Commerce, the Port of Izmir is undergoing a privatization process which will foster investment inflows in port infrastructure improvements (potentially attracting FDI).</p>	<p>Spain: Public and private actors convince a major cruise line company to invest into its own port terminal and use Barcelona as a home port.</p>		<p>Turkey, Spain, Malta: Both sectors secure access to required expertise (consulting company expertise, reference trips, etc.)</p> <p>Spain: Turisme de Barcelona, the City Council and the Barcelona Chamber of Commerce work to develop a new tourism model for the city, to define future strategies to maintain and increase the interest of the community, economic sectors, institutions and visitors in the city.</p>
Private	<p>Turkey: Izmir Chamber of Commerce designs strategic development plans for the port and recommends regulation affecting it. Lebanon: Association of Travel & Tourist Agents in Lebanon (ATTAL) proposed changes in immigration procedures in order to speed up the disembarkation of passengers in Lebanon, allowing them to spend more time in the country.</p>	<p>Malta: The private operation of the port under a concession scheme has allowed an update of the port infrastructure with large investments and creation of new tourism services, which has led to the arrival of new cruise lines, including those that have recently started to use the port as a home port.</p>	<p>Egypt: Traditionally, banks have facilitated investments in tourism. The current situation (revolution) has frozen most investments.</p>	<p>Egypt: Public universities offer degrees in tourism, but the private sector is the one giving the specific training needed in the field: how to treat customers, etc.</p>	<p>Lebanon, Egypt: Private sector brings experts following its needs and has links with international associations.</p>

C.2.2 Spain

C.2.2.1 Sector Description of the Country

Spain has become a popular place for summer holidays, especially for tourists from the United Kingdom, France, Germany and Scandinavia. According to the World Tourism Organization, with over 52 million tourist arrivals, Spain is the third most visited country in the world after France and the U.S.¹⁸³ The direct contribution of travel and tourism to GDP is expected at US\$64.8 billion in 2011, which is 5.1% of total GDP. Including wider economic impacts, the World Travel and Tourism Council expects that the sector's contribution will reach US\$191.6 billion (14.3% of GDP).¹⁸⁴ The travel and tourism sector is expected to directly employ 2.6% of the Spanish workforce and, considering indirect impacts, the share is 12.6%. As for the cruise sector in Barcelona, the available data for 2008 indicate that over 24,000 persons were employed directly or indirectly in cruise-related activities.¹⁸⁵

Spain ranks as the 8th most competitive travel and tourism destination in the world. Compared to 2008, its relative position has worsened by three ranks. Spain's clear strengths are richness of cultural resources, a large number of international fairs and exhibitions, tourism infrastructure, transport infrastructure, prioritization of the tourism sector by the government and solid destination marketing campaigns. However, Spain's recent dip in the ranking in some areas is caused by lower availability of qualified labor and weaknesses in the policy environment.¹⁸⁶

Selected Rankings: Travel & Tourism Competitiveness Index, 2008/2011

2008		2011	
Tourism infrastructure	1	Tourism Infrastructure	8
ICT Infrastructure	28	ICT infrastructure	30
Human resources	31	Human resources	46
Education and training	33	Education and training	41
Availability of qualified labor	36	Availability of qualified labor	71
Quality of port infrastructure	25	Quality of port infrastructure	18

Source: World Economic Forum¹⁸⁷

Including the Canary Islands, Spain is one of the main destination markets for cruise passengers in Europe, after Italy and Greece. Spain's strong economy and growing purchasing power attract more than 40 million local customers. For the international cruisers, Spain offers an attractive climate, tourist facilities, developed national ports and the city of Barcelona as the main destination.

Spanish ports closed 2009 with over 5.8 million visits on more than 3,600 cruise ships.¹⁸⁸ In 2010, the number of cruisers exceeded 7.1 million.¹⁸⁹ The main cruise product sold in Spain is

¹⁸³ France is Tourism Champion of 2010: UN Body, The Independent. <http://www.independent.co.uk/travel/news-and-advice/france-is-tourism-champion-of-2010-un-body-2156229.html>.

¹⁸⁴ World Travel and Tourism Council, Country Reports: Spain. Key facts. <http://www.wttc.org/research/economic-impact-research/country-reports/s/spain/>

¹⁸⁵ Economic contribution of Cruise tourism to Spain in 2008, e-Cruise News, September 2009.

¹⁸⁶ The Travel & Tourism Competitiveness Report 2011, World Economic Forum. http://www3.weforum.org/docs/WEF_TravelTourismCompetitiveness_Report_2011.pdf.

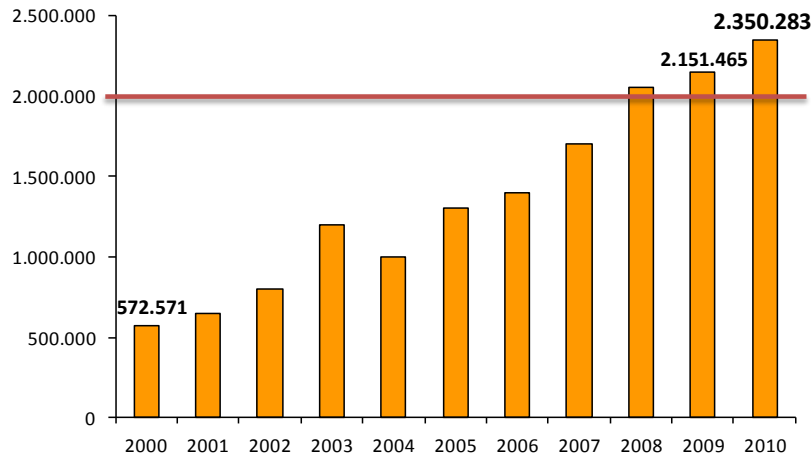
¹⁸⁷ Ibid.

the Western Mediterranean cruise, departing from the Barcelona port and stopping over in Tunisia or Malta.¹⁹⁰

Barcelona's leadership in European cruise traffic in the past years has been indisputable. The port occupies the first place in the Mediterranean region due to its agreements with U.S. cruise lines, its extensive investment program, promotion of the city's tourism sector by the public-private entity Turisme de Barcelona and the positive relations established between the port and city.¹⁹¹

In 2010, cruise passengers traffic exceeded 2.35 million, which is more than a four-fold increase compared to 2000.¹⁹² The port is the departure and arrival point in the Mediterranean and also serves as a port of call for several cruise ships passing through the region. Most cruise passengers using the port as home port are Spanish and most passengers in transit are foreigners. However, several international passengers travel to Spain by plane from faraway places like Asia or America to start and end their voyage.

Barcelona Port: Cruise Passenger Traffic, 2000-2010



Source: Ministerio de Fomento, 2011

The port's seven modern operating terminals and numerous piers and installations are well connected to the city center, the airport and railway stations. The principal investments in cruise terminals in Barcelona between 2005 and 2007 were carried out by Creuers Port of Barcelona (the operator of seven port terminals), Costa Cruises and the Port Authority. The cumulative value of investments was US\$85 million.¹⁹³ This investment significantly improved terminal services, road access and the design and operation of berthing facilities.

¹⁸⁸ Cruise Tourism, Chamber of Commerce, Industry and Navigation of Valencia, September 2009.

¹⁸⁹ More than 7.1 million cruise passengers passed through Spanish ports, Europapress, Madrid 2011.

<http://economicsnewspaper.com/policy/spain/more-than-7-1-million-cruise-passengers-passed-through-spanish-ports-5436.html>

¹⁹⁰ Cruise Tourism, Chamber of Commerce, Industry and Navigation of Valencia, September 2009.

¹⁹¹ Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

¹⁹² Maritime Transport Statistics, Ministerio de Fomento, Spain, 2011.

http://www.fomento.gob.es/MFOM/LANG_CASTELLANO/ESTADISTICAS_Y_PUBLICACIONES/INFORMACION_ESTADISTICA/Transporte/PuertosEstado/

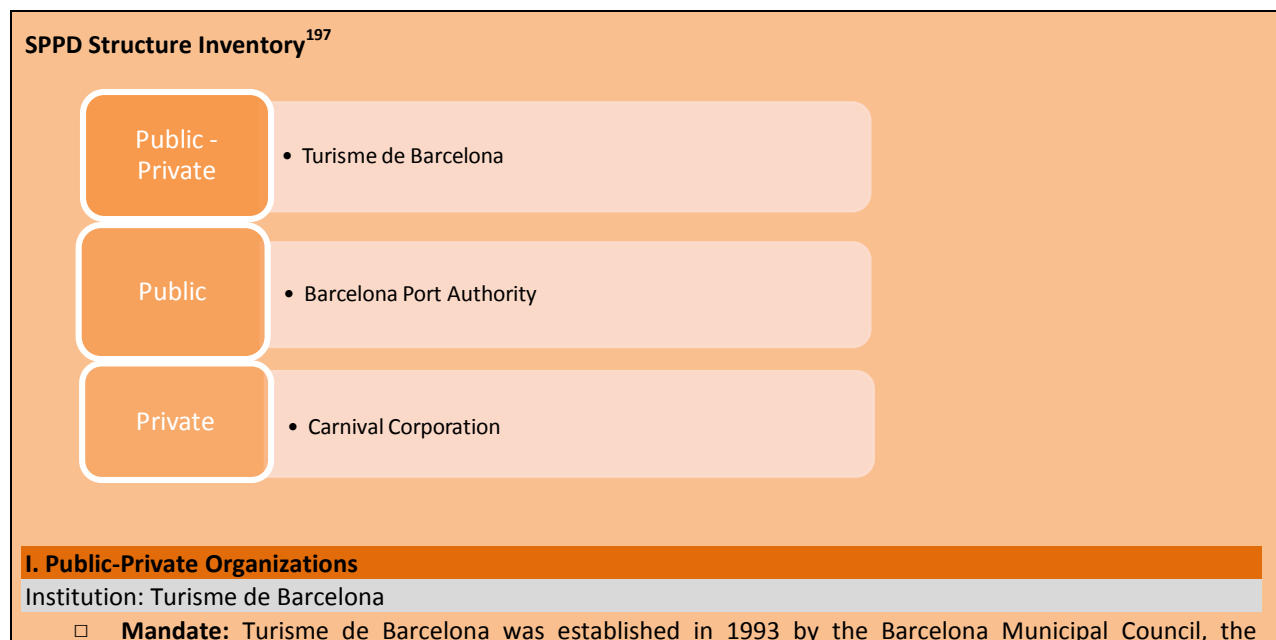
¹⁹³ Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

The size of cruise ships that stopped over in Spain has been growing over the past seven years, in line with the industry trend of larger ships. Similarly, Barcelona is not only the leader in Spain in terms of cruise passengers, but also hosts the largest cruise ships.¹⁹⁴ While in 2001 the passenger per cruise ratio was 805, by 2008 it increased to 1,629.¹⁹⁵ The most important companies operating in Spain are Pullmantur, which is the leader accounting for 50% of total turnover, Ibero Cruises, Costa Cruises and MSC.

Market segments of main cruise liners arriving to Barcelona

Market Segment	Cruise Companies	Passengers (Jan-July 2011)
Low end	Pullmantur (Sovereign), Costa Cruises, MSC, RCC Spain, NCL, Louis Cruises, Fred Olsen Cruises	73%
Medium end	Ibero Cruceros, Happy Cruises, Holland America Line	19%
High end	Silversea Cruises, Seabourn Cruises Line Ltd	8%

Source: Port of Barcelona¹⁹⁶



¹⁹⁴ Chamber of Commerce, Industry and Navigation of Valencia, September 2009.

¹⁹⁵ Ministerio de Fomento, 2009.

¹⁹⁶ Port of Barcelona - Cruise Itineraries. <http://www.portdebarcelona.es/es/web/port-dels-negocis/cruceros1>

¹⁹⁷ For the purpose of this study, the research of the cruise sector in Spain has focused mainly on Barcelona, which ranks as Europe's and Spain's major cruise port and sites a number of public and private institutions that participate in the development of the cruise sector.

Barcelona Official Chamber of Commerce, Industry and Shipping and the Barcelona Promotion Foundation. The Consortium works to promote the city as a tourist destination.

- **Funding and ownership:** Turisme de Barcelona was founded by an agreement between the public and private sectors of the city in the aftermath of the Olympic Games, aiming to draw upon the influx of cruise tourists into the region after the event. Its funding comes from public and private sector sources such as Barcelona City Council, Barcelona Chamber of Commerce and the generation of own resources by its tourism products and services (mainly the sight-seeing bus, Bus Turistic).
- **Management:** Turisme de Barcelona is steered by representatives of public and private organizations from the tourism sector.
- **Sector activities:** Turisme de Barcelona continuously develops strong relationships with cruise lines, arranges pier receptions for cruise passengers, participates actively in the presentation of medallions for arriving cruise ships, and other. Also, Turisme de Barcelona organizes promotional and marketing activities for cruises. In association with the City Council and the Barcelona Chamber of Commerce, it also promoted the Tourism Strategic Plan of Barcelona 2015, which provides the starting point for a reflection process on the city's tourism model and will be used to define future strategies to maintain and increase the interest of the community, economic sectors, institutions and visitors to the city. The Plan will establish the actions to be taken by the different public and private agents that have an impact on the city's tourism sector.

II. Public Organizations

Institution: Barcelona Port Authority (APB)

- **Mandate:** APB is a public body responsible for managing the Port of Barcelona. It reports to the Spanish National Ports and the Harbor Authority.
- **Funding and ownership:** APB is a publicly funded institution.
- **Management:** Although APB is a government body, it is managed by public and private sector representatives such as the State General Administration, the Administration of the Catalanian government, business and trade union organizations and chambers of commerce.
- **Sector activities:** APB has invested in its terminals, road access and the design and operation of berthing facilities, in order to attract more tourists to the port and consolidate its standing as the top cruise port in Europe. One of the projects is the expansion of the port, which is funded by private capital and the European Investment Bank and includes the relocation and construction of terminal ports and other.

III. Private Organizations

Institution: Carnival Corporation

- **Mandate:** Carnival Corporation & plc is a global cruise company and one of the largest vacation companies in the world. It started its operations in 1972 and today operates under the following brands: Carnival Cruise Lines, Holland America Line, Windstar Cruises, Seabourn Cruise Lines, Cunard Line, Costa Cruises, Princess Cruises, P&O Cruises (United Kingdom), Ocean Village, P&O Cruises Australia, Swan Hellenic and AIDA Cruises.
- **Funding and Management:** As a private entity, it is a privately managed and funded business.
- **Sector activities:** While most of its activities are centered on cruises, it also conducts various activities on shore through Holland America Tours (hotels, bus lines, rail tours). It is the only cruise line which has a private terminal at the harbor in Barcelona.

C.2.2.2 Evolution of the SPPD

1990s: The Right Environment for the Development of SPPD

The origin of the PPD related to the cruise sector is embedded in a larger context of public-private collaboration. As this study shows in other sections (mainly the one devoted to Local PPD experiences in Catalonia), a number of Catalan sectors were being developed through public-private initiatives during the 1990s and, little by little, they became the standard procedure for competitiveness improvement in any sector. Tourism was no exception. The Catalan government put a tremendous effort into promoting tourism and establishing an institutional structure to support it. The celebration of the 1992 Olympic Games in Barcelona was the most apparent accomplishment in terms of international exposure; however, a strategic analysis at the local and regional level was also carried out. In 1991, Monitor Group was hired to run a screening of all relevant businesses in tourism and the main result was the understanding that Barcelona could not be sold as “one” destination, but rather every type of business had to develop their own strategy.

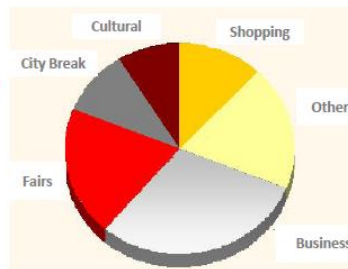
Barcelona: from Generic Promotion to Segmentation

From **ONE** Barcelona to **MANY** Barcelonas

- Strategic segmentation of the different kinds of tourism where Barcelona could compete in.



Source: Monitor 1993



Cruise tourism appeared as an interesting sub-sector (or business) in this screening along with others such as city breaks, fairs and business. The organization in charge of developing a SPPD process in each of them was Turisme de Barcelona.

Turisme de Barcelona was originally funded by the regional government and the municipality in 1987 as a sector-specific public-private initiative to promote the city as a tourist destination. Shortly thereafter, the private sector recognized the benefits of the membership and got

actively involved. In fact, within the first four years of the SPPD, the coordination role transitioned to the private sector, while the government continued to support each initiative.

Common Vision and Stakeholders' Alignment

By the mid 1990s, Turisme de Barcelona and the Barcelona Port Authority, which is the national public body responsible for managing the port, started working together in the understanding of an optimal model for the development of the cruise sector. For instance, in 1995 they jointly attended the Annual Cruise Show in Miami. Their intention was to promote the port by simultaneously covering two types of clients: cruise liners and cruise tourists. The

former was the responsibility of the port, while the latter falls under Turisme de Barcelona's umbrella. As the marketing director of the Barcelona's port described during an interview, "we understood we were the same company but working in different departments."

In addition, as part of a strategic analysis that was conducted, they studied international benchmarks such as the port of Miami. The port was the top reference, having an exceptional port infrastructure coupled with an airport hub and managing the Caribbean cruise business. But other non-port references complemented their analysis too, mainly other European cities such as Paris or London, offering a high quality and diverse entertainment experience.

Strategic Options for the Cruise Sector in Barcelona

Turn around Port		Barcelona
Transit		
	Specialized cruise	Generic cruise

It became clear that Barcelona had the capacity to become a turnaround port with the sophisticated value chain it already involves (an international modern airport, top-quality incoming services at the port facilities, entertainment and a wide range of hotels and restaurants). In addition, given the diversity of the tourism offer, attracting generic cruises with an extensive array of passengers seemed feasible. They negotiated with the most important cruise liners to shift their main embarkation point in the region to their port. This strategic approach pushed the involvement of additional local, national and international agents in the SPPD process.

Concrete Actions behind the Dialogue

In 1999, the Port Authority launched a tender to build more terminals and manage them. Three companies participated in the project and they own today 80% of the terminals' shares. This enormous modernization project resulted in the construction of 7 terminals (see images in the next page), replacing the previous rudimentary infrastructure the port had. It is able to receive more than 2.5 million passengers per year.

Another important action was coordinated by Turisme de Barcelona. In the late 1990s it put in place the Bus Turistic, a hop-on hop-off bus service offering sightseeing tours. The service strategically made a stop at the port to allow transit tourists to easily visit the city. This initiative was not only an excellent way to attract customers to the city's businesses and attractions, but it turned out to be very lucrative for the organization itself which became financially self-sufficient thanks to the bus.

From a Welcome Tent to Seven Terminals

... to 7 terminals in 2010

From a “welcome tent” for cruises
at the beginning of the 1990’s...



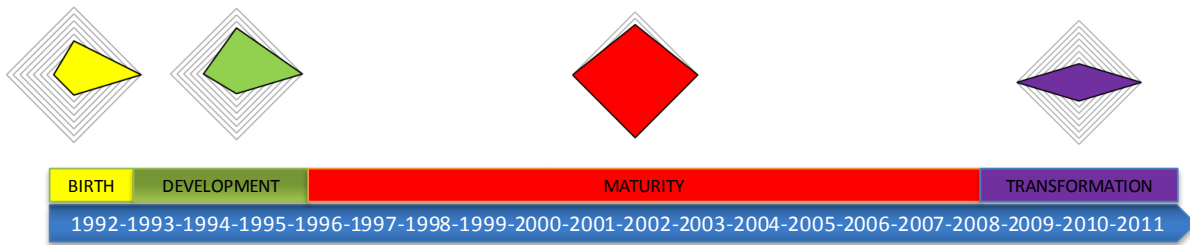
Source: The Port of Barcelona

The Problems of Success

Despite the positive developments, the quality of the dialogue amongst actors has decreased in recent years. Especially local private agents question the role of Turisme de Barcelona. The organization has become in their eyes a strong (disloyal) competitor rather than an organization working for the development of local businesses. For instance, Turisme de Barcelona is the only actor allowed to have a booth in the dock and sell bus tickets to incoming passengers (for the sightseeing bus). Some of the interviewees mentioned that companies have to *deal* with Turisme de Barcelona to get a preferential status and they no longer trust the fairness of the organization: “it is difficult to compete with the public sector.”

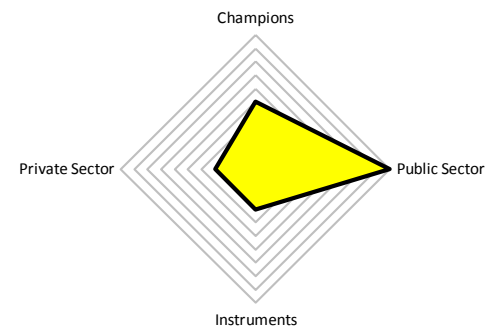
The volume of passengers is another relevant issue. Over the last five years, urban development and planning has not followed the same pace of tourism and it is starting to harm local population as well as other economic sectors. Thus, the question of sustainability in the cruise sector has still to be solved by private and public stakeholders.

C.2.2.3 The Public and Private Ownership in the Evolution of the SPPD



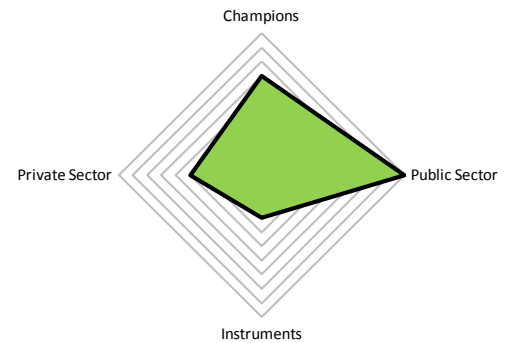
- Birth

Cruise tourism SPPD was born as a consequence of a wider tourism development strategy from the public side, basically orchestrated by Turisme de Barcelona, which became the natural facilitator and also a champion. Initially, only few private stakeholders were interested in the process and there were no instruments adapted to the sector’s needs.



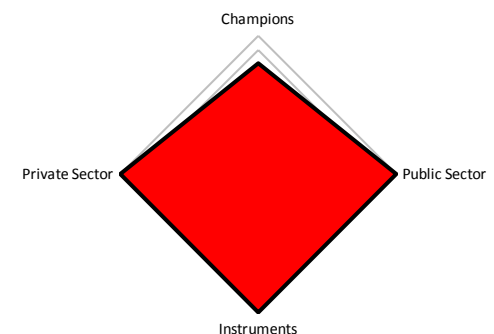
- Development

There was a clear effort in terms of strategic analysis and alignment during this period. More champions from the private side got involved as they understood the prospects of the sector and the benefits of collaboration. Instruments used for other tourism sub-sectors were starting to be adapted and also important projects were designed.



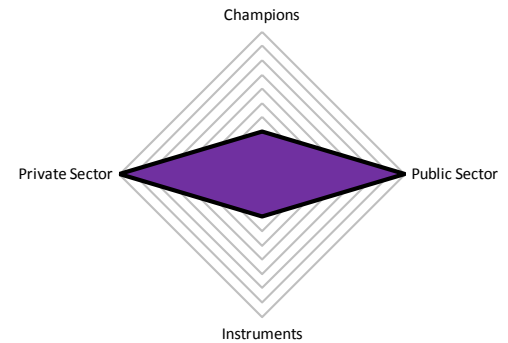
- Maturity

At this stage, the SPPD becomes very balanced. With the implementation of projects, such as the construction of new terminals, investments in urban infrastructure and services, and promotion efforts, a new whole set of stakeholders related to cruises intervene—local and international. The role of Turisme de Barcelona as a dynamic and strong facilitator allows the cohesion of the SPPD process.



- Transformation

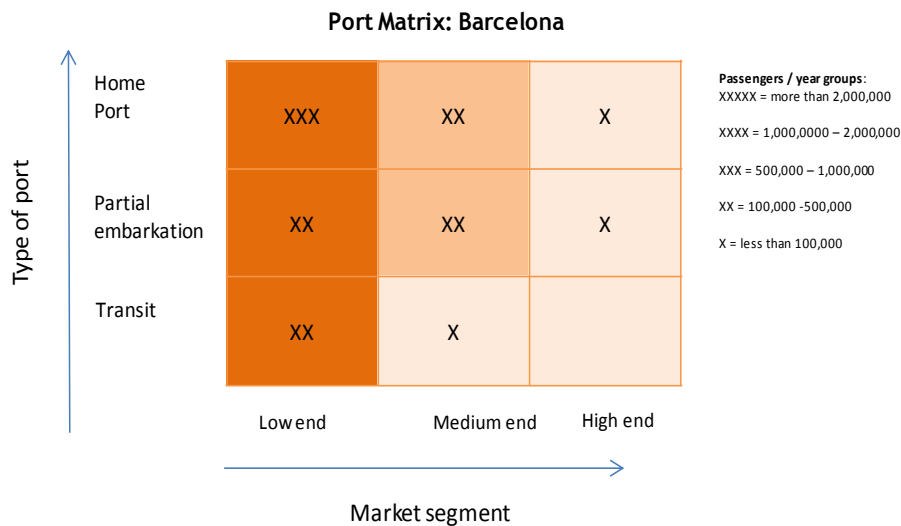
The success of the sector has turned into new challenges. The role of Turisme de Barcelona is being questioned (it has become a competitor for the businesses) and new potential champions are not “allowed” to enter the process. Current instruments maintain the inflows of cruises very efficiently but are no longer helping develop local agents nor control the urban damage of massive arrivals.



C.2.2.4 Impact of the SPPD on competitiveness

Today, Barcelona is competing with the world’s top players and ranks better than any other port in the Mediterranean including Civitavecchia (Rome). Only the Caribbean ports (Miami, Port Everglades, and Port Canaveral) have more passengers than Barcelona.¹⁹⁸

Barcelona is mainly a home port, but it fulfills the role of a partial embarkation and a transit port as well. More than a half of all cruise passengers are home and partial embarkation passengers, while about 45% are passengers in transit.¹⁹⁹ In terms of the market segments served, according to the latest data for January-July 2011, more than 70% of cruise passengers are in the low end segment, 20% in the medium end segment and the rest are high end segment cruisers.²⁰⁰ The following matrix demonstrates the approximate distribution of passengers according to the type of port and market segment served.



¹⁹⁸ Dream World Cruise Destinations, Autumn 2009.

¹⁹⁹ MedCruise Statistics Report 2010, MedCruise, 2010.

<http://www.MedCruise.com/filebank/documents/Statistics%20Report%202010%20edition.pdf>.

²⁰⁰ The leading cruise companies and its passengers are classified in each segment according to ship size (GT= Gross Tonnage) and characteristics of the ship as classified by the World Tourism Organization in: Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

The low end segment is clearly the largest group (approximately 1.6 million customers). In addition, since the vast majority of the passengers embark, disembark or both in Barcelona, most passengers are concentrated in the home and partial embarkation port slots. Following this pattern, the same applies to the medium segment, the second largest one.

As explained earlier, home ports and partial embarkation ports bring higher economic benefits for destinations as passengers spend more time in the port compared to those in transit. Also, low and medium end cruisers are represented in large groups. As a result, these passengers end up contributing significantly to the local economy, despite the fact that many on-shore excursion and longer itineraries (=high local expenditures per passenger) are more attributable to the high end segment.

The following chart demonstrates the relationship between overnight stays and cumulative passenger spending. As shown, longer stays are more attractive in terms of the overall passenger spending than shorter-term stays.

Estimated Economic Impact of Overnight Stays, 2009

	Passengers	Spending/day (€)*	TOTAL
Transit	971,226	93.40	90,712,508
Turnaround Port	1,180,239	118.54	139,901,990
Same day (82%)	967,796	93.40	90,392,145
1 night (11%)	129,826	186.50	24,212,603
2 night (5%)	59,012	279.60	16,499,741
3 night (2%)	23,605	372.70	8,797,502
TOTAL	2,151,465		230,614,499

* Sum of non-hotel related expenses per person/day (EUR 93.4) and daily cost of accommodation (EUR 93.1)

Source: Turisme de Barcelona²⁰¹

This means that Barcelona was successful in positioning itself as a home port targeting large groups of passengers, which cumulatively contribute significantly to the local economy, but also a specialized port offering services for the more demanding luxury segment. Even if many variables cater to the development of the cruise sector in Barcelona, considering the confluence of the SPPD and the sector's growth suggest that dialogue's impact on the sector was remarkable. Today, Barcelona's port has the highest number of passengers in Europe; it serves a variety of market segments (low, medium and high end) and the majority of passengers start or end their journey there (or both). All these facts underscore the strong competitive position of the port on a global level.

It is obvious that the dialogue amongst private and public stakeholders has been a key factor in the development of cruise tourism in Barcelona. The SPPD took place in the right environment and at the right time since several similar SPPD efforts were taking place and were supported by the Catalanian government. Stakeholders were able to formulate a

²⁰¹ Turn around port is synonymous with home port.

common vision and alignment of their goals and actions. Considering these aspects and the excellent results of the port, the SPPD can be considered a good practice. However, success brings new challenges. The role of Turisme de Barcelona should be refined since it acts as a competitor to local businesses. The model in its current form is not sustainable in the long run and new strategies have to be developed to make sure all local agents benefit from it.

C.2.3 Malta

C.2.3.1 Sector Description of the Country

Malta is a popular holiday destination and tourism, together with trade and financial services, is one of the nation's main sources of income. Strategically located in the center of the Mediterranean between Africa and Europe, the Maltese islands have been influenced by many cultures and civilizations. The Maltese islands offer an interesting mixture of cultural and historical sites for tourists. The country sites nine UNESCO World Heritage Sites, including the Megalithic Temples (considered one of the oldest free-standing structures in the world). The Mediterranean Sea has been the traditional way of communicating with the exterior and many years ago cruise ships started calling at the Valletta port, Malta's main port.

In 2011, the travel and tourism sector directly contributed a 13% share to the total GDP.²⁰² Including the wider economic impacts, this share is expected to reach 25.4% of GDP in 2011,²⁰³ which is one the highest in the region. Malta's tourism sector is also a significant employer in the country. The travel and tourism sector accounts for 14% of total employment (23,000 jobs). Including jobs indirectly supported by the industry such as employment by hotels, travel agents, airlines and other passenger transportation services, the share increases to 26.1%.²⁰⁴

Maltese tourism remained relatively stable in the aftermath of the economic crisis in 2008 and performed well compared to other European destinations.²⁰⁵ The adoption of the Euro in January 2008 has also supported its competitiveness, especially from the perspective of European customers. Most tourists arrive from Western and Southern Europe, especially from the United Kingdom, Spain, France Italy and other. The nation has also benefited from having English as a formal language and has focused on niche markets such as English courses for Asian customers.²⁰⁶ Malta has a well-developed tourism and ICT infrastructure. In the last three years, the state invested in port infrastructure improvements and workforce development. All of these contributed to Malta's excellent 26th rank in the 2011 Travel and Tourism Competitiveness Index.

Selected competitiveness indicators, Travel and Tourism Competitiveness Index 2008/2011

2008		2011	
Tourism infrastructure	19	Tourism infrastructure	20
ICT Infrastructure	32	ICT infrastructure	19
Human resources	40	Human resources	28
Education and training	40	Education and training	34
Availability of qualified labor	45	Availability of qualified labor	29
Quality of port infrastructure	33	Quality of port infrastructure	20

Source: The Travel and Tourism Competitiveness Report 2011 - World Economic Forum²⁰⁷

²⁰² World Travel and Tourism Council, Country Reports: Malta, Key Facts.

http://www.wttc.org/eng/Tourism_Research/Economic_Research/Country_Reports/Malta/

²⁰³ Ibid.

²⁰⁴ Ibid.

²⁰⁵ Malta Tourism Profile, Globserver.com, 2010. <http://www.globserver.com/en/malta/tourism>.

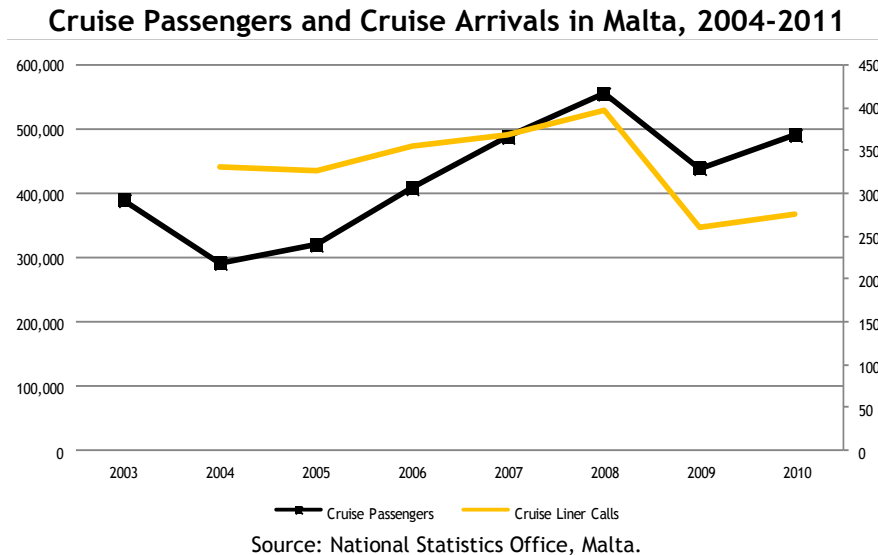
²⁰⁶ Vella L., Motivational Segments in Maltese Tourism, Malta Tourist Authority. <http://www.mta.com.mt/page.aspx?id=170>.

²⁰⁷ The Travel and Tourism Competitiveness Report 2011, World Economic Forum.

http://www3.weforum.org/docs/WEF_TravelTourismCompetitiveness_Report_2011.pdf.

Ports and Passengers

Although small, cruise passengers account for a significant proportion of tourist arrivals. Between 1990 and 2000, the average cruise passenger increase rate was 14.3%. Between 2003 and 2010, the rate stood at 5.2%.²⁰⁸ Despite the worldwide economic recession, the number of passenger arrivals to Malta rebounded to a total of 491,000 in 2010, up by 11.7 % compared to the previous year. This change was mainly brought about by a substantial increase in the Italian and French market sourcing, which together made up 37.6 % of the total arrivals.



As for the latest trends, figures from the National Statistics Office show that cruise passenger traffic in August 2011 stood at 68,722, up by 30.1% over the corresponding month in 2010.²⁰⁹ The increases in the number of passenger embarkations and landings are a result of the new cruise-and-fly packages launched in the summer.

The sector's performance has improved also through the upgrades of transport infrastructure, specifically maritime ports. Recognizing the growth potential of cruise tourism, the government of Malta approved the construction of three cruise and ferry terminals in Valletta's Grand Harbour, carried out by an international consortium.²¹⁰ The project is located near the city's historical center and shopping and amusement sites. Malta is also promoting one of its three islands, Gozo, by having a mooring point outside Xlendi, enabling smaller cruise lines to make two stops within a short sailing distance.²¹¹

²⁰⁸ Cruise Passenger Statistics, National Statistics Office, Malta.

²⁰⁹ Cruise passengers: August 2011, News Release, National Statistics Office of Malta.

http://www.nso.gov.mt/statdoc/document_file.aspx?id=3123.

<http://www.maltatoday.com.mt/news/national/cruise-passengers-increase-by-60-over-june-2010>.

²¹⁰ Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

²¹¹ Malta Tourism Profile, Globserver.com, 2010. <http://www.globserver.com/en/malta/tourism>.

Following are the main cruise lines in Malta:

Market Segment	Cruise Companies	Segment Share (Jan-July 2011)
Low end	Pullmantur, Costa Cruises, MSC, Disney Cruise Line, NCL, Louis Cruises, Thomson Overseas, Fred Olsen Cruises	53%
Medium end	Ibero Cruceros, Tui Cruises GMBH, Aida cruises	24%
High end	Silversea Cruises Sea Cloud Cruises Elegant Cruises Companies des Iles du Ponant	22%

Source: Valletta Cruise Port²¹²

SPPD Structure inventory



I. Private Organizations

Institution: The Malta International Shipping Council (MISC)

- **Mandate:** MISC is a not-for-profit private association, which promotes the interests of Malta's international shipping industry.
- **Funding and ownership:** It was constituted in Malta in 2004 as a private initiative by a group of international ship-owners. Its funding comes from membership fees.
- **Management:** The main management body is the Council, which is elected by MISC's members at the Annual General Meeting.
- **Sector activities:** As one of the institutions involved in Malta's maritime policy, it participated in the monitoring of the "Green Paper on a Future Maritime Policy for the EU", which is a consultation paper for the field of maritime policy. In the case of cruises, it promotes and advocates for efficiency of mutual collaboration between maritime transport companies and ports.

²¹² Valletta Waterfront. <http://www.vallettawaterfront.com>

Institution: Valletta Cruise Port

- **Mandate:** Valletta Cruise Port (formerly VISET Malta plc) is a limited liability company, which took over the cruise and ferry terminal operations following an international tender issued by the government of Malta in 1996.
- **Ownership and funding:** Valletta Cruise Port is a private organization and is managed by shareholding companies, for example the Applied Investments Ltd, Aggregate Investments Ltd, Checkout Developments Ltd, Perquisite Holdings, M. Demajo (Port Ventures) Ltd, Bank of Valletta plc, Malta International Airport plc and other.
- **Management:** The Valletta Gateway Terminals (VGT) Limited is the authorized operator of Valletta Cruise Port. This operator is a joint venture between Tumas Group of Malta and Portek Group of Singapore. It is handled by representatives from the shareholding companies, who act as official members of the Board of Directors.
- **Sector activities:** Through its cruise and ferry industry partners, the Valletta Cruise Port offers a variety of services including its passenger facilities. The Port of Valletta provides a location, right in the middle of the Mediterranean, as a port of call and a location from where to start or end cruises.

Institution: Federation of Associations of Travel and Tourism Agents – Malta (FATTA)

- **Mandate:** FATTA is a non-profit employers' association set up to promote, service and represent the interests of the travel and tourism industry. Members are incoming tour operators, destination management companies and outgoing travel agencies.
- **Ownership and funding:** FATTA was formed in March 1996 by four associations, namely the Association of Incoming Tourism Agents (AITA), the Malta IATA Agents' Association (MIAA), the Association of Retail Travel Agents (ARTA) and the Association of Tour Organizers - Malta (ATOM). It gets funding from membership fees.
- **Management:** The Executive Council is elected by members once a year.
- **Sector activities:** At the national level, FATTA plays an active role through its representation in the Transport Malta Board and through continuous dialogue with the government.

Institution: Malta Chamber of Commerce, Enterprise and Industry

- **Mandate:** The Chamber is a private sector initiative that was established to represent the businesses' interests and to influence policy formation on the national and European levels. The Chamber works to cultivate mutual understanding between the government, unions and other employer organizations. It groups the country's business community, including several associations and corporate and individual members. Its members are aligned in three economic groups, namely importers, distributors and retailers; manufacturers and other industries; and service providers.
- **Ownership and funding:** The Chamber was established on a voluntary basis and officially recognized in 1848. It is an independent organization financed mainly from membership fees.
- **Management:** The Chamber is managed by a Council of 19 elected members, who hold their post for a period of two years. The Council includes the Chairpersons of the Chamber's three Economic Groups, as well as all past presidents who continue to be members of the Malta Chamber.
- **Sector activities:** The Chamber has a Shipping and Bunkering Business Section, which works together with the Malta Association of Ship Agents. The section has promoted the following initiatives:
Electronic conveyances: In 2010, the Executive Committee and the Department of Customs, Immigration Police, Transport Malta and Port Health came to an agreement whereby electronic clearance of offshore conveyances was launched. This electronic procedure is a crucial timesaving factor for ship agents. The Chamber helped reach an agreement with the Malta Freeport Terminal (the second port to the south at Marsaxlokk Bay) in order to carry out changes to software by both the Freeport and Chamber's cruise agents.
The Chamber established a Working Group on Cruise Line Operations in Malta.
Port Tariff Revision: The Chamber advocates for lower tariffs taking into account that fees increased by

45% over the last three years.

II. Public Organizations

Institution: Malta Tourism Authority (MTA)

- **Mandate:** MTA is the entity responsible for regulating and motivating the tourism industry in Malta. As a part of the Office of the Prime Minister, it advises the government on tourism operations and on the planning and development of the tourism industry. MTA was set up in 1999 by the Malta Travel and Tourism Service Act. Its role is to form, maintain and manage meaningful partnerships with all tourism stakeholders. The authority works closely with its private sector partners.
- **Funding and management:** As a government body, funding and management are public.
- **Sector activities:** MTA has been conducting initiatives to promote the cruise-and-stay niche market in Malta. The plan has focused on having passengers starting or ending their trip in Malta, rather than just staying for a couple of hours. These initiatives were being undertaken in collaboration with the Malta International Airport, Viset and cruise liner operators.

Institution: Tourism and Sustainable Development Unit (TSDU)

- **Mandate:** TSDU, as a part of the Office of the Prime Minister structure, is responsible for EU affairs related to tourism, environment, sustainable development and policy development. This Unit acts as the EU directorate for the Malta Tourism Authority and deals with policy and project development, EU legislative proposals, EU funding opportunities and sustainable development.
- **Funding and management:** As a public agency, TSDU is funded by public bodies.
- **Sector activities:** TSDU has administered projects co-financed by the EU, such as sustainable tourism projects, and implemented the Grant Scheme for Tourism Projects by Enterprises. For cruise tourism, the projects are related to improvements of the port facilities such as the access routes to Cruise Liner Terminals.

Institution: Transport Malta

- **Mandate:** Transport Malta operated as Malta Maritime Authority (MMA) until 2010 when it became a part of Transport Malta. Transport Malta has a regulatory role in maritime activities, which take place within the internal and territorial waters of Malta. It also manages port facilities, which are under the control of the Authority. After the recent privatization, there has been a shift in the role of the governing Directorate and most of the port and yacht related services, including cargo operations, passenger operations and technical nautical services, which are now carried out by the private sector. Today, Transport Malta is responsible for ensuring that private operators comply with the various contractual obligations brought about by privatization.
- **Funding and management:** As a government body, funding and management are public.
- **Sector activities:** Its activities include the promotion of port services and maritime activities and the provision of a safe and efficient maritime transport system. Transport Malta has been working to create a second port to the south at Marsaxlokk Bay, calling it the Malta Freeport.

Institution: Malta Enterprise

- **Mandate:** Malta Enterprise is a public agency responsible for the promotion of foreign investment and industrial development in Malta. The agency offers assistance and advice to potential investors as well as domestic businesses seeking to expand their activities domestically and internationally. Malta Enterprise maintains regular contacts and business relationships with various local and international business associations such as chambers of commerce, federations of industry, business bodies as well as diplomatic missions and international business and trade promotion organizations. Malta Enterprise has a strategy to maintain these strong links for information sharing, knowledge management and the organization of joint business events.
- **Funding and ownership:** Malta Enterprise is a public agency and is fully financed from government's

budget.

- **Management:** The Corporation operates under an Executive Chairman and a Board of Directors appointed by the Minister of Finance, Economy and Investment. The Board is composed of eight members.
- **Sector activities:** Malta Enterprise promotes tourism through the interest rate subsidy scheme aimed at activities such as the refurbishment of hotels, accommodation facilities and restaurants in order to attract more international visitors.

III. Public-Private

Institution: Malta Cruise Network (MCN)

- **Mandate:** MCN was set up in late 2004 as an independent body to act as the focal point for local stakeholders and as a coordinating voice in the delivery of a quality product and service to the cruise line sector. Its responsibility is to define, develop, deliver and promote a sustainable cruise industry for Malta.
- **Ownership and Management:** The network was founded by the major public and private service providers in the industry: the Malta Tourism Authority, VISET plc (Cruise Terminal Operator) and Malta International Airport plc. MCN is jointly run by members of public and private sector. The MCN board consists of VISET plc (operator of the Valletta Waterfront); Malta Tourism Authority; Malta Maritime Authority and Malta International Airport plc.
- **Sector activities:** MCN is committed to gathering the local industry in a unified forum with collective interests to develop, deliver, market and promote Malta's attractiveness for cruises. It partners with over 25 local stakeholders, other large service providers and government departments. Partners include the Malta Shipyards, the Ship Agents Association, the Maritime Authority, the Association of Tour Guides and the Malta Hotels and Restaurants Association.

MCN promotes presentation of Malta abroad through participation in international cruise events and exhibitions. One of the first initiatives was the new Vehicle Management System, which brought together the Police, White Taxi Licensed Amalgamated, ADT (Malta Transport Authority) and VISET's Safety and Security Department. This exercise was aimed at the elimination of congestion and organizational problems at the Cruise Passenger Terminal.²¹³

IV. NGO and Research

Institution: The National Statistics Office (NSO)

- **Mandate:** NSO is a public institution responsible for the collection, compilation, analysis and publication of a wide range of statistical information and related matters.
- **Funding and management:** As a public institution, funding and management come from public sector.
- **Sector activities:** The NSO publishes statistical data covering information about cruise passenger traffic per month at both Malta and Gozo. NSO manages electronic newsletters, which contain statistics and a brief comparative analysis on the progress of the sector to the country.

²¹³ Malta Cruise Network gaining momentum, Times of Malta, January 2005.
<http://www.timesofmalta.com/articles/view/20050109/business/malta-cruise-network-gaining-momentum.102678>.

C.2.3.2 Evolution of the SPPD

SPPD as a Response to Challenges Related to Joining the EU

Considering the dominance of tourism in the national economy, the government's attention has focused more on this sector than on agriculture (and citrus). Already in 1996, the country established tourism as one of its priorities. The Constitution was modified and subsequently an agenda was formulated to develop the cruise sector. At that time, it was also decided that the port would be privatized (under concession) over time in order to allow for the necessary investments.

However, it was not until 2003-2004 when the actual SPPD started. Prior to Malta's accession to the EU in 2004, an important incentive for European cruisers to call there was the presence of tax free shops. These, according to EU regulations, had to be closed. Consequently, the nation decided to take an active approach to confront this situation by further developing the cruise industry to attract new cruise lines through more value added.

Understanding the Collaboration Gap

In 2004, a group called Malta Cruise Network (MCN) was created. According to MCN's chairman, Chris Falzon, "*two of the main problems faced by the Maltese cruise industry in the recent past were the lack of cooperation of all the partners involved locally and the lack of coherence when presenting destination Malta abroad*".²¹⁴ MCN was set up as an independent body to fill this gap. It acts as the focal coordination point for public and private agents and in relationship to the cruise line sector. MCN partners with 29 local stakeholders, service providers and government departments. These include the Ship Agents Association, the Association of Tour Guides, the White Taxi Licensed Amalgamated, the Malta Hotels and Restaurants Association and the Malta Shipyards, which have been working together to promote Malta as a gateway for cruising in the Mediterranean. The Prime Minister was also supportive of the group's efforts.

Private Sector's Leadership and Challenges Ahead

The SPPD leadership has continuously been transferred to the private sector's hands, which is now working to develop the industry in close collaboration with the public sector (represented mainly by the Malta Tourism Authority). This shift went in line with the general trend of the changing role of the government in the Maltese economy. Previously, the government had a much more dominant role, but over time it substantially reduced interventions into the economy and opened some of its strategic sectors to privatization. Today, large businesses and business unions play a principal role in the economy.²¹⁵

The goal is to convert Malta in a turnaround port, since this is a more profitable option than a transit port. The reported sector challenges that resonate the most are the increasing competition in the region, the increasing fuel prices affecting cruise lines as well as political

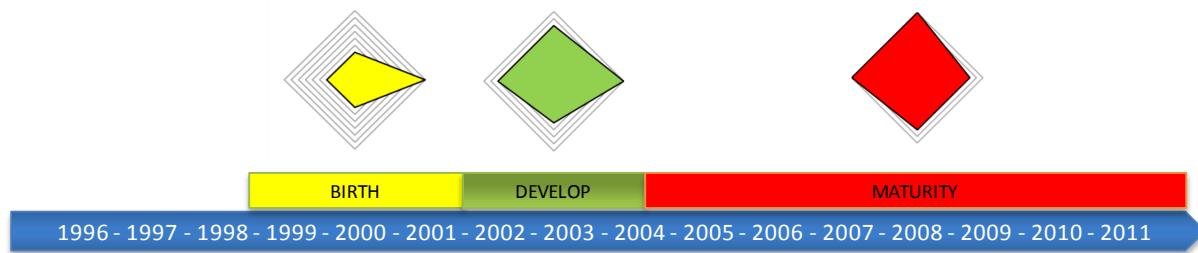
²¹⁴ Malta Cruise Network gaining momentum, Times of Malta, January 2005.

<http://www.timesofmalta.com/articles/view/20050109/business/malta-cruise-network-gaining-momentum.102678>.

²¹⁵ Ibid.

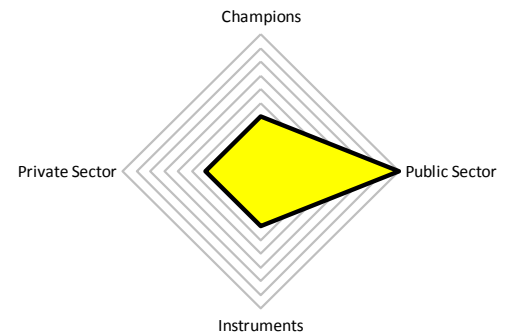
stability in Eastern Mediterranean, which share itineraries with Malta. In addition, improvements in the road transportation network, a better quality of taxi services and more promotion activities of Malta as a tourism destination are needed. According to Joshua Giordimaina, the Marketing Executive of Valletta Cruise Port, “the main weakness [in generating more volume or added-value business such as home porting] appears to be Malta as a destination rather than the Port of Valletta.” This was one of the most revealing findings in an international cruise industry research project, commissioned by VISET Malta plc.²¹⁶ In this sense, a concerted approach to the national promotion and a more proactive role of government in addressing infrastructure bottlenecks will be necessary.

C.2.3.3 The Public and Private Ownership in the Evolution of the SPPD



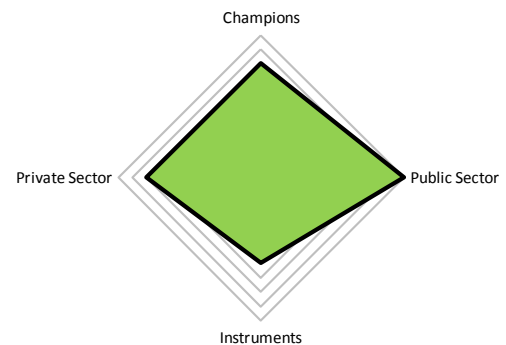
- Birth

The public sector took initiative in launching the SPPD, following on its previous commitment to the sector’s prioritization and remaining convinced about Malta’s potential to attract cruise liners. The process developed in a rather subtle form at the end of the 1990’s and was speeded up by the recognition of local stakeholders that the EU accession would entail new challenges for the sector.



- Development

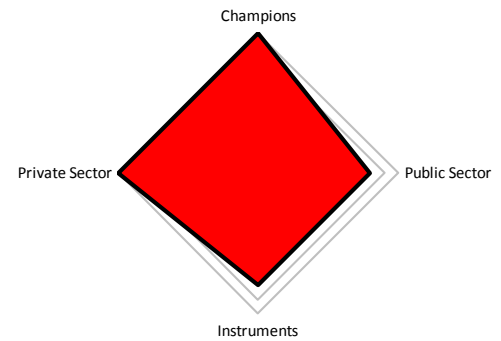
In 2004, a group was created to facilitate the cooperation among the private and the public sector. Most relevant agents, including business associations and government institutions, were represented. In addition, the port and the airport were privatized under a model of concession, which paved the way for new investments into these facilities.



²¹⁶ Cruising and Tourism: Same Opportunities, Same Challenges, 2008. <http://www.vallettawaterfront.com/content.aspx?id=106572>.

- Maturity

At this point, the private sector (infrastructure operators, tour operators, hotel owners and other) took the lead in the promotion and development of the cruise sector in Malta, together with the cooperation of the public sector. The goal is to convert Malta into a turnaround port for the maximum number of cruises possible, since this is a more profitable business. However, several business environment and SPPD challenges lie ahead and necessitate a more concerted approach and government's support.



C.2.3.4 Impact of the SPPD on Competitiveness

The SPPD has had a positive impact on the competitiveness of Malta's cruise sector. In particular, it helped Malta overcome the transition to a new market place after the sector suffered from the closures of duty free shops.

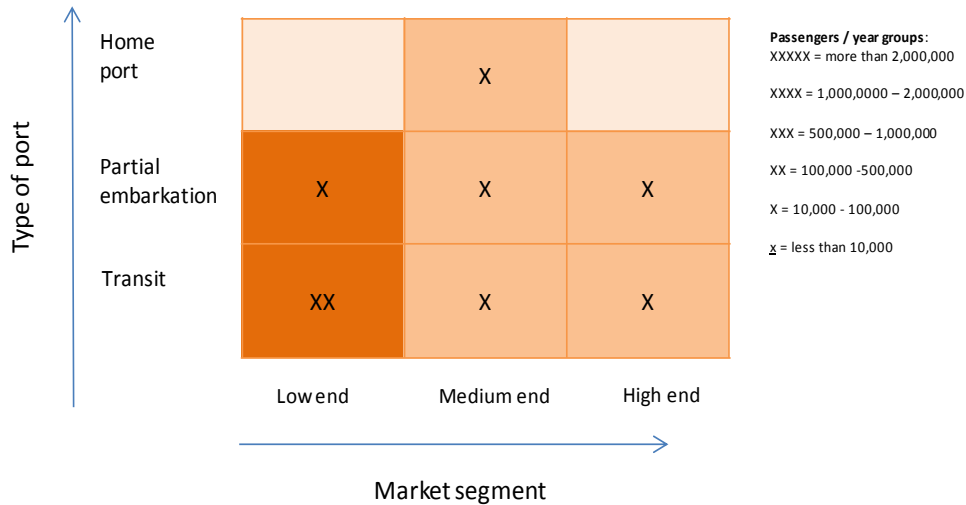
As for economic benefits of the sector perceived by local agents, Mr. Portelli, the CEO of Valletta Cruise Port, estimates that "we're looking at around EUR 9 million between 2005 and 2009 in terms of salaries. In terms of income generated from the industry as a whole, we're looking at around EUR 250 million."²¹⁷

Valletta today serves mainly as a transit and partly as a partial embarkation port, although one of the biggest recent achievements has been the decision of TUI to use the destination as a home port (see article below). In terms of market segments served, according to the latest data for January-July 2011, 53% of cruise passengers are in the low end, 24% in the medium end, and 22% are high end segment cruisers.²¹⁸ The following matrix summarized the approximate distribution of passengers according to the type of port and market segment served.

²¹⁷ Portelli, J., Valletta Cruise Port, The Report Company, September 2011. <http://the-report.net/-q-a/qaa-malta-/211-qaa-g-john-portelli-ceo-valletta-cruise-port>.

²¹⁸ The leading cruise companies and its passengers are classified in each segment according to the ship size (GT= Gross Tonnage) and characteristics of the ship as classified by the World Tourism Organization in: Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

Port Matrix: Valetta



Assuming a similar segment distribution pattern in 2010, approximately 240 thousand passengers belong to the low end clientele today. In terms of port typology, Valetta serves mainly as a transit port and in 2010, 461 out of 491 thousand passengers were in transit.²¹⁹ The fact that Valletta serves as a home port for TUI Cruises (as of 2010), a cruise line focusing on the medium end segment, is a positive development as more passengers with higher demands will spend more overnight stays on the Islands.



MSC cruise ship in Valletta port on the day of the interview. On the right, Valletta Waterfront.

Source: Competitiveness



Overall, Malta has managed to achieve a relatively high diversity in terms of segment focus (over 20% of high end passengers) and port typology. This speaks for the ability of local institutions and businesses to attract a broad customer selection. On the downside, available passenger spending data for 2007 and 2008 show that these levels are significantly lower (less than US\$50) than in other European destinations.²²⁰ This might be a result of several factors, such as

the dominance of low end passengers in transit or the lack of high value added products and services for luxury customers.

²¹⁹ National Statistics Office, 2011, Malta.

²²⁰ Bongailas, J., Cruise Experience in Malta, Malta Maritime Authority AND Tourist facilities in ports, Policy Research Corporation, 2009. http://ec.europa.eu/maritimeaffairs/tourist_facilities/economic_factor_en.pdf.

Although several factors have influenced the development of the cruise sector in Malta, what is clear is that the SPPD has helped local businesses weather through the EU accession transition period and to attract new cruise lines. The number of passengers has been growing over the last decade and today the share of medium and high end customers is also relatively high. However, passenger spending is lagging behind and should be further addressed to increase Valletta's competitiveness.

Malta's SPPD was launched in reaction to the new challenges on the occasion of EU accession. The public sector's initiative has brought benefits and despite the reluctance to adopt new regulations and face competition pressures, which would have likely hampered the nation's competitiveness, the government recognized the need to support the sector and worked with businesses to attract new cruise lines to the Islands. Most of the relevant actors were represented in the Malta Cruise Network group, including associations and other institutions. The main facilities on the island (the port and the airport) were privatized under a model of concession and nowadays the private sector takes the lead in the promotion and development of the cruise sector. The SPPD has helped to facilitate the transition and to underpin the sector later on during the economic crisis, although its full potential is still to be capitalized upon.

Article extract from Cruise Industry News, published on January 23, 2010.

"TUI Cruises to home port in Malta

TUI Cruises and VISET Malta plc. today signed a formal agreement confirming that in the 2011 season Valletta, Malta is to be Mein Schiff's Mediterranean port of departure.

From May to November 2011 the seven-day cruises will start and finish in Valletta. On its "butterfly cruise schedule" the "Mein Schiff" will call at the ports of Piraeus (Athens), Kusadasi in Turkey, Mykonos, Catania in Sicily, as well as Civitavecchia (Rome), Livorno, Monte Carlo and Ajaccio in Corsica.



"Having Valletta as base port gives us the opportunity of arranging a most interesting schedule," said Richard J. Vogel, Chief Executive of TUI Cruises, explaining the choice of the base port. TUI Cruises is the only German cruise company to offer two different routes from Malta, one in the eastern Mediterranean and one in the western Mediterranean. "We are extremely satisfied with this choice. All of the local stakeholders pulled together and made it easy for us to decide on Valletta," added the CEO.

The Parliamentary Secretary for Tourism of the island of Malta, Dr Mario de Marco, commented: "TUI Cruises' choice in favor of Valletta as the home port for the 'Mein Schiff' is gratifying but at the same time represents a commitment for us. Nevertheless I have no doubt that the private and public sector will work in unison towards fulfilling this. We will continue with our endeavors to further expand Valetta and consequently Malta as a competitive cruise ship destination and a convenient base for home porting, given its strategic location."

VISET Malta plc, the private cruise port operator of the Valletta harbor, is delighted with TUI's decision. Dr. Anton Micallef, Chairman at VISET, said that VISET is committed to delivering the highest standards of service in order to ensure that TUI's decision is a success for all partners in the industry".

Source: <http://www.cruiseindustrynews.com/cruise-news/3614-12310-tui-cruises-to-home-port-in-malta.html>

C.2.4 Turkey

C.2.4.1 Sector Description of the Country

With a GNI per capita of US\$9,500 and a population of over 75 million inhabitants, Turkey ranks among the most populated upper middle income countries.²²¹ Services account for 65% of GDP and tourism has performed well in recent years. The nation is particularly well suited to cruise-related tourism given its position surrounded by several seas, which have made cruises an attractive means of transport.

Turkey was one of the countries only relatively mildly impacted by the crisis compared with other Western European countries. The nation managed to secure a 3.3% increase in tourist arrivals, while the total number of global tourists declined by 4.3 % in 2009. In fact, it was the only G20 country that recorded an increase in incoming tourists in 2009.²²² In 2011, the direct contribution of travel and tourism to GDP is expected to be 4.1%. Accounting for the wider economic impacts of travel and tourism, this share is forecasted to rise to 10%.²²³ Travel and Tourism is expected to generate 503,000 direct jobs in 2011 (2.2% of total employment). This includes employment by hotels, travel agents, airlines and other passenger transportation services.²²⁴ In Izmir, many new job fields and business initiatives were created, job hiring rates have increased and tourism oriented businesses flourished. The number of persons employed in the cruise tourism industry is around 100,000.²²⁵

The Ministry of Culture and Tourism's marketing and promotional activities focus on new markets that have a positive impact on the growth of tourism in the country. For instance, new market penetration helped the sector in 2010. While the share of Western European countries declined, Russia, Iran and other Middle Eastern countries are becoming increasingly important. The Middle East has been identified as a key growth market considering its cultural and geographical proximity to Turkey. The government's intention is to attract more Middle Eastern tourists and position Turkey as a distinguished health and wellness destination.²²⁶ In addition, the country is praised for its ability to adapt tourist offers during the crisis (low-cost prices on sun-and-beach products similar to those of competitors in the Mediterranean such as Spain, Italy, Greece, etc.).²²⁷

Turkey ranks 29th in the European region and 50th out of 133 countries in the Travel and Tourism Competitiveness Index. The country's strengths are rich cultural and natural heritage, several international fairs and exhibitions, and strong creative industries. The policy environment has also improved. However, concerns about safety, security, crime and transportation infrastructure have held the nation's competitiveness back.²²⁸ Compared to

²²¹ World Bank Data, Turkey.

²²² What Lies beneath Turkey's Stellar Tourism Statistics, Hurriyet Daily News, March 30, 2010. <http://www.hurriyetaidailynews.com/n.php?n=what-lies-beneath-turkey8217s-stellar-tourism-statistics-2010-08-26>.

²²³ World Travel and Tourism Council, Country Reports: Turkey, Key Facts http://www.wttc.org/eng/Tourism_Research/Economic_Research/Country_Reports/Turkey/

²²⁴ Travel and Tourism Economic Impact 2011 - Turkey. World Travel and Tourism Council. http://www.wttc.org/bin/pdf/original_pdf_file/turkey.pdf.

²²⁵ World Travel Awards Entry Form QandA Part. Izmir Chamber of Commerce, 2011.

²²⁶ Travel and Tourism in Turkey, Euromonitor International : Industry Overview, 2011.

²²⁷ The Travel and Tourism Competitiveness Report 2011 - World Economic Forum. http://www3.weforum.org/docs/WEF_TravelTourismCompetitiveness_Report_2011.pdf.

²²⁸ Daily News Turkey. August 30, 2010. <http://www.hurriyetaidailynews.com/n.php?n=what-lies-beneath-turkey8217s-stellar-tourism-statistics-2010-08-26>.

2008, the cruise sector's competitiveness specifically benefited from improved port infrastructure and availability of qualified labor.

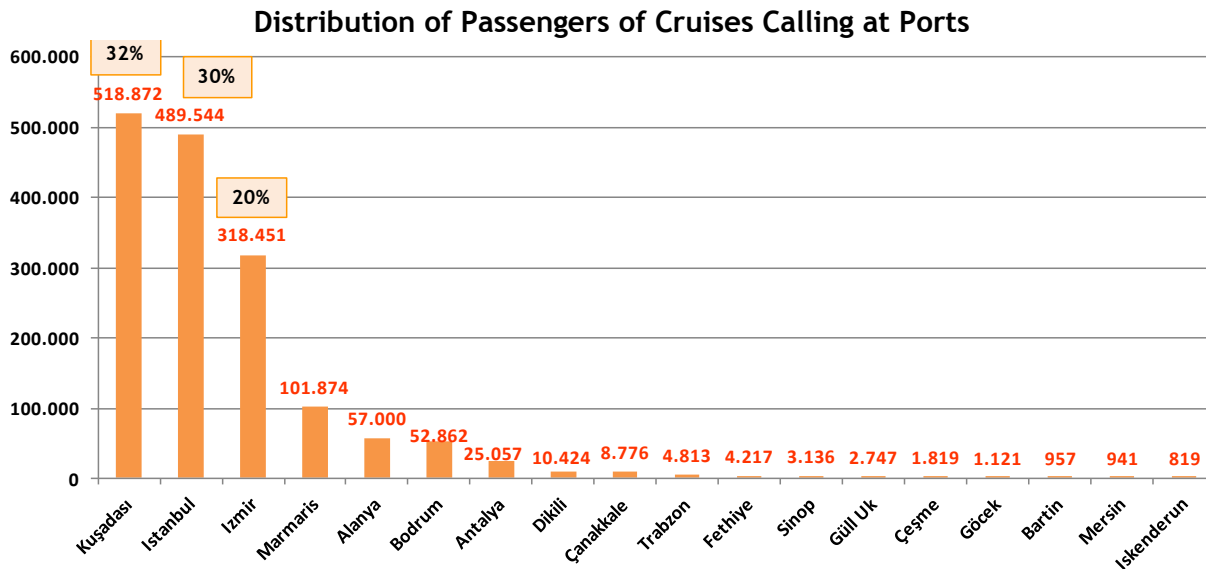
Selected Rankings: Travel & Tourism Competitiveness Index, 2008/2011

2008		2011	
Tourism infrastructure	50	Tourism Infrastructure	54
ICT Infrastructure	55	ICT Infrastructure	59
Human resources	73	Human resources	69
Education and training	65	Education and training	70
Availability of qualified labor	85	Availability of qualified labor	64
Quality of port infrastructure	83	Quality of port infrastructure	72

Source: World Economic Forum²²⁹

Turkey is particularly well suited for cruise-related tourism. It is surrounded by three seas (Mediterranean, Aegean and the Black Sea) and has a coastline of over 8000 kilometers in length. The country is full of isolated bays, inlets and tiny islands, some of which can only be explored from the sea, thus cruises are an attractive means of transport.

The country is home to 176 ports, both privately and publicly owned, servicing domestic and foreign trade. The distribution of passengers of cruises calling in 2010 was concentrated in the following three major ports: Kusadasi (32%), Istanbul (30%) and Izmir (20%).²³⁰



Source: Turkish Chamber of Shipping²³¹

Izmir is the third most populated city in Turkey and it is an important business center, given its location close to vast agricultural and industrial hinterlands. The city is also very close to

²²⁹ The Travel and Tourism Competitiveness Report 2011 - World Economic Forum.

http://www3.weforum.org/docs/WEF_TravelTourismCompetitiveness_Report_2011.pdf.

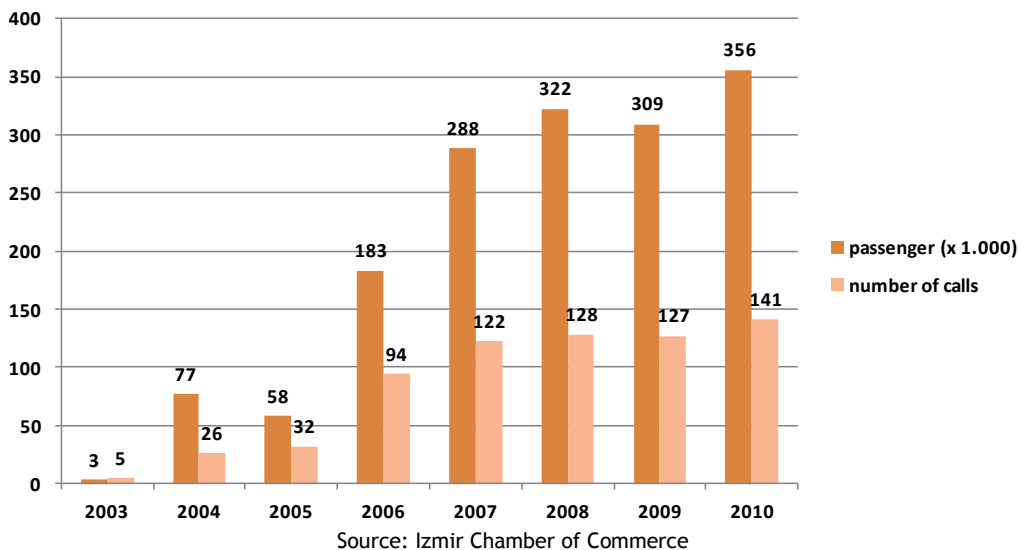
²³⁰ Dologh, G., Maritime Sector in Turkey. Turkish Chamber of Shipping, 2010.

²³¹ Ibid.

tourism and historical spots on the Aegean coast. Izmir's history dates back to 8,500 B.C. and it embodies ancient cities like Ephesus and Pergamum. Several world cruise companies have recently expanded their operations there. In addition, there is a development project planned for Izmir port, which involves the deepening of the approach channel to Izmir port, along with the idea of a second stage container terminal.²³² The port is operated by the General Directorate of State Railways of the Republic of Turkey but is currently in the process of being privatized by the Turkey Privatization Administration.

In recent years, the port has grown tremendously, mainly as a result of the marketing activities of the Izmir Chamber of Shipping. In 2003, Izmir's market share on the Turkish cruise sector was 0.05%, while in the first half of 2010 it achieved a 24.2% share and ranked as the second biggest cruise port in Turkey.²³³ The expected passenger and voyage arrivals for 2011 are 622 thousand and 300 respectively, a significant increase compared to last year.²³⁴ In 2010, the cruise sector revenues in Izmir exceeded US\$40 million, which is a 37.5% increase compared to 2008.²³⁵

Cruise and Passenger Figures, Izmir Port



Currently, tourists who arrive in Izmir on cruise ships make up 30% of the total tourists who visit Izmir.²³⁶ The massive influx of cruisers will put strain on the current infrastructure and will necessitate considerable capital investment in the next few years.

In the first quarter of 2011, the cruise lines visiting Izmir port were as follows:

²³² Port Opportunities in Turkey, UK Trade and Investment, 2010.

²³³ Izmir Chamber of Commerce.

²³⁴ Cruise Tourism In Izmir and Izmir Port, Izmir Chamber Of Commerce, 2011.

<http://www.izto.org.tr/IZTO/IN/Izmir/Cruise+Tourism/CruiseTourism.htm>.

²³⁵ Cruise Shipping Tourism in Izmir, Izmir Chamber of Commerce, 2011.

²³⁶ Ibid.

Market Segment	Cruise Companies	Passengers (Jan-June 2011)
Low end	Pullmantur, Costa Cruises MSC, P&O Cruises Ltd (U.K), NCL, Louis Cruises Fred Olsen Cruises	78%
Medium end	Ibero Cruceros, Happy Cruises, Aida Cruises	18%
High end	Oceania Cruises, Club Med	4%

Source: Izmir Chamber Of Commerce.²³⁷

In 2011, the Turkish travel and tourism sector is expected to attract capital investment of US\$8.9 billion in 2011, and thereby account for 6.5% of total national investment.²³⁸ The government is committed to investing in cruise facilities as well, such as construction and operational start-up of ports in areas with high tourism potential.²³⁹ According to the Turkish Ministry of Transportation and Communication, Izmir port will receive investment worth approximately US\$258 million in order to become one of the top 5 European ports. The port will gain new containers and docking facilities for cruise ships. The number of cruise passengers visiting Izmir may thus increase threefold once the upgrades in the port have been completed.²⁴⁰



²³⁷ Izmir Chamber Of Commerce, Cruise Tourism in Izmir and Izmir Port.

<http://www.izto.org.tr/IZTO/IN/Izmir/Cruise+Tourism/CruiseTourism.htm>.

²³⁸ Travel and Tourism Economic Impact 2011 - Turkey, World Travel and Tourism Council.

http://www.wttc.org/bin/pdf/original_pdf_file/turkey.pdf.

²³⁹ Tourism Strategy of Turkey - 2023, Ministry of Culture and Tourism, 2007.

²⁴⁰ News, Invest in Turkey. <http://www.invest.gov.tr/en-US/infocenter/news/Pages/izmir.port.europe.top.five.aspx>.

²⁴¹ For the purpose of this study, the research of the existing PPD structures in Turkey has focused mainly on the Port of Izmir, which counts as one of the country's major growing cruise ports and sites a number of institutions that participate in the development of cruise sector.

I. Private Organizations

Institution: Turkish Chamber of Shipping (TCS)

- **Mandate:** TCS is a professional institution in the Turkish maritime sector established to improve the maritime business for the public benefit, in compliance with the national transportation and maritime policies. TCS is headquartered in Istanbul and has 8 branches across Turkey.
- **Funding and ownership:** TCS is a private and independent organization financed mainly by membership fees.
- **Management:** TCS is managed by the Chairman of the Board of Directors and its 11 members. These work in the so-called Executive Board Committees such as the Foreign Affairs Committee, Ship and Yacht Building Committee and others. The Board of Directors is elected by the Assembly members for 4 years.
- **Sector activities:** TCS has a committee dealing with cruise tourism and a Marine Tourism Working Group, which is formed by four professional committees and the presidents of the agencies operating in the marine tourism industry. It works in line with the “Green Paper on a Future Maritime Policy for the EU” to ensure that sea industry is developing in accordance with the EU Maritime policy. TCS works to develop ship terminals and delivers professional training to promote cruise tourism. TCS also implements the “Cruise Tourism Project”, highlighting environmentally friendly cruise tourism development, for example through supporting the construction of waste management plants in cruise zones.

Institution: Izmir Chamber of Commerce

- **Mandate:** Set up in 1885, the Chamber is a professional legal entity that promotes the common needs of its members related to the industry and trade promotion. It has 70,000 members and about 200 employees.
- **Funding and ownership:** The Chamber unites all businesses and membership is compulsory. It is financed mainly through membership fees.
- **Management:** The bodies of the Chamber are Professional Committees, the Assembly and the Executive Board. The Executive Board is the highest executive body and consists of 11 members elected by the members of the assembly from among themselves for 2 years.
- **Sector activities:** Izmir Chamber has developed several initiatives with the goal of making the city a leading cruise destination. The Chamber has, for example, covered a part of the passenger’s cruise fee costs in order to boost demand. The Chamber issues guides that provide information about Izmir in 8 different languages. These guides are distributed at vessel berths free of charge. Previously, the Chamber also organized special sessions for the recognition of the city as a cruise destination in Mediterranean Trade and Port Cities through the Past and Future Congress held in 2008 and 2010.²⁴² The Chamber also participated in the “2011 World Chambers Competition” organized by the World Chambers Federation that awards the most innovative projects undertaken by chambers of commerce and industry from around the world. Through this competition, the Chamber was awarded the “Best International Project Cruise Shipping Tourism in Izmir” prize.

Institution: The Association of Turkish Travel Agencies (TURSAB)

- **Mandate:** The Association is a private professional organization which has the status of legal person, established by Law in 1972. The main aims of the Association are the development of the travel agency profession for the development of the country’s economy and tourism sector.
- **Ownership and funding:** In accordance with Law No.1618, travel agencies are obliged to become members of the TURSAB. Funding comes from membership fees.

²⁴² 2011 World Chambers Competition, Best international project “Cruise Shipping Tourism in Izmir”, Izmir Chamber of Commerce, 2011. <http://www.iccwbo.org/uploadedFiles/Competition/2011/Best%20International%20Project%20-%20Izmir%20Chamber%20of%20Commerce%20%20MARCH%202011RKING2.pdf>.

- **Management:** The General Assembly is the ultimate authority and represents all member agencies. It meets every other year and can also be invited for extraordinary meetings by the Executive Board or the Ministry. The Executive Board is the governing organ, responsible for the implementation of decisions.
- **Sector activities:** This association is composed of a number of agencies involved in selling tickets for international sea tours, including cruises, and which also organize and sell domestic tours for tourists visiting Turkey, including those arriving on cruise ships. TURSAB also organizes events in cooperation with the Presidency of Religious Affairs of the Republic of Turkey, which promote Turkey as an attractive tourist destination; these events include "Faith Tourism Days", which provide a platform for dialog and mutual understanding as well as for evaluating the Culture and Tourism of Turkey.

Institution: The Union of Chambers and Commodity Exchanges of Turkey (TOBB)

- **Mandate:** TOBB is the highest legal entity in Turkey representing the private sector. Today, TOBB has 365 members in the form of local chambers of commerce, industry, commerce and industry, maritime commerce and commodity exchanges. One of its main services is offering information and consultancy services through chambers and commodity exchanges to help SMEs to solve their operational problems, to investigate the problems restricting their success in international markets, and to thereby contribute to the identification of a national SME policy.
- **Ownership and funding:** Similar to the patterns of guilds and syndicates, which traditionally organized and represented tradesmen and producers throughout Turkey's history, TOBB also adopted a representative role for the private sector, in order to guide and promote Turkish entrepreneurs. TOBB is an independent organization financed mainly by membership fees.
- **Management:** All organs of TOBB are elected through a democratic process. The General Assembly, the supreme body of the organization, consists of 1000-1300 members elected for four years by the members of the assemblies of local chambers and commodity exchanges. The president and fourteen members of the Board of Directors are elected by the General Assembly. The Board then elects five Vice-Presidents, each representing chambers and commodity exchanges for a four-year term.
- **Sector activities:** A large number of TOBB's members are businesses from the cruise sector and benefit from the services provided.

II. Public Organizations

Institution: The Ministry of Culture and Tourism

- **Mandate:** The Ministry is a government agency of the Republic of Turkey, responsible for culture and tourism affairs in Turkey.
- **Funding and management:** As a government body, the funding and management are public.
- **Sector activities:** The Ministry prepared Turkey's Tourism Strategy until 2023, which sets the objective to accelerate the construction of tourism infrastructure and thereby improve services for cruise ships.

Institution: Ministry of Transport and Communication

- **Mandate:** The Ministry is a government agency of the Republic of Turkey, responsible for transport, information and communication services in Turkey.
- **Management and funding:** As a government body, the funding and management are public.
- **Sector activities:** The role of the Ministry is, among others, to promote the efficient performance of ports and agencies. An example was the Cruise Shipping Tourism in Izmir project. Here, preliminary studies were conducted with the aim of identifying the needs of ports in relation to its facilities and support for participation in the 2011 World Chambers Competition was given.

Institution: Izmir Port

- **Mandate:** Izmir Port is the second most important port and one of the country's busiest commercial and industrial centers. Traditionally, the port played an important role not only as an industry and

trade center but also as a means of exporting Turkish commodities.

- **Funding and ownership:** The Port of Izmir is owned by the Ministry of Transport and operated by a public institution, the Turkish State Railways (TCCD). At present, the port is under a privatization process. As a governmental enterprise, TCDD obtains its authority, budget and annual programs from the Ministry.
- **Management:** The port is managed centrally from TCCD's head office, which is responsible for improving administrative and institutional effectiveness and maritime safety.
- **Sector activities:** The Port sites berths for cruise passengers and a passenger terminal in service with its own cafes and stores. Among the services for visitors are passenger reception facilities and city brochures, which are provided by the Izmir Chamber of Commerce.

III. NGO and Research

Institution: Turkish Maritime Education Foundation (TUDEV)

- **Mandate:** TUDEV is a private charitable trust with the aim of raising the standard of the Turkish Shipping Industry through the provision of high quality education and training for young people for the efficient and effective operation and management of the Turkish shipping industry.
- **Funding and management:** TUDEV was established in Istanbul by 52 founding members, mostly from the shipping community, which also manage the organization.
- **Sector activities:** To increase the number of able seamen, TUDEV supported the opening of the Marine vocational school at the Istanbul Technical University by providing the necessary financial and human resources to the University.

C.2.4.2 Evolution of the SPPD

Traditionally very government-led, in recent years the Turkish private sector has increasingly taken a more proactive stance in PPD in general. Overall, Turkey's tourism-related initiatives have been led jointly by the private sector, business organizations and the government, and have had a sector-wide approach. One of the best practices of tourism PPD in Turkey, which also focused on cruise tourism, was undertaken by the Izmir Chamber of Commerce. As a result of their initiative, the number of cruise passengers increased 100-fold between 2003 and 2010 (from 3,271 in 2003 to 355,899).²⁴³

The Regional Chamber of Commerce Identifies and Pursues Opportunities

Prior to the inception of the SPPD, almost no cruise ships berthed in Izmir and the port served for cargo transportation. According to the locals, "*only vessels without a compass berthed in Izmir*". Having recognized the untapped potential of cruise tourism and its linkages to the traditional tourism concentrated in the historical city center, in 2004 the Chamber of Commerce decided to launch an SPPD initiative to attract cruises.

The Chamber created a special group within its organization to promote cruise tourism and increase passenger arrivals to the city. Since 2004, it has strived to attract cruise companies to Izmir by contacting them one by one. After convincing major cruise line companies such as Costa, the Chamber started to develop Izmir's Alsancak Port. Examples of actions undertaken include covering the port's "headcount" fee per passenger as a gesture to the cruise tourism companies. To decrease fees, the Chamber launched many initiatives at the level of the

²⁴³ Izmir Chamber of Commerce, 2011, Turkey.

Ministry of Culture and Tourism, and Ministry of Transport. As a result, the head tax of US\$10 per person was decreased to US\$1 in 2009. These tax fees are still paid by the Chamber.²⁴⁴

Adopting a Sector-wide Approach: Collaborating with the Government's Regional Tourism Group

The Chamber's group collaborates with the regional tourism group, which was created by the government. The group unites all relevant institutions and actors to define a common strategy and align their institutions' actions. Its members represent the Governorate, the Municipality, the Chamber of Commerce of Izmir, the Izmir Development Agency (IZKA), the Chamber of Shipping and other institutions related to tourism. On the downside, the group does not have a fixed composition or a fixed agenda, which translates into a reactive approach rather than a strategic one with a long term vision. Meetings are ad hoc and take place when the need arises. This also applies to the participation, which is theme dependent.

Overall, the regional public sector supported the SPPD significantly. Once the first vessels started to come to Izmir, they focused on upgrading infrastructure and rebuilding the passenger terminal. This investment was done by the national government and with the support of the Governorate and the Municipality of Izmir. At the moment, the port is close to privatization under concession rights.

At the national level, the government is aware of the importance of cruises for Izmir and they are also taking part in the SPPD. The Ministry of Transport has, for example, financed the Chamber of Commerce's initiative to decrease passenger fees.

Through the SPPD, the city has also been able to develop further services such as the city bus tours and many new businesses have emerged. According to the Chamber, between 2003 and 2010, 730 new companies started membership, including companies from the hotel, food and beverage sectors, rental and leasing activities, gift item, carpet, leather, and jewelry businesses.²⁴⁵ In addition, their actions are intervening in urban matters, such as bus and traffic congestion, adjustment of opening hours and others.

Market Monitoring as a Way of Justifying Future Investments

Monitoring and evaluation is an important task led by the Chamber of Commerce, carrying out frequent studies and polls to understand the spending pattern of these tourists, what they like and what they do during their visit. Information is an important element in justifying future investments. During the next few years, the port plans to increase its passenger capacity. As a result of Izmir Chamber's dialogue at the level of Turkish maritime sector institutions and the Ministry of Transport, the port will be re-structured. Some parts of the Alsancak port will be privatized and will be specially adapted for cruise ship tourists. The goal is also to transform Izmir into a home port.

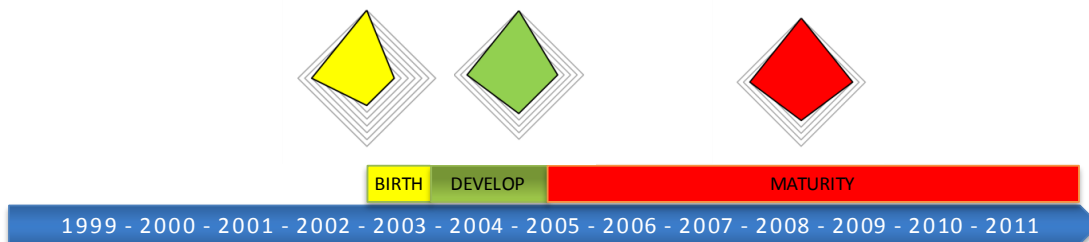
Thus, the SPPD has developed in a satisfactory manner as reported in the interviews. However, several sector level challenges still lie ahead, such as tourism and infrastructure

²⁴⁴ Ibid.

²⁴⁵ Ibid.

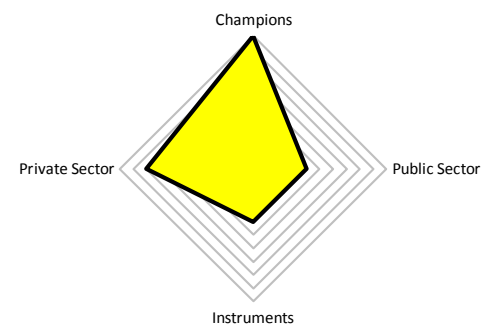
(port and transportation) bottlenecks and availability of qualified labor, which are the most important factors. Security issues in the region are also of concern to the incoming tourists. In addition, the SPPD remains challenged by the low efficiency and transparency of public institutions.²⁴⁶ Informality and corruption is also an inherent part of business in Turkey, and 42.3% of firms identify corruption as a major constraint.²⁴⁷ All of these also impact on the presence of ships and tour operators in Izmir and should also be addressed through the SPPD.

C.2.4.3 The Public and Private Ownership in the Evolution of the SPPD



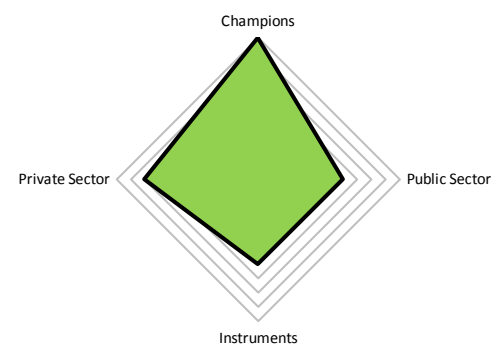
- Birth

The Chamber of Commerce of Izmir played a relevant role in the conception and birth of this SPPD, particularly the president of the Chamber, who envisioned the opportunities that cruise tourism could create for the city and decided to push it forward. Being the Chamber of Commerce meant having many private companies already aligned to pursue this goal.



- Development

During the Development Phase, most of the regional institutions got involved, under the leadership of the Chamber of Commerce, which understood that promoting the collective interest of the businesses requires a sector-wide approach. Some instruments were adapted in a coordinated manner, such as paying passengers' fees, producing marketing materials targeted specifically at the cruise industry, brochures and others.

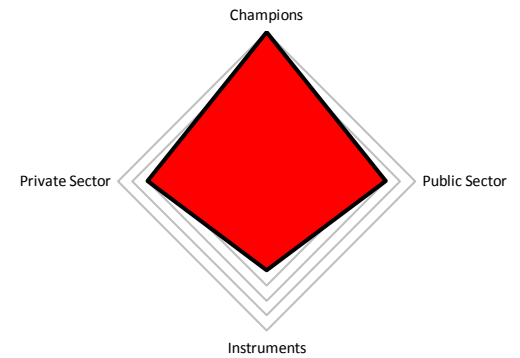


²⁴⁶ The 2009 Enterprise survey data show that Turkish senior management spends 27% of its time in a typical week dealing with government regulations, which is more than twice the average time spent in the region and almost three times as high as the average in the EU-10. Source: Enterprise Surveys Country Note Series, World Bank Group, 2009. http://www.enterprisesurveys.org/documents/CountryNotes/Turkey_09.pdf.

²⁴⁷ Enterprise Surveys, Turkey, World Bank, 2008. <http://www.enterprisesurveys.org/ExploreEconomies/?economyid=191&year=2008>.

- Maturity

Once cruises started to call at Izmir and the number of passengers increased, the participation of both sides amalgamated. At present, the SPPD is experiencing dynamism and everyone is fully involved. Actions are aligned and instruments are designed to meet the demands of the cruise sector.



C.2.4.4 Impact of the SPPD on Competitiveness

The SPPD has had a significant impact on Izmir's businesses economic activity and competitiveness. Between 2003 and 2010, Izmir's share of cruise passengers compared to other Turkish ports increased from 0.5% to almost 25% in the first half of 2010. In addition, in the first 3 months of 2011, the city obtained a 61.91% share of cruise tourism in Turkey.²⁴⁸

Izmir today serves mainly as a transit port, but it also fulfills the role of a partial embarkation port. The port does not yet serve as a home port, but local SPPD stakeholders consider it a goal for the future. In terms of the market segments served, according to the latest data for January-June 2011, 78% of cruise passengers are in the low end segment, 18% in the medium end segment and 4% are high end segment cruisers.²⁴⁹ The matrix in the next page demonstrates the approximate distribution of passengers according to the type of port and market segment served.

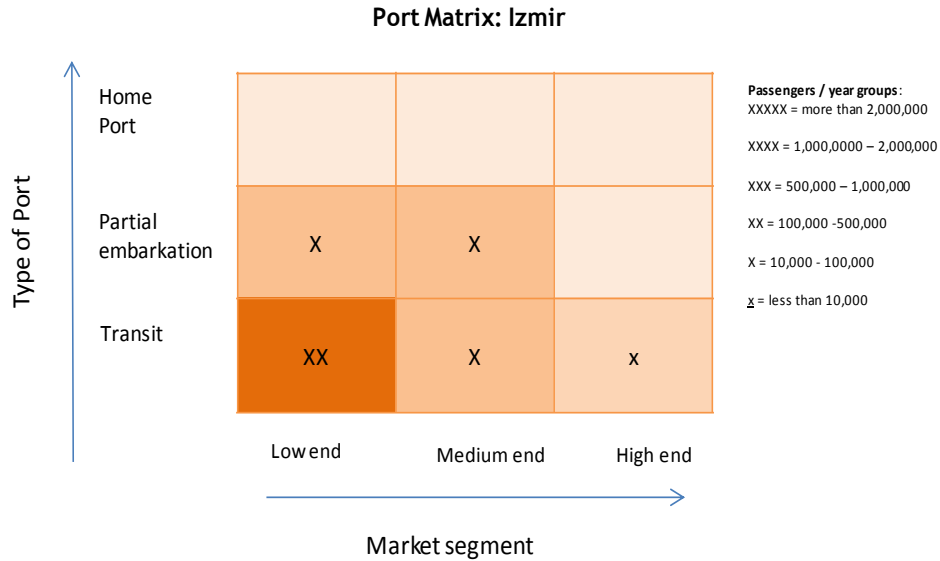
Assuming that the segment distribution in 2011 was similar to that in 2010, approximately 280 thousand passengers belong to the low end clientele. As for high end customers, this segment is only nascent. The positive sign is that the city has been able to attract all types of segments in its relatively short history.

As explained earlier, partial embarkation ports bring higher economic benefits for destinations as passengers spend more time in the ports compared to those in transit. Izmir's low and also medium end cruisers represent relatively large groups that contribute to local economic development. The average spending per passenger in 2010 was \$113 per person, which is US\$22 more than in 2008. This is less compared to passenger in transit spending in Barcelona (US\$130),²⁵⁰ although the spending in Izmir applies to all types of passengers (transit and partial embarkations, which have generally higher spending levels). Considering the growth trend and recent investment in the infrastructure (see article below), these levels might soon reach the Catalan capital's levels.

²⁴⁸ Izmir Chamber of Commerce, 2011.

²⁴⁹ The leading cruise companies and its passengers are classified in each segment according of the ship size (GT= Gross Tonnage) and characteristics of the ship as classified by the World Tourism Organization in: Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

²⁵⁰ Spending per passenger in 2009 stood at EUR 93.4, equivalent to US\$130.3 (Euro/US\$ average exchange rate, 2009: 1.3948, European Central Bank). Source:Turisme de Barcelona,



To conclude, even if many variables have influenced the development of the cruise sector in Izmir, similar to the case of Barcelona, the confluence of the SPPD and the sector's growth suggest that the impact of dialogue on SPPD was remarkable. Today, Izmir's market share is higher than that of Istanbul. The port serves a variety of market segments (low, medium and penetrates the high end) and more passengers start or end their journey there, which is also a confirmation of local actors' success in attracting more passengers than most of Turkey's historical ports.

The Chamber of Commerce of Izmir, and thereby the private sector side, has played an essential role in the initiation and facilitation of the SPPD. Assembled companies have acknowledged the potential of promoting cruise tourism in the city, given its position and proximity to the historical center. The strong personality of the Chamber's president also helped local private companies to join the initiative and align interests to serve the higher goals that benefit all. The public sector also supported with the right means to aid these efforts through instruments and infrastructure investment facilitation.

Cruise ships at the Port of Izmir on the day of the interviews, Izmir Port Terminal

Source: Competitiveness, 2011



Article extract from Hürriyet Daily News, published in March 2009.

"Modern Cruise Ship Port will Boost İzmir Tourism

İZMİR - A joint initiative of the İzmir Chamber of Commerce and Costa, an Italian cruise firm, plans to build a modern port for cruise ships in Turkey's biggest city in the Aegean region. The port is crucial for tourism, say the businessmen.

Turkey's biggest city on the Aegean coast is about to have a port for cruise ships that lives to its reputation. The İzmir Chamber of Commerce, or İZTO, and Costa, an Italian cruise firm, have joined forces to build one of the most modern ports in the Mediterranean at Üçkuyular, İzmir. The two parties have signed a booking note for the \$75 million investment. Ekrem Demirtaş, president of the İZTO ruling board, said eight cruisers would be able to anchor at the port side by side at the same time. Pierluigi Foschi, president and CEO of Costa, said: "We will flood the shores of the Aegean with tourists."

İzmir has become one of the top three ports in Turkey, handling 320,000 passengers in the last five years and is expected to enter the top five in the Mediterranean with the new port. Demirtaş said tourism had great importance in their vision of İzmir and added that when they started to work on cruise-based tourism in 2004, İzmir was a zero in the area. "Previously, there were only two ships arriving a year, and they were ones that had lost their way," said Demirtaş, adding that they needed to start from the scratch. "We started to talk with cruise firms," he explained. "We have decreased the port fees with support from Binali Yıldırım, the Minister of transportation. They did not like the port of Alsancak; we did everything they have asked with the support of the mayor of the municipality, Ahmet Priştina."

Demirtaş pointed out that through this project the number of cruise passengers visiting İzmir reached 320,000 and this year 360,000 tourists were expected from 136 ships. Demirtaş said they had high hopes for the port. "We will push 400,000 tourists with constantly added ships," said Demirtaş, explaining why they needed the new port. "Our new target is having 1 million cruise passengers visiting every year to compete with cities like Barcelona which is visited by 2.1 million." Demirtaş said the Privatization Administration would put the Üçkuyular zone up for bidding after the necessary paperwork was done, such as the approval of the Preservation Board. Demirtaş said they would attend to the bidding by the partnership they had formed with Costa and would build the port in 18 months for \$75 million.

"The local partners in İzmir will have 33% of the shares and the foreigners 67%, Turkey is an indispensable market for us," Foschi said on behalf of Costa."

Source: <http://www.hurriyet.com.tr/english/domestic/11145882.asp?scr=1>

C.2.5 Egypt²⁵¹

C.2.5.1 Sector Description of the Country

Tourism is one of the main economic sectors in Egypt. The direct contribution of the travel and tourism sector to the country's GDP is expected to be US\$17.1 billion in 2011, which represents a 7.2% share of GDP. Including wider economic impacts of the sector, this share stands at 15.7%.²⁵² Tourism is also a crucial generator of employment in Egypt. According to the World Travel and Tourism Council, the direct contribution of the travel and tourism sector to employment is expected to reach 6.2% in 2011 and 13.2% if indirect impacts on employment are considered.²⁵³

As a result of the economic crisis and compounded by the recent political unrest, the sector has suffered. During the uprising, more than 1 million tourists fled Egypt, and skepticism remains about how tourists will react during the upcoming transition period, which is marked with tensions and difficult readjustment challenges on its way to democracy.²⁵⁴

West Europeans and Russians have for long been the dominant tourist group but in the aftermath of the crisis, expectations of improvement lie in the Middle Eastern markets. The Ministry of Tourism's vision is to grow the number of trips taken to Egypt by Arabs. A new advertising campaign targeting Arabs only was launched in early 2010 and resulted in a 20% growth in arrivals from markets like the United Arab Emirates and Saudi Arabia, and further growth from Jordan, Qatar and Syria.²⁵⁵ In addition, luxury tourism is gaining in popularity. In 2010, and even in 2009, the performance of luxury cruises and occupancy at luxury hotels proved that the high end of the market was less vulnerable than others during tough economic times, and this has further encouraged the government to better target this segment.²⁵⁶

In terms of the competitiveness of the sector, Egypt is ranked 10th regionally and 75th globally according to the Travel and Tourism Competitiveness index. Political stability, coupled with the need for tourism infrastructure, ground transport infrastructure and its ICT infrastructure improvements, will be crucial. Government's prioritization of the sector is also low, considering that public spending on tourism is equivalent to 2.5% of GDP,²⁵⁷ quite disproportionate with respect to the fundamental role of the sector in the national economy. Price competitiveness and the richness of natural and cultural heritage, on the other hand, are clearly the nation's strengths. For cruises, the overall port infrastructure has improved but significant challenges remain in other areas.

²⁵¹ At the time of the conduct of this study, the Egyptian tourism has strongly suffered as a result of the Arab Spring events. While this dramatic downturn has already translated into significant economic losses for the sector, which will likely have important implications on the way the SPPD will be shaped in the future, the focus of this study lay in the recent evolution of the SPPD as this has been essential in order to understand the cruise sector's competitiveness prior to the revolution's outbreak.

²⁵² World Travel and Tourism Council, Country Reports: Egypt, Key Facts.
http://www.wttc.org/eng/Tourism_Research/Economic_Research/Country_Reports/Egypt/

²⁵³ World Travel and Tourism Council, Tourism Research: Egypt 2011.

²⁵⁴ Travel and Tourism Egypt, Euromonitor International : Country Market Insight April 2011.

²⁵⁵ Ibid.

²⁵⁶ Ibid.

²⁵⁷ The Travel & Tourism Competitiveness Report 2011, World Economic Forum.
http://www3.weforum.org/docs/WEF_TravelTourismCompetitiveness_Report_2011.pdf.

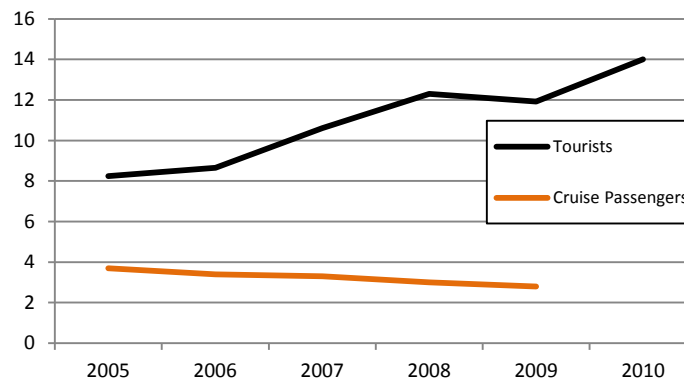
Selected Rankings: Travel & Tourism Competitiveness Index, 2008/2011

2008		2011	
Tourism infrastructure	79	Tourism infrastructure	88
ICT infrastructure	89	ICT infrastructure	93
Human resources	82	Human resources	93
Education and training	78	Education and training	87
Availability of qualified labor	80	Availability of qualified labor	88
Quality of port infrastructure	79	Quality of port infrastructure	69

Source: World Economic Forum

The largest cruise ports in Egypt are Alexandria, Port Said and the Red Sea Ports. Overall, Egyptian ports received approximately 2.8 million passengers in 2009.²⁵⁸ The majority, namely 1.7 million, are Egyptian passengers, while the rest are international. The Red Sea Ports Authority received 74% of all passengers, followed by Alexandria (18%) and Port Said (8%). Red Sea Ports are considered among the main tourism ports due to their strategic location and for being the only gateway for pilgrims and minor pilgrimage passengers by sea.

Passengers in Egyptian (sea and river) ports (million), 2005-2010



	2005	2006	2007	2008	2009	2010
Tourists	8.2	8.6	10.6	12.2	11.9	13.9
Passengers	3.7	3.4	3.3	3	2.8	n/a

Source: World Travel and Tourism Council and Ministry of Transportation, Egypt

Egypt is expected to attract 12.7 million international tourist arrivals in 2011.²⁵⁹ As for cruises, in 2009, the Egyptian ports received approximately 2.8 million passengers after a period of decline. Compared to 2005, cruise passenger arrivals declined by approximately one quarter.²⁶⁰

Alexandria port is one of the oldest ports in the world and its inception dates back to the time of Alexander the Great. Located on the main international trade route between North America and the Pacific, this port has traditionally benefited from its unique strategic position. The port serves mainly as a cargo transportation point. In 2009, the Alexandria Port

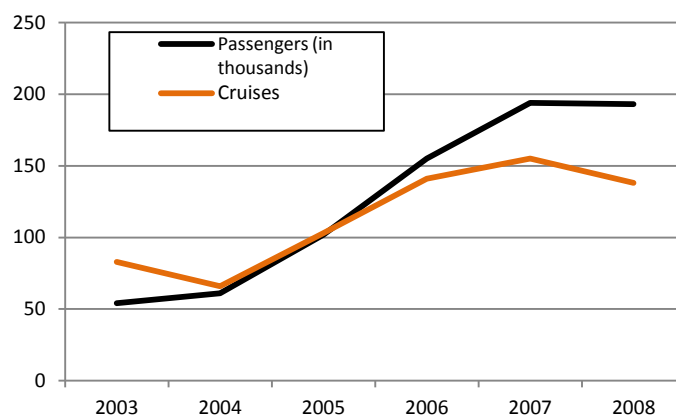
²⁵⁸ Ibid.

²⁵⁹ Travel and Tourism Economic Impact 2011 - Egypt, World Travel and Tourism Council.

²⁶⁰ Ministry of Transportation, Egypt, 2010.

Authority had the largest share in terms of cargo handled by the Egyptian ports. As for the cruise traffic, the popularity of the port has improved and passenger arrivals reached almost 200 thousand in 2007, although in 2008 the port recorded a temporary decline in the sector.²⁶¹ Alexandria serves as a stop-over transit port only.

Alexandria Tourists Traffic: Cruise Passengers (in thousands) and Number of Cruises



Source: Alexandria Port Authority²⁶²

The cruise offers of major cruise lines in Egypt include the following packages:

Market Segment	Cruise Companies	Passengers (Jan-July 2011)
Low end	Pullmantur, Costa Cruises, MSC, Venizelos, NCL, Princess Cruises, Minerva	67%
Medium end	Thomson Cruises, Pacific Princess, Holland America Line	31%
High end	Silversea Cruises Cie. Des Iles Du Ponant	2%

Source: Alexandria Port Authority²⁶³

One of the investment projects implemented by the Alexandria Port Authority is the reconstruction of the maritime passenger terminal to revive the role of Alexandria in attracting international tourism and the establishment of a new tourism entrance. The project included the construction of facilities to act as a major terminal for large cruise ships over an area of 15,000 m².²⁶⁴

²⁶¹ Industry's cruising along: Shipboard getaways popular despite economic woes, Cruise Industry Facts, March 18, 2011. <http://cruiseindustryfacts.com/2011/03/18/industrys-cruising-along-shipboard-getaways-popular-despite-economic-woes/>

²⁶² Alexandria Port Authority, 2009. <http://greenmedforum.eu/file/greenmedforum/file/ALEX%20PORT.pdf>.

²⁶³ Classified according to gross tonnage and ship category, Alexandria Port Authority.

http://www.apa.gov.eg/index.php?option=com_content&task=view&id=122&Itemid=201&lang=en.

²⁶⁴ Alexandria Port Authority. http://www.apa.gov.eg/index.php?option=com_content&task=view&id=84&Itemid=188&lang=en.

SPPD Structure Inventory²⁶⁵



I. Private Organizations

Institution: Alexandria Chamber of Shipping (ACS)

- **Mandate:** ACS is a private institution, which was established in 1945 by 2 entrepreneurs to promote the maritime workers and support the maritime transportation sector in Alexandria port in general.
- **Funding and management:** ACS is a private sector initiative and membership is voluntary. The Chamber's Board of Directors consists of 13 members elected by Chamber's members, and a representative of the Federation of Chambers of Commerce nominated by the Chamber and approved by the Minister of Transportation.
- **Sector activities:** ACS has several committees that support and act in cruise tourism, such as the Tourism Committee, which focuses on the improvement of coastal tourism in both Alexandria and the neighboring Dekhila port. The Ship Agency Committee is another example. Its role is to study and analyze the existing and new regulations related to the activities of shipping agencies.

Institution: Egyptian Tourism Federation (ETF)

- **Mandate:** ETF is an association that promotes national initiatives aimed at sustainable growth of Egypt's tourism industry and enhances its workforce to meet international standards. ETF represents all enterprises within the tourism industry and assists the government and other non-governmental organizations in tourism planning. ETF also acts as an advocate when legislative measures are being introduced or changed, and by law, ETF's opinion must be taken into consideration before measures are presented for ratification by the Egyptian Parliament.
- **Funding and Ownership:** ETF is an entity composed of industry members from five tourism industry business associations. Its funding comes from contributions from its members and membership is voluntary.
- **Management:** ETF is managed by the General Assembly consisting of 125 representatives of ETF's sub-associations: the Egyptian Hotels Association, the Egyptian Travel Agents Association, the Egyptian Chamber of Tourist Establishments, the Egyptian Chamber of Tourist Commodities and the Chamber of Diving and Water Sports. In addition, four members are appointed to the General Assembly by the

²⁶⁵ For the purpose of this study, the research of the cruise sector and of the existing PPD structures in Egypt has focused mainly on Alexandria, which counts as one of the country's major growing cruise ports and sites a number of institutions that participate in the development of the cruise sector.

Minister of Tourism.

- **Sector activities:** The federation has several committees focused on hotels, travel agencies, restaurants. ETF works with the Ministry of Tourism and promotes training programs for the development of workers' skills in tourism. These programs are focused on learning one or more languages and hotel management.

Institution: Egyptian Travel Agents Association (ETAA)

- **Mandate:** ETAA is a non-governmental organization promoting Egyptian tourist agents and transport companies.
- **Funding and Management:** ETAA has its own General Assembly with about 1960 representatives from Egypt's travel agent industry. The Board of Directors represents the General Assembly and a Secretary General heads the administration team. Its funding comes from contributions from members whose membership is voluntary.
- **Sector activities:** ETAA provides members with a variety of educational programs and networking and communication platforms that allow members to develop a professional forum with other travel agents and tourism and cruise businesses.

II. Public Organizations

Institution: Egypt Tourism Authority (ETA)

- **Mandate:** ETA is a governmental body that promotes Egypt as a tourist destination and works to increase tourism inflows by highlighting the cultural and natural heritage of Egypt's tourist destinations as well as its modern attractions.
- **Funding and Ownership:** ETA was established in 1981 under the auspices of the Minister of Tourism as an autonomous agency for the marketing of Egypt as a tourist destination domestically and internationally. It was created by virtue of Presidential Decree No. 134 of 1981 and is funded from public funds.
- **Management:** As a public organization, the Board of Directors is chaired by the Tourism Minister and other representatives appointed by the Ministry.
- **Sector activities:** ETA handles cruise tourism as a subcategory within the different experiences and tours offered in Egypt. Through its website, visitors can access sources of information about the cruise routes and places to visit once in a port. ETA is responsible for conducting market research and develops contacts in order to identify and use opportunities to expand its local tourist offers and launch collaboration with new tourist markets such as those in the Middle East.

Institution: Maritime Transport Sector (MTS)

- **Mandate:** MTS is a public organization responsible for the development of maritime transport facilities, as well as coordination of ports authorities' efforts to provide the best services for the vessels calling at these ports.
- **Funding and Management:** As a government body, the funding and management are public.
- **Sector activities:** One of the main tasks is to provide support to the Egyptian ports' development projects as well as to coordinate with the governmental bodies, ministries, port authorities, maritime chambers and port users in order to unify, revise and scrutinize the resolutions, laws and regulations.

Institution: Alexandria Port Authority (APA)

- **Mandate:** APA is a public organization, which provides services to ships calling at quays and cruise port facilities.
- **Funding and Ownership:** APA is established and regulated by law and falls under the Ministry of Transport. Management and funding is public.
- **Sector activities:** APA provides services and passenger facilities to the different cruise lines that visit Alexandria. As a port, it sets the official fees on cruise shipments. Also, APA works together with

tourism agencies to achieve better promotion of Alexandria.

Institution: Egyptian Regulatory Reform and Development Activity (ERRADA)

- **Mandate:** ERRADA is a government initiative launched in 2008 to build a regulatory management system, based on a dialog between public and private institutions and civil society, aimed at increasing efficiency, competitiveness and creating more job opportunities. ERRADA developed the required institutions, tools and processes to enable the inventory and revision of existing business regulations. Since its establishment, ERRADA has expanded and today has three stations (Cairo, Alexandria, and Red Sea).
- **Ownership and funding:** The ERRADA project was launched in 2008 with the support of USAID and later transitioned to government's ownership. After 3 years of operation under the Minister of Trade and Industry, in 2011, the Sub-cabinet Committee for Monitoring Economic Performance chaired by the Minister of Finance gained oversight over ERRADA. Since its inception, the initiative has received funding from donors (USAID) and the government.
- **Management:** The executive director heads the organization.
- **Sector activities:** The initiative collaborates with the Ministry of Tourism via the so-called Government Management Unit (GMU) established by a Minister Decree. The Ministry of Tourism was the first of ERRADA's ministries that benefited from formal business consultation. The Tourism GMU conducted consultation in the two topics it has reviewed so far: diving and marine activities; and time-share tourism.²⁶⁶

III. NGO & Research

Institution: Egyptian Maritime Data Bank (EMDB)

- **Mandate:** EMDB is the official information source approved by the government in the maritime transport field, information databases for those working in the maritime industry.
- **Funding and management:** It is publicly funded and managed.
- **Sector activities:** The EMDB central database consists of more than 20 sub-systems covering the four major information systems of EMDB. Among the port-related subsystems for Egyptian Ports Activities, there is "Daily Traffic" which contains a summary of the daily transactions within Egyptian ports, indicating inbound and outbound vessels, shipping agencies, maritime line, date of arrival and departure, cargo volume, stevedoring ports and number of passengers and tourists.

C.2.5.2 Evolution of the SPPD

Lack of Sector Prioritization by the Government

Most of Egypt's most renowned sites are on the banks of the river Nile, which makes the country naturally inclined to river cruise-related tourism. As for the performance of sea ports, this area remains rather neglected and out of approximately 10-11 million incoming tourists, only 200-250 thousand are sea cruisers.²⁶⁷

The sea cruise sector has not received special treatment from the government. Unlike other destinations in the Mediterranean, there is no expert or public-private group collaborating in the field of sea cruises promotion in Egypt, or the Red Sea. An exception is a commission that was created for regulating and promoting cruises in the Nile.

²⁶⁶ ERRADA Newsletter, Egyptian Regulatory Reform and Development Activity (ERRADA), December 2010. <http://www.mof.gov.eg/MOFGallerySource/English/ERRADA%20Newsletter%20Dec%2009%20-%20English.pdf>.

²⁶⁷ Interview.

Lack of Transparency and Inclusion Impede a Genuine SPPD

The Minister of Tourism and other highly ranked government officials are themselves businessmen operating in the tourism industry. Many interviewees consider that as an advantage, meaning that the government perfectly understands the sector's needs. However, this also creates doubts about their neutrality as policy-makers. This goes back to the aforementioned predominance of government's interest and the role of business elites in the Egyptian economy, where the traditionally strong features of elitism also affected the character of the PPDs.

Despite the few examples of successful SPPD efforts, several interviewees from the private sector have reported low satisfaction with government's reaction to its queries. While government officials are very accessible for members of major private institutions and associations, this does not necessarily apply to SMEs and companies not belonging to the business elite, who feel excluded from the debate.

Few Instances of PPDs on National and Regional Level (but not cruise-specific)

Within the private sector, the most prominent institution that promotes tourism is the Egyptian Tourism Federation (ETF). The ETF does not have a separate commission dealing with cruises but supports the cruise sector indirectly through its travel, hotels and tourist establishments, bazaars and shops, and diving and water facilities associations. ETF serves as the liaison between the government and the private sector. For example, before any change in the law takes place, it first has to be approved by the EFT before going to the Parliament. ETF's Board is composed of members of each of the aforementioned associations plus four members designated by the Ministry of Tourism (MOT). This makes the institution the most relevant stable tourism-related PPD in Egypt, due to its mandate, structure and voice in the government.

Another institution that serves as a good PPD practice is the Egyptian Regulatory Reform and Development Activity (ERRADA). Since its inception, ERRADA has received technical and financial assistance from USAID and has worked to overcome the public-private collaboration void. ERRADA operates under the Ministry of Finance and in the initial stage, 10 ministries joined the initiative and established joint government management units with the institution. To date, ERRADA has helped to implement several new business-friendly regulations, which were based on consultations with representatives of public and private sectors. Some were also related to tourism and marine activities.²⁶⁸

Macro-level Challenges are also SPPD Challenges

In 2010, Egypt ranked among the world's 10 most active reformers for the fourth time.²⁶⁹ The country has been moving its position up in terms of the overall ease of doing business from 116th to 94th place between 2008 and 2010. However, in light of the political and economic

²⁶⁸ Overall, through the government management units have identified more than 36,000 regulations that affect business environment in Egypt and has reviewed and helped streamline a significant part of them. Source: "About us", ERRADA, http://www.errada.gov.eg/index_en.php?op=about_us_en.

²⁶⁹ Doing Business 2010: Reforming Through Difficult Times, 2010.

<http://www.doingbusiness.org/~media/fpdkm/doing%20business/documents/annual-reports/english/db10-fullreport.pdf>.

transformation that the country is experiencing at present, several essential challenges lie ahead.

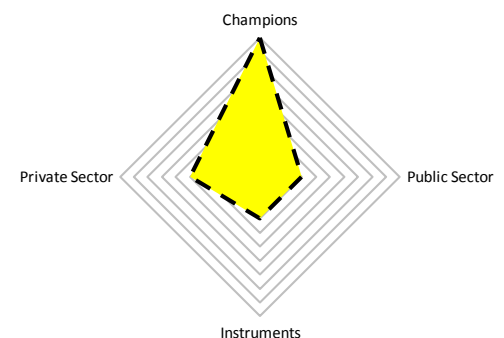
Weak institutions and corruption discourage dialogue. “If Egypt wants to capitalize and sustain the benefits of recent economic reforms, greater investment in building efficient, transparent, and dynamic institutions in both the public and private sectors, as well as in civil society, are needed to more effectively coordinate economic reform with a wider scope of ownership and stronger ties to social policies.”²⁷⁰ Political stability will be a crucial precondition for any progress. As for tourism and cruise challenges, tourism, ground transport and ICT infrastructure improvements, coupled with training for tourism professionals, are necessary. At times, the private sector (ETF and other associations) has managed to substitute the role of the government. For example, it organized a field based training system for future tourism professionals teaching client-customer relationship management and similar. Nevertheless, these measures are only partial interventions with little overall impact on the sector.

C.2.5.3 The Public and Private Ownership in the Evolution of the SPPD



- Birth*

The cruise SPPD is in its pre-Birth Phase. The sector benefits from some improvements in tourism in general, but there is no specific initiative aimed at developing the sector. This applies to the national and regional administrative level. Years ago, cruises were relatively important in Alexandria, but with the sector’s stagnation, passenger numbers went down. Tourists have long been arriving in Egypt with little effort on the side of local authorities, thanks to its natural and cultural wonders. The private sector in the region is not well organized and a few champions account for achievements of the whole region thanks to their entrepreneurship and vision. In terms of instruments, the government provides little support (improvements were limited to a few upgrades of the port’s facilities) and local businesses rely on their own capital.



* Note: a dashed line means that the SPPD is in a fragile situation.

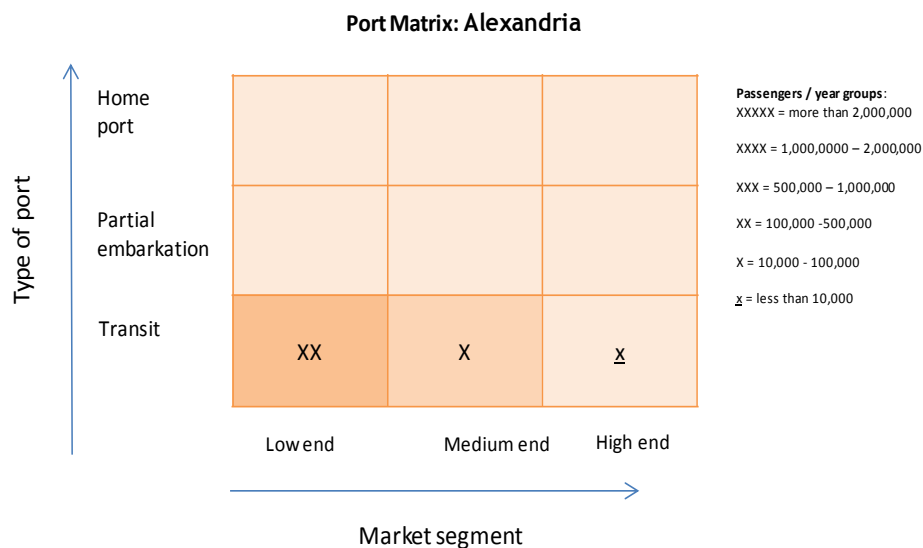
²⁷⁰ Alissa S., Political Economy of Reform in Egypt: Understanding the Role of Institutions, Carnegie Papers, Carnegie Endowment for International Peace, Middle East Center, 2007. http://carnegieendowment.org/files/cmec5_alissa_egypt_final.pdf.

C.2.5.4 Impact of the SPPD on Competitiveness

The sea cruise sector has been rather neglected in Egypt, despite the potential of the country to attract more passengers. Security concerns and the recent political turmoil have not improved the situation in 2011. Indeed, the overall tourism sector has suffered and the overall economy's future is uncertain.

With approximately 200 thousand passengers in 2010, Alexandria remains at the bottom of the Mediterranean ports rankings. The port serves as a transit port and cruises usually stop for a couple of hours allowing for short city excursions for interested passengers.

In terms of market segments, according to the latest data for January-July 2011, 67% of cruise passengers are in the low end, 31% in the medium end and 2% in the high end segment.²⁷¹ The following matrix demonstrates the approximate distribution of passengers according to the type (or function) of port and market segment served. The overall number of passengers in that period was less than 47 thousand, half of the usual volume, which is a result of cruise cancellations in spring 2011 for security reasons (see article excerpt below).



Low end passengers in transit are the main passenger group. This translates into a very marginal impact on the Alexandrian economy. The passenger spending data are not available but the estimations of local institutions fall within an almost negligible spending range.

Overall, local institutions and businesses still have all the work to do. Businesses are the most dynamic actors on the market, which is reflected in the recent higher passenger inflows. Nevertheless, a more concerted action between businesses and the government, whose role has been extremely marginal, will be essential. Especially now, the opportunity presents itself: in a time of political and economic uncertainty, an SPPD might be a way to master the recurring and new sector challenges.

²⁷¹ The leading cruise companies and its passengers are classified in each segment according of the ship size (GT= Gross Tonnage) and characteristics of the ship as classified by the World Tourism Organization in: Cruise Tourism - Current Situation and Trends, World Tourism Organization, 2010, ISBN: 978-92-844-1364-5.

Article extract from "Cruise Critic", published in February 2011.

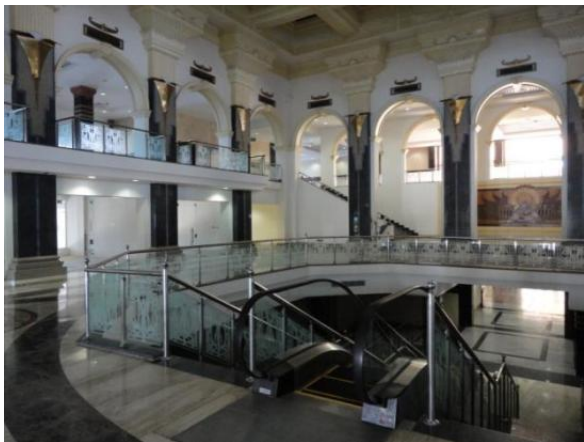
"Egypt Update: State Department Issues Stronger Warning"

Tour operators continue to tweak and cancel itineraries as the unrest in Egypt escalates, leaving travelers on edge during what is the peak season for Nile River cruises. In response to the protests, which are aimed at the Egyptian government, the U.S. State Department posted a more strongly worded travel warning, ordering "the departure of all non-emergency U.S. government personnel and family members from Egypt," and recommending that "U.S. citizens avoid travel to Egypt at this time. U.S. citizens should consider leaving Egypt as soon as they can safely do so." Meanwhile, the U.K. Foreign Office has a notice on its site, advising against "all but essential travel" to the area.

A handful of lines, including Norwegian Cruise Line, MSC, Costa and Grand Circle Cruises, altered or canceled additional Egypt sailings. Many smaller lines that offer river itineraries have scrapped the cruises altogether through the end of February and are offering passengers the option to rebook or request a full refund. But, some of the larger lines with ships due in the area have simply replaced calls in Alexandria with visits to alternative ports."

Source: <http://www.cruisecritic.com/news/news.cfm?ID=4346>

The cruise SPPD in Egypt has yet to be born. Very little is being done to attract more cruises on the national level as well as in Alexandria. The number of cruise passengers in Egypt has declined in recent years and although Alexandria recorded a slight increase, this does not seem significant since the overall number of passengers never exceeded 200 thousand. In addition, this improvement is attributable to individual efforts of enterprises to attract cruise lines rather than an SPPD process.



Alexandria Cruise Passenger Terminal

Source: Competitiveness, 2011

Both the public and private sectors openly recognize that there is a need to establish a regular dialogue in order to better tackle the challenges of the industry and place Alexandria back among the main Mediterranean destinations. Some instances of an SPPD activity took place recently when the Egyptian Tourism Authority together with Nasco Tours (a local tourist operator) attended the last Miami Sea Trade event. However, the majority of work still lies ahead.

C.2.6 Lebanon

C.2.6.1 Sector Description of the Country

Tourism plays an important role in the Lebanese economy. The direct contribution of the travel and tourism sector to GDP in 2011 is expected to be 9.4 %. When including the wider economic impacts of tourism, the share of GDP is 33.8%.²⁷² It is also notable that the total contribution of the sector to national exports is expected to reach 32% in 2011.²⁷³ The travel and tourism sector is expected to directly employ 122,000 people (9.1% of total employment) in 2011. Including jobs indirectly supported by the industry, the number is expected to rise to 432,000 jobs (32.2% of total employment).²⁷⁴ Given the importance of the sector, the World Travel and Tourism Council rank the country 15th out of 181 countries in terms of the relative contribution of the sector to the national economy.²⁷⁵

Lebanon's tourism sector is largely dependent on political stability and security in the region and the country. Despite recent developments and a generally positive outlook for the country, it is therefore still fragile. The number of international arrivals of non-resident tourists grew steadily between 2000 and 2004, but has been fluctuating in the 2005-2007 period mainly due to security concerns. Since 2007, Lebanon has witnessed a significant rise in international arrivals.

As for the sector's competitiveness, the country is home to a number of cultural landmarks and sites of creative industries. Tourism infrastructure is well developed, although ground transport infrastructure, safety and security issues, policy rules and regulations need to be improved.²⁷⁶ As for cruise tourism, education and training and port infrastructure rank fairly well according to the Travel and Tourism Competitiveness Index.

Selected Rankings: Travel & Tourism Competitiveness Index, 2011²⁷⁷

2011	
Tourism infrastructure	29
ICT infrastructure	80
Human resources	64
Education and training	58
Availability of qualified labor	82
Quality of port infrastructure	55

Source: World Travel and Tourism Council

²⁷² World Travel and Tourism Council, Country Reports: Lebanon, Key Facts.

http://www.wttc.org/eng/Tourism_Research/Economic_Research/Country_Reports/Lebanon/

²⁷³ Measured as visitor exports, which is spending within the country by international tourists for both business and leisure trips, including spending on transport, World Travel and Tourism Council, 2011.

²⁷⁴ Travel and Tourism Economic Impact 2011-Lebanon, World Travel and Tourism Council.

http://www.wttc.org/bin/pdf/original_pdf_file/lebanon.pdf.

²⁷⁵ Travel and Tourism Economic Impact, Lebanon, World Travel and Tourism Council, 2011.

http://www.wttc.org/bin/file/original_file/lebanon_report_2011-pdf.pdf.

²⁷⁶ The Travel and Tourism Competitiveness Report 2011, World Economic Forum.

http://www3.weforum.org/docs/WEF_TravelTourismCompetitiveness_Report_2011.pdf

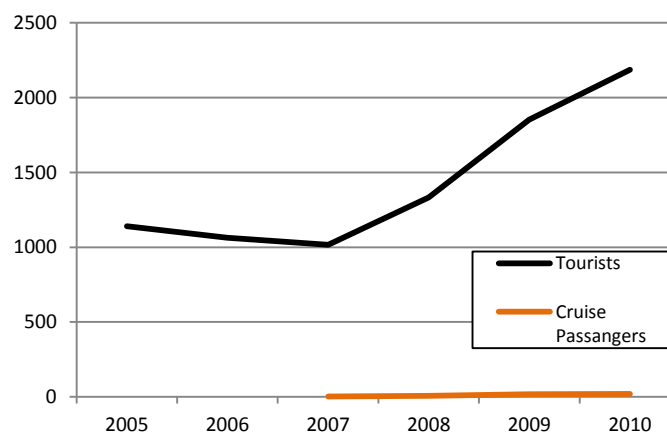
²⁷⁷ Data for 2008 not available as Lebanon was included for the first time in the Travel and Tourism Competitiveness Report's ranking in 2011.

The Lebanese coastal zone extends across an area approximately 230 km in length.²⁷⁸ It has a very high population density and concentrates the country's main economic activity. The largest Lebanese cities, namely Beirut, Saida, Tripoli and Tyre are located along the coast and contribute more than 74% of Lebanon's GDP through commercial and financial activities. These cities historically evolved as the main commercial ports and today have beach resorts, marine projects for leisure and recreational activities, archaeological monuments, natural landscapes, etc.

Particularly Beirut, traditionally nicknamed the Paris of the Middle East, has been called the first destination among 44 places to visit in 2009 by the New York Times.²⁷⁹ Besides its strategic location on the Mediterranean Sea close to the shores of Europe and to the Arab countries, the Lebanese capital boasts several luxury hotels, high profile restaurants, and other culinary spots such as the famous Souk el-Tayeb, Beirut's first farmers' market. Its proximity to mountains and sea opens up opportunities for many activities, including ecotourism and adventure tourism. All these features are just beginning to emerge after the events and conflicts that the country suffered during the war.

Lebanon is expected to attract 1,930,000 international tourist (overnight visitor) arrivals in 2011, which is a decline of 12% compared to the previous year.²⁸⁰ The share of cruise passengers on the total number of incoming tourists is minuscule and accounted for 0.1% in 2010.²⁸¹ Most cruise passengers arrive from Greece, Cyprus and Egypt from nearby Mediterranean ports, such as Limassol, Piraeus, Alexandria and Beirut.²⁸² The Port of Beirut, the main port for cruises in Lebanon, underwent a phase of development and reconstruction in the 1990's and today encompasses 4 docks, 2 new quays and a new container terminal, a duty free zone market and several warehouses.²⁸³

Cruise Passengers and Tourist Arrivals (in thousands), 2005-2010



Source: World Travel and Tourism Council and International Chamber of Navigation of Beirut

²⁷⁸ Lebanon's Second National Communication to the UNFCCC, Ministry of Environment, 2011. http://unfccc.int/resource/docs/natc/lebanon_snc.pdf

²⁷⁹ Beirut is the First Destination, Ministry of Tourism, Lebanon, 2009. <http://www.lebanon-tourism.gov.lb/news/Details.aspx?NewsId=6>

²⁸⁰ Travel and Tourism Economic Impact 2011-Lebanon. World Travel and Tourism Council.

²⁸¹ Ibid.

²⁸² Interview. International Chamber of Navigation of Beirut, 2011.

²⁸³ Port of Beirut: The Commercial. <http://www.portdebeyrouth.com/aboutus.asp?x=1>.

	2005	2006	2007	2008	2009	2010
Tourists (thous.)	1,140	1,063	1,017	1,333	1,852	2,185
Cruise passengers (thous.)			3	7	17	19

Source: World Travel and Tourism Council and International Chamber of Navigation of Beirut

The number of passenger arrivals has been growing. A positive development is the successful completion of the construction of a new and modern passenger terminal at the Port of Beirut, which has a capacity of 400,000 passengers per year.²⁸⁴ Another positive sign is that as of May 2011, the Port of Beirut was included in MSC Cruise's itinerary for passenger cruises linking other Mediterranean ports.

SPPD Structure inventory

Private

- International Chamber of Navigation of Beirut
- Association of Travel & Tourist Agents in Lebanon

Public

- Ministry of Tourism
- Port of Beirut
- Investment Development Authority of Lebanon

I. Private Organizations

Institution: International Chamber of Navigation of Beirut

- **Mandate:** The International Chamber of Navigation of Beirut is a private organization with the aim of assisting the government at all levels to adapt existing laws, policies and procedures to the needs of the Lebanese shipping agencies and merchants.
- **Funding and Ownership:** It was established in 1936 and now represents more than 60 shipping agencies and important organizations in the shipping sector.
- **Management:** The International Chamber of Navigation of Beirut is privately managed and is led by the President elected by its members. Monthly members' meetings are held throughout the year and a briefing of members is done on the latest activities of the Chamber.
- **Sector activities:** It has become an influential private body in the shipping field. Special attention is dedicated to promote and develop good relations with neighboring Arab countries. The International Chamber of Navigation of Beirut is also a founding and active member of the Arab Federation of Chambers of Shipping.

Institution: Association of Travel and Tourist Agents in Lebanon (ATTAL)

- **Mandate:** ATTAL is the national body representing the travel and tourism industry, which acts for travel agents on the Lebanese stage, as well as the regional and the international stage. ATTAL was founded in 1949 on the decision of the Minister of National Economy and Social Affairs.
- **Funding and ownership:** Although it is a government initiative, ATTA is largely steered by the private sector.

²⁸⁴ Farahat J., Port of Beirut. http://www.worldportsandtrade.com/ASPF-Presentations/Day-2-Lebanon_Joseph-Farahat.

- **Management:** The Board of Directors is elected by members for four years.
- **Sector activities:** Among the committees established by ATTA is the tourism committee, which is designed for the promotion and development of its members. The members are travel agencies and tour operators cooperating with various incoming cruise lines.

II. Public Organizations

Institution: Ministry of Tourism

- **Mandate:** The Ministry is the official tourism body for Lebanon. Its main objectives are to inform ministerial departments about tourism sector needs, to promote Lebanon overseas and to monitor private tourism enterprises and professions.
- **Funding and management:** As a government body, the funding and management are public.
- **Sector activities:** The Ministry formulates tourism development strategies highlighting sustainable practices and overall tourism promotion.

Institution: Port Authority of Beirut (POB)

- **Mandate:** POB, one of the largest ports in the Eastern Mediterranean, is operated by the Port Authority of Beirut, which was established by the government to take over the concession over the port and act as the port's operator.
- **Funding and management:** Although established by the government, POB acts autonomously and is financially self-sufficient. POB is managed by a general director.
- **Sector activities:** POB has been promoting the construction of a modern passenger terminal with a capacity of 400,000 passengers/year, as one of the initiatives to mitigate the effects caused by the security situation that Lebanon suffered from 2006. POB is making efforts to promote the new passenger terminal taking into account its features such as proximity to the city center and the variety of tourist attractions nearby.

Institution: Investment Development Authority of Lebanon (IDAL)

- **Mandate:** IDAL is a government agency that was established in 1994 with the aim of increasing FDI inflows to Lebanon and supporting the government's efforts in simplifying bureaucratic procedures. The institution is regulated by Investment Law No. 360 and its priority sectors are, among others, industry, agriculture and agro-industry. IDAL provides investors with comprehensive services throughout their operations in Lebanon, mediates contacts between entrepreneurs and potential investors and promotes agricultural exports.
- **Ownership and funding:** IDAL is funded through funds allocated from the public budget and its own revenues such as fees for studies and services and revenues generated by its participation in companies working in the field of information technology or packaging, production or processing of Lebanese agricultural, industrial, animal and other products. Other sources of income are grants, donations and contributions.
- **Management:** IDAL is administered by the Board of Directors made up of seven members appointed for a period of four years by a decree issued by the Council of Ministers based on a proposal of the President of the Council of Ministers. The Board reports to the President of the Council of Ministers who exercises a tutorial authority over it.
- **Sector activities:** In August 2001, Investment Law 360 was established which included tourism as a priority sector that showed the most promising opportunities in terms of their FDI potential and their impact on socio-economic growth. A set of investment packages was developed in order to attract FDI to this sector in which a range of incentives and business support services are given to local and foreign investors.

C.2.6.2 Evolution of the SPPD

Lack of Sector Prioritization

Despite its importance in Lebanon's economy, tourism is not a priority for the current government, which allocates a budget of 0.4% of GDP to the sector.²⁸⁵ The PPD, which takes place in the tourism and the cruise sector, is reactive, meaning the stakeholders decide to get together only if burning issues arise. An example of this was the coordination of visa issuance for cruise passengers before they reach the port of Beirut. Also, Lebanon is a small country, which makes it relatively easy for businesses to reach important members of the government for discussions or problem solving.

Private Sector as the Engine of Development, but a “Sole Rider”

The present SPPD is driven primarily by the private sector. Although the public sector listens and at times tries to address the concerns raised, there is no formal structure of the dialogue, or an agenda for regular meetings. The private sector has organized itself through different associations and institutions (like the Shipping Chamber of Commerce, ATTAL, Hotel Association and similar) and tries to coordinate and solve the problems on its own.

On the public sector's side, coordination among ministries is almost nonexistent and problems that necessitate the assistance of ministries other than the Ministry of Tourism (MOT) do not find solutions easily. An example is the lagging regulation of taxi services, which need the coordination of MOT and the Ministry of Transport, which prefers to tackle its own priorities. In the words of one interviewee, “you need a ‘hero Minister’ in order to overcome the regulation bottlenecks and make things change and happen”. Moreover, the rather complex government structure, where ministerial positions are assigned according to quotas determined by the size of various religious groups, does not facilitate collaboration among resorts. In addition, the capacity and capability of MOT is relatively weak. For example, most officials do not have computers at their disposal or any training opportunities to keep up with the latest trends. According to several private sector members interviewed, the MOT is perceived as incapable due to their low record of action and extremely bureaucratic procedures.

From a SPPD perspective, both sides - public and private - will need to change their perspectives and attitudes towards the cruise sector if progress is to be achieved. The main challenge for the businesses will be to change their mind-set towards the public sector and to persevere in their demands. The government's officials, on the other hand, still have all the work to do: to understand and define the scope of the sector and engage in productive dialogue.

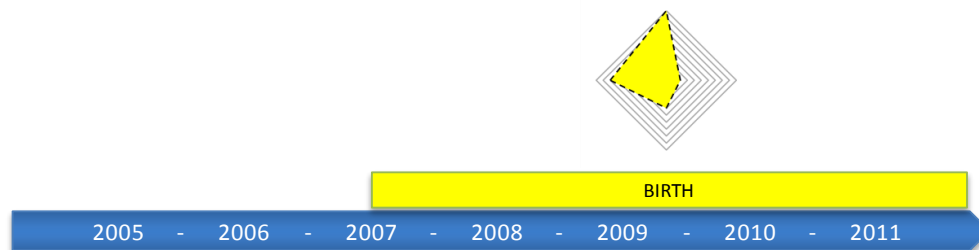
Considering these collaboration challenges, a neutral facilitator (person or an organization), who understands the sector and could help both sides identify and formulate a development strategy, seems like the most feasible option for the cruise sector at present.

²⁸⁵ Interview.

Macro-challenges are SPPD Challenges

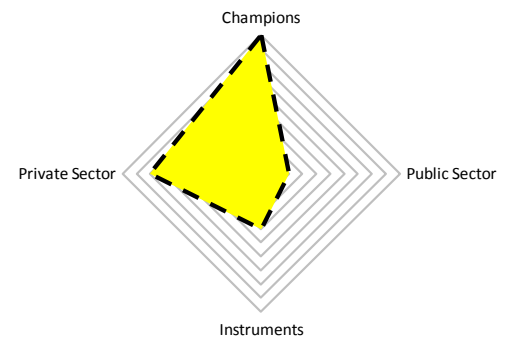
Besides ensuring stability and security of tourists, according to the Investment Climate Assessment Survey for Lebanon and the World Bank's Enterprise surveys, infrastructure bottlenecks (mainly in electricity), corruption (66.5% of companies consider corruption a major obstacle of doing business in Lebanon) and tax administration (50.4%) are the main constraints in doing business or investing in the country.²⁸⁶ Availability of qualified labor in the travel and tourism sector is also weak, according to the World Economic Forum's Travel and Tourism Competitiveness Index (82nd position).²⁸⁷ Although Lebanon invests heavily in human capital, it sees its best-trained people migrate abroad or face low rates of return domestically.

C.2.6.3 The Public and Private Ownership in the Evolution of the SPPD



- Birth*

The SPPD is still in its pre-Birth Phase and will remain here unless there is a dramatic change in the government's focus. The leading role belongs to the private sector champions in the current interventions, as these remain convinced about the potential of Lebanon as a cruise destination. The limitation, however, is that most of them are very skeptical about the probability of a proper SPPD. The public sector does not administer any special program nor organize any type of collaboration platform for cruises. With some exceptions, such as the promotional activities of IDAL (Investment Development Authority of Lebanon), there are almost no instruments for the support of tourism as a whole. Legislation and regulation are outdated and the process of creating new and modifying old ones is usually protracted.



* Note: a dashed line means that the SPPD is in a weak situation.

²⁸⁶ Enterprise Surveys, World Bank, 2009. <http://enterprisesurveys.org/ExploreEconomies/?economyid=109&year=2009>.

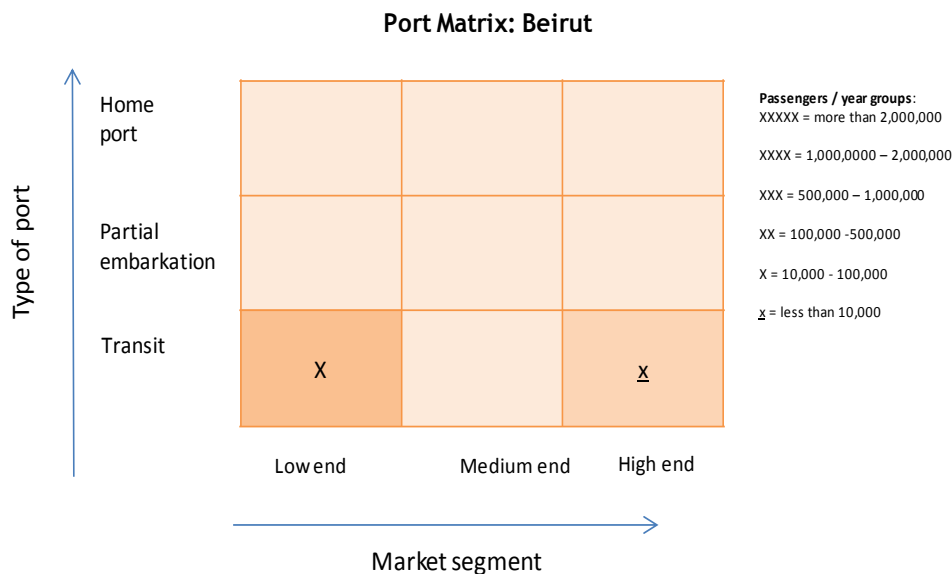
²⁸⁷ The Travel and Tourism Competitiveness Report 2011, World Economic Forum. http://www3.weforum.org/docs/WEF_TravelTourismCompetitiveness_Report_2011.pdf.

C.2.6.4 Impact of the SPPD on Competitiveness

Unfortunately, the impact of the SPPD on the cruise sector has so far been very low. The Port of Beirut remains one of the least developed cruise ports in the region, despite its strategic location, historical landmarks and growing tourist facilities in the city.

Some of the first results of concerted efforts have been higher collaboration among businesses as a way to compensate for the weaknesses of the public sector. Collaboration as a result resonates even more when considering the nation's history marked by political and cultural divides. The government's main contribution was the renovation of the Port of Beirut with the goal of modernizing facilities for cruise ships and cruisers. Also, one of the most significant achievements of local businesses was convincing MSC, a major cruise line company, to call at Beirut again in 2011 (see article excerpt below).

In 2010, Beirut recorded 19 thousand passengers, which is very low. The port welcomes few major cruise lines, such as MSC and Silversea, which focus mainly on the low end segment, and Crystal Cruises, which are active in the luxury segment. The port serves as a transit port and cruises usually stop for a couple of hours on their way to Greece or Italy, allowing for short excursions of 4-5 hours for interested passengers.



Low end passengers in transit are the main passenger group. Similar to the case of Alexandria, this translates into a very marginal impact on the local economy. Passenger spending is very low given that most tourists spend less than half a day in the city. Luxury ships that call at the port pull the average up, but the size of this segment makes the overall impact small again.

The SPPD in Lebanon is still at a very early stage. So far, the activity and initiative lies in the hands of a few champions from the private sector ranks who recognized the potential of the country as a cruise destination. However, several challenges lie ahead. First, although a somewhat collaborative atmosphere has emerged, Lebanon's private sector is still relatively fragmented, which is largely attributable to the nation's political history. Trust and the

formulation of a common vision are still on the “to do list”. Second, the cruise sector is given marginal attention by the government. The Tourism Ministry does not devote significant personal or financial resources to the sector. Nor do any coordination efforts take place with other ministries or businesses. From an SPPD perspective, if the two sides of the dialogue want to make a difference in the cruise sector, they will both have to make an effort to perceive each other as allies working for a common goal. The arrival of MSC is confirmation of Lebanon’s potential, but if cruise lines are to visit the country more often and for longer, autonomous actions of businesses will see little fruition without support from the government’s side.

Article extract from “The Daily Star, Lebanon News”, published in April 2010.

“MSC Cruises to Make Four Beirut Port Calls per Season

MSC Cruises announced four Beirut Port calls for its future cruise itineraries bringing new economic revenues for the city’s growing tourism industry Tuesday at a conference held in the Four Seasons Hotel in Downtown.

The announcement was made alongside the unveiling of Wild Discovery as the cruise liners’ new Lebanon general sales agent. Sandro J. Saadé, CEO of Wild Discovery and Achille Staiano, MSC Cruises Commercial Manager International Market, introduced the common vision and objectives of both brands as well as the dynamism of the Lebanese market. With MSC Cruises happening all year round in the Mediterranean, the new partnerships could have far-reaching implications on the local tourism trade with MSC currently boasting over 17 million customers a year on its cruise ships.

Achille Staiano spoke of MSC’s determination to bring more tourism to Lebanon: “Our affiliation with Wild Discovery is a sign of our commitment to Lebanon as a tourist destination,” Staiano said. “Our new port calls in Beirut will bring tourism money for taxi drivers, restaurants and [other businesses]. The winter weather in Lebanon is important to our plans as we see it as a place to take passengers and grow our winter economy.” Staiano also told The Daily Star of his delight in working with a local travel agent like Wild Discovery. “Wild Discovery is a family business like [MSC] so they have the same passion as we do, as well as that is a concrete company with a solid brand and it is run by [honest] people.” Wild Discovery will be working exclusively as a travel agent for MSC, looking after much of the logistics and travel arrangements for holidaymakers. “Working with Wild Discovery is definitely a great opportunity to grow our business in Lebanon and the Middle East,” Staiano added.

MSC is currently the world’s fourth-largest cruise company and employs over 12,000 staff and has earned international certification by Bureau Veritas for being the first company to receive “6 Golden Pearls” for environmental care. MSC has also invested \$6 billion in the Arab world to help spread its itineraries around the world. Wild Discovery also plans to expand further into the cruise industry seeing it as a chance to market “innovative products, amenities and services.” MSC currently has 11 vessels worldwide and has seen a major upturn in fortunes over the last six years with the Italian family-owned firm experiencing rapid expansion and ship building despite the global financial crisis.

“The financial crisis has helped us,” Staiano told The Daily Star. “People are stressed and have started to save money for important things like holidays,” he added. “People are also looking for greater value for money which suits us well as our costs are accessible even though we offer so much”.

Source: <http://www.dailystar.com.lb/News/Local-News/Apr/29/MS-Cruises-to-make-four-Beirut-Port-calls-per-season.ashx#axzz1ZGUcxM9X>

C.2.7 Learning from the Cruise SPPD Implementation in the Mediterranean Region

As a conclusion of the case studies in the cruise tourism sector, the five Mediterranean countries under study will be compared to see how each of them managed SPPD processes through the different phases (Birth, Development, Maturity and Transformation). This comparison will illustrate different ways of carrying out SPPDs in the cruise sector and what successes, risks or failures can occur during the lifetime of the dialogue. The aim of this comparison is to identify where the potential red flags are and to point out lessons that will then be summarized in the concluding chapter of the study.

All five countries are compared using the 12 Principles described in the Charter of Good Practice, as a general framework.²⁸⁸

The Champions

- Birth

In Spain, during the Birth Phase, cruise tourism SPPD was born as a consequence of a wider tourism development strategy from the public side, basically orchestrated by business leaders within Turisme de Barcelona. The Port Authority managers also assumed an active role.

In Malta, the SPPD was born as a reaction to Malta joining the EU. Also, tourism is one of the most important economic activities in the island, and the government representatives set the goal of further developing cruise tourism among the national goals. Tourism department is under the Office of the Prime Minister of Malta, so he was directly involved.

In Turkey, entrepreneurs from the Chamber of Commerce of Izmir led the initiative to attract cruises to the previously unknown Izmir port.

In Egypt, champions are mainly in the private sector, with some companies and institutions that do their best in order to create the needed awareness at a regional level in order to develop and attract more cruise lines to the city. The problem is that the sector is not organized to have a single voice in front the government—not even at a regional level—and thus champions have a limited voice in the dialogue. In this country, the SPPD still is in its Birth (or even pre-Birth) status.

Lesson: In most of these cases, champions in the Birth Phase were neutral (some of them altruistic) and motivated, thus helping the SPPD move forward.

- Development

In Spain's SPPD, new private agents entered (i.e., big cruise companies willing to invest and establish a turnaround port) aligned with the future strategy and had a very active role. Also, other local business leaders (mainly from incoming services related to the port) were supporting and promoting significant changes.

²⁸⁸ See Annex I.

In Lebanon, champions belong to the private sector. Most often than not they work very independently (a known aspect of the Lebanese character) and they go far beyond what could be expected in many of the situations they face. With their achievements they show the rest that the potential is there and that further changes are needed in order to achieve them. Some other champions are in the private associations, like the president of the International Chamber of Navigation of Beirut. But, as mentioned before, this SPPD case is closer to the Birth Phase than to the Development one because its interaction happens "on demand" only, without any joint strategic vision.

In Malta, the Malta Cruise Network group was created to bring all stakeholders together and establish cooperation among them, and the Malta Tourism Authority (MTA) was the institution in charge of coordinating implementation. Agents within both organizations were the ones pushing for important reforms.

Lesson: Capture champions convinced of the strategy is a key aspect for a successful Development Phase.

- Maturity and Transformation

In Spain, the director of the Port Authority controlled and coordinated agreements, modernization around the port, making sure its main client (the cruise liners) were getting served. Business leaders from Turisme de Barcelona were orchestrating the effort at the city level, making sure the city's clients, cruise tourists, were also getting the right services from local companies (hotels, transportation, sight-seeing, etc.). The Bus Turistic was created to control and foster this experience.

In Turkey, different agents started implementing what had been agreed. For example, regulation for horse-drawn carriages, signposting, etc. Entrepreneurs from the Chamber have led the efforts of promoting the destination, editing leaflets, producing promotion videos specifically for cruises, etc. They have also lobbied at a national level in order to reduce port's fees. They attended international fairs and visited cruise liners to convince them of the values that Izmir offers tourists.

In Malta, business leaders have become champions and closely collaborate with the public sector (like with the MTA or the Ministry of Transport, among others). The private operator of the Port has modernized all the infrastructure and spends a lot of time visiting cruise liners in order to not only convince them to call at the Valletta port, but also to use it as a homeport.

Lesson: In these cases, the SPPD structure (like Turisme de Barcelona, the MTA or the Chamber of Commerce) has to maintain the power of the visionary champions, so that they continue to lead and keep the process of change and implementations going. Otherwise, stability of actions and implementations can be at risk, be delayed or not receive sufficient support.

Spain is today in the Transformation Phase, but new potential champions are not being included in the dialogue. Turisme de Barcelona has become a “tyrant”—in the words of a private actor during an interview— because it is monopolizing some of the activities that could be run by the private sector (Bus Turistic). Port managers are now an active and valuable stakeholder but not real innovation champions anymore.

Lesson: Successful SPPDs run the risk of being too dominated by their success, which makes it more difficult for them to include innovative champions.

The Facilitators

- Birth

In Spain, Turisme de Barcelona was the natural facilitator since it was born as a public-private institution to help the sector. At the beginning it was public and did not depend exclusively from the private sector. The same situation applies for Turkey with the Chamber of Commerce, which despite being private has a public vocation (membership to the Chamber is compulsory by law). For Malta, the facilitator role in the beginning was played by the Prime Minister through some institutions like the Malta Cruise Network and the MTA.

Lesson: Facilitators should be perceived as neutral (meaning someone not depending on the private sector). Otherwise, the risk is that some of the actors will not trust the dialogue and will step aside, or that the dialogue will be excessively controlled by one group (for instance, big companies).

- Development

In Spain, the strategic analysis already carried out by Turisme de Barcelona for the entire city was used as a basis for this SPPD. Thus, it was the perfect facilitator having strategic and change skills as well as local and global capabilities. Malta and Turkey had a similar situation, where their respective institutions did a strategic analysis beforehand and played the role of change advocates.

Lesson: Facilitators need to have strategic and change skills as well as local and global capabilities in order to effectively promote change and help stakeholders make the right decisions. Otherwise, there is a risk of trying to solve only current problems and not helping the sector getting ready for future demands. If they are not able to identify the winning strategy, neither would they be able to plan for future challenges.

- Maturity and Transformation

During the Maturity Phase in Spain, Turisme de Barcelona was coaching the SPPD, engaged and supervised projects for specific actions. It included and adapted other tourism and urban programs.

In Turkey, the Chamber of Commerce hired a person to be in charge of managing the cruise project exclusively. This person has been the facilitator of the SPPD, assuming the different roles that had to be performed, like organizing the agenda, contacting the actors for meetings as well as for implementation and follow up, delivering strategic information, etc.

In Malta, the Malta Cruise Council has transferred the leading role to the MTA, which together with the main players is in charge of supervising and implementing the actions.

Lesson: Facilitators have to make sure reforms and actions follow the right strategic direction and do not get “contaminated” by other visions along the way.

In Spain’s SPPD, during the Transformation Phase Turisme de Barcelona crossed over from being a facilitator to participating actively as a private company through the Bus Turistic, instead of leaving it to other private actors and focus instead on other development strategies. This SPPD has gone into an **Exploitation Phase**, with the facilitator “cannibalizing” the sector it tries to help. The Bus Turistic gives Turisme de Barcelona a large income and now it will be difficult to let it go. Proper actions should lead to a “Reinvention phase” instead, in order to adapt to the new market challenges and let the private sector take the lead and play the role they are supposed to play.

Lesson: Avoid any type of rigid institutionalization that kills the flexibility of the sector to react to changes. Since the current SPPD cannot help the private sector anymore (or harms it), companies will eventually look for other ways to achieve their goals.

Sector-Specific Scope

- Birth

During the Birth Phase in Malta, Turkey and Spain, public stakeholders made the effort to screen for distinct business understanding the need to have different actions depending on the business. The cruise sector was one of the resulting businesses.

In Lebanon there are some focused actions undertaken by different stakeholders related to cruise tourism, but a formal SPPD has not been established. In Egypt, cruise tourism has been given very little attention, and some dialogue takes place only locally (in Alexandria).

Lesson: Not having a proper process for defining the scope of the SPPD poses the risk of failure due to a wrong geographic or business scope. If the scope is set beforehand without doing some analysis, chances are that it will not adapt to market needs and it may follow predefined agendas.

- Development

In Turkey, Malta and Spain, SPPD correctly identified cruise strategic segments and decided to compete in the best one for them. In Turkey, they started by attracting cruises as a first goal, and now they are trying to get into the turnaround business. In Malta, the initial goal was to maintain the already existing cruises and they also recently managed to become a turnaround port for one cruise liner.

Lesson: Each business has its own requirements and demands, and to be able to be competitive in them, actors will need different capabilities and skill sets depending on the strategic segment chosen. A wrong or inaccurate definition of the business scope will mean that existing gaps will not be overcome. There is the risk that SPPD participants will mostly focus on solving current business model problems (when most probably what they need to do is change the business model), if a strategic analysis is not carried out.

- Maturity and Transformation

Turkey, Spain and Malta's actions were taking advantage of other horizontal programs from the same sector (Tourism) but they also benefitted from other sectors (cultural activities, hotel, incoming services such as transportation, tour guides, etc.).

Looking deeper to the Turkish case, the SPPD was done properly in terms of sector scope and geographical scope. Maybe in the future they will need to be more specific in what type of market segment they want to attract and what is needed to become a turnaround port. If they want to develop secondary ports located in the region to avoid overcrowding, they will need to start new SPPDs in those regions and define new strategies.

In Malta, the SPPD is achieving the goal of becoming a turnaround port and a second port has been developed (the port in Gozo) to keep crowd size down and keep the passengers in Malta for longer periods. Valletta's port operator (private) established yearly goals which allow amortizing the investments in infrastructure and giving the return its shareholders are demanding. For Malta, becoming a turnaround port required coordination with other institutions (e.g., MTA for promotion) and companies, as was the case with the airport. The result of these actions will positively impact other sectors related with cruise tourism, such as entertainment, hospitality, shops, etc.

Lesson: Designing reforms and actions as horizontally as possible (reaching all related sectors and activities), is an opportunity to extend the impact of a successful SPPD.

For the case of Spain, during the Maturity Phase the business scope will have to be redefined very soon. The volume of tourists is reaching a certain saturation level and this affects other sectors of the city (and eventually the cruise sector itself).

Lesson: There is a risk of not designing new policies that would allow the sector getting ready for future market demands. This could be due to an excess of success that makes it difficult to think of the next step.

International Links and References

- Birth

It is noteworthy that in Spain's SPPD international references from other ports were not the first step. Benchmarks arrived only as a consequence of the strategic analysis. Lebanon has looked at various examples in the Mediterranean, but their first priority at the moment is to get cruises back, once the uncertainty of the area is under control.²⁸⁹

Lesson: During the Birth Phase, and before having identified the strategy, it is very difficult to detect what the correct benchmark should be. Otherwise, obvious references can be chosen and this may lead stakeholders to stick to the current (non-competitive) business model.

- Development

In the Spanish case, Miami was the reference as a turnaround port (having an international airport hub, and the Caribbean as a comparable sea). However, this benchmark was complemented with cultural references, looking mainly at other European cities such as Paris or London, which were offering a high-quality cultural experience.

In Turkey and Malta, some of the actors mentioned—during the interviews—that they have looked to Barcelona as an example of what could be done.

Lesson: International benchmarks will be relevant for improving competitiveness only if they are the result of a strategic analysis to identify the appropriate business model and to strengthen the local businesses value chain accordingly.

²⁸⁹ For Malta and Turkey, the exact process during the Birth Phase is not known (not sufficient information was given during the interviews).

- Maturity and Transformation

During the Maturity Phase, Spain's SPPD monitored efficiently competitors and collaborated with international players in order to constantly adapt port and city services (for instance, the Port Authority and Turisme de Barcelona jointly participates in the annual cruises show).

Similar situations are found in Malta (with Valletta Cruise Port and the MTA) and in Turkey (the Chamber of Commerce with Izmir Tourism).

Lesson: At this stage, visiting and establishing agreements with similar innovative SPPDs and international experts helps stakeholders build the missing capabilities of the new activities needed.

For the case of Barcelona, during the Transformation Phase in Spain new benchmarks should be considered in order to solve current challenges of the sector locally (e.g., sustainability).

Lesson: References for new business models are key elements for a successful Transformation Phase.

Outputs: Action Lines and Recommendations

- Birth

In Spain, stakeholders held an internal (non-publicized) kick-off meeting deciding to improve cruises infrastructure, mainly between the Port Authority and Turisme de Barcelona.

In Turkey, the Chamber of Commerce, together with its tourism department and other partners, decided to start an initiative aimed at attracting cruises to Izmir.

In Malta, after one modification of the Constitution in 1996, tourism was established as a national priority and so cruise tourism was targeted.

Lesson: Formal commitment from main relevant agents should be the most important output during this phase.

- Development

In Spain, there was a strong effort in sharing the common vision of the strategy for cruises and clear concrete projects to build capabilities, like new terminals or the Bus Turistic.

In Malta and Turkey, facilitators seemed similarly determined, jointly with SPPD participants, on what actions had to be planned in order to acquire the needed resources and capabilities.

Lesson: Risks of the Development Phase are to try to embark on actions too fast, plan only actions that will not have quick results or let the design of the actions be influenced by conventional wisdom distorting their original aim. Another risk is designing actions that are not oriented to new strategic requirements.

- Maturity and Transformation

In Malta, Turkey and Spain, actions were mainly executed according to the strategic direction established by the SPPD.

Some example of actions implemented as a result of the SPPD in Turkey were the creation of daily tours and guides in several languages, information kiosks in the port and other points of the city, promotion films, support for archeological projects to be opened for tourism, regulation of the traditional horse-drawn carriages, open-top city bus, education and language skills courses for taxi and carriage drivers, etc. The facilitator played a supervising role in this phase, trying to avoid a loss of focus, by interacting with project managers in charge of implementation.

Lesson: Only actions and outputs aligned to the strategy should be considered in order to avoid losing focus.

During the Transformation Phase, Spain was facing a lack of redefinition of strategic segments. There were therefore few outputs adapted to the new context in which the cruise sector has been evolving in Barcelona.

Lesson: Not having an agenda for reviewing the strategy and outcomes of the SPPD can lead to the end of a successful SPPD.

Outreach and Communication

- Birth

In Spain, private sector involved at the beginning was already part of Turisme de Barcelona. There was not a big public effort to promote the initiative at the beginning.

In Turkey, the Chamber of Commerce already had most of the relevant private actors, and the public ones were involved in the regional tourism group. In Malta, the main actors were involved under the initiative of the Prime Minister, and later through the creation of the Malta Cruise Network. In these two cases, some effort had to be made to communicate with initial stakeholders. This was done efficiently thanks to the existing (or newly created) institutions.

Lesson: In the Birth Phase, SPPDs may avoid being publicized. Risks of having the media involved at this stage should be taken into account as there may be interferences or pressures from external agents that could harm the rest of the process.

- Development

Interviews and events with local agents explaining the new vision were held in Spain. New stakeholders were included in the SPPD process (international cruise liners, airport Authority, airlines, city council, venture capitalists, etc.).

In Malta, being a small island, communication has been very easy among the relevant actors. The Malta Cruise Council and the MTA led these efforts, as well as some members of the private sector that had easy access to the government.

In Turkey, the Chamber of Commerce has been an active member of the regional tourism group, so all relevant actors have been informed. Efforts to inform the private sector involved is also were also made, which has been relatively easy since the majority of them belong to the Chamber.

Lesson: At this stage, it is important to maintain close communication with the participating private sector, to keep them engaged in the SPPD. Exposing the process to high notoriety before it has a defined strategy poses the potential risk of elevating the pressure from external lobbies or agents to include their interests (or preventing the SPPD from continuing).

- Maturity and Transformation

During the Maturity Phase in Spain, when new terminals were finished, a strong communication effort was done. Turisme de Barcelona took most of the credit, being the structure behind the success.

The Chamber of Commerce in Izmir put a lot of effort in keeping the community informed regarding the progress of the SPPD. Other institutions like the Municipality and the Chamber of Shipping also publicized the achievements done. In this case, and given the extraordinary amount of tourists that the city can receive in one single day, it has been important that the civil society stayed informed about the benefits that this type of tourism reports to the city, in order to avoid complaints (5,000 people or more can disembark all at once).

In Malta, the MTA has been very active in communicating to the general population the achievements and importance that the cruise sector has had for the national economy. The Port operator also has kept an active informative section on its website.

Lesson: Reaching out to general media before concrete activities have been launched or achieved presents the risk of subjecting the process to external pressures. Conversely,

publicizing actions once they are achieved reinforces the credibility of the process.

During the Transformation Phase, the change of leadership has so far not been promoted in Spain.

Lesson: Continuing to promote instruments related to the established (outdated) model may harm the process. Innovative and adequate information has to be generated in order to maintain stakeholders' interest.

The Structure and Participation

- Birth

In Malta, the initial structure was the MTA, and the Malta Cruise Council was created to facilitate the dialogue during the Birth Phase. In Spain, the initial structure was Turisme de Barcelona and the Port Authority so there was not a need to establish an additional organization specifically for the cruises sector. In Turkey, the Chamber of Commerce in Izmir was the initial structure.

Lesson: As seen in all cases, not having a structure was not an impediment to starting the SPPD. In fact, establishing a structure without knowing what the focus of the SPPD would be poses the risk of creating rigidities.

- Development

During the Development Phase in Spain, Turisme de Barcelona, as the facilitator, ran the structure. Participation was open to all private sector stakeholders.

Turkey, through the Chamber of Commerce, and Malta, mainly through the MTA, also included private stakeholders in the SPPD.

Lesson: During the Development stage, not opening the SPPD to all the private sector agents interested in participating entails the risk of limiting the reach and losing engagement.

- Maturity and Transformation

During the Maturity Phase, the SPPD opened participation in projects to all private stakeholders. For instance, the Port Authority decided to include private shareholders (80%) in the renovation of the port.

In Turkey, all important actors have been represented in the SPPD and have an equal participation. Nevertheless, some criticism has been heard coming from other institutions regarding a possible excess in the prominent role of the Chamber of Commerce. Some of the participating institutions in the SPPD have been the Governorship of Izmir, City Municipality,

Konak Municipality, Izmir Chamber of Shipping, Izmir Alsancak Port, Aegean Region Chamber of Industry, Izmir Tourist Guide Office, City Culture and Tourism Administration, City Tradesman and Artists Association, Izmir Taxi Cabs Office, City Horse carriage Association, Aegean Tourism Association, among others.

In Malta, the private sector has been leading the majority of the implementations regarding infrastructure. Other associations (like the Hotels & Restaurant Association, MHRA) also played an important role in the SPPD.

Lesson: During this phase, the process should be open to new stakeholders willing to participate or having the capacity to implement strategic actions.

During the Transformation Phase in Spain, participation of new private agents has been limited by the inflexibility of the structure held by Turisme de Barcelona (they are the only “company” allowed to have a booth in the dock and sell tickets for their Bus Turistic, while other private operators do that activity as well).

Lesson: Designing complex structures and institutions poses the risk of creating systems that will tend to perpetuate themselves or even harm the competitiveness of some private stakeholders.

The Mandate and Institutional Alignment of the SPPD Stakeholders

- Birth

During the Birth Phase, in Malta and Spain there was an agreement at the top public level to develop the cruise sector. Turkey experienced a similar situation, but in this case it was led by the Chamber of Commerce of Izmir.

Lesson: Not reaching the necessary consensus among the required institutions during the Birth Phase has the risk of misalignment and lack of support.

- Development

In Turkey, Spain and Malta, both public and private sectors were committed to develop a common view and create appropriate instruments.

In the case of Malta, the Prime Minister was directly pushing the SPPD so all institutions were naturally aligned. In Turkey, the Governorate was also directly involved.

Lesson: During this phase, the highest possible level for the sector has to be involved in order to achieve the required institutional alignment for the following phase.

- Maturity and Transformation

In Spain other institutions related to the sector (such transport or entertainment) aligned their programs and efforts as well (horizontal policy coordination from the regional government).

This has also happened in Malta, but there is still room for improvement (especially in everything related to transport, and the coordination with the Ministry of Transport). In Turkey the process has taken place mostly at a regional level, with no large impact at a national level.

Lesson: Institutional alignment is crucial at the Maturity stage, because horizontal policies have to be modified and updated, and related institutions have to adapt their instruments.

In Spain, during the Transformation Phase (currently), Turisme de Barcelona's mandate has to be reviewed in order to reestablish a new dialogue responding to private stakeholders' demands for fairness.

Lesson: Not having a mechanism for allowing a renewal of the dialogue leads to the rapid decline of a previously successful process.

Involvement of Sub-national and Local Levels

- Birth

In Spain, during the Birth Phase, the initiative perimeter was mainly centered in Barcelona. Other ports in Catalonia were not included in the process. The initial perimeters were Izmir in Turkey and Valletta in Malta, which also did not include other ports when the SPPD was launched. The cases of Turkey and Spain were started at a regional level and the case of Malta at a national level.

Lesson: SPPDs can be started at the central government level or at the sub-national level, but local institutions and businesses should be immediately involved. Also, if the geographic scope is not properly defined, the risk of limiting to general actions is significant.

- Development

In Spain, all regional and local levels of government and institutions were successfully involved in the process.

In Malta, being a small island, all regional and national government entities and other institutions were also involved.

In Turkey, the Regional Tourism Group ensured the involvement of all relevant local government institutions and other entities.

Lesson: Local and direct involvement is crucial on this phase. Stakeholders have to be part of the thinking process and understand the changes to be made. Otherwise, if the directives come from central stakeholders only, there is a high risk of limiting the dialogue.

Thus, small geographic areas are better suited to establish a close and fruitful relationship with all local stakeholders.

- Maturity and Transformation

In Spain, actions were coordinated at local, regional and federal level (Barcelona, Catalonia, Spain).

For Malta, due to the size of the island, national and regional is almost identical. Also, the fact of being small facilitates interaction among actors. Coordination happened at all levels.

In Turkey, Izmir has been very energetic in interacting with the national government (one of the examples is that they have managed to reduce port fees).

Lesson: If the local SPPD does not get higher-level institutions involved, instruments and policies created at a federal or national level will not be adapted to promote building capabilities or to fill the existent gaps.

In Spain, during the Transformation Phase the SPPD is in need of going back to the local level to redefine strategies supporting local agent's needs.

Lesson: Not revisiting the strategic analysis locally when needed entails the risk of stopping innovation and losing competitiveness.

Conflict Recovery Capabilities of the SPPD

- Birth

During the Birth Phase, neither Spain nor Turkey had initial conflict situations, mainly because the activities related to cruises were not significant. The crisis to be solved was actually the lack of infrastructure and services to receive cruise liners and tourists arriving at the port.

In Malta, cruises calling in Valletta have a longer history. In this case, the initial "conflict" was how to face the loss of the tax-free shops for passengers.

Lesson: Taking into consideration an ongoing issue may trigger the initiation of a fertile SPPD.

- Development

During the Development Phase, for Malta, Turkey and Spain, the fact of having a common understanding of the strategy covered or eclipsed other possible issues among stakeholders.

Lesson: Sharing the same vision and goals leads to a better focus on urgent changes and decreases the importance of other issues SPPD stakeholders may perceive.

- Maturity and Transformation

In Spain, Turkey and Malta, the direction of the SPPD was defined, so there was not much room for rethinking the goals or questioning the strategy: it was working well (cruises were coming), so everyone was cooperating.

Lesson: Clarity of goals is very important in order to solve problems as they appear and to implement actions quickly. If they are not assumed by participants, there is the risk of re-thinking them every time and not achieving them.

In the Transformation Phase in Spain, there is an ongoing crisis of the existing model. Some private stakeholders are even questioning the role of Turisme de Barcelona.

Lesson: If the SPPD is not able to respond to new challenges, chances are that actors will look for other ways of solving their problems, parting ways with the established dialogue instruments.

Role of Development Partners

- Birth

In Spain, during the Birth Phase, the public sector and the EU were playing the role of development partners while the initiative started thanks to diverse public funding.

In Malta, the EU also played the role of the development partner, with new requirements and also development funding.

In Turkey, this role was played by the Chamber of Commerce. Since membership is compulsory, they receive fees that can be invested in the projects.

Lesson: Development partners may be an important way to trigger an SPPD.

- Development

In Spain, during the Development Phase, the facilitator belonging to Turisme de Barcelona was initially funded by the regional government. In Turkey, the Chamber is self-funded through membership fees and the MTA in Malta is publicly funded. Malta has received some aids from the EU to develop its tourism in general.

Lesson: Development partners can be an important support to help the SPPD become stable. They can also provide guidance and support during the conception phase.

- Maturity and Transformation

During the Maturity Phase, in Turkey, Malta and Spain actions were financed mainly by the public sector. Only big infrastructure investments given to the private sector (concessions) have been financed by the private sector.

Lesson: To avoid the risk of dependency, development partners have to clarify the agenda for their participation, with a decreasing participation scheme. The SPPD has to become self-sufficient once it reaches the Development Phase.

In the case of Spain, during the Transformation Phase, Turisme de Barcelona needs to undergo a renewal as an SPPD organization, and public actors should help.

Lesson: Development partners face some risks when supporting SPPDs in the Transformation Phase, because a quick adaptation to changing conditions is needed.

Monitoring and Evaluation

- Birth

During the Birth Phase, clear objectives were established in Spain such as the need for modern infrastructure and promotion of the port. Planning was actually part of the “Olympic Games” drive.

In Turkey, targets consisted in attracting cruise tourism and building what was required to achieve it.

In Malta, targets were related to maintaining the level of cruise tourism once the country joined the EU, and in the long run, to become a home port.

Lesson: In this phase, some indicators should be defined and controlled in reference to the process for creating the SPPD, to ensure it fulfills what is needed to be successful. Defining too many indicators poses the risk of spending time in defining indicators that will not be needed once the scope has been established in the Development Phase.

- Development

During the Development Phase in Spain, Turkey and Malta, actions were carefully designed and planned, but unfortunately, evaluation was not always carried out successfully as some indicators were not measuring the true aspects of the actions.

Lesson: In all cases, there is a risk of having a predefined set of indicators that won't be adapted to what the focus should be, because they have been defined before the strategic analysis was carried out.

- Maturity and Transformation

During the Maturity Phase, in Turkey, Malta and Spain actions were in general implemented according to the plan and adapted when needed, because they had professional structures with independent staff in charge of them.

Lesson: Actions and their results need to be evaluated rather than the SPPD itself.

In Spain, during the Transformation Phase, the Barcelona's current competitive position as a turnaround port needs to be evaluated and sustainability options for the future need to be analyzed.

Lesson: It is important to evaluate the factors that can foster the competitive position of companies (locally and internationally).

D PPD FOR LOCAL ECONOMIC DEVELOPMENT: EXPERIENCES FROM CATALONIA (SPAIN)

In contrast to the previous section, which is devoted to studying sector-specific PPD instances in five different geographical contexts (2 sectors - 5 countries), the research viewpoint in this section shifts by 180 degrees and examines instances of localized PPD, targeting several sectors (1 sub-national context - 10 sectors). The purpose of this shift is to learn how the territorial specificity of PPD, compared to sector-specificity, makes a difference in the way the dialogue is managed and structured and in the desired economic impacts.

While a national PPD scope can help in addressing key broad issues, a Local PPD can complement these efforts and have a great impact of its own on the investment climate and the enabling environment for private sector growth. According to principle VIII (Sub-national) of the Charter of Good Practice in Using Public-Private Dialogue for Private Sector Development:

“PPD is desirable at all levels of decision-making, down to the most local possible level, especially as this is likely to be more practically capable of involving micro-entrepreneurs, SMEs and other local stakeholders.

Local level PPD allows local issues and solutions to be identified and taken to decentralized decision-makers or channeled upwards to the appropriate level of authority at which they can be solved.

Local dialogue can contribute to effective implementation of national policies. It may be particularly effective when explicitly aligned with dialogue taking place at national or regional level

*Local level dialogues can especially benefit from use of participatory tools, capacity building initiatives, and the use of local and neutral facilitators.*²⁹⁰

More than Twenty Years of Experience and One Hundred Examples of PPD

From the first formal initiatives in PPD started in the early nineties to the present, more than one hundred local level PPDs have taken place in Catalonia.



Source: Competitiveness, 2011

²⁹⁰ Herzberg, B.-Wright, A., The PPD handbook, The World Bank Group, 2006.

The Local PPD methodology was initially applied to *microclusters*,²⁹¹ narrowly defined industry clusters confined to a town or a county within Catalonia (e.g.: The Leather Tanning Cluster in Igualada); it was later expanded to most territorial units of economic development, where large numbers of private and public sector players were involved. Over time, the PPD was applied to both, the development of a rural tourism sector in small mountain areas in the Pyrenees and the transformation of a large part of the city of Barcelona into an IT and new technologies district.

Originally, the Regional Government Department of Industry was the initiator of most PPDs, but other departments and levels of government followed later on. The private sector too became a driver of many PPDs at different geographical levels and with different initiators.

A Selection of Cases Offering Different Contexts

The interest of this section is to understand the influence of local context in Local PPDs, and to see if local conditions influence the methodologies to be used in a successful PPD. The selection of examples from a single region of Spain, Catalonia, permits us to fix the other variables, since the macroeconomic, political and cultural context is the same, and to focus on the territorial scope and the economic development level of the local context.

The territorial dimension of the Local PPD was the first variable considered when selecting PPD examples to cover the wide range of cases in Catalonia. The second variable considered in the selection of the case studies was the stakeholder's drive, with the intention of maintaining a balance between cases dominated by the public and by the private sector.

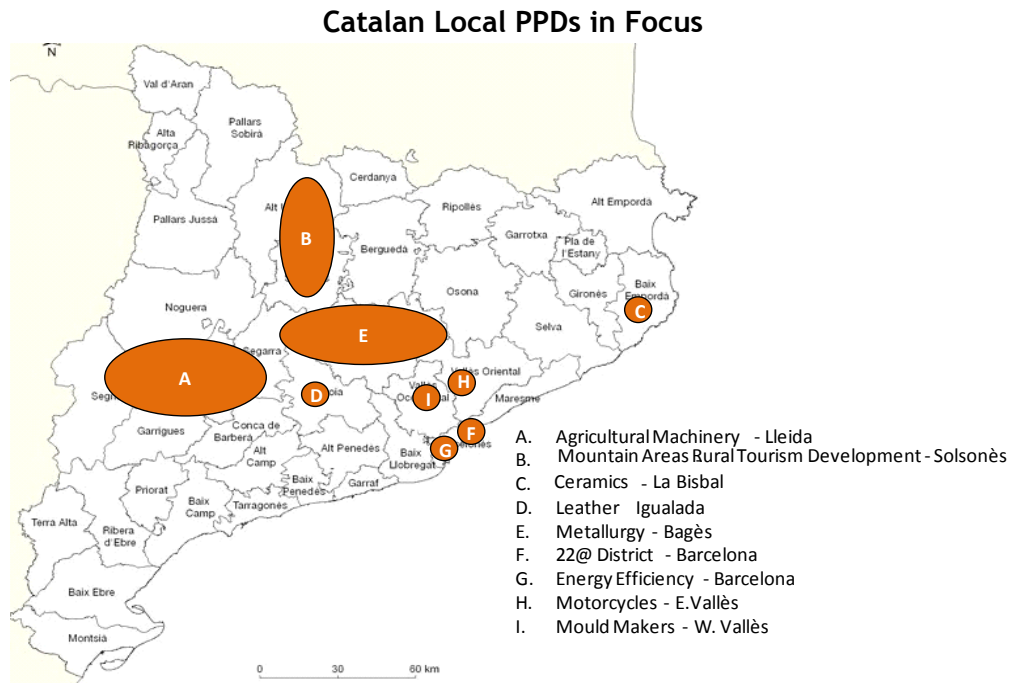
The resulting collection takes into account twenty years of the case authors' experience in Catalonia's PPD, with direct knowledge and involvement in all of them. In addition, it favors PPD instances, in which the life of the Local PPD has already reached its Maturity Phase, and ideally, its Transformation Phase.

The case studies are:

- Rural areas:
 - ***Agricultural Machinery in Lleida***: A well-organized platform, beneficiary of government funds and covering a wide farming region (Segrià, Urgell and Pla d'Urgell counties) totaling 2,281 sq km.
 - ***Mountain Areas Rural Tourism Development in Solsonès***: A light entrepreneurial initiative in a mountainous area covering 1,001 sq km and scarcely populated (pop. 13,730).
- Small-medium towns:
 - ***Ceramics in La Bisbal***: A case driven by the government to redefine its handicrafts support policies, in a town of 10,397 inhabitants near a strong tourist area, the Costa Brava.

²⁹¹ Conejos, J. et al., "Cambio Estratégico y Clusters en Cataluña", Gestión 2000, 1997.

- **Leather tanning in Igualada:** A case driven by a centuries-old guild of tanners that have adapted to modernity in a town with a population of 39,149 dedicated to leather and knitwear industries.



Source: Institut Cartogràfic de Catalunya and author's elaboration

- **Counties:**
 - **Metallurgy in Bagès:** The attempts of a public-private Technology Center to transform a traditional metal mechanics county with a population of 185,117.
 - **Footwear in Alicante:** The efforts of a local financial institution to promote the transformation of the footwear industry in the Vinalopó Valley, an area covering three counties that includes the three main footwear clusters Elche, Elda and Villena.
- **Metropolitan areas:**
 - **Barcelona 22@ Innovation District:** An ambitious project promoted by the City of Barcelona to transform a 198 ha. old industrial area into knowledge-based industries through public-private partnerships.
 - **Energy Efficiency in Barcelona:** An attempt by a group of companies related to the energy sector aimed at promoting a dialogue with a public agency to improve energy efficiency in the Barcelona metropolitan area.

- Clusters integrated to international value chain links:
 - **Motorcycles in Eastern Vallès:** The consecutive efforts of the public sector to “save” a local industry, while the sector goes global.
 - **Mould makers in Western Vallès:** A case driven by an excellent technology center that provides services to the mould making industry but fails to upgrade its members to serve the consumer electronics industry when it goes global.

This mix of cases, summarized in the table below, allows for an identification of any patterns and characteristics that could apply to the different contexts.

Mix of Case Studies on Local PPD in Catalonia (Spain)

Local PPD SCOPE/ STAKEHOLDER BALANCE	RURAL AREA	TOWN	COUNTY (COMARCA)	METROPOLITAN AREA	INTERNATIONAL VALUE CHAIN LINKS
PUBLIC	1. AGRICULTURAL MACHINERY IN LLEIDA	3. CERAMICS IN LA BISBAL	5. METALLURGY BAGES	7. BARCELONA 22@	9. MOTORCYCLES IN E. VALLES
PRIVATE	2. MOUNTAIN AREAS RURAL TOURISM DEVELOPMENT IN SOLSONÈS	4. LEATHER TANNING IN IGUALADA	6. FOOTWEAR IN ALICANTE	8. ENERGY EFFICIENCY BARCELONA	10. MOULD MAKERS IN W. VALLÈS

The structure of the cases in point encompasses a description of the area’s context and of the Local PPD dialogue experience. These are followed by authors’ analyses of the stakeholder’s roles and conclude with an evaluation of the Local PPD’s impact on competitiveness and inclusion.

An assessment of PPD principles along the PPD lifespan as well as lessons derived from each case are provided at the end of this section. Drawing on these and the Mediterranean SPPD experiences, the subsequent section then proposes guidelines for practitioners and policy makers.

Catalonia: Examples of Industry-level Collaborative Action Matrix

As a foreword to the description of the cases, the following matrix aims to present examples of actions undertaken under the auspices of the Local PPDs studied in Catalonia. This matrix allows the overall competitiveness potential of each sector to be determined by using a series of industry actions coupled with the type of dialogue that originated them. The assumption is that industrial development is often accompanied by strong dialogue, which led to collaborative actions. While the list itself is not exhaustive, it seeks to provide a snapshot of some of the main reforms and activities carried out. Similar to the sector-specific cases, these initiatives span across the entire public, public-private and private spectrum and include actions aimed at improving regulations, upgrading infrastructure, facilitating finance

access and others. The aim of the following section is to elaborate on how and in what stages of PPD processes these actions evolved. It will also be interesting to learn which stakeholders initiated and implemented them and how the actions themselves contributed to the local rural, urban and regional economic development, as well as the industries' competitiveness on the international level (Motorcycles in East Vallès and Mould Makers in West Vallès).

Industry-level Collaborative Action Matrix

	Regulatory and tax environment	Infrastructure	Access to finance	Skilled and trained labor	Access to technologies and R&D
Public	<p>Solsonès: Solsonès was a priority in terms of implementing policies to attract companies and investment. The main incentives given by the local government for companies to move there were cheap industrial land (an industrial park was built by the regional government), subsidies and tax breaks.</p>	<p>Bages: The Technology Centre Manresa (CTM) was created as a collaboration of the City of Manresa and the Public Polytechnic University. Its creation was a decision that was made top down, with no previous sharing with the private sector and with the aim of promoting applied research and supporting industry with product development and innovation processes.</p>	<p>Leida and Energy: Both cases received subsidies from the AEI Plan. In 2007, the Industry, Trade and Tourism Ministry of the national Spanish government, following the trend that was catching on in Europe of working with clusters, launched a new program to fund what they called the "Groups of Innovative Companies" label. By obtaining it, organizations could access subsidies for development projects.</p>	<p>Vinalopó: After the strategy review in 2004 that brought forth China as a big threat, the regional government decided to promote actions that reduced "time to market", increased flexibility and helped companies internationalize their production in order to reduce costs. The government adapted its public support to these recommendations.</p>	<p>Motorcycles in E Vallès: The historic companies' lobbying power allowed them to get a substantial subsidy to develop an electric motorcycle, but by the time this decision was made, the only local player that was left to participate was one of the smallest companies, RIEJU, with some suppliers.</p>
Public-Private	<p>Igualada: The local government supported the private sector wastewater initiative both by handing over land for construction purposes and reclassifying land. It also adjusted a municipal ordinance, which adapted the current legislation of water dumps to the wastewater plant. In addition, the Catalan government signed a contract with the tanners that prevented the sanctioning of businesses until the wastewater treatment plant was completed.</p>	<p>22@Barcelona: This started as an urban regeneration project aimed at creating a diverse business environment where innovative companies would co-exist with research, training and technology transfer centers, as well as with retailers, housing areas and green zones. Return of investment has been extremely positive considering the small amount of money invested by the City Council and the large number of companies that have opened in the area.</p>	<p>Solsonès: The Association of Enterprises organized an annual entrepreneurship prize to promote the local economy. The regional government facilitated small funds, but more importantly recognition. The Minister or the President would be present at the awarding of prizes.</p> <p>Vinalopó: Government and local financial institutions working together and financing a Regional Competitiveness Program that was to develop small SPPDs in different sectors.</p>	<p>Mould Makers: The accorded strategy was to locate more product development capabilities in the plants. PPD thus involved the Engineering and Design Schools in developing programs to support Product Development capabilities, and two prestigious institutions already present in the Vallès, the ASCAMM Technology Center (Mould makers association) and the LGAI (Catalonia's Testing and Certification Laboratory).</p>	<p>Lleida: Companies and Government worked together to enhance the technological capabilities of the companies by the expansion of an existing agricultural technology center in which the local university played a much more active role.</p>
Private	<p>Motorcycles in E Vallès: DERBI made an impressive investment in engine technology and had really high performing motorcycles in the racing field, while the domestic market was protected, either by tariffs or cumbersome technical regulations that kept out the international competitors: the Japanese leaders Honda and Yamaha.</p>	<p>Igualada: The new wastewater treatment plant, fully funded by private companies, was a successful example of private sector cooperation in solving common environmental problems affecting their competitiveness.</p>	<p>La Bisbal: Artisans were used to asking for government support where they had sales problems. The government always responded with trade fairs, and it had even opened and managed a large shop in Barcelona to sell the artisans' products.</p>	<p>La Bisbal: The curricula and focus of a local Ceramics School was revised, incorporating design and marketing courses for artisans (as opposed to merely teaching how to mold the clay), as a result of the strategy scope of the PPD.</p>	<p>Igualada: The tanners' industry association collaborated with AIIICA, a research center, to determine the technical parameters of the wastewater plant. The industry association also helped the center shift towards a more strategic focus, therefore being better able to gauge future industry needs.</p>

D.1 TWO CASES IN RURAL AREAS (AGRICULTURAL MACHINERY, RURAL TOURISM)

Even in an economy as industrial as Catalonia's, there are always rural areas that are either considered as reminiscent of the low-productivity farming of the past, or can be an integral part of the economy, improving its productivity and prosperity. That was the reason why PPD was brought to these areas by the regional government of Catalonia, to spur innovation and productivity growth, regardless of the sector or location.

The PPD activities in the form of sector-specific Competitiveness Reinforcement Initiatives, or local Strategic Plans, or even local innovation plans, have spread throughout Catalonia, and are now twenty years after their initiation mainstream thinking.

The cases selected for the study are examples of the early ones and thus allow capturing the variety of PPD effects over the PPD lifespan. In the first case, a large region, which covers three counties and is a leading producer of fruits in Spain, hosts the dialog. The Local PPD has managed to transform a group of basic local blacksmiths into worldwide exporters of agricultural machinery, with a heavy involvement of the regional government instruments. The second case takes place in a much smaller county located in a mountainous area with difficult access (the roads were not paved until the 1960s), the economy of which is based on forestry and some light transformation industries. In this case, the challenge addressed was how to lift spirits and stop the drain of talent to the main cities.

D.1.1 AGRICULTURAL MACHINERY IN LLEIDA: Developing an Export Industry from Local Blacksmiths

D.1.1.1 Origins and Evolution of the agricultural machinery in Lleida

Lleida is a province located in the western part of Catalonia. The province was home to 450 thousand inhabitants. Its capital, the city of Lleida, was founded in the sixth century BC and is home to about one third of the population. Compared to other provinces in Catalonia, Lleida's population density is one of the lowest, being mainly dedicated to agriculture. The fruit industry in particular has become dominant. In fact, the growth of the agricultural sector, coupled with its mechanization, had been the driver of its economic growth in the last 30 years.

Fruit trees covered 36.2% of cultivated land (mainly pears, apples, peaches and plums) and concentrate the majority of Spain's production of pears and apples.²⁹² Agricultural production is mostly concentrated in the Segrià, Pla d'Urgell and Urgell counties, which is largely a result of the counties' network of rivers and landscapes favorable for agriculture.

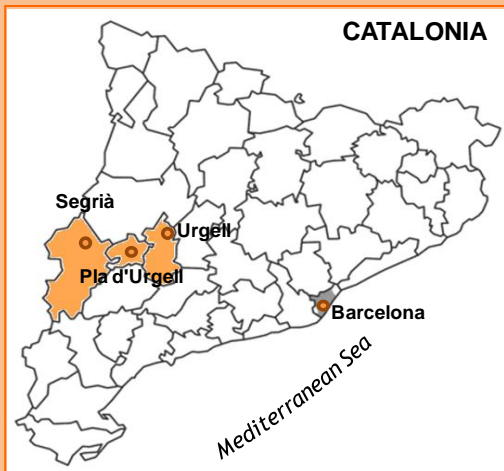
²⁹² L'Enciclopèdia.cat, Economy of Lleida.

<http://www.grec.net/cgibin/dificil.pgm?USUARI=&SESSIO=&PGMORI=E&NDCHEC=0037640>.

THE SEGRÌÀ, PLA D'URGELL AND URGELL

COUNTIES IN LLEIDA IN 1996

Location



Source: Cartographic Institute of Catalonia

Area: 328 sq km²⁹³

Population (1996): 222,645

GDP per capita (1996): € 13, 338

Lleida's agricultural machinery industry was born out of the blacksmiths that have been serving the local demand for tools and machinery for centuries. In the 1960s it started to turn from one-man shops to small industries that sold to other areas. The shape of this industry at that time was closely related to the type of products that were being grown and the characteristics of the farms surrounding Lleida. In this sense, agricultural zones were neatly divided by product type (horticultural crops, olive trees, cereals, hazels, dry land farming, etc.), with most of the machinery companies concentrated in the fruit zones and, to a lesser extent, in the dry and farming zones. The main producers of agricultural machinery are also concentrated in the fruit cultivation area that covers the counties of Segrià, Pla d'Urgell and Urgell.

The evolution of the agricultural machinery industry in this region is related to the

proximity to its demand, which frequently called for customized products. This implied that, since inception, this industry had to understand its clients' specific needs. With regard to specialization, the artisan origin of the local blacksmiths pushed the industry to specialize in the manufacturing phase of the agricultural machinery value chain.

Turning the Attention Back to the Country

Starting in 1993, the Department of Industry, Trade and Tourism of the Catalan Government, led by Minister Antoni Subirà, launched different Local PPDs to foster competitiveness in Catalonia. The first initiatives were related to the aforementioned *microclusters* competing in what had been called "design manufacturing clusters" that included furniture, fashion, leather, etc. and were very successful. But most of these industries were not located in rural areas and there was a concern that these methodologies would not work in rural environments.

One of the top officials in Subirà's team, the Director General of Commerce, Jaume Angerri, came from one of the farming areas in Lleida and thought that the agricultural machinery manufacturers in the area were a good case to study. They were not structured at all, represented only by a metal-mechanic association and with strong rivalry among each producer and each village. So the initiative started from the regional government in Barcelona, just with the acquiescence of the local authorities, but almost without asking the private sector.

²⁹³ Cumulative for Segrià, Pla d'Urgell and Urgell.

The agricultural sector was in crisis due to various factors such as several years of bad harvests; fruit price drops due to import increases, now from other EU markets; and an aging population, amongst others. It was in this context when in 1995 the Local PPD in the sector of agricultural machinery was launched in Lleida.

The Industry Department of the Catalan Government, together with a specialized team of consultants, started a strategic dialogue process with local machinery companies and associations. The participants came from diverse business segments encompassing light gardening, orchards, agricultural fields, vineyards and forestry works. This dispersion of producers, however, made it difficult to establish the dialogue as they lacked common interests as a group.

Developing Together Different Strategies to Compete in Different Businesses

Every company was shooting in all directions; they would make all kinds of almost custom-made machines, without achieving any economies of scale or learning curve of any type. In order to fix this, a strategic segmentation was carried out to distinguish between different businesses. Three strategic segments were identified by looking at the existing demand for agricultural machinery: the industrialized segment (large agricultural machinery firms or companies that provide services to other large farmers and live exclusively from agriculture), the traditional segment (agriculture is not the only livelihood, and crops are managed without specific business criteria) and the leisure segment (weekend customers that have agriculture or gardening as a hobby). All three segments implied different ways of manufacturing and selling the machinery which, in turn, meant that each segment belonged to a different value chain.

Lessons Learned from Advanced Markets in Emilia Romagna

In order to better understand those strategic segments (the industrialized segment in particular) and how to compete in them, some Local PPD representatives travelled on a benchmarking trip to the reference region of Emilia Romagna in Italy. There, previous import demand had forced the local producers to manufacture high value added machinery to offset high transportation costs. Additionally, the weak agricultural structure in Italy had also forced companies to sell abroad.

The experience of these Italian companies in international, more sophisticated markets provided very valuable lessons and allowed them to innovate and focus on specific niches that were in high demand worldwide.

A New Organization is Born to Lead the Strategic Change

It was not easy to convince the local companies that they too could become international players. To address this, the government had to extend the role of the facilitators, through a series of weekly night seminars with case studies that permitted the businesses to role play without really talking about themselves.

In 1998, once these concepts had settled among a group of companies, led by Josep Maria Pradas, one of the most daring local entrepreneurs, a new organization called FEMAC²⁹⁴ was established to lead the strategic change. FEMAC promoted value-creating and worldwide expansion activities and was used by companies as a platform to overcome common strategic and innovation challenges. Mr. Pradas was the Chairman since its foundation.

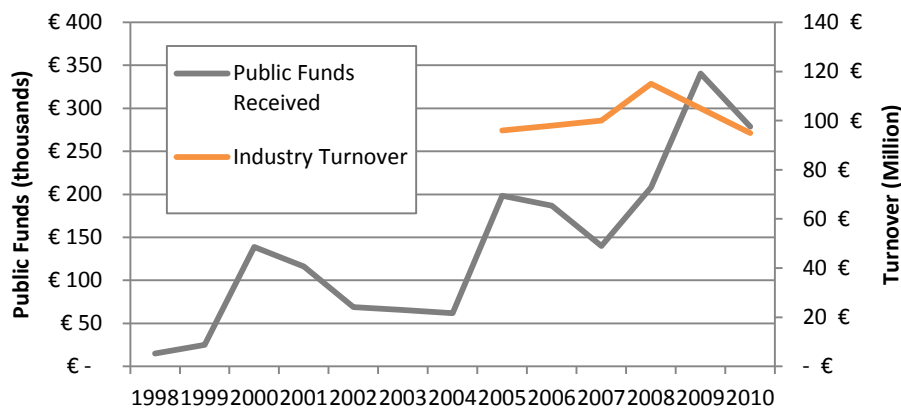
The technological capabilities of the companies were also enhanced by the expansion of an existing technology center (Centre de Mecanització Agrícola), in which the local university got to play a much more active role. Eventually, in 2011 the centre was integrated into a larger technology center to support agricultural machinery manufacturers (MaqCentre).

But most of the activities carried out by FEMAC were focused on exports, namely worldwide missions and fairs that were funded by the Catalan Government Export Promotion Agency at that time, COPCA. There was an intense cooperation between COPCA and FEMAC; the latter had a serious reputation of successful missions and COPCA was thus eager to provide the necessary funding.

Becoming the Success Story?

In 2007, the Industry, Trade and Tourism Ministry of the Spanish Government, following the trend that was catching on in Europe to work with clusters, launched a new program to fund what they called “Groups of Innovative Companies” (Agrupaciones de Empresas Innovadoras label, AEI). By obtaining the AEI label, organizations could access subsidies for developing projects. Agricultural machinery companies in Lleida, led by FEMAC, successfully managed to obtain the label and received funds. At this point, FEMAC became a “preferred” organization of both, the Regional Government and the National Government and the virtuous circle of initial project funding, which led to “tangible” results (orders in trade fairs in remote places) and the subsequent eligibility for additional funds was thus put in place.

Evolution of Public Funding versus Industry Turnover



Source: FEMAC (2011)

²⁹⁴ FEMAC is the Cluster of Agricultural Machinery in Catalonia <http://www.femac.cat>.

The table above shows the exponential growth of public funding from 2007, with no corresponding rise in companies' turnover. In the words of the FEMAC managing director: "We are getting too much public help".²⁹⁵

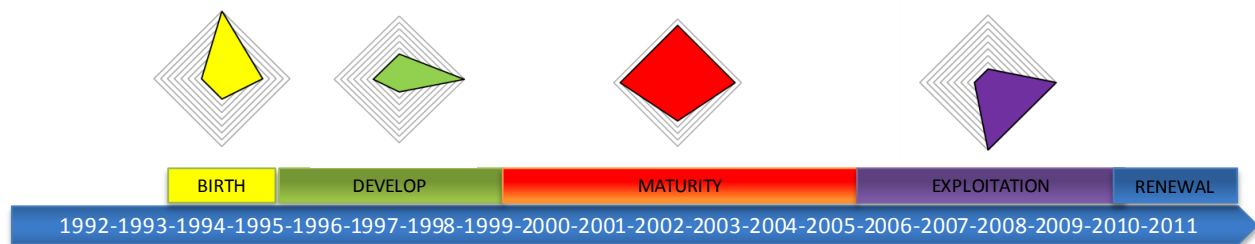
The Need for a New Business Model

On April 16, 2010, a group of entrepreneurs from the agricultural machinery sector got together for a Strategic Reflection seminar organized by ACCIÓ, the Catalan Competitiveness Agency. One of the speakers was Emiliano Duch, who had acted as facilitator 15 years before. In his presentation, he questioned the present business model of selling machines to developing countries, which have to compete with similar machines produced in China or in other low cost countries. After presenting several examples from Denmark, the audience was convinced that in order to survive, a change of their business models will be essential.

In addition, apart from selling complete solutions, FEMAC should also start addressing other clients' problems that are out of their traditional scope. On a recent mission to Morocco, they were asked not for machinery but for a government-to-government type collaboration in creating two new product lines for argan oil and dates.

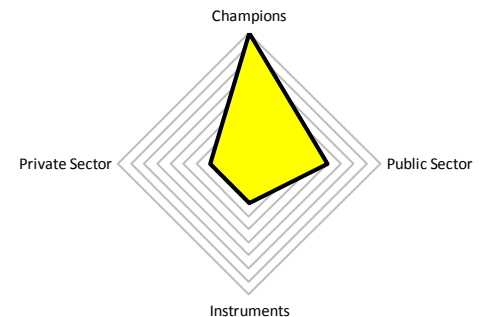
But did they have the right incentives and instruments to change? Enric Pedrós, FEMACs manager says: "The entire public funds received are really helping us to reinforce what we already do". Enric Pedrós is now asking himself whether FEMAC is really the suitable organization to lead that change.

D.1.1.2 The Public and Private Ownership in the Evolution of the Local PPD



- Birth

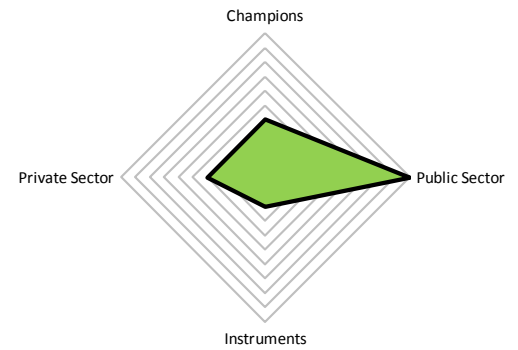
The Local PPD was initiated by Jaume Angerri, the General Director of Commerce under the supervision of Antoni Subirà, the Catalan Minister of Industry. Mr. Angerri used his local knowledge to launch a Local PPD in a rural area setting. The role of the private sector in the Birth was only indirect through personal connections of with Mr. Angerri.



²⁹⁵ Interview with Enric Pedrós, Manager at FEMAC.

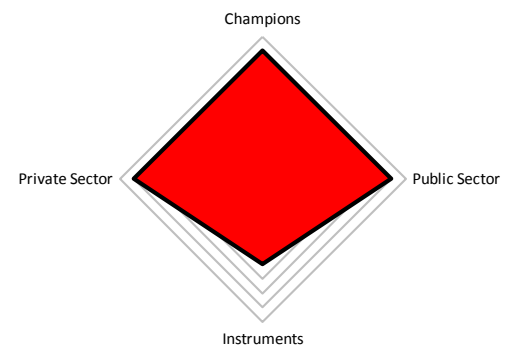
- Development

During the Development Phase, the facilitators played an important role. They engaged the private sector through a Competitiveness Reinforcement Initiative. The champion's role was transferred to Mr. Josep M^a Pradas, of Jympa. But during this phase, the weight of local and regional authorities remained preponderant. The instruments were limited to those provided by facilitators who were providing a series of workshops.



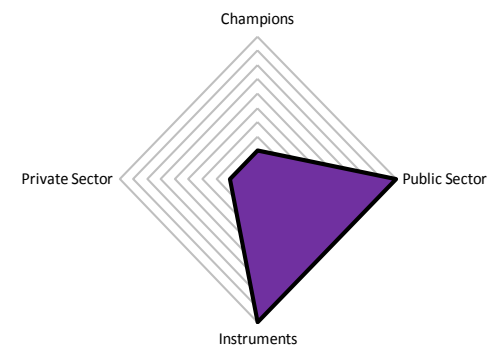
- Maturity

In the Maturity Phase, the private sector got deeply involved. In the public sector, the Catalan government was shifting leadership to the local and provincial governments. As for instruments, the Association of Agricultural Machinery Manufacturers and Exporters of Catalonia, FEMAC, was created. In its maturity, this Local PPD achieved a balanced equilibrium among the different stakeholders and instruments.



- Exploitation

A decade after its creation (in 2007), the local PPD did not transform itself from the inside, but entered a different phase, the Exploitation, in which the regional and national governments are happy to provide significant funding to the businesses. In addition, the role of champions has reduced, since the communication (on funds allocation) now exists between professionals and lower level public officials following the right bureaucratic procedure, without questioning the purpose and results of the funding.



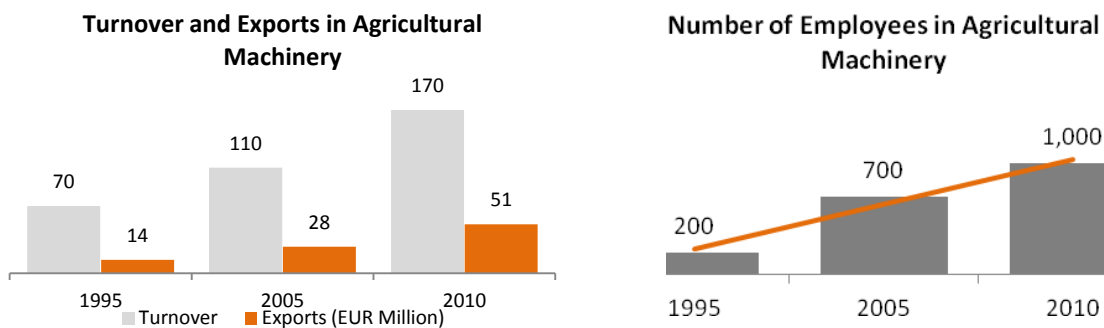
The Local PPD is stuck in this point as, in order to achieve Renewal, having a well-functioning and successful organization is not enough. The private sector needs to really move from providing products to providing whole solutions to the market, and the organization should actively support this strategic move. Should this not be the case, the Local PPD will stay at Exploitation. The change should not only come from the companies, but also from the public sector. They should start working with other departments from the Catalan Government, like Agriculture or Environment, instead of working only with the Industry department and ACC10,²⁹⁶ which are focused on selling products and promoting missions to sell those products abroad.

²⁹⁶ ACC10 is the Catalan Business Competitiveness Support Agency, <http://www.acc10.cat>.

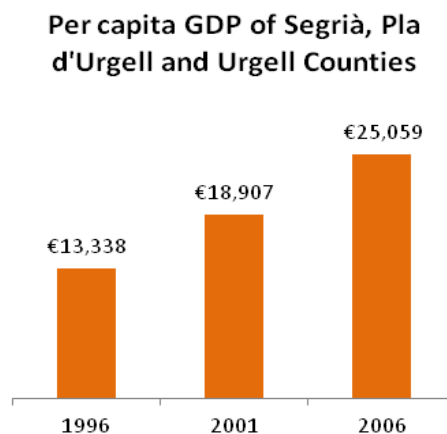
D.1.1.3 Overall Impact of the Local PPD on Competitiveness

As the figures below show, the industry total turnover, exports and number of employees have grown in parallel with GDP in the region. Thus, at first glance, it could be said that the impact of the Local PPD on the competitiveness of the industry has been positive, and it definitively was until 2007. It is after that period that the Return of Investment of the extra investment made by the public sector has not achieved the pay-off that the previous smaller amounts did.

Also, the change of the companies' business model is imminent as they continue selling traditional products to less developed countries, which qualifies as easy selling with no learning attached. The Governments, on the other hand, cater to this situation by increasing public funding for the industry and thereby sponsoring this old model. It is thus not clear yet among the stakeholders that both, the public and private sector are not working efficiently to achieve the shift of the strategic focus towards a more sophisticated clientele.



Source: Interviews, Map of local industrial production system in Catalonia



Source: Idescat: 1996 (base 1995), 2001-2006 (base 2000)

This case provides a strong message for future Local PPDs: having a successful organization that fosters public-private interaction is not enough to sustain competitiveness in the long run. For its part, the public sector is failing to ensure that funding is actually used to promote

change, which was the whole purpose of the initiation of the Local and SPPD in Catalonia (even the book published by the Government to describe its achievements in 1997 was titled “Strategic Change and Clusters in Catalonia”).

D.1.2 MOUNTAIN AREAS RURAL TOURISM DEVELOPMENT IN SOLSONÈS: Empowering the Local Entrepreneurs through Local PPD

D.1.2.1 Origins and Evolution of the Solsonès Initiative

Solsonès: Attempting to Develop a Rural Area

In the late 1990s, Solsonès was a rural and remote county with a small but diversified economy that included sectors such as timber, textiles, metal mechanics and tourism, the latter growing at a fast pace thanks to an improved ski resort at El Port del Comte. According to a local survey, 41% of the local businessmen saw tourism as the county’s most promising sector. Other attempts to develop the county had been made, attracting, between 1988 and 1992, 28 new companies and more than €50 million worth of investments.

El Call d’Oden Rural Tourism



Source: El Call, www.elcall.org

Setting the Stage for the Local PPD Process

In 1997, following the successful experience of the Catalan Government in carrying out Local PPD in very different sectors in Catalonia, the Minister of Industry Antoni Subirà and Jordi Conejos, General Director of the Industry Department, were thinking of using Local PPD for their territorial equilibrium policies for underdeveloped areas. These policies and initiatives were to be applied in rural mountain areas that were hard to access. The County of El Solsonès was chosen for the Local PPD “experiment”.

Solsonès was a priority in terms of implementing policies to attract companies and investment. The main incentives for companies to move there were cheap industrial land (an industrial park was built by the Regional Government), subsidies and tax breaks. In this context, local politicians were eager to present each investment as their own accomplishment and frequently requested the presence of the President of Catalonia to inaugurate them. However, this had created a feeling of dependency from Barcelona, in the sense that people thought that “good” economic development in Solsonès was always imported. In Solsonès, the entrepreneurial mood among local businesses was rather low and most of the young inhabitants ended up migrating to large cities with no return ticket.

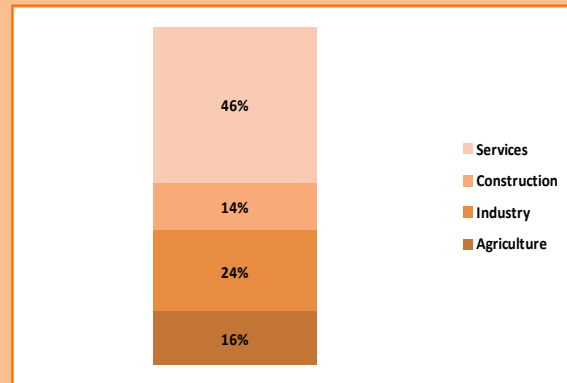
EL SOLSONÈS IN 1996

Location



Source: Cartographic Institute of Catalonia

Size: 1,001 sq km
Population (1996): 11,158
GDP per capita (1996): € 13,900
GDP Composition (1996)



Source: Idescat (1996)

The Catalan Government hired the same consulting firm who had been managing all other Local PPDs in Catalonia. The consultants immediately warned Government officials about the fact that the area did not have enough companies competing in a specific sector that would make the time and investment required to do a Local PPD worthwhile. In response to this, a multi-sector Local PPD initiative was launched at the local level to test whether groupings by sectors could eventually be formed.

Overcoming the Challenges for Private Sector Involvement

The key to development in Solsonès lay in the hands of a few local politicians who “knew the right resorts” that would attract the attention of companies. These politicians were seen by the Department of Industry as potential “false champions” that were most likely interested in taking over the control of the Local PPD initiative.

Thus, the challenge for the facilitators was to identify new suitable champions in a small geographical area that lacked sector specialization. They opted for a low-key approach: a consultant (not a local, but from the same province and with the same accent and introducing herself as a researcher conducting a study) started the Local PPD by identifying (and later interviewing) relevant local businesses (the pharmacist, entrepreneurs, some key farmers and others). Once a group of local stakeholders genuinely interested in their local development was selected, they were invited to a joint workshop. This group of people will later become the engine of the initiative.

It soon became obvious that the region was underestimating its own small but locally developed businesses: pig farm equipment producers, machinery producers for the automotive sector and locals attempting to convert farms into rural tourism sites. They were

largely unknown to the regional government, not to say unnoticed, and had never deserved the attention of the President when he came to inaugurate the new premises of imported companies.

Feeling the need for a more vigorous local leadership, these local entrepreneurs decided to become more self-sufficient, to work more collaboratively and to engage younger people. This idea was materialized with the creation of a new association called “Entrepreneurs for the Solsonès” (Empresaris pel Solsonès, <http://empresarisperalSolsonès.wordpress.com/>). As the name suggests, the idea was to shift the focus from “*what Solsonès can do for us*” to “*what we ourselves can do for Solsonès*”. The Association organized an annual entrepreneurship prize for the best local project, which included not only seed funds but also, and very importantly, coaching from another local entrepreneur. The regional government who had launched the initiative “leading from behind” encouraged them by facilitating small funds but more importantly, through recognition. The Minister or the President will go to award the local entrepreneurship prizes.

The Association unites local businesses on a multi-sector partnership basis, bringing together industrial, commercial, construction and services companies as well as businesses from the primary sector. Today, the Association lists over 120 companies and promotes the local economy by providing information, training and facilities to members, linking businesses in the county and acting as an interlocutor between businesses and the local government.

EMPRESARIS PER EL SOLSONÈS

Fifteen years later, the Association, created thanks to the Local PPD, reflects the spirit of local entrepreneurship for which it was created. The excerpts below from their web page are proof of this. And the short article below shows the latest of their initiatives—a prize for schoolchildren who write about what they want their county to be.

Website extract:

“Who We Are

Empresaris per al Solsonès has a commitment to its social and economic area of influence, understanding as a priority the progress of the territory that benefits the citizens and entities that live together and guarantees the future of the activities developed.

As regards the economic activities, Empresaris per al Solsonès is a multi-sector association that agglutinates industrial, services, construction and primary activities companies, as well as all kind of sizes of companies (small, medium and large). All fit in the association as they form the business context of the territory.

Empresaris per al Solsonès is a business organization with an associative base, with an assembly-regime and free membership. It represents the business context in its county scope. The association is independent and multi-sector.

This association was established in 1999 with 14 founder companies. Nowadays, we are made up of 130 companies.

Mission

Ensuring the economic, social and professional development of the business community in Solsonès, being dynamic and involving people, facilitating the interrelationship among companies, agents and public administrations.

Values

An association that stands out for its attitude, initiative, enthusiasm and optimism of all its members.”

Source: <http://empresarisperalsolsones.wordpress.com/>

Article extract:

“First Edition of the entrepreneurship prize organized by Empresaris per al Solsonès

Alba Pijoan accepting the research prize.

Empresaris per al Solsonès last Sunday awarded the prizes of the first edition of the Fira Sant Isidre Empresaris pel Solsonès prize, an entrepreneurship prize that was born due to the lack of any economic contest.



The prize was launched by the association Empresaris per al Solsonès pursuing the objective of collecting the vision from the young people in economic and county aspects. For this reason, this year the subject was “How do we see our county and how would we like this to be?”, in order to gather ideas and potential future projects, and

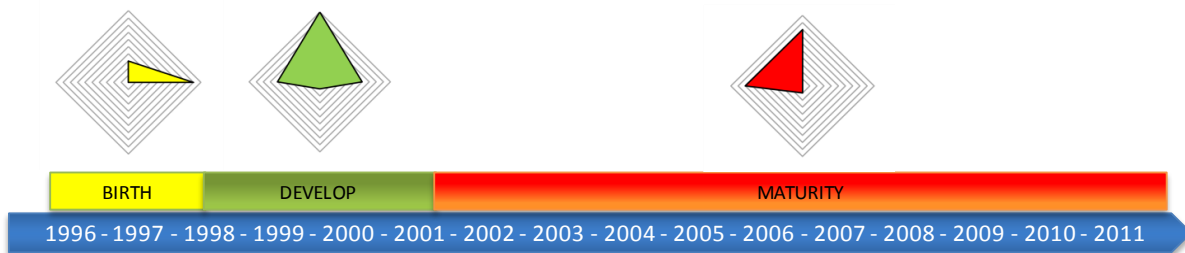
at the same time involving young people in that future, making them aware of the fact that in order to achieve an objective, it is necessary to design it, plan and work hard.

Prizes have been awarded today by the president of the county council Marià Chaure, the Mayor of Solsona, David Rodriguez, and the president of Lleida Province, Jaume Gilabert.

The contest was divided into different categories according to age: the youngest ones participating with drawings, the oldest with narrations, and finally, in the high school category, by presenting research studies.”

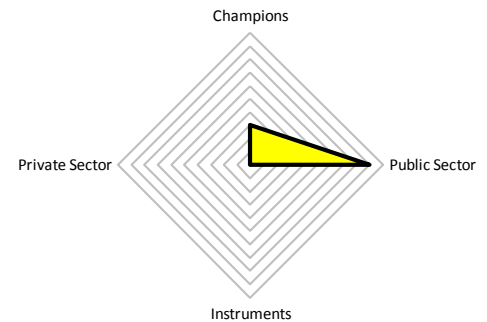
Source: <http://empresarisperalsolsones.wordpress.com/2011/05/>
 Photo: Ramon Estany

D.1.2.2 The Public and Private Ownership in the Evolution of the Local PPD



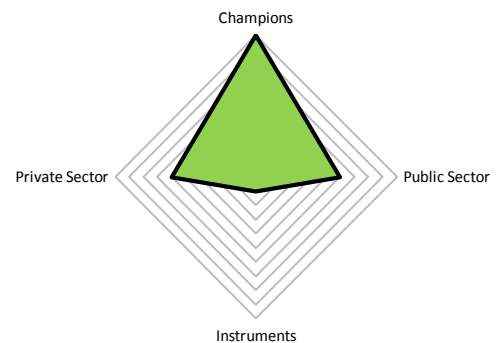
- Birth

The Birth of this Local PPD was almost surreptitious, driven only by the interest of the regional government and by the facilitators. Avoiding the wrong champions in this phase was critical.



- Development

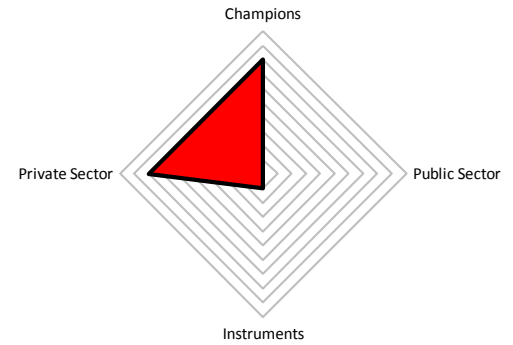
It was not until the Development Phase that the Local PPD came afloat. The participation of the private sector became more visible and it worked with a strong championship of the newly found local entrepreneurs who counterbalanced the lack of instruments. The private sector was led by Joan Moreno, who served as the president of the Entrepreneurs for the Solsonès association for many years.²⁹⁷



²⁹⁷ Joan Moreno has recently resigned to give room to younger entrepreneurs to take the leadership in the eventual renewal of the region.

- Maturity

In its maturity, the role of the government has faded and the Local PPD remains to this day a private sector initiative. Indeed, the leading role of the businesses with their strong commitment and leadership was the key ingredient that any Local PPD had been lacking.



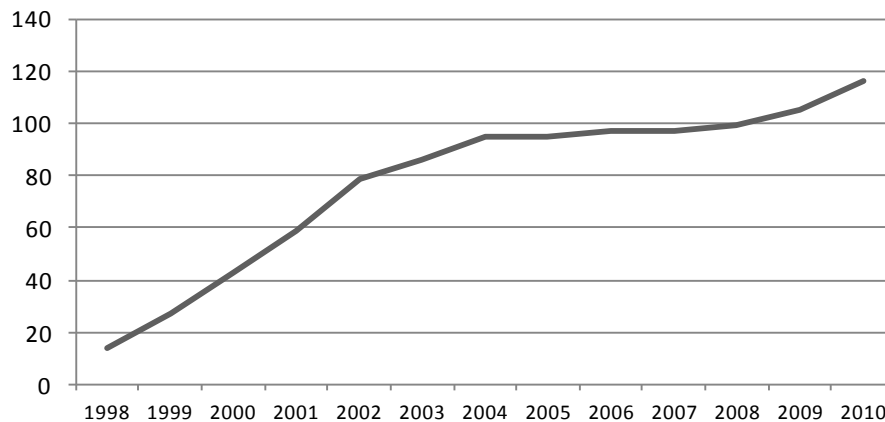
D.1.2.3 Overall Impact of the Local PPD on Competitiveness

The results may not be impressive in absolute numbers, but, according to Joan Moreno, the founder of Entrepreneurs for the Solsonès, “they are extremely significant for the people of Solsonès”. He stated that the initiative created a different dialogue and that local politicians, having observed the tendency, decided to become more active and to align their support activities around that dialogue. As Moreno noted:

“Now, entrepreneurs feel that they are being listened to; they consider themselves part of the dialogue at the local and even at the national level.”²⁹⁸

On top of this, the number of companies associated has grown from less than 20 to almost 120 in 12 years, as shown below.

Evolution of the Number of Associates of Empresari pel Solsonès

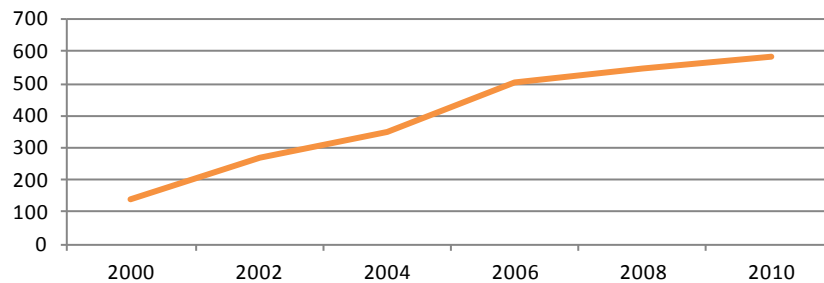


Source: Business Association Empresaris pel Solsonès (2011)

²⁹⁸ Quote of Joan Moreno, Former president of the Association Empresaris per al Solsonès, during his interview in July 2011.

The results in one of the sectors, which looked more promising, namely rural tourism, have proven to be true. The chart below demonstrates that there was a positive impact on the county of Solsonès as the number of beds available in the county grew considerably and multiplied by a factor of almost 6 in just 10 years.

Evolution of the Number of Rural Tourism Beds in Solsonès

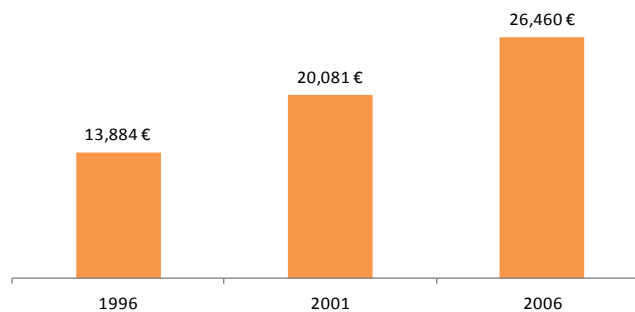


Source: Idescat²⁹⁹ (2011)

Additionally, there are success stories that have motivated the rest: Josep Call, at that time a small farmer starting his rural tourism project, has now invested in a second farm because the capacity of his facilities could not serve the growing number of tourists (www.elcall.org). Mr. Call, like many other local businessmen, is participating in the regional and even national level rural tourism discussions.

Finally, while there is no data on the correlation of per capita GDP growth with the Local PPD processes, it is worth mentioning that the Solsonès County's GDP per capita more than doubled since multi-sector PPD initiatives were launched in 1997, as shown below.

Solsonès County - GDP per capita



Source: Idescat: 1996 (base 1995), 2001-2006 (base 2000)

As a conclusion, this case is a success story, in which the previously ignored private sector became directly empowered without the need of creating new bureaucratic structures (only a simple association was created). Keeping a low profile at the beginning of the Local PPD initiative was crucial in breaking the negative status quo affecting Solsonès, namely the fact that everything that got done was top-down driven. The success in this case builds, on the

²⁹⁹ Official Statistics website of Catalonia, 2011. <http://www.idescat.cat/>

one hand, on the ability of the facilitator to promote new Local PPD champions (in this case, the private sector), and, on the other hand, on the latent competitive dynamism that those excluded entrepreneurs demonstrated when they were given a chance.

D.1.3 Learning from Local PPD Implementation in Rural Areas of Catalonia

The Champions

In the Birth Phase in Lleida the champion was Jaume Angerri, a member of Minister Subirà's team in the Catalan Government, who wanted to develop a PPD in his native town. In Solsonès, however, as the facilitators have rightly identified, the decision to avoid using the pre-existing champions in the Birth Phase of the Local PPD and to start without them was a good strategy. This allowed the identification of more suitable champions in the Development Phase.

Once the Local PPD was started in Lleida, the champion role changed to Jose M^a Pradas, the owner of one of the companies involved in the dialogue. He kept the role of the champion in the Maturity Phase. Afterwards, the role of the champion was reduced as the Exploitation Phase started. In relation to the latest developments in Solsonès, it is also interesting to observe the voluntary nature of the transition of championship from older to younger generations, which possess more innovation potential.

The Facilitators

Both in Lleida and Solsonès, once the Local PPD was launched, the Catalan Government hired a consulting firm who acted as a facilitator. In fact, hiring a consultant from the Province was really relevant for the success of the Local PPD. It generated more trust among the participants and the communication was clear and open when interviewing local stakeholders and inquiring about their challenges and perceptions of the Government's actions in both rural areas.

Sector-Specific Scope

The Local PPD in Lleida had a sector-specific scope defined by the consulting firm. This allowed the definition of different actions to be done by business segment. In Solsonès, though, it was clear from the start that achieving a critical mass in any sector was unlikely. However, the multi-sector approach allowed for a continuous highlighting of rural tourism and its benefits for many farms in the area. Eventually, this sub-sector gained prominence and became a clear area of development.

In the case of Lleida, once the Local PPD reached the Maturity Phase, led by the FEMAC association, it lost its focus and attended anything that was demanded by an increasing number of associated companies coming from all sorts of business segments.

International Links and References

A benchmarking trip for the Lleida Local PPD was organized in the Development Phase, when the consulting firm was acting as a facilitator. The trip took a few Local PPD representatives to Italy to observe some advanced examples on the theme.

However, during the Maturity and Exploitation Phase they have only been doing export missions to sell their products to less advanced countries. These missions did not bring any learning to companies. On the contrary, an international, sophisticated market would have brought companies the possibility to learn, innovate and access niche market opportunities worldwide. But, since the targeted markets were not advanced enough, the opportunity for innovation was lost.

In Solsonès, no international link and references were observed in the Local PPD, which is a result of the highly localized focus of facilitators and champions.

Outputs: Action Lines and Recommendations

The action lines and recommendations of the Local PPD in Lleida had a strategic orientation and therefore aimed at a long-term and sustainable development of the companies and institutions involved. As the years passed, those strategic actions were left behind and were replaced by more operational outputs based on selling current products instead of revising and, as the case may be, changing their business model. This put the region's competitiveness levels in jeopardy.

In Solsonès, however, outputs were very simple but effective: a business association and an entrepreneurship prize. These spurred further entrepreneurship and forged local social capital.

Outreach and Communication

In both rural cases, the communication has been done properly. In the case of Solsonès, it is important to highlight again that the Birth Phase appeared almost secretive and mysterious for the wider public. It was only in the Maturity Phase that strong communication and outreach to all of the local community took place.

The Structure and Participation

In the Development Phase in Solsonès, there was no structure and a limited participation of stakeholders, however, over time the private sector's attitude and participation improved. The structure remained very loose until the Maturity Phase, when it only had one person operating in borrowed offices, which were accessible to all. Whereas in Lleida, the structure kept growing as the number of members participating in the association was increasing. Currently, a total of 60 "partners" are members of the Agricultural machinery cluster in Catalonia, including manufacturers, research centers, suppliers, engineers, specialist consultants, fair organizations, universities, and local Government and national SME support agencies.

The Mandate and Institutional Alignment of the Local PPD Stakeholders

The alignment of the government in Solsonès took place only after the entrepreneurs had come together and started implementing actions. They became followers of the private sector's initiative.

In Lleida, however, the original idea of the Catalan Government, and especially Jaume Angerri, who had the interest to start the Local PPD, was positively valued. In any case, the Government continued to fund export missions worldwide and to participate in the international fairs held by the Industry department (ACC1Ó). Businessmen kept doing the same and selling the same products without thinking of moving to more sustainable businesses. The lack of involvement of other departments from the Catalan Government, such as Agriculture or Environment, limited the re-thinking process.

Involvement at Sub-national and Local Levels

Initially the Local PPD in Lleida started in the province, but promptly they figured out that in order to have all of the value chain represented, other areas from Catalonia should be involved in the dialogue. Whereas in Solsonès, this was a case in which the local level had captured the dialogue by suppressing it, and the regional government had to step in to reconnect. Once the involvement was reestablished, all levels were included by participating in the support of the Association.

Conflict Recovery Capabilities of the Local PPD

The launch of the PPD in Solsonès was intended to solve an existing conflict and guarantee the transparency and genuine involvement of the government action in the county.

The PPD in Lleida, as it was planned, had its limitations: it was designed to improve their current strategy, which was to sell existing products in less developed markets. The limitation was that it was designed to address deeper issues that would have implied changing their business model.

Role of Development Partners

On the one hand, in the case of Lleida, the insistence of Jaume Angerri and the Catalan Government to start the Local PPD should be noted, as this may have directly triggered the start of the initiative. On the other hand, the PPD ended up not emphasizing the most suitable direction. The Catalan Government subsidizes a session of strategic thinking amongst the local companies and institutions once a year to foster the idea of changing their business model. This does not have an effect as the government continues giving a huge amount of money to companies so that they can continue taking part in the same fairs in non-advanced markets.

In the case of Solsonès, the role of the government (=development partners) was critical in starting the Local PPD. Over time, their role naturally declined and today they support it through instruments such as funding for the Association.

Monitoring and Evaluation

No evidence of monitoring and evaluation is available in the case of Solsonès. In Lleida, however, the effectiveness of the initiative is measured incorrectly. It is based on the organization's capacity to effectively manage and spend project funds and not on how its work impacts the sector and each individual business segment. This was a wrong approach.

D.2 TWO CASES IN SMALL-MEDIUM TOWNS (CERAMICS, LEATHER TANNING)

Small and medium towns are particularly important in local economic development efforts, since they offer the minimum size to develop traded manufacturing industries, selling their products and services outside, even exporting them.

This broader market scope allows the local population to specialize in certain industries, accumulating knowledge and increasing their productivity and prosperity, thus anchoring in these territories a skilled population that otherwise would migrate to the large metropolitan areas in search of better-paid jobs.

This effect was thoroughly developed by Becattini back in the 1970s, in his studies on the light industrialization in Tuscany. Another important characteristic of these Industrial Districts was the "embeddedness" of industry and society, since it was really a community that specialized in one industry, so it was impossible to disassociate the industry from the community, or vice versa.

The Local PPD is natural in these cases; the entrepreneurs are at the same time the local leaders in society and in politics. The line between public and private is blurred. In the absence of a strong public side, sometimes the private provides services (schools, medical services, etc.) or the other way around, the public sector builds specialized infrastructure for that industry.

So, if small-medium towns are ideal places for Local PPD, why select the examples of La Bisbal and Igualada? Both of them have their origins in centuries-old handicraft industries that are embedded in the towns. In Catalonia, La Bisbal is synonymous in people's minds with ceramics and Igualada with leather tanning. Their communities have for centuries kept this Local PPD going, until some external factors have altered them. In the case of Igualada the external effect was an intromission by the Catalan Environmental Agency that wanted to apply European Union regulations locally. In the case of La Bisbal, the entrance of the third party in the Local PPD was subtler; it was the regional Government that sought to "protect" artisans and stepped in to do so.

D.2.1 CERAMICS IN LA BISBAL: Redefining dialogue with artisans

D.2.1.1 Origins and Evolution of the La Bisbal Ceramics Initiative

Understanding the Ceramics Sector in La Bisbal



La Bisbal is a small-medium town of ten thousand inhabitants, in the county of El Baix Empordà, a province in Girona in the northeast of Catalonia. El Baix Empordà has traditionally sited important ceramic towns. Besides the cultural value, the sector was an important part of the local economy and its importance grew significantly over time, providing jobs and livelihoods to the locals.

Over time, pottery production became increasingly sophisticated. More recently, in the 1960s and 1970s, the production of ornamented plates and jars flourished thanks to the tourism boom in the nearby Costa Brava.

In the 1990s, the sector comprised ceramic manufacturers, ceramic shops, raw material suppliers, machinery suppliers, the ceramic school and handicraft center, different ceramics and artisans associations, the ceramic fair and the ceramic museum in La Bisbal.

More than 70 companies were dedicated to the production of clay derivatives. Their products were very diverse and included building materials, garden objects and ceramic objects for food packaging, decoration and household goods.

An Experiment towards a Less Paternalistic Approach

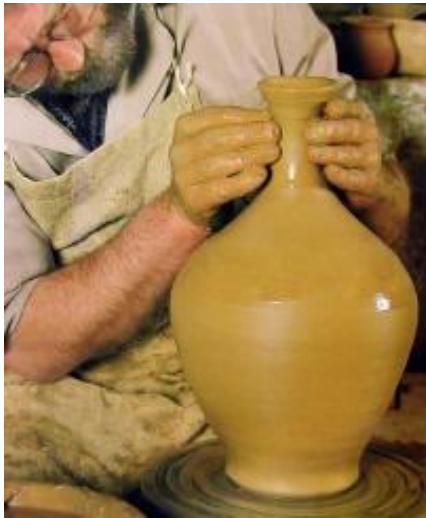
The Local PPD started in 1996. After three years of using PPD through Competitiveness Reinforcement Initiatives to help different industrial clusters located throughout Catalonia, the Department of Industry, Trade and Tourism, under the leadership of Minister Antoni Subirà, decided to use these methodologies to address one of the problematic areas of his department, the Handicrafts Support Center (Centre Català d'Artesania) dedicated to the promotion and support of artisans.

Artisans had been for centuries the quintessential entrepreneurs, starting to develop products with their own hands and selling them, without any government intervention at all. But since the industrialization of Spain in the 1960s, the central government had seen in them a fertile ground and an opportunity for a more balanced support for smaller businesses vis-à-vis the traditionally supported big companies. Having observed this situation in whole Catalonia, the new government's main concern was that artisans had for long been perceived and treated as "limited entrepreneurs" in the sense that they produced what they liked without considering

the actual market needs. Moreover, they repeatedly asked for government support in case their sales went down as a result. The government responded always with paternalistic support in the form of subsidies for trade fairs. The regional government even opened and managed a large store in the main commercial street of Barcelona to try to sell the artisans' products.

Minister Subirà and the Director General of Industry, Jordi Conejos, believed that this was a wrong approach and sought to change the dialogue with the private sector. However, the first challenge was to change the perceptions of their own staff, all brought up under the paternalistic view towards artisans.

The identification of a place where such pilot effort could have been directed was not difficult. La Bisbal, a city in the Baix Empordà County, near the Costa Brava, boasted with a long tradition in ceramics. Not only was the potter the more symbolic craftsman, but also La Bisbal, with more than 50 ceramic shops in its main street and a similar number of artisans, was the perfect place for the challenge.



Josep Mestres, a potter that championed the Local PPD

Source: Terissa - Ceramica,
<http://www.ceramicamestres.com/>

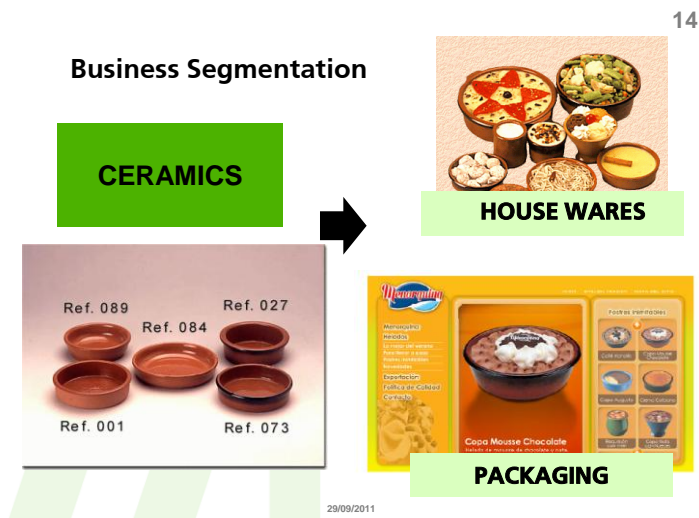
The Department of Industry, Trade and Tourism commissioned the initiative to the same facilitator that had been handling the previous initiatives, the local economic development firm Cluster Competitiveness, warning them that this case was going to be “different.” Both, the public and the private sectors were going to be very far from the discussion on competitiveness as opposed to the discussion about industrial companies at that time (Spain was starting to feel the pain of the integration into the single European market, with increasing imports of higher quality products coming from European competitors and cheaper products from the Far East). The Catalan government was also eager to learn how to adapt its support programs to ensure that they upgraded the sector, avoiding the status quo.

Strategic Segmentation: New Challenges Untapped

Previous Local PPD efforts in ceramics were not very successful because they addressed all ceramic producers from the province of Girona. Included were the group from La Bisbal and another group in Breda, both of which manufactured rather industrial type of products, such as clay dishes used as containers for *artisan-look* ice-cream by large multinationals. These different groups were brought to one table, however, the challenges they faced varied.

Despite being aware of the pitfalls of choosing a wide scope approach, this Local PPD was carried out again at the provincial level in order to prevent a situation where the people in Breda would have felt excluded and complained. Hence, in order to be successful, the process had to start with a clear differentiation of the various business segments in ceramics. The

task of the facilitators was to show to the stakeholders that even if their products looked alike, the segments they competed in varied.



Source: The Cluster Competitiveness Group, El Microcluster de les comarques del sud de Girona - La Bisbal, Breda i Quart, 1996.

For example, the challenges and needs of those competing or wanting to compete in food packaging (such as providing ceramic ware for ice creams or frozen desserts) and in houseware or tourism (making souvenirs from the region) were radically different. Each involved different operations, purchasers, distribution channels, buyer requirements and substitute products. As a result, different capabilities were necessitated in order to become and remain successful.

The first challenge for the initiative was to introduce the concept of market demand. The facilitator's strategy was to present the industry's challenges and strategic options. The next step was to convince private representatives that the main problems they were facing had nothing to do with the claimed fiscal pressure, unfair competition or environmental or employment inspections, but rather with issues related product design, operations and sales efficiency.

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International benchmark examples, including experiences from Italy, were presented to the companies and eventually facilitated the change of stakeholders' views. In particular, two clusters in Italy were compared. The first was the Faenza (Emilia-Romagna) traditional ceramics cluster, which had been protected by the regional and national governments and had been given all kinds of support and infrastructure (a National Research Center, a Ceramic Park, two Universities and a Museum) but was nevertheless lagging in growth, profits and exports. The second case was the Nove (Veneto) cluster. This was growing faster despite involving only a vocational school. The main difference between the two was that Faenza continued making traditional ceramic pieces, while Nove "copied fast" what the market was demanding. After the presentation, the point of market orientation was made.

Another simple but a powerful demonstration of the power of market-driven design was made by asking the La Bisbal artisans to make a vase copied from an IKEA catalog. At that time, they all hesitated that it was dull and "not artistic," but the results were surprisingly good and artisans could not believe that customers bought these imitation despite storing them in the back of their shops.

The Local PPD Development Phase, therefore, allowed for a successful transition from a traditional view of handicrafts to a market-driven craft sector in the region.

Implementing Changes through Strategic Lens

As a result of the new Local PPD, a number of specific actions were put in place. The most interesting ones were those related to ceramics and tourism, as they provided strong lessons for the Catalan government and its artisan and tourism support programs.



The School of Ceramics in La Bisbal

Source: <http://www.esceramicbisbal.net/>

For instance, the curricula and focus of a local Ceramics School was revised, incorporating design and marketing courses for artisans (as opposed to merely teaching how to mold the clay). Residential courses

started to be offered for tourists visiting the region, opening a new interest in the traditional craft of pottery.

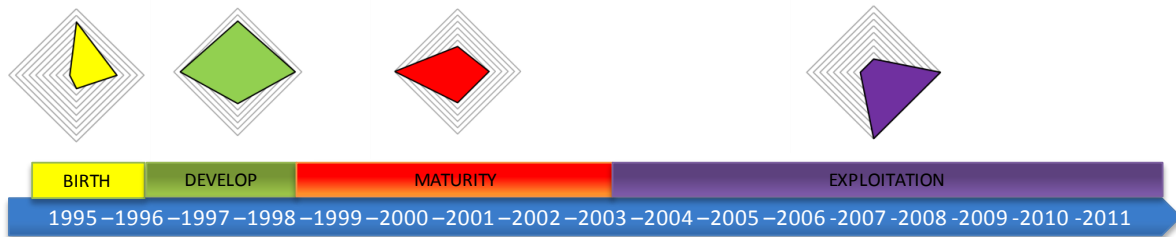
The government's handicraft shop in the center of Barcelona, the Centre Català de Artesania, was put under the management of a recognized private retailer of design goods. Therefore, independent professionals who followed markets demands were then those who made the decision on which products to produce and expose. It was no longer a government employees' decision subject to pressure from traditional artisans and their local authorities.

In addition, given the strong link between the handicrafts segment with tourism, the Catalan Government reformed one of its government buildings in downtown Barcelona to transform it into a regional tourist office, which promoted craftsmen by encouraging tourists to travel to interior routes in Catalonia. Five of these routes included La Bisbal and were detailed (with GPS directions) to ensure the maximum number of tourists reached the area and purchased the ceramic crafts.

One of the most important lessons of this initiative was learned by the government who evolved from a paternalistic supporter to an actor defining a set of policies to encourage them to grow and become real entrepreneurs targeting markets and designing products according to their strategic requirements. This entailed leaving aside folkloric considerations about what was *typical* or not from that area. This was, indeed, not an easy shift also internally as it required the change of the top management in the handicraft support center.

Now, more than ten years later, a valuable "legacy" of the sector's transformation is Josep Mestres, a small potter depicted in the initial photo of this section. He is one of the private sector representatives who championed the initiative once the government began fading out. This relentless entrepreneur evolved from a traditional maker of cooking clay pots for Catalan recipes to a producer of "Moroccan-style tahine" ceramic trays selling to international clients located as far as in New Zealand.

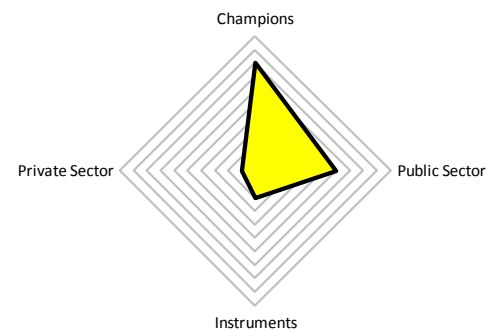
D.2.1.2 The Public and Private Ownership in the Evolution of the Local PPD



This initiative was born from an imbalanced Local PPD, not only because it was mainly driven by the Catalan Government who sought to address the weakness and the lack of clarity in its policies, but also because the traditional dialogue with the artisans resembled more a father to child dialogue instead of an equal partnership. The government saw itself as a preserver of the folkloric and “cultural” values of the artisans. The artisans behaved like “spoiled kids” asking for subsidies and protections (while at the same time in many cases not even fulfilling their fiscal obligations) instead of being told that in the new European single market everybody needed to be competitive.

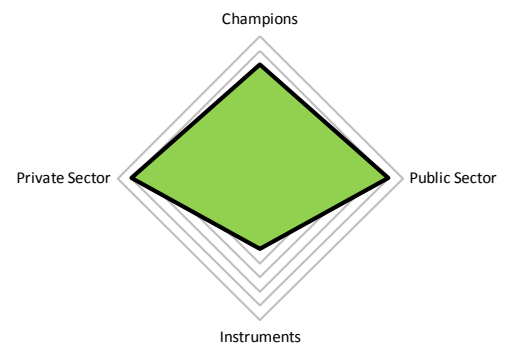
- Birth

An important defect in the Birth was that the strong leadership from the public sector, which had launched the Local PPD to redefine the relationship with artisans, was directed towards private sector groups lacking the capability to organize themselves. The initiative was born with an extremely uneven diamond. Minister Subirà and Director Conejos assumed the championship, but the commitment of the public sector’s lower echelons, which did not see the initiative in line with their previous work, was rather forced.



- Development

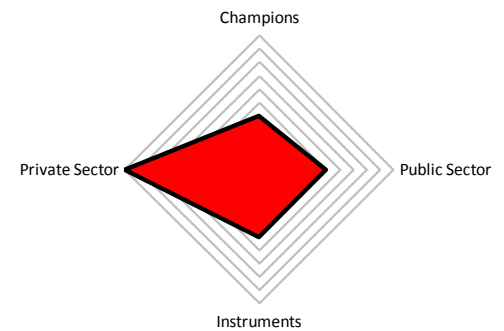
In fact, the Development Phase required much more effort from the consultants working as facilitators than other initiatives in industrial sectors. Finding champions from the private sector was difficult and aligning the lower echelons of the government even more. But at the end of this phase, a more balanced relationship between public and private sector was achieved, with more than 20 companies involved actively in the dialogue, participating in workshops and attending strategy seminars. This phase, which in most other cases lasted less than a year, had to be extended by almost a full second year through a series of “management seminars”, in which the facilitators remained involved (to the point that one of the facilitators even took the



residential ceramics course in the revamped school).

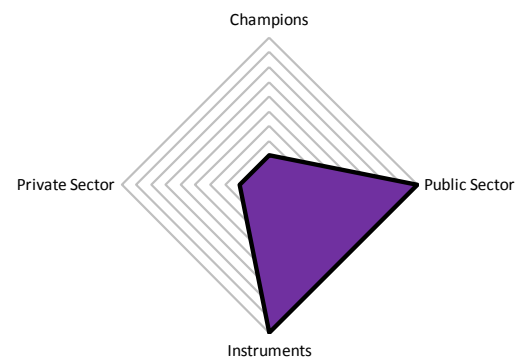
- Maturity

The Maturity Phase was reached when the "artisan" dialogue changed into a standard dialogue between the government and companies, in which artisans were considered entrepreneurs equal to any other business in Catalonia. The weight of the public sector and its leadership was reduced, in part because it considered its mission accomplished, while the private sector developed a higher sense of self-sufficiency that paved the way to a more equal relationship with the public sector. In a way, it experienced a real "emancipation".



- Exploitation

Unfortunately, the change of the government in 2004, formed by a coalition of socialist and pro-independence parties, resulted in a more protective attitude towards the arts and culture and reversed the dialogue with artisans to the previous paternalistic view. A new store was opened again, now in a trendy area in Barcelona's old town and was operated and managed again directly by the government and at high costs. The focus was no longer on the market. The actual clients were artisans whose reward was a spot in the store. Thus, the dialogue with the artisan sector, instead of completing its transformation to a normal dialogue, was captured again by the public sector and entered an Exploitation Phase. Here, the public sector capitalizes on the political benefits of being "nice" to the artisans who in turn respond with acquiescence and political support.

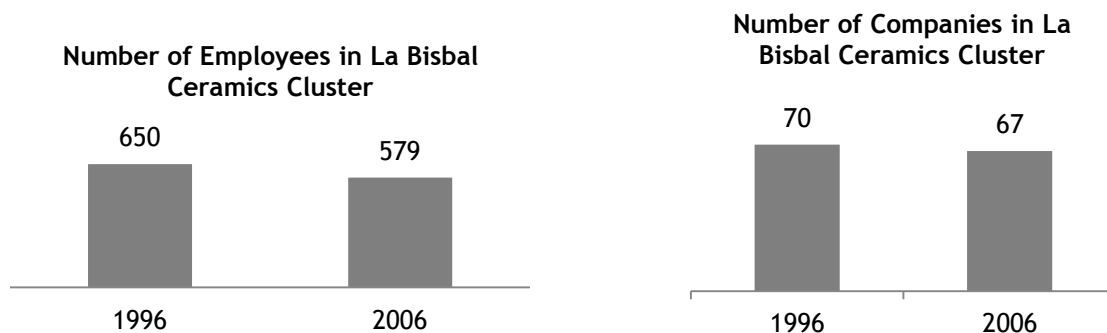


D.2.1.3 Overall Impact of the Local PPD on Competitiveness

Prior to Spain's integration to the Single European Market in 1992, the artisans from La Bisbal had already felt the effects of lower cost competition, first from other areas of Spain, and later from imports coming from China.

This Local PPD allowed them to think about their target markets, namely, tourists visiting the Costa Brava, locals looking to attract New Zealanders who prefer a "Moroccan-style" tray for their couscous. The truth is that most of those artisans are still there and are in some cases already passing the baton to the next generation. As demonstrated in the figures below, the

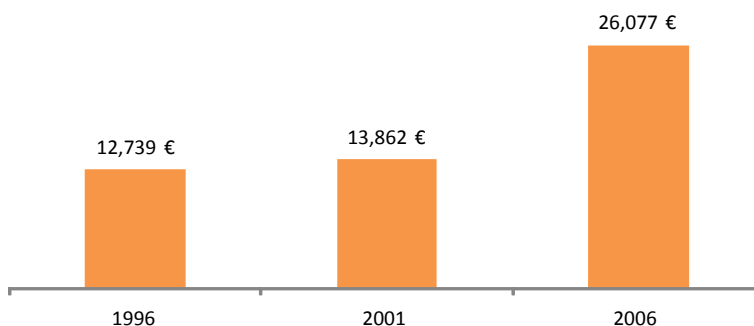
crafts industry in the region has remained stable in terms of number of employees and companies.³⁰⁰



Source: Interviews (2011), Map of local industrial Production system in Catalonia (2005)

Source: Interviews (2011), Map of local industrial Production system in Catalonia (2005)

La Bisbal d' Empordà Municipality GDP per capita



Source: Idescat: 1996 (base 1995), 2001-2006 (base 2000)

All in all, it is difficult to say if the survival of those artisans was due to this initiative. According to them, however, the initiative opened a healthier dialogue with the public sector.

In conclusion, what lies at the heart of this Local PPD is the willingness of the government to break with the past and start treating the local artisans as real entrepreneurs. The government was able to engage the artisans in a market-led dialogue and to actively redefine its support policies towards this sector. At that time, everyone would have said that the paternalistic approach was over. However, in a matter of months, the new government decided to go back to square one and start to spoil (protect) artisans again. Although this Local PPD has important success stories, the new government's backlash clearly showed that **past paternalistic structures had not quite been broken yet.**

³⁰⁰ The website of the Association (now organized by business segments) has a list of 20 companies that are still competing in this market. <http://www.ceramicadelabisbal.info/associats.htm>.

D.2.2 LEATHER TANNING IN IGUALADA: Evolving from Cinderella to Luxury Industry

D.2.2.1 Origins and Evolution of the Local PPD

A traditional Sector in Decline

In the 1990s, most of Catalan bovine leather tanning companies were concentrated in the municipality of Igualada, in the county of Anoia located close to Barcelona. The industry's roots date back to the 15th century, when Catalan peasants started to form small tanning workshops to earn their living. In the following centuries, the tanners continuously moved beyond the city walls to the banks of the River Anoia, where the industry remained until the present.



In the early 1990s, the central nucleus of this industry consisted of about 50 firms located very close to each other following the pattern in previous centuries (see figures below). Most of the firms were small, employing 25 employees per firm on average and 1,000 in total. All firms were private and exports were very limited. One of the largest companies was Vivapel, S.A. (110 employees and US\$10.4 million in sales), which accounted for 50% of total exports in the subsector. Other major actors were Vidal Bosch, Fontanelles y Marti and Miret y Cia.

The Local PPD originated in early 1993, when a delegation of major Catalan leather tanners led by Francesc Fontanelles, a high-profile local political and social figure who was also the Tanners Guild Chairman, met with Antoni Subirà, the Minister of

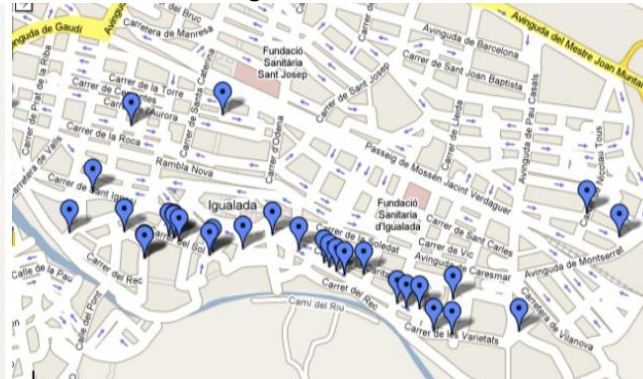
Industry of Catalonia. The encounter occurred due to the worrying situation of the leather companies, which, in light of the newest European standards, were required to adjust their production processes to achieve significant pollution reductions. This implied extra costs and posed a threat to those businesses' competitiveness unless production was transferred to cheaper countries.

Map of the tanning industry in Igualada in the 18th century



Source: J. Nadal, Atlas de la Industrialización en España 1750-2000, Barcelona, 2003

Location of the tanning firms in Igualada in 2010



Source: Hernández, J.M, Clusters i Competitivitat: el cas de Catalunya (1993-2010)

Companies requested subsidies and protection in order to comply with the new regulations, to which other European countries, such as Italy, were already adhering. However, their challenges extended beyond the renewal of environmentally obsolete production processes, while at the same time more competition from producers in developing countries that were not subject to such demanding environmental standards was emerging. In this context, the government had to decide whether or not to support the development of an increasingly unattractive (less competitive) industry. On the other hand, the government officials were reluctant to remain passive and allow the disappearance of an industry that had a more than five centuries long tradition in Catalonia.

Private Sector Cooperation towards Common Strategic Challenges

In response to this situation, the Department of Industry of the Catalan Government, led by Minister Subirà, decided not to consider the subsidy request. However, the government was willing to put forward different measures to upgrade the industry. Minister Subirà, who assumed the leadership at that time, commissioned a new local firm specialized in PPD at sector-specific level, Cluster Competitiveness, to propose a new strategic vision and to help local businesses address and capitalize on the upcoming strategic challenges.

The facilitators were able to identify new strategic segments, some of which were more attractive for tanneries to compete in. They also organized a reference trip to Arzignano to study the development of the industry, in particular the specialization process of Italian factories located there.

With regards to the new environmental challenges, the Tanners Guild believed that a new **wastewater treatment plant** would help the industry face the challenges of regulation compliance by reducing the cost of water and waste treatment. After several years of subsequent dialogue between the industry and the government, the plan for a new plant was launched in the 1990s. The new wastewater treatment plant mixed all the wastewater coming from tanneries with urban wastewater, which then underwent biological treatment. The process made the waste levels acceptable and helped businesses fulfill environmental

requirements. This project also entailed a full transfer of water treatment responsibility from the city to the industry.

The plant, fully funded by private companies, was a successful example of private sector cooperation aimed to solve common environmental problems affecting their competitiveness. Its final cost was of € 11.5 million, one quarter of which was financed through a bank loan by *Banco Popular Español*³⁰¹ and the *Institut Català de Finances* (the Catalan Investment Institute).³⁰² Only after the plant was officially opened in 2005, the remaining balance was proportionally paid by the businesses according to the amount and quality of the water that each tanner poured into the drainpipe.

The Local Government of Igualada supported this private sector initiative by both, handing over lands for construction purposes and by reclassifying lands, which, in turn, allowed the industry to acquire construction land more easily. It also adjusted a municipal ordinance, which adapted the current legislation of water dumps to the wastewater plant. In addition, the Catalan Government signed a contract with the Tanners Guild that prevented the government from sanctioning businesses until the wastewater treatment plant was completed. The Tanners Guild in turn presented a gradual decontamination plan, in which it committed to reduce, among others, the solid waste, hair and fiber releases and the recirculation of trivalent chrome.

The linkages between industry and research were also significantly strengthened, thereby benefiting the tanners. The Tanners Guild collaborated with AIIICA, a research center for the tanning industry, in determining the technical parameters of the wastewater plant. The guild also helped the center introduce a more strategic focus and thereby better anticipate the future industry needs.

Collecting the Results of a Successful Local PPD

Since 2005, the tanners from Igualada have made a successful transition from traditional producers of shoe soles to producers of high-quality leather for high-end clients. Several key factors motivated and facilitated this process. First, there was a need to respond to the competitive pressure from Far East tanners. Second, the growth of the luxury markets in China, India, Russia, Brazil and the Arab countries all provided for a greater world market for high-end products. Third, Igualada had a local supply of high-quality leather. Finally, the construction of the new water treatment plant that helped firms optimize the amount of chemical products used also reduced their production costs and redirected resources to new areas of business. By 2011, the number of tanneries in Igualada declined slightly. However, both production and annual turnover increased. Today, these companies are selling to high-end clients such as Louis Vuitton, Versace and Hermes. Most businesses are family-owned and some of them exclusively focus on exports.

Equally important in the process of developing this new business model was also the fact that local companies developed a strong relationship based on trust and common strategic

³⁰¹ Banco Popular Español is the third largest banking group in Spain and it was founded in 1926. <http://www.bancopopular.es>.

³⁰² The Catalan Investment Institute is a public entity of the Catalan Government which objective is financing the Private sector in collaboration with other private financial entities and in this way contributing in the Catalan economy. <http://www20.gencat.cat/portal/site/finempresa>.

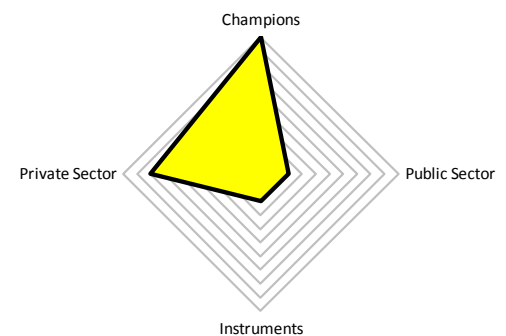
interests (the wastewater treatment plant). This new trust relationship was probably the most remarkable success factor for the Local PPD carried out in Igualada.

D.2.2.2 The Public and Private Ownership in the Evolution of the Local PPD



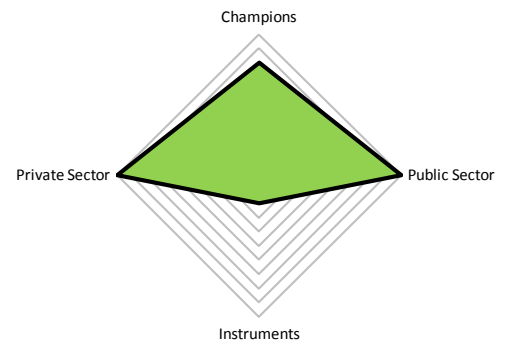
- Birth

During the Birth Phase, the private sector initiated the dialogue by asking for public subsidies. The tanner companies were led by Francesc Fontanelles (the champion), a well-known local leader, the President of the Tanners Guild, of the Cultural Athenaeum, the Hockey club as well as of the local branch of the governing political party.



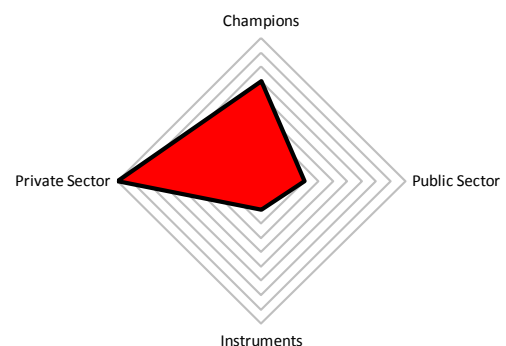
- Development

The public sector got heavily involved in the Development Phase and Minister Subirà shared the leadership with Francesc Fontanelles (joint public and private leadership). As for instruments, these were still rather scarce due to uncertainty about the type and extent of instruments that were needed.



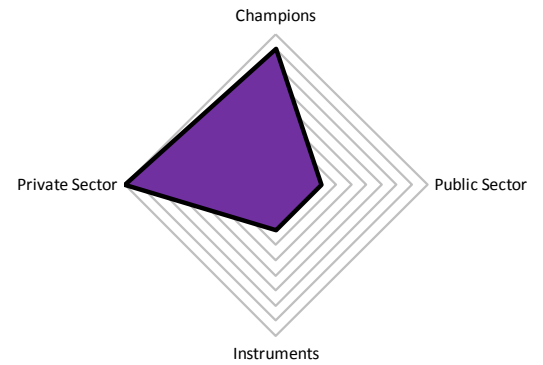
- Maturity

The Maturity Phase was clearly driven by a strong private sector, which was very determined to achieve results, while the public sector was concerned with pollution levels controls without actually backstopping the dialogue's progress (such as by providing financial support to limit waste produced by businesses or to support the initiative). The championship transferred from Francesc Fontanelles to Miquel Vila, who was a technician in charge of managing the water treatment plant.



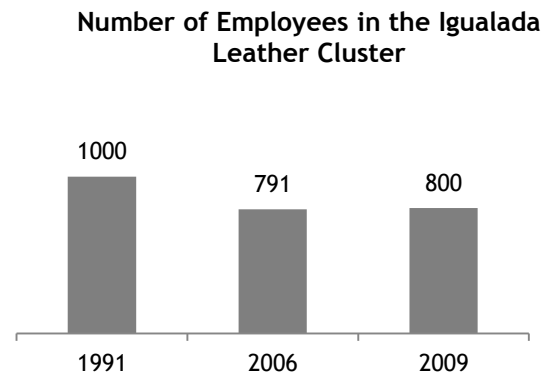
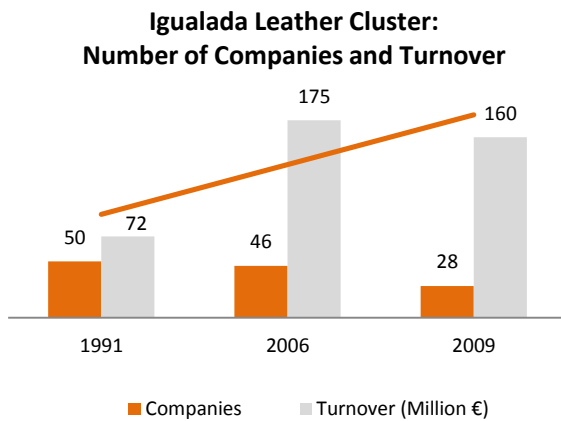
- Reinvention

In the Reinvention phase, the champion changes to the new companies' representatives, such as Xavier Badia. These are now less concerned with environmental regulations, but focus on expanding Igualada's leadership as a leather producer for luxury goods worldwide.



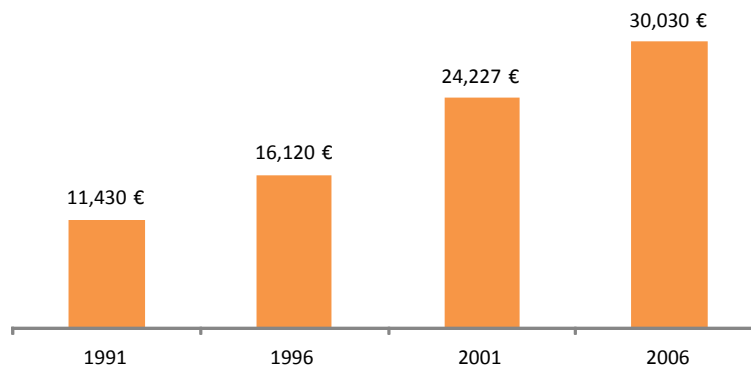
D.2.2.3 Overall Impact of the Local PPD on Competitiveness

Throughout the 1991-2009 period, the number of tanneries in Igualada decreased significantly. This confirmed that the pressure from lower-cost countries was real. Decreases in employment were far less dramatic, going from a total of 1,000 employees in 1991 to 800 in 2009. But the productivity increases and higher value added have resulted in higher turnover for the sector.



Source: Interviews (2011), Map of Local Industrial Production system in Catalonia (2005)

Igualada Municipality GDP per capita



Source: Idescat: 1991-1996 (base 1995), 2001-2006 (base 2000)

Note: Igualada's economy has been based on two sectors: leather tanning, which after all has maintained a positive contribution and growth to local GDP, and the textile knitwear industry, originally seen as a diversification from leather, but finally the one that has not been able to resist the low-cost competition and has lost most of its commodity producers, leaving a few honorable exceptions of companies that have created their own brands through creating distribution channels first in Catalonia and Spain, and later expanding worldwide. The Catalan government supported them in another Local PPD initiated right after the leather one, at their own request.

Anecdotal evidence, such as the press article from Catalonia's main newspaper, La Vanguardia, below shows how companies, which remained in Igualada kept adding and exporting more value by serving more demanding clients abroad, such as Versace and Hermès. In conclusion, this case shows the positive results of strong private sector collaboration towards common goals, which are a result of previous strategic thinking.

This case presents an example of a Local PPD where challenges were turned into opportunities. The Local PPD changed dramatically in Igualada. The environmental issues, previously seen by the private sector as obstacles, became powerful differentiation weapons and allowed some companies to penetrate exclusive markets that were not in the agenda of low-cost producers. The initiative was crucial to highlight the need for companies' reinvention and the offering of new products to new markets. At the same time, the public sector was able to keep its spirit of maintaining a market-led dialogue and at the same time sent a clear message to the companies in the region that the support for environmental compliance would be conditional upon keeping the right focus by businesses.

EMPRENEDORES

Curtidos Badia, de Igualada, exporta el 80% del cuero

Piel catalana para Hermès

ARIADNA BOADA
Barcelona

Firmas como Hermès, Christian Dior, Armani, Versace, Loewe, Polo Ralph Lauren, Ermengildo Zegna o LG compran desde hace años piel de Curtidos Badia de Igualada (Anoia), para sus complementos de moda exclusivos como bolsos, carteras, portadocumentos, calzados o cinturones. "Es un mundo que crece durante las crisis, se venden más, y nosotros tenemos más trabajo", asegura Xavi Badia, gerente de la empresa y miembro de la cuarta generación de propietarios.

Desde el 2009 la empresa registra crecimientos del 30% y este 2011 pretende incrementar la facturación en un 35% y llegar a los 21 millones de euros. De estos el 80% procede de mercados europeos (Francia e Italia), americanos y asiáticos, aunque estos últimos son en los que más crece la demanda.

En Curtidos Badia trabajan actualmente un centenar de personas y se producen unos 12.000 m² de piel a la semana. "La piel procede únicamente de vacuno catalán -remarca Badia- y su blanqueo precisa casi dos meses; después, se lava, se tinte y se prepara para la confección. A pesar de las inversiones en maquinaria y en I+D, éste sigue siendo un oficio muy artesanal, y eso representa un gran valor para las empresas que aprecian y venden calidad".

Badia, que hace 15 años que relevó a su padre, Josep Badia, en la empresa familiar creada en 1889 por Benet Badia, representa una nueva generación de empresarios que han dado un nuevo impulso a un oficio, el de

curtidor o blanqueador, con más de 700 años de historia. "En Igualada, la curtiduría vive una especie de segunda juventud, y eso nos da mucha fuerza y confianza ante estas firmas internacionales", apunta Badia.

El gerente de la compañía destaca asimismo la labor de esta industria como recicladores de uno de los residuos de la industria cárnica. "Estas pieles, de no ser utilizadas para el calzado, serían un residuo peligroso, foco de infecciones y malos olores. Los curtidores transformamos un residuo en un producto de moda". Xavi Badia es

desde hace tres años presidente del gremio de curtidores de Igualada. "Hemos conseguido sustituir y no vemos como competidores, nos ayudamos", asegura. En Igualada hay 28 empresas de curtiduría que dan trabajo a unas 800 personas y representan una cifra de negocio superior a los 160 millones de euros.

"Hemos hecho valer nuestra experiencia y especialización en un mercado con nuevos competidores y costes de producción muy bajos, pero que no pueden ofrecer productos con la calidad de la piel igualadina", afirma Badia.■



Xavi Badia, gerente de Curtidos Badia y miembro de la cuarta generación de propietarios

Desde el 2009, Badia crece un 30% anual y este 2011 pretende llegar a facturar 21 millones de euros

*"Catalan Leather for Hermès
Entrepreneurs: Curtidos Badia, Igualada, exports
80% of total leather Article by Ariadna Boada,*

Companies such as Hermès, Christian Dior, Emporio Armani, Versace, Loewe, Polo Ralph Lauren, Ermengildo Zegna and LG have been buying leather for several years now from Curtidos Badia from Igualada (Anoia), to produce exclusive fashion accessories like handbags, wallets, briefcases, shoes and belts. "It's a world that grows even during the crisis; the more they sell, the more we work," says Xavi Badia, the manager of the company and part of the fourth generation of owners. In the biennial of 2009-10 the company recorded a two digit percentage growth (30%) and now for 2011 it aims at increasing 35% of its revenue, reaching €21 million. Eighty percent of the revenue structure comes from European markets (France and Italy), and 20% from American and Asian markets, which

are growing at a fast pace.

There are currently 100 employees working in Curtidos Badia, producing nearly 12,000m² of leather a week. "The leather is restricted to Catalan bovines," Badia points out, "and the tanning takes nearly two months; subsequently it is washed, stained, and then ready for the accessory industry. Although there was some investments done in machinery and R&D, it is still a very artisanal craft and that's where the value comes from; it is highly valued by the companies seeking and selling state-of-art quality." The company, created in 1889 by Benet Badia, passed hand to hand in the family to Josep Badia and 15 years ago it became Xavi's responsibility. He represents a new generation of entrepreneurs that gave the business of tanning and dyeing with over 700 years of history—a new momentum. "In Igualada, the tanning industry experienced a second birth/youth, and that gave us great strength and confidence to respond to those international firms," pointed out Badia.

The manager of the company also emphasizes the work they're doing in recycling the waste of the meat industry. "All this leather, if not used in the footwear and accessories industry, would be a dangerous waste, a source of diseases and a horrible odor. We, the tanners, transformed the waste into a fashion product." Xavi Badia became the president of the tanner's guild from Igualada three years ago. He states, "We have to add value, change the view of being plain competitors and help each other." In Igualada there are 28 tanner companies that give work to 800 people and represent a turnover exceeding €160 million. "We made our experience and expertise worth something in a market full of new competitors and very low production costs. But our competitors can't offer products with high-quality leather like Igualada does," Badia Jr. pointed out."

D.2.3 Learning from Local PPD Implementation in Catalan Towns

The Champions

All the champions in the Igualada case were people able to “see the bigger picture” and identify the industry’s real needs. In the early stages, this role was shared by Minister Subirà and Mr. Fontanelles, but the latter clearly took over the protagonist role over time.

In the La Bisbal Birth Phase, this was a case clearly driven by the political will of Minister Subirà and his Director Conejos. But it is also a good example of how they were able to elicit interest and find a new champion among the private sector with the help of the facilitators. This is not a simple task in “one-man-show” businesses, such as ceramics artisans who see all others as competitors down the road.

To add complexity, the traditional leaders from the ceramic association, who should have been the champions taking the baton from the public sector, represented the more conservative views, not willing to change the dialogue with the government.



Josep Mestres being awarded

Source: Terrisa-Ceramica,
<http://www.ceramicamestres.com>

So a new champion had to be found and developed. The new champion, Mr. Josep Mestres, actually came from another city, Quart, not far away, but distant enough to dispel the fears. In order to raise his status and recognition, he was even awarded a distinction by the President of Catalonia (in the picture with Minister Subirà and Director Conejos).

However, in Igualada, once the action plan was laid out and a need for technical knowledge emerged, the champion became Miquel Vila, the director of the water treatment plant. In the present Reinvention phase, the champion is Xavier Badia from the Tanners Guild who focuses on the differentiation of Igualada as a suppliers’ center of high-quality leather to

luxury goods manufacturers.

The Facilitators

The facilitator in both cases was the consulting firm hired by the Catalan Government to deal with strategic issues. It was crucial to have such a facilitator as it brought neutral perspectives to Local PPDs and was capable of prioritizing strategic areas. In La Bisbal, during the Development Phase, the facilitators³⁰³ had to adapt their process methodology to the peculiarities of the artisans. Things as simple as the time for meetings had to be adapted to their business hours, since they could not simply close their shops. The introduction of concepts such as competition, market-driven business and design could not be taken for granted and required parallel efforts. Hands-on seminars were organized to discuss basic business concepts before actually discussing about their businesses. The facilitators in La Bisbal were much more than simple organizers; they were real educators and coaches to the artisans.

³⁰³ The consulting firm, Cluster Competitiveness, hired by the Catalan Government.

However, in the La Bisbal Maturity Phase, the Local PPD lacked the presence of full-time facilitators and this role was assumed by volunteers from the Ceramics School and others. This created room for the staff of the traditional industry associations to recover their control of the dialogue, preparing it for the Exploitation Phase in the next government's administration.

Sector-Specific Scope

The original perimeter of the initiative in La Bisbal was incorrectly defined in two ways: the business definition was too broad and the geographic scope was too large. But the initiative was able to address the issue by performing a proper strategic segmentation of the businesses, explaining it in adequate terms to the audience and going the extra mile, namely organizing different work groups by strategic segments (packaging, housewares, etc.) and even running the same meeting twice in La Bisbal and in Breda.

The Local PPD in Igualada started initially with a sector-specific focus on tanning for footwear. It is also important to note that Minister Subirà had emphasized that subsidies aimed at maintaining employment do not offer promising future prospects for the Catalan economy and preferred policies based on free market competition. Along these lines, the consulting firm conducted an analysis of various business segments and identified those, which could be attractive for the companies in the long-term and which they were competing in. This analysis allowed for an identification of more promising business areas for the tanners.

International Links and References

Conducting research trips was crucial in both Local PPDs. In Igualada they were important to persuade the businesses not to relocate the polluting parts of the production processes to developing countries in Latin America and North Africa. Whereas the international benchmarking in La Bisbal was helpful to demonstrate how other artisan clusters had evolved into more industrial ones, the very important win was making them understand the underlying key success factors.

It was very important to first identify the need for a market response strategy and then understand where similar strategies were carried out. Consequently, the businesses were open to go further than just visiting the traditional reference cluster in Italy, the Faenza ceramics cluster, and explored the less known (but very successful) cluster in Nove.

However, the key to using these international references was to know first what to look for and then visit it, not just shop around other ceramics clusters. Had they followed the conventional wisdom in the sector, they would have only travelled to Faenza and probably ended up copying the hard infrastructure that seems to have not helped there.

In the Development Phase in Igualada, when the key challenge was to understand the competitive position of leather businesses from the county, a research trip was made to the cluster in Arzignano (Vicenza) in Italy, which sites the most successful companies.

In the Maturity Phase, it was important to convince some businesses, the key players, about the importance of jointly running the water treatment plant (and how it should be run). A

reference case was Santa Croce sull'Arno also in Italy (Florence), as it exemplifies a best practice for an efficient cooperation for that type of business activity.

Outputs: Action Lines and Recommendations

In both cases, especially during the Development Phase when the change of the strategic segment was recommended, several outputs in the form of written papers and public presentations were produced. In La Bisbal, thanks to the lessons learned from the comparison of both Italian clusters, the action lines and recommendations were more focused on soft actions, such as capacity building in marketing and design, quality certification and market access. That was a far cry from the actions of asking for protection and subsidies, attending fairs and creating denominations of origin (the usual requests).

Outreach and Communication

In both cases, communication was intended mainly for participants of the sector. In Igualada, due to the change in business segment focus (companies had to change from tanning for footwear to high-quality upholstery and leather bags), it was important to give the timely and adequate information to the adequate stakeholders. Similarly, in La Bisbal the change of dialogue needed to be accomplished before the initiative became very public; otherwise it would have made it even more difficult. Therefore, all efforts were made to keep things low-key. In this sense, in both Local PPDs, no public communications for political purposes were made, which eventually helped achieve the set objectives before making the action plan public. However, in La Bisbal the facilitators insisted on a policy of no press until both sides were aligned, which was difficult in an area where ceramics were so important and local journalists were consequently asked not to enter the meetings. Only in the Maturity Phase, the outreach was expanded and communications broadened.

The Structure and Participation

The La Bisbal initiative started from the public side, but during the Development stage the private sector was engaged. Their participation was broad and included the entire value chain, but it was segmented by business. Specific quality experts from the French Provençal market were also brought in to participate. All this was done without designating the task to a person or institution and evolved rather as an alignment of different public and private institutions, working together towards helping companies "emancipate."

Unfortunately, once the pressure from the facilitators declined, there was a tendency to return to the old "regroup and ask for protection" attitude, in part because of natural resilience and in part because the structures that defended that view (the "artisan" and the "artisans protection" structures) were never dismantled. Therefore, the new model could not settle naturally. An important lesson was learned here, namely that once the positive Local PPD is established, breaking with past structures may be more important than building new ones.

In the case of Igualada, depending on the phase and the objective, different structures prevailed to coordinate the initiative. At the beginning, it was the Tanner's Guild. Once the actions were defined and more technical insights were needed, AIICA (a research center) and the treatment plant appeared. The structure has been always informal in nature and no

resources were dedicated to keep it. The advantage of this model was that there was no need to maintain a specific prescribed structure, which allowed for flexibility and adjustments according to current needs.

The Mandate and Institutional Alignment of the Local PPD Stakeholders

The Local PPD in La Bisbal accomplished a realignment of the public side in their attitudes and support programs towards artisans, engaging as well some key player in the private sector. But as previously indicated, some non-aligned institutions and persons were left latent, waiting for the moment of weakness to come back. In the case of Igualada, the mandate was stated once the sector analysis was undertaken and both, public and private institutions recognized the need for a business segment focus change. At the beginning, the institutional alignment was crucial to face the situation and Minister Subirà himself was leading the Local PPD together with Mr. Fontanelles, while the top managers and owners of the tanners were present throughout the following phases.

Involvement of Sub-national and Local Levels

The case of Igualada is clearly sub-national. It occurs in the county of Anoia in the Spanish sub-national Region of Catalonia. The PPD takes place at a local level. The City Council had a dilemma as imposing restrictions to local tanners that were contaminating the city could have led to massive unemployment. However, the case of La Bisbal showed the importance of determining the right level for a good sector-specific PPD. When it was done at a provincial level, it was too broad, because it included people in different businesses; however having chosen to pursue a city level (La Bisbal) would have made it too narrow due to the chance of increased local tensions. The solution was to add other, relatively proximate areas but always in the same business. This approach allowed dealing with the local issues (such as town planning requirements), the regional ones (such as promotion), or even the European level ones (such as food safety).

Conflict Recovery Capabilities of the Local PPD

The whole Local PPD in the La Bisbal exercise was itself a conflict resolution mechanism that set aside the traditional bargaining mechanism (which created more problems than it solved), and launched the construction of a new strategic dialogue that was built jointly. The case of Igualada, however, is a good example of a challenge that can be turned into an opportunity. Minister Subirà turned a conflict (the challenge to comply with the environmental legislation) into a new opportunity for dialogue and for addressing other strategic issues. Today, the dialogue is fluid with different levels of administration. Recently, the local Mayor was invited to visit another group of companies in Italy to solve an urban planning conflict.

It should be mentioned, however, that what lies at the heart of the success of the Local PPD in Igualada is the positive and visionary attitude of the private sector, which envisioned sophisticated ways to cooperate in order to overcome common strategic challenges in a non-traditional way (cleaning the water in-house rather than shipping production away). Without this “raw material” Minister Subirà’s efforts would have probably seen different results.

Role of Development Partners

In the case of Igualada, the Catalan Government played a major role in channeling the support from all levels of the administration to the technological center. However, in La Bisbal, in the Development Phase, the role of the regional government as a development partner and channel of funds from national and European sources had to be downplayed. In fact, one of the Local PPD handicaps was dealing with a self-described underprivileged sector always ready to ask for money. The facilitator was very careful in terms of the formalities of meetings. For instance, the government representatives were never seen in a chairing position, meetings were held on neutral grounds and in a way to disassociate the role of the dialogue partner from that of the funds provider.

Once the Local PPD in La Bisbal reached its Maturity Phase, when the proper dialogue had been established, the public sector could again play the "donor" role supporting the strategies that had already been discussed in the Development Phase.

An important lesson was the changing role of the donor from a "Dialogue partner with no money in the Development Phase" to a "Development partner willing to look positively at the proposals," mainly because they were better understood by stakeholders.

Unfortunately, later on in the Exploitation Phase, in La Bisbal the government returned to its "donor" role and the previous (more constructive) dialogue vanished.

Monitoring and Evaluation

Working in a small region such as Catalonia with a well-known group of companies and institutions meant being constantly monitored, since, in one way or another, direct feedback on what was happening always found its way to policy decision makers. But again, some lessons can be extracted from their expectations at each stage of the Local PPD.

The Birth Phase in the La Bisbal case was a political decision based on the need to redefine the artisans' support policies. In the Development Phase there was a clear rule of thumb to evaluate if the Local PPD was advancing: the number of companies participating in the meetings had to increase over time. A final checkpoint on the commitment of the public and private sectors was that in the last public meeting of the Development Phase, which was managed by the external consultants, all proposed joint actions and proposals had to be presented by private sector representatives and supported by the relevant public sector agency. Since the role of the public sector was reduced after that and no actual subsidies were directly given to the Local PPD structure in La Bisbal, no further monitoring was needed.

At Igualada, the whole Local PPD process required very little investment from the government. As a result, there was no need to measure the effectiveness of the funds invested. What was actually measured was the evolution of the industry, in terms of number of companies, jobs and exports. Even though some companies had to shut down their operations, the overall value added has grown in Igualada.

D.3 TWO CASES AT COUNTY LEVEL (METALLURGY, FOOTWEAR)

In the same way that the small town is the natural unit for PPD, the county level is the “unnatural” one. It is not a small town, specialized in one or two industries, but it covers a wider area with multiple specializations and if by chance several towns are in the same industry, they are traditional rivals. To make it more difficult, the county is not large enough to detach the thinking from the local details, so it is a bad unit for strategic thinking. The county as Local PPD unit is to some extent stuck in the middle between the town and the region.

In the case of Catalonia, the counties (*comarques*) have only been recently created as administrative units and are managed through councils. Their members are appointed on the basis of the local election results, as a result of which there is no direct election to the county level. Their accountability is thus not in the ballots and they are detached from the public perception.

But from the economic development point of view, these are important units; counties cannot just be the hinterland of a larger town and hope that the spillover effect takes care of a comprehensive economic development.

But when the authority responsible for that level is absent, or does not have enough muscle, as in the case of Catalonia and most of Spain, other institutions step in to address these issues. The cases that are presented look at the interventions of two different kinds of institutions:

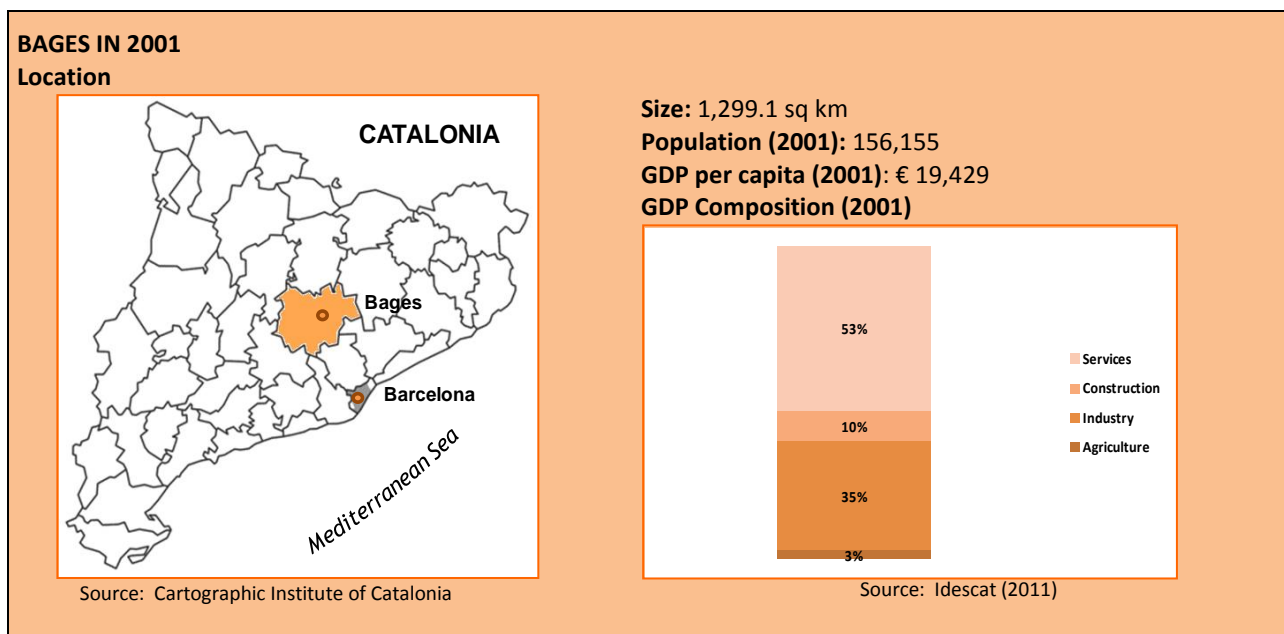
- One in Bages, where the presence of a public university facilitated the creation of a public Technology Center that, given its good performance and capabilities, assumed a larger role in trying to help in the transformation of the whole county.
- The second was chosen from a region outside Catalonia, as it provides an opportunity to show the role of local financial institutions in local economic development. Located in Alicante in the Region of Valencia, one of the pioneers in that area was the Caja de Ahorros del Mediterraneo. From their multiple actions in more than a dozen counties, the case of the Vinalopó valley, which is home to some of the more important footwear clusters in Spain, has been chosen.

D.3.1 METALLURGY IN BAGES: Trying to Transform the County through a Technology Center

D.3.1.1 Origins and Evolution of Metallurgy in Bages County

The Economic and Knowledge Base in the County

At the beginning of the 20th century, Bages developed a strong industrial base. The textiles sector dominated the county, but other sectors such as mining, metal and engineering thrived as well. Industry brought great wealth to the area and the rich industrialists built mansions that are now important pieces of cultural heritage. In the 1980s, after Spain's accession to the EU, many foreign multinationals came to Catalonia and outsourced much of their industrial work to local companies. This gave a new boost to the local industry in Bages. However, from the late 1990s onwards, a process of de-industrialization set in. The share of manufacturing went down and foreign direct investment dried up.



Failing to Address Industry Needs: the Birth of the Technology Centre Manresa

The county's capital, Manresa, a medium city of around 65,000 inhabitants, had a substantial knowledge base. There are several institutes of higher education such as the Polytechnic University (a center of the Technical University of Catalonia) or the Bages University Foundation.

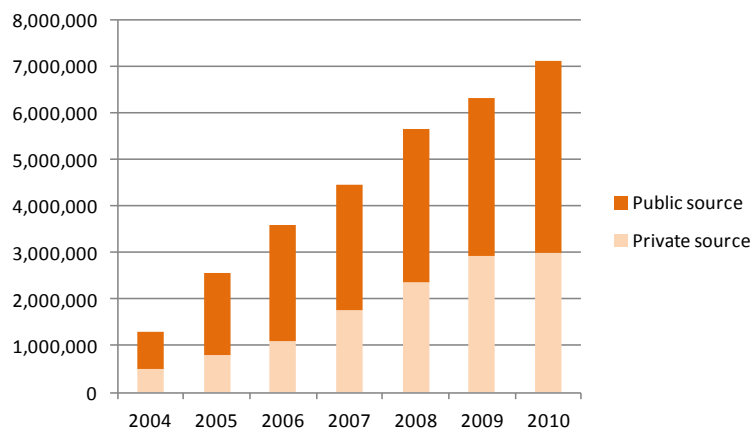
Today, one of the most important knowledge institutes in Manresa is the Technology Centre of Manresa (CTM). It originates from a collaboration of the City of Manresa and the Polytechnic University in 1992. The Center's aim was to promote applied research and

support industry with product development and innovation processes in a period when higher investments in equipment were being made following the success of ISO 9000.³⁰⁴

The present form of the CTM, much larger and in new high-tech facilities, became operational in 2004, when the new government sought to create large technology centers as drivers of innovation and economic development. Today, it is managed by a board, in which the Polytechnic University and the Catalan Government are represented, and the participation of the private sector in the center's management is more symbolic than real, since the funding is mostly public or project based.

As a public foundation, it received large amounts of public funds for improvements of its premises and of the technical equipment and infrastructure. In 2010, CTM's incomes stood at €7.1 million, mostly public funds. The following graph shows the funding evolution of the center between 2004 and 2010.

Evolution of CTM's Income and Source of Income



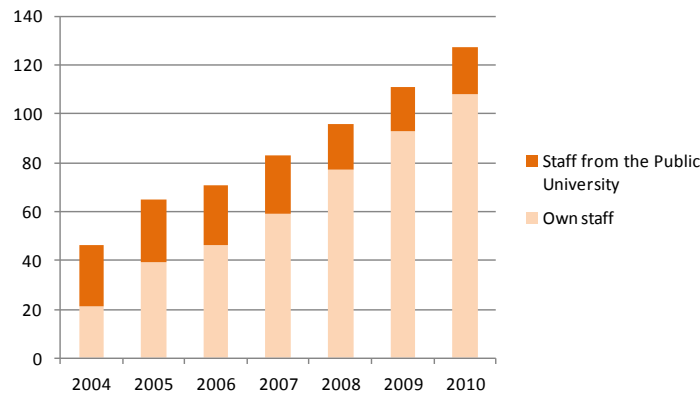
Source: CTM³⁰⁵(2011)

Also, as shown in the figure below, the center's staff has grown substantially since it became one of the popular and targeted technology centers.

³⁰⁴ van Winden, W., "Knowledge Economy of Manresa and its Parc Central project", Results of the REDIS Implementation Lab, Manresa, 2009.

³⁰⁵ CTM webpage. <http://www.ctm.com.es/>

CTM's Staff Origin



Source: CTM³⁰⁶ (2011)

However, this growth has no relation with the economic woes of the county, which in the same period was going through a serious process of deindustrialization.

Going Beyond the Metallurgy Industry

In this context, the Manresa City Council became increasingly aware of the need to involve innovative companies in policy making as a means to improve the whole county's performance and to meet expectations with regards to the Technology Park that had been planned in the 2005 Strategic Plan of Manresa. The Deputy Mayor of the Manresa City Council, Alain Jorda, having seen the experiences of Local PPD in other areas of Catalonia, prompted CTM to engage a facilitator to take the role of eventually initiating a series of Local PPD initiatives in the county.

The facilitator started by identifying different businesses that could be developed with the support of CTM. The first one was related to traditional markets that required traditional technologies. The second one to new markets (jewelry, marine industry, etc.) that required traditional technologies and the third one to traditional markets that needed new technologies (the automotive, construction, rail, aviation, professional clothes, sports material, energy production and wastewater treatment industries). The last one was related to a high potential emerging market that demanded cutting-edge material technologies (outdoor furniture industry, the agricultural equipment industry, the eco-packaging industry for fast moving consumer goods, the medical devices industry, and others).

Difficulty in Changing Course While the Funding Lasts

The CTM tried to play that larger role to promote the Local PPDs and involve other key stakeholders in the county, however, without much success. One of them was the local financial institution, Caixa Manresa, which decided to dedicate more resources to local economic development, even though they were already funding many projects in the county,

³⁰⁶ CTM webpage. <http://www.ctm.com.es/>

one of them also CTM. Thus, the initiatives identified by the facilitator were never implemented.

While this new line of work (acting as a catalyst for the transformation of the industry of Bages) was full of obstacles, frustration and lack of funding, CTM's ability to survive on public funding through its traditional research and project lines was mastered well. The Center became a specialist in obtaining public funds from all levels - regional, national and European.

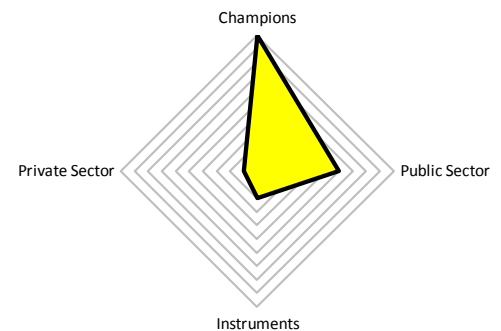
This "success" was an important factor in perpetuating the distance between the Center's activities and its original objective.

D.3.1.2 The Public and Private Ownership in the Evolution of the Local PPD



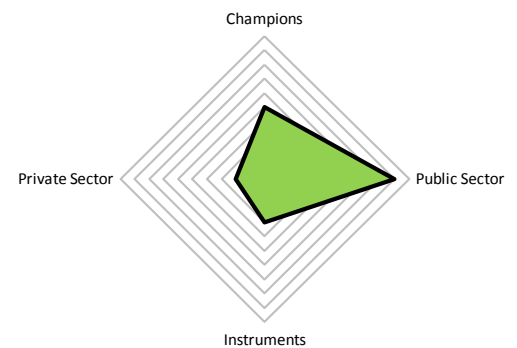
- Birth

The Local PPD idea originated from a public sector initiative led by the local Polytechnic University and the local government, namely the Deputy Mayor of the Manresa City Council, Alain Jorda. The role of the private sector was latent and weak at this stage.



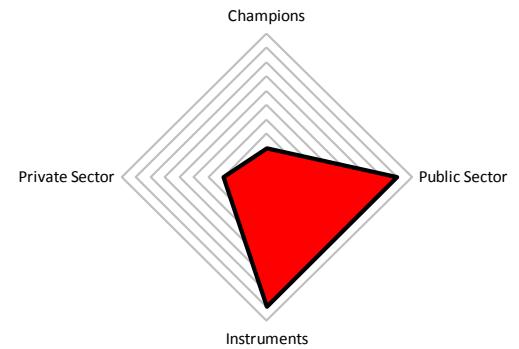
- Development

The Catalan government, with the support of the national Ministry of Industry, created the necessary conditions for the creation of technology centers. This suggests that the public support for Local PPD processes was strong at this stage. The private sector was given sufficient space to meet formal eligibility requirements for public funding, but involvement was still weak and private participation in those centers' management ranks was minimal.



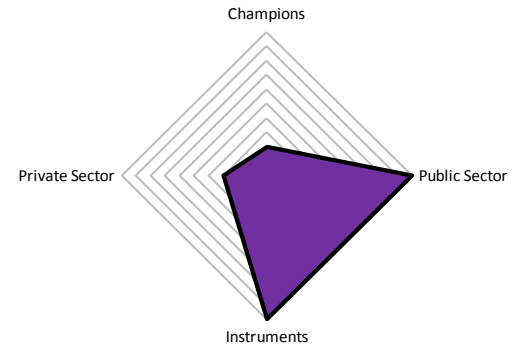
- Maturity

The CTM management became an efficient executor and administrator, which has made them the preferred partners for government funded projects. Even though CTM's former Director became the Director General of the Catalan Government Development Agency, ACCIÓ, the relationship was based and managed by technical professionals on both sides who possessed good capabilities to execute projects of the CTM.



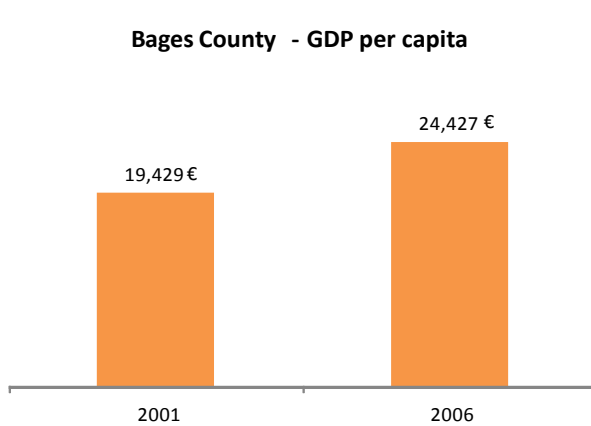
- Exploitation

The Maturity Phase has very quickly become an Exploitation Phase (almost immediately after the consolidation in 2008). Nowadays, the CTM almost counts as a safe place to put government funds and get credit.

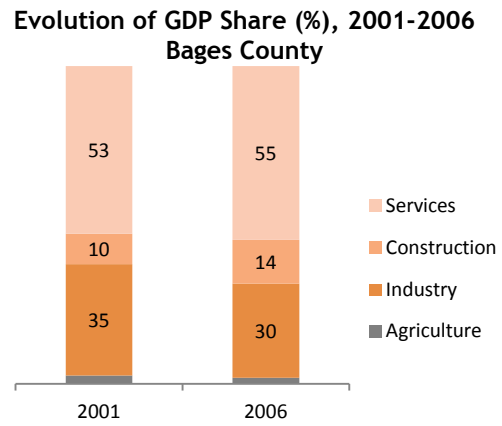


D.3.1.3 Overall Impact of the Local PPD on Competitiveness

The CTM has not been able to get successful results from the Local PPD despite its willingness to do so. Today, companies in the region are suffering an important competitive bash. Even flagship companies are closing their operations in the region, as is the case of Pirelli (more information in the press article below). The local government is working strenuously to overcome the current crisis with promises to build another Research Park.



Source: Idescat, 2001-2006 (base 2000)



Source: Idescat (2011)

Article extract from Tyrepress.com published on February 26th, 2010

"Pirelli to End Tire Production at Manresa, Spain Plant

Pirelli Tire is reportedly ending tire manufacturing at the company's Manresa, Spain factory on 31 December 2009. According to a Reuter's report, the company told union officials it hoped to branch into "other activities," however further details are not expected until April. According to the report 550 workers employees in Manresa may lose their jobs. Headcount at the plant is said to have fallen from 750 after car demand fell in Spain. The concept of establishing a logistics centre for tire distribution is reportedly being floated as a factory alternative. According to the Pirelli website, the Manresa factory (located in the Catalonia region of Spain) opened in 1924 and covers 211,000 square meters. Production at the plant totals 41,900 tones of UHP passenger and SUV tires a year. Total employees were numbered at 1009."

Source: TYREPRESS.com

In conclusion, this public sector initiated Local PPD ended up being more of a theoretical exercise rather than a practical competitiveness initiative for the local industry. Since its inception, CTM has been rather dissociated from the local reality focusing on its research programs that, although fancy, stood far from local needs. The Center remains, therefore, as an expensive structure that has so far done little to improve competitiveness. Its endless access to public funds impeded a proper program scrutiny from the private sector.

D.3.2 FOOTWEAR IN ALICANTE: Promoting Local PPD through a Local Bank

D.3.2.1 Origins and Evolution of the Local PPD in the Footwear Cluster Initiative

The footwear industry has been one of the most relevant industrial sectors in the Region of Valencia since the 1960s. This industry is mostly concentrated in the Vinalopó valley, encompassing three counties. Women's footwear was mostly located in Middle Vinalopó, in the towns of Elda, Petrel and Monovar, while sport-fashion shoes concentrated in Lower Vinalopó, mainly in the towns of Elche y Crevillente. Finally, children's shoes were produced in Upper Vinalopó, primarily in the towns of Villena and Sax.

The Regional Government of Valencia had a long tradition of developing economic programs under a Local PPD approach. At the beginning, programs were focused mainly on employment and labor market conditions for traditional industries. All of the Local PPDs were end consumer orientated and targeted labor-intensive sectors such as home textiles, footwear, furniture, marble, and similar.

After the 1993 crisis, the new government reoriented the economic programs to also include measures to foster economic development and the competitiveness of firms. The government invited all relevant agents to design a strategy for the new wave of economic development and territorial equilibrium. The measures were to be executed between 2001-2006 under PAVACE (the Valencian Pact for Growth and Employment). In this long term strategy, specific programs were included to help not just labor conditions, but also the development of the private sector. Three macro lines were determined, namely incentives for territorial

investments, local actions for territorial integration and Competitiveness Reinforcement Initiatives in industrial clusters located in specific areas.

A Financial Institution Co-leads the Local PPD

The Government of Valencia was looking for a new form of the dialogue between the regional administration and the companies established in the territory as there was a perception that the central offices of the regional government in Valencia City were often far from the sectors' reality.



The Local PPD started with the government and local financial institutions working together and financing a Regional Competitiveness Program that attempted to develop smaller Local PPDs in different sectors. Caja de Ahorros del Mediterráneo (CAM) was the financial institution that got most involved in this process and even hired a consulting firm to act as a facilitator. The reason why savings banks got actively involved was that in Valencia (but also in Spain) banks have traditionally played an important role in the financial domestic system and adapted their services to clients' demands, mostly at local levels. They also had defined a clear social mission and invested a part of profits in social programs. Thus, banks became an important instrument in the economic and social policy of their region.

It is important to note that CAM, like many others, came to existence after a merger of many local savings banks, which were semi-public institutions in the sense that they were owned by the local communities.

One of the Local PPDs launched took place in the footwear industry in 2000. An initial screening process made clear that three different segments were present in footwear: Fashion-dress, casual-wear and children's footwear. At that time, companies competing in these three businesses had different markets but shared the support industry established in

³⁰⁷ Idescat

the area. Also, each business segment had its own private association, although all of them were associated in the National Footwear Federation (Federación de industrias del calzado Español, FICE).

Updating the Diagnosis and Adapting the Actions

The companies that had a design structure in their value chain were struggling at that point. The progressive concentration of distribution channels, the entrance of new member countries into the EU and the improved conditions for Chinese products to enter the international market after it joined the WTO were all affecting the competitiveness conditions of the mature Valencian industry.

China was considered a big threat for the intensive labor industries. Thus the Local PPD underwent a strategy review in 2004, which allowed reinforcing the strategic actions to respond to this threat. In Particular, the stakeholders decided to promote actions that reduced “time to market”, increased flexibility and helped companies internationalize their production in order to reduce costs. These recommendations were used as inputs for the Valencian Government programs to better focus public support.

The Real Estate Boom Distracting CAMs Focus from Industry-based Local Development

The early 2000s were marked by a huge real estate boom all over Spain, but even more so in the Alicante province, a coastal area that transformed arid lands into golf courses to sell to foreigners. This development diverted the attention away from the Local PPD, as CAM, attracted by opportunities in the real estate sector which, at that time, clearly offered a higher return on investment, ended up pulling out from the footwear process. Following that, CAM ended up only committing itself in a piecemeal way to footwear and today, the association is working through the consequences of the real estate sector crisis in Spain (it had to be rescued by the Bank of Spain and is presently being auctioned).

Although the development of the industry was certainly put at risk by this abandonment, some companies have managed to become world leaders in footwear and continue adapting their strategy to sustain competitiveness levels.

History of the Footwear Industry in Alicante (Autonomous Community of Valencia region)

The local footwear industry is distributed in three different counties of the Alicante province, along the Vinalopó riverside.

In the Middle Vinalopó area (Elda) the origin of shoemakers could be found in the 19th century. The local guild was born because the economy needed complementary activities to the primary sector and because raw materials were easily available. Initially, the first consolidation of the knowledge and workforce in shoe handicrafting took place around 1850-1885 and the shoes sector became the primary source of income for the economy. Those artisans used to sell the shoes at outside markets and fairs as well.

At the beginning of the 20th century, the first manufacturers were established, bringing the first machine, yet operated by animal power, that provided jobs to a few hundred people in the region. It was also at that time that the distribution of electricity allowed the development of a more industrialized production. The sector's fairs at that time counted 1,750,000 pairs of shoes sold, making it the first sector in terms of economic contribution to Alicante, followed by textiles and the wine sector.

This industrial activity raised the demographic development in the first part of the 20th century and the local footwear craftsmanship knowledge was passed from village to village due to subcontracting activities. Elda and Petrel today has more than 70 manufacturing establishments with over 2000 workers.

In Lower Vinalopó (Elche), the origins of the industry are more related to the need for "alpargatas (shoes)" required by the agricultural sector. The shoes were made of raw materials in the county and, together with Elda, both clusters developed in parallel allowing the startup of an increasing auxiliary industry as well.

Finally, in Upper Vinalopó, the establishment of the industry occurred later on because the agriculture sector was strong. Due to the spill-over effects among all three regions, footwear entrepreneurs launched their activities here focusing on children's shoes production.

The sector went through a critical period in the 1940s, when it was undercapitalized and lost several factories that kept an amateur production structure. The crisis changed the way the value chain was organized, resulting in a split and production specialization according to shoe parts (soles, heels, etc.). Some of the companies ended up as shoe assemblers.

In the late 1950s, new mechanization processes were adopted, changing its configuration again. With this last movement, the footwear business recovered its margins, becoming one of the most important economic activities in the region. By 1960, Elda had a prominent concentration of companies and collaboration initiatives took place. One example of this was the first national footwear trade fair that for many years promoted the region's image spurring international and domestic recognition for some of the companies of the cluster. These initiatives laid the fertile ground for the first private footwear association as well as INESCOP.

In the 1960s and 1970s the sector passed through an important expansion that allowed the the industry to become more professionalized and reach new markets. But, after the financial crisis at the end of 1970s, the cluster caught the attention of international buyers due to the great quality products with a relatively low labor cost. Several companies were acquired by American businesses that actually further developed the footwear sector in the region of Elda. Although the cluster become stabilized and advanced after the buyout, sophisticated operations such as design control were relocated to their headquarters.

By the 1990s, the industry was far more complex and involved new actors in the value chain. Hundreds of new companies were created to supply the industry with new specialized components:

- Elda-Petrel remained in the fashion shoes segment for medium-high income customers. The area accounted for 30% of footwear production in the province and extended itself to the Monovar and Sax regions;
- Elche decided to move to sports footwear and it did not work. With a new strategic view, the companies shifted to the casual fashion shoes segment. The area accounted for 62% of total production in the province and had spread from Elche to nearby towns such as Crevillente, Catral and Almoradi;
- Villena targeted a wide variety of segments and operated in elegant to casual and sports shoes. It also had companies that produced shoes for infants in an upper-middle income class, dress shoes, orthopedic and leisure footwear. This area accounted for 8% of the province's footwear production.

By the 2000s, Elche had become the largest production area, siting all parts of the value chain in the region. The companies' structures were very diverse: from large to small companies working in different arrangements. The manufacturing process of footwear followed a series of stages (design, cutting, pre-sewing, sewing, pre-assembly, assembly, final treatment) and is highly labor-intensive. It allowed the creation of new companies, specialized in different processes.

Nowadays, the region is still the biggest concentration of footwear companies in Spain (65%) as well as the most important in production (63%), employees (61%) and exports (45%).³⁰⁸

Several institutions with private, public and mixed structures were created in the region at sector level, in order to support the competitiveness of the local companies. Due to the long tradition of this sector, important institutions are still relevant nowadays. INESCOP³⁰⁹, which started its activities in 1971, is a specialized Technology center and FICE³¹⁰, created in 1977 (Shoes Industrial Federation that represents 90% of the Spanish production) is a lobby organization that represents the overall interest of affiliated companies at the local, national and international levels. There are also local associations in each region, for example in Elda (AICVE³¹¹), Elche (AICE³¹²) and Villena (ACICAV³¹³).

³⁰⁸ Data of 2010.

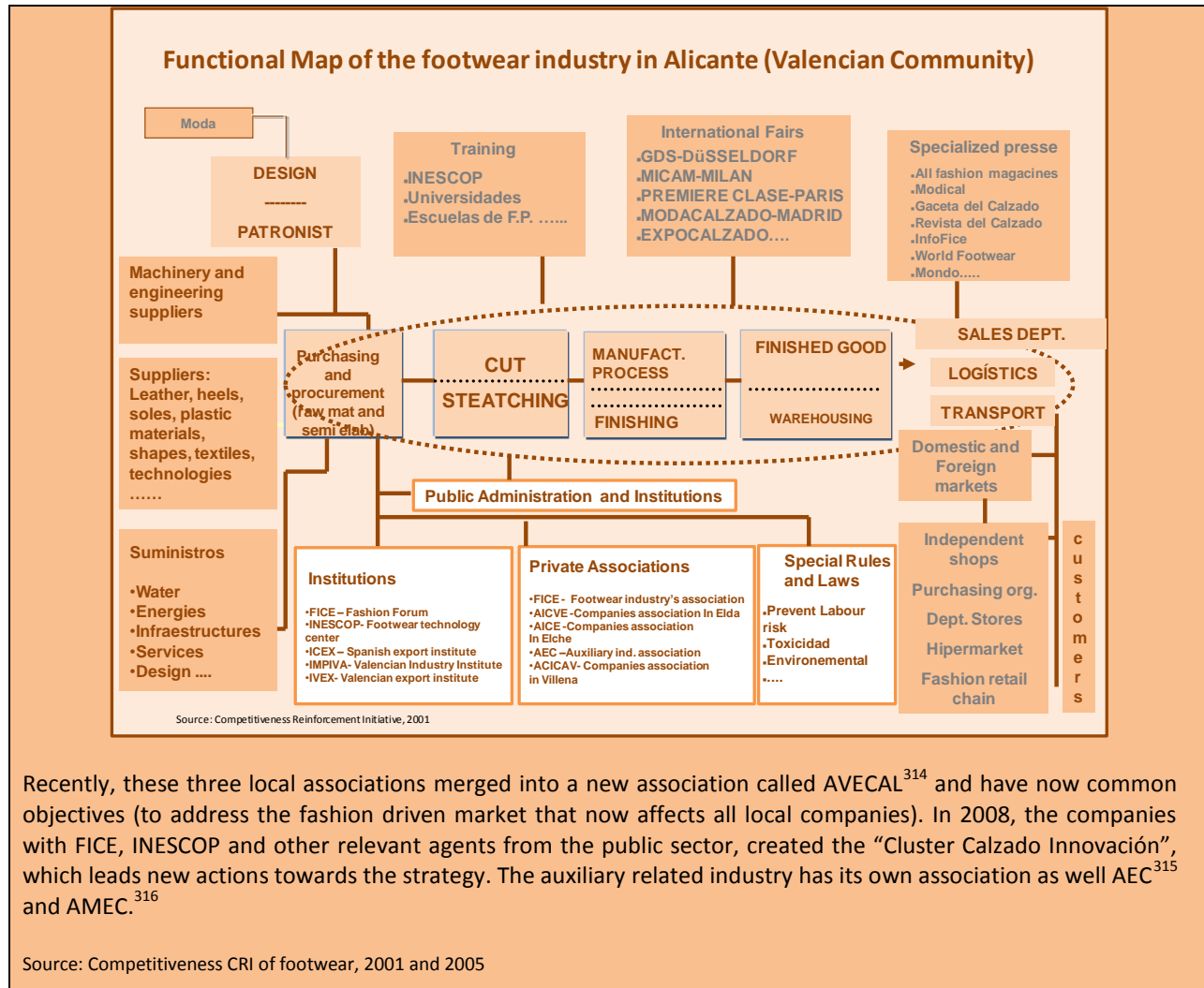
³⁰⁹ INESCOP: Instituto tecnológico del calzado y conexas - Footwear and similar Technology Center.

³¹⁰ FICE: Federación de Industrias del Calzado Español - Spanish Footwear Industry Federation.

³¹¹ AICVE: Asociación de Industriales del calzado del Valle de Elda - Footwear Industries Association of Elda Valley.

³¹² AICE: Asociación de Industriales del Calzado de Elche - Footwear Industries Association of Elche.

³¹³ AICVA: Asociación de Industriales del Calzado del Alto Vinalopó - Alto Vinalopó (= Villena) Footwear Industries Association.



Recently, these three local associations merged into a new association called AVECAL³¹⁴ and have now common objectives (to address the fashion driven market that now affects all local companies). In 2008, the companies with FICE, INESCOP and other relevant agents from the public sector, created the “Cluster Calzado Innovación”, which leads new actions towards the strategy. The auxiliary related industry has its own association as well AEC³¹⁵ and AMEC.³¹⁶

³¹⁴ AVECAL: Asociación Valenciana de Empresarios de Calzado - Footwear Valencian Association.

³¹⁵ AEC: Asociación Española de empresas de componentes para el calzado- Association of companies for Footwear components.

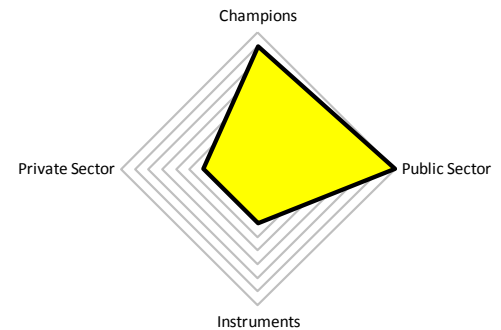
³¹⁶ AMEC: Asociación de modelistas españoles de calzado y marroquinería- Spanish Association of pattern makers for footwear and other leather goods.

D.3.2.2 The Public and Private Ownership in the Evolution of the Local PPD



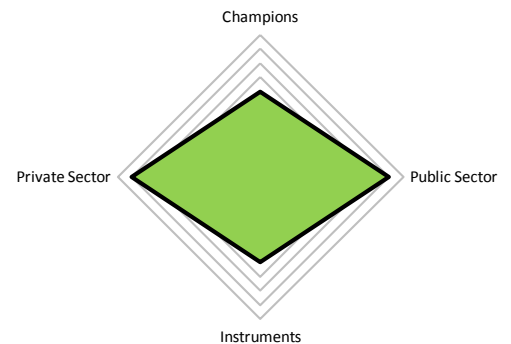
- Birth

The Local PPD was launched by the public and the private sector. A key feature of the Birth Phase was the strong involvement of a local financial institution (CAM) in the process. CAM's local approach was appropriate for the Local PPD. The network built by the financial institution enabled the dialogue between all involved stakeholders.



- Development

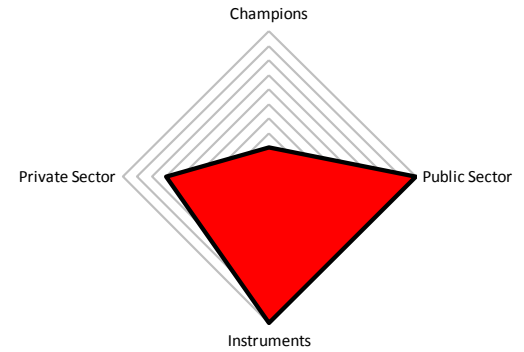
The role of the public sector was still important in the Development Phase to counterbalance the prevailing skepticism that this project was “just another study”. Gathered mainly in Elda, the non-professionalized entrepreneurs (family business) had no business background. The goal of most of them was to raise the production volumes per day as opposed to adjusting production to the market demand. Overcoming this conservative approach was a challenging task. As a result, almost all of the proposed strategies ended up abandoned.



In the second part of the Development, some of the main ideas were reviewed due to changes in the sector. The adoption of Euro, the entrance into the EU and China's rising market power required a new strategic vision for the region. Some of the leading companies decided to externalize parts of their production processes. Others decided to act as subcontractors for the biggest companies but kept flexible structures. At this point, the sector became very organized, with associations, technology centers and a strong federation. These structures have been since used to lobby support at the government.

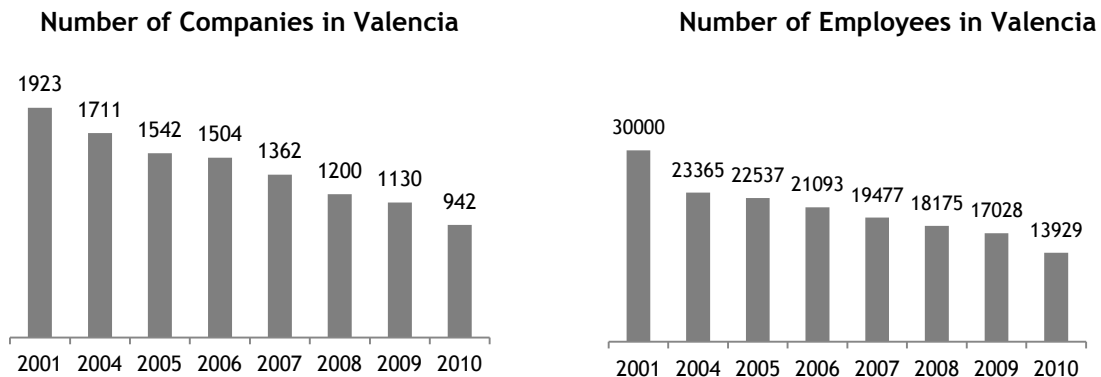
- Maturity

After several years passed, some of companies participating in the PPD (mainly from Elche but also from Elda) still remain competitive and record high growths. The reason behind their success is the application of sustainable consumer-oriented strategies, introduction of new supply chain management and of improved logistic systems, which have allowed for production expansion and an entrance to new markets.



D.3.2.3 Overall Impact of the Local PPD on Competitiveness

International conditions in the international footwear market and industry are changing with the growing competition from low cost countries, such as China. These changes are of course impacting the sector in Valencia. As shown in the figure below, the number of footwear companies and employees in Valencia’s footwear industry has halved in the last 10 years.

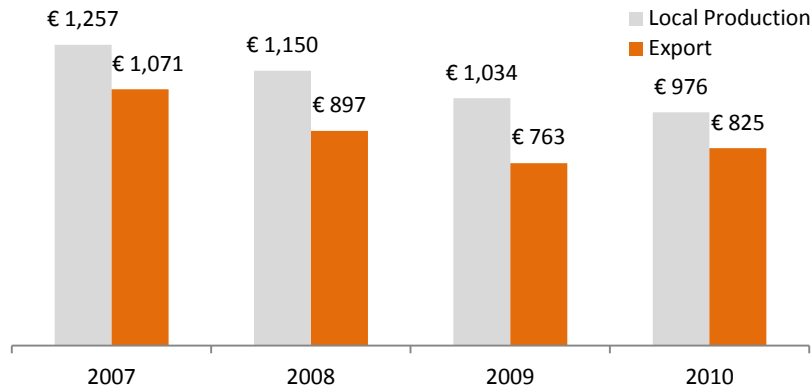


Source: Federation of Spanish Footwear Industry (Annual reports 2008/2009/2010)

The action lines of the Local PPD were launched in 2005. Since then, those Valencian companies, which were flexible enough to adapt to the strategy are now used as benchmarks in Spain and in the global market. Examples are Gioseppo, Pikolinos, Rebeca Sanver and Mustang in Elche, and Rebeca Sanver in Elda. These companies understood how to adapt their supply chain in order to be more flexible, reduce time to market and externalize production to reduce costs. Their competitive advantages lie now in the design and time to market. The most important reference in the cluster is Tempe (Inditex group), a company that decided to increase its logistics facilities in order to distribute its products all over the world twice a week.

The following graph shows the slow recovery that is taking place in the Valencian footwear industry, with an increase in exports of 8% between 2009 and 2010 and a modest decrease in production (6%) in that period.

Footwear in Valencia: Value of Exports and Production (million EUR)



Source: Federation of Spanish Footwear Industry (Annual reports 2008/2009/2010)

Some smaller companies producing shoes in the county are still competitive. They specialize in quality differentiation and flexibility, following the response to market strategy. These are mainly suppliers for Tempe and other companies that are closer to the market. Many companies that did not adapt to this strategy lost jobs or even had to close.

Per capita GDP of Alicante Province



Source: INE, 2011

Despite the economic crisis, the per capita GDP of Alicante has increased by 72% between 1996 and 2006. This is mainly due to the high share of the service sector, which accounts for 71% of the GDP of the Alicante Province.

As a concluding remark, this Local PPD was marked by the strong initial commitment of a financial institution, CAM, to the development of the local footwear industry. The real estate market boom changed the focus of that commitment; however, this move did not jeopardize the success of some of the footwear companies in the county.

D.3.3 Learning from Local PPD Implementation in Counties of Catalonia and Valencia

The Champions

In the case of Bages, from the early stages, the championship has been in the hands of the University and the local government. Creating the CTM (Manresa Technologic Center) was a top-down decision. The problems arrived in the Development Phase when the private sector champions failed to take ownership and leadership of the process. In the Maturity Phase, the CTM became much more professionalized and led the preparation of projects to access public funding. But the involvement of other actors was needed to really push the initiative forward and avoid its decline over time.

In Vinalopó, Vicent Ahuir (from the Economy Department of the Valencian Government) and Roberto López Abad (the General Manager at CAM) have been the most enthusiastic actors to achieve success through the new Local PPD in footwear and also other industries in the Valencia subnational region. They both can be considered the real pushers of the Local PPD. At that time, Mr. Ahuir was working in the team responsible for the PAVACE (the Valencian Pact on Growth and Employment) and identified and gathered both, objectives and methods for an efficient Local PPD. He was also the trusted person for the economic director and was the facilitator to communicate with both government departments involved in that case: the Economy Department (as a leader and budget supporter) and the Industry and Trade Department (responsible for the implementation of action lines).

Prior to the first Competitiveness Reinforcement Initiatives in Valencia, Mr. Ahuir studied previous similar programs in Catalonia lead by Minister Subirà (where this type of direct dialogue with companies had been developed around 4 years before).

The regional Bank, CAM, co-financed the project. Its Managing Director at that time, Mr. Roberto López, was also personally involved and preferred a closer relationship with the Local PPD as he sought to foster the relationship of the institution with the companies (this has become a priority in the bank). However, his championship completely vanished after CAM stopped being interested in footwear and shifted into real estate.

Today, local companies and institutions have assumed the champion's role. They recently created the "Cluster Calzado Innovación", which together with the public institutions leads new actions towards the strategy. There is also a new association that integrates the former ones, namely AVECAL.³¹⁷ This was created to address the fashion driven market that now affects all local companies.

The Facilitators

In Vinalopó, the consultant firm hired to identify the strategic direction and to manage the Local PPD and update the action lines acted as facilitator. They also helped create an atmosphere, in which companies' managers could meet together to discuss the strategy and foresee the possibility of change.

³¹⁷ <http://www.elcheshoes.com/portal/>

Once their work ended, the new cluster institution took the role of facilitator by developing projects under the programs offered by the different public administration departments.

However, the case of Bages is a good example of an initiative that lacked facilitators. Since Birth, the initiative was steered by its creators (the public sector) and no real effort took place to increase the stakes of the businesses community in the decision-making and to engage them in a process of the local PPD.

Sector-Specific Scope

The Local PPD in Bages was not sector-specific. Metallurgy is too broad and involves several business segments, actors and markets, making it very difficult for actors to interact towards a common goal. During the Development Phase, a consulting firm was hired to do a screening and highlight the different businesses existing within Metallurgy. However, these initiatives were never implemented.

The footwear sector in the Vinalopó was considered initially as a whole, but the consulting firm hired spotted three sector-specific businesses to work with: fashion-dress, casual-wear and children's footwear. This spurred a more specific approach, making the dialogue and the interaction with and between the agents easier. Several lines of action were recommended for each business, but some of them were common to all three. Also, some recommendations for the government were launched and shared between the public and the private sectors.

International Links and References

The intention to build German-style research centers with strong linkages to local industries (for example, Fraunhofer) appeared to be a good idea at Birth stage in Bages. However, this reference was not suitable for Manresa where the local industry and the research-industry linkages were much less developed.

In the Local PPD of Vinalopó, some international benchmarking trips took place to see how other footwear companies had evolved. This was very important in order to define the strategic options for each cluster and to understand the key success factors.

In the case of Elda, where products were mostly elegant shoes of medium-high quality, the best reference was Regione Marche, specialized in high-quality shoes and flexible enough to adapt as the demand changed. The Subnational Region of Le Marche had the biggest hides, leather and footwear industry in Italy in terms of the number of companies and workers. The region's annual turnover was over 50% of total Italian leather goods and shoe production. The economy of the Region was based on a widely-spread network of very small, family-run businesses that were crucial to maintain the great advantage of flexibility. Companies were able to adapt production to the rapidly changing needs of the global market, thereby surviving through periods of economic recession.

Italy was the role model for all micro-sectors that required a specific strategy of outsourcing. This was highly recommended for Elche, but also for some companies in Elda. Back then, only very few companies in Alicante were thinking of outsourcing parts of the production process outside. Meanwhile, in Italy, all footwear companies started to outsource production to

Eastern countries, cutting production costs dramatically. The case of Montebelluna was specially indicated as a model, in which companies and institutions made a joint movement to shift parts of their process to Timisoara (Romania).

In the case of Villena, specialized in children shoes, the reference study was to analyze the potential to create a channel brand, a route followed by some international brands already integrated in distribution channels in Italy, France or Germany.

Outputs: Action Lines and Recommendations

In the case of Bages, most outputs had one common feature: all were steered towards creating and maintaining a capable center, as opposed to formulating and implementing actions to specifically reinforce individual sectors (in a targeted manner). As such, the outputs were rather narrow-minded joint actions between the University and the City, capitalizing on government's support.

In Vinalopó, each of the three identified businesses had a different value chain and way of competing, which is why some individual recommendations were made. But they all shared certain challenges, such as production optimization, adaptation of distribution channels, internationalization (not only to sell but also to buy or produce abroad), training in value-added areas such as logistics, supply chain management, design or marketing. The regional government already had some instruments and programs to help companies in that sense and to finance these activities (internationalization, for instance). However, several other instruments had to be developed.

Outreach and Communication

During the Local PPD in Vinalopó, the communication was only internal and took place directly between the facilitators and the agents. Also, the consulting firm created a web site for the project designed exclusively for participants with no access to the general public or journalists. Later, the website and results of the Local PPD were opened to the media. A press meeting was organized with the presence of the Ministry of Economy.

That internal communication included several seminars to discuss implementation of the outsourcing or internationalization strategy. CAM was able to open a credit line for some companies that were keen to follow these recommendations. In addition, some subsidies and loans were available for these kinds of projects through the Economy Ministry.

In contrast, in the case of Bages, similar to other government-launched projects, the center yielded a lot of high-profile publicity and media attention with participation of politicians, but much less attention was paid to the actual difficulty to connect with the local industry.

The Structure and Participation

The center in Bages has been growing exponentially, but the real participation of the private sector was only project-driven, mostly in the form of subcontracted partial research tasks.

In the case of Vinalopó, the initiative started from the public and the private (CAM) side. All associations, including and FICE and INESCOP were invited to participate in the public

meetings. The corresponding local association assumed the role of the coordinator. In 2008, a new association, the Cluster Calzado Innovación, was created to coordinate all cluster demands and funds.

The Mandate and Institutional Alignment of the Local PPD Stakeholders

The case of Bages illustrates a significant misalignment between the technology center's mandate and the needs of the County. The mandate was the main obstacle in the effort to increase private sector's stakes in the technology center. Instead, they should have developed an economic development center with a mandate to reinvent their decaying industries by identifying new promising products and markets. This was more of a "theoretical" Local PPD with no powerful effects in terms of competitiveness improvements.

All agents in the Vainlopó PPD knew each other and were used to collaborate. Whether in associations meetings or international fairs, they kept exchanging knowledge and concerns. Some of them even shared their clients. The concern is, however, that they had never shared strategic conversations before. The Spanish Federation (FICE) should have been more involved in the project (in particular in the lines of action).

Involvement of Sub-National and Local Levels

In Bages, all levels were involved (local, national and regional), but not in a comprehensive way. All actors developed a technology center, but they all failed to take into account the actual needs of the beneficiary, namely the business community.

The case for different in Vinalopó where new action lines were created to support the strategic change. This allowed the inclusion of different levels of the public administration: European, national, regional and even local. Local institutions (e.g. as the City Halls) relocated part of their resources to help develop the sector locally as it represented a significant part of local tax revenues and guaranteed job creation. For example, the Ajuntament d'Elx launched a land promotion to build an industrial area and to facilitate logistics between companies and their support industries.

Conflict Recovery Capabilities of the Local PPD

In Bages, the rigid focus has made it very difficult for the center to act with flexibility and take on conflict resolution tasks.

In Vinalopó, footwear agents, such as associations or institutions used to share some objectives and actions, mainly in legal aspects and labor conflicts but not in strategic aspects. Companies acted independently of each other, even though they were internal competitors. This Local PPD helped companies and institutions to act together against external competition by sharing common challenges and the agreed action lines. In the public administration, several relevant departments also used to act independently and lacked coordination. The Local PPD helped them to reorganize the actions and instruments for the sector among themselves but also in co-operation with the sector institutions.

Role of Development Partners

In the case of Bages, lots of funds and good intentions have allowed donors to promote new projects in similar areas within really addressing the actual problems in the region.

On the other hand, the public sector in Vinalopó has been supporting too many actions, some of which were not always aligned with clear competitiveness objectives. However, the revision of the strategies allowed some partners to adapt part of their programs and support company growth.

Monitoring and Evaluation

The effectiveness of the initiative in Bages is incorrectly measured. It assesses the center's capacity to effectively manage and spend project funds, as opposed its work's impacts on the sector and each individual business segment.

However, in the case of Vinalopó, many resources used for the Local PPD came from EU Programs (1986-2006), which sought to achieve the European Convergence Objectives. The monitoring and evaluation process applied was thus controlled by the EU. The measure used to monitor the Local PPD's results was the number of actions accomplished by companies in the strategic segments. Results were also controlled according to the type of actions that were supported by the subsidies or loan programs.

D.4 TWO CASES IN METROPOLITAN AREAS (INNOVATION, ENERGY EFFICIENCY)

Metropolitan areas pose special complexities to Local PPD since they are too heterogeneous, lacking the industry specialization that small-medium towns can have, and in many cases even the industry presence, since this has moved away from the metropolitan areas, so they are more residential and service areas.

That does not mean that Local PPD is not present in Metropolitan areas, it is, and sometimes even in too many forms, from local neighborhood assemblies to large metropolitan strategic plans. But they tend to concentrate on the kinds of city and services the residents want and not so much on how to generate the business to pay for it.

Catalonia is not an exception to that trend, any metropolitan area has to develop strategic plans, visions, roadmaps, all of them with wish lists of how they want to be and a long shopping list of infrastructures (high speed trains, airports, convention centers...) that “will bring development”. But that is not the kind of Local PPD that can teach lessons on how to develop more competitive and inclusive communities, so the choice of examples for case studies has focused on Local PPDs in metropolitan areas in which the primary objective is economic development.

The first case is from a large and ambitious process to transform an old industrial area in Barcelona, the Poblenou. In the early 20th century, this was the industrial heart of Barcelona, but later in the 70s most of these industries either moved outside the city or disappeared, leaving the space for warehouses, one of the lowest value added activities, or just empty.

The second case is more recent, and it is really just an attempt to use the Barcelona metropolitan area as a test ground for advanced new services in the energy area. The idea behind it being that by adding advanced services to existing products, localization barriers are built that protect against global competition, therefore there is a strong advantage in being close to large advanced user markets.

D.4.1 BARCELONA 22@: Upgrading the city's industries through public-private investment

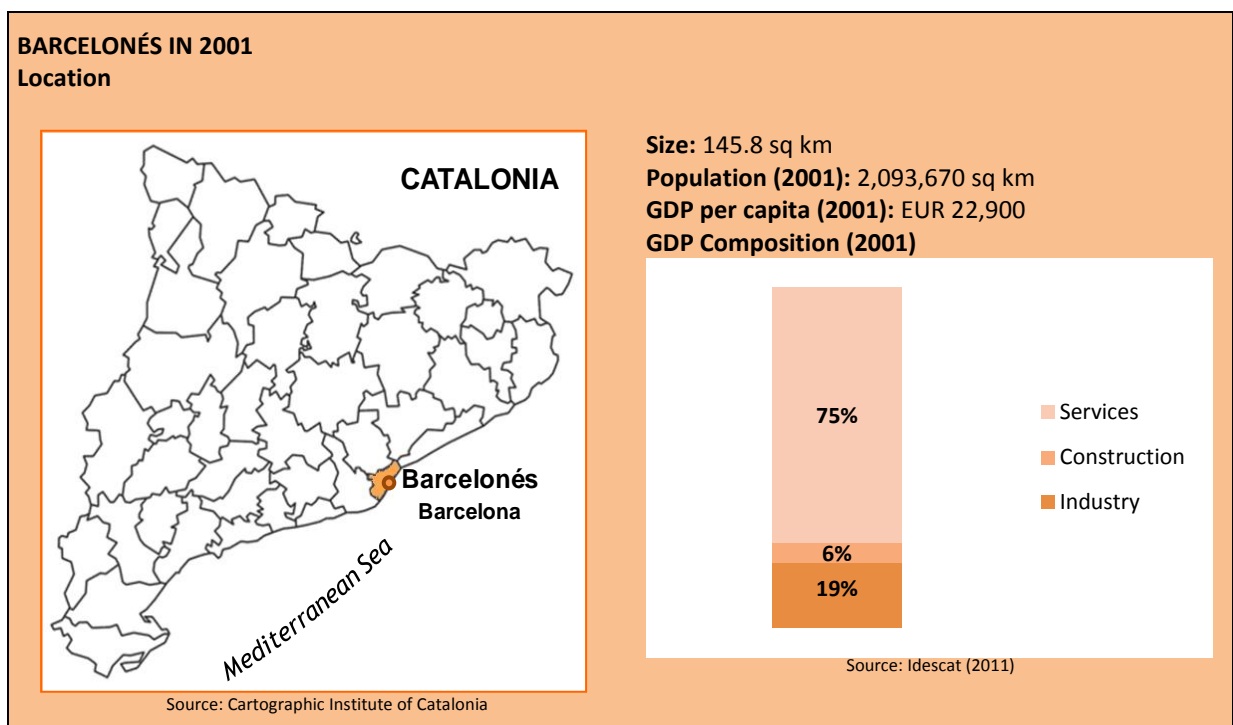
D.4.1.1 Origins and Evolution of the Local PPD

The Origins of 22@Barcelona

Barcelona 22@ is an ambitious initiative to transform an old semi-abandoned industrial area of Barcelona, which had the zoning classification number 22, to a more dynamic industrial area for clean, knowledge-based industries. This was assigned a new zoning code, 22@.

The origins of the idea in the early 1990s, after the success of the Olympic Games of 1992, came from the urban planning department of the Municipality. It was led by Ramon García Bragado, responsible for Barcelona's City Council's Urban Department, and Joan Clos, Mayor of Barcelona, as they wanted to develop the old industrial neighborhood of Poblenou.

A public company, wholly owned by the municipality, called 22@Barcelona was officially created on November 10th, 2000. Its purpose was to develop and execute all types of urban-planning projects in the industrial area of Poblenou to ignite business creation and activities linked to information and communication technology.



22@Barcelona started as an urban regeneration project aimed at creating a diverse business environment where innovative companies would co-exist with research, training and technology transfer centers, as well as with retailers, housing areas and green zones. The project favored the city's dynamism, making it more balanced, eco-efficient and cohesive. This was all based on an infrastructure plan for Poblenou, in which the criteria to implement

new infrastructure and service networks were specified. At that time, 22@Barcelona was going through a new phase of intense economic and cultural regeneration, moving from information and communication technology activities towards knowledge and technology-intensive innovation areas. Like almost any other city in Europe, the city expressed its wish to become an “international leader” in: the audiovisual sector, information and communication technology (ICT), bio-medical technology and energy. And like many others they were labeled as “clusters”, even though at that point they were no more than wishful thinking clusters.

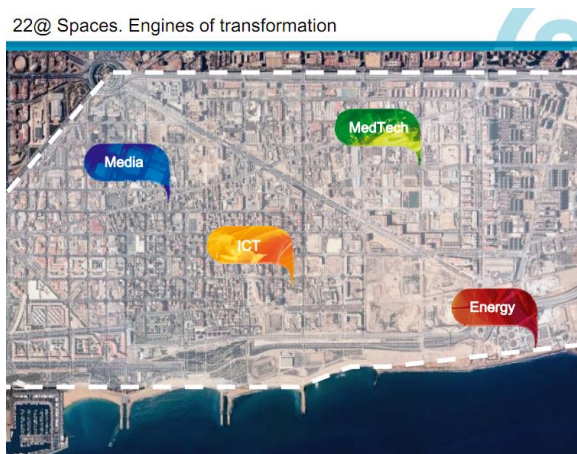
Adding the Sector-Specific PPD to the Urban Development

The tools and focus of that early phase were mainly urban planning, presenting some limitations to really push sector-based economic development. In 2004 an important change was made in that focus by bringing in an economic and technology development specialist to manage 22@Barcelona. He was Miquel Barceló, a well-known engineer who had been the shadow Minister of Industry, counterpart to Minister Subirà.

At the time he became the President of 22@Barcelona, the finances of the city of Barcelona were scarce and so was the public funding. This meant that a constructive dialogue with the private sector had to be developed. Miquel Barceló started working towards this goal by approaching the problem “cluster by cluster”. However, soon he realized that those “clusters” were too broadly defined and not adequate for a relevant Local PPD with companies. As a result, more narrow initiatives focused on strategic segments were carried out.

Over the years, different individual Local PPDs have been developed: shared services and technology and education in the ICT cluster, city and design (urban design products and services) in the design cluster and another PPD in the medical technology cluster. Those sector-specific initiatives were carried out to foster local competitiveness and attract national and foreign companies to the district.

Urban Clusters in Barcelona



Source: Ajuntament de Barcelona³¹⁸

(<http://www.upf.edu>), plus other universities' similar centers nearby, the national public

The projects were the result of intense dialogue with private sector and public institutions to concentrate their existing activities in other areas of Catalonia into the 22@, creating a critical mass of specialized infrastructure and knowledge in one particular cluster, and attracting other new industries. One successful example was the work done to convince a large media company **MEDIAPRO** (<http://www.mediapro.es/>) to move its headquarters, studios and technical center into the same bloc with the Universitat Pompeu Fabra Media Center

³¹⁸ Ajuntament de Barcelona,

http://www.brookings.edu/-/media/Files/rc/papers/2011/06_barcelona_metro_innovation/06_barcelona_22_presentation.pdf

radio offices, plus office space for media companies. And all of it was done without any subsidies, just with an intelligent requalification mechanism that allowed private developers to convert industrial zoning into 22@ zoning with higher building ratios, in exchange for returning 10% of the land to the city for green spaces, another 10% for social housing and 10% for common technological infrastructures (technology centers). All in all, the city only paid for some of the street paving and fiber optics infrastructure, but not all of it.

The best guarantee that those projects made sense was that only the total coordination and joint investment by the public and private sector made them possible. The private sector was not going to finance “white elephants” or political, wishful thinking projects. Barceló’s team made of young entrepreneurial MBAs was able to align those interests and provoke a remarkable success. Between 2000 and 2003, 489 companies moved into the 22@Barcelona district; between 2004 and 2006 this number increased by 552, and between 2007 and 2009 by 461.

Seizing the Success of 22@Barcelona

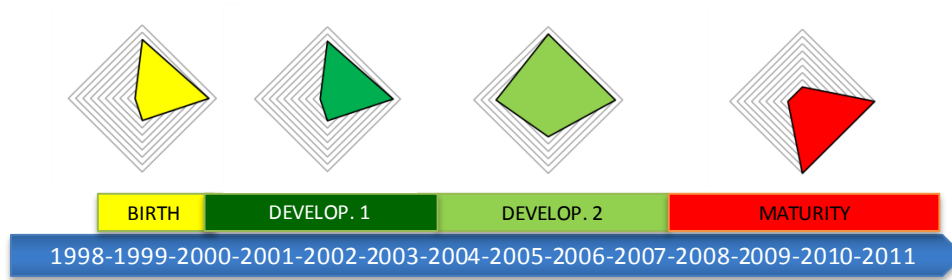
In 2007, just when the doubts about the future of the ambitious project were dissipated and it was already looking like a success story, with delegations coming to visit from all over the world, there was a change of leadership in the municipal government and the independence of 22@Barcelona was greatly reduced. 22@Barcelona was transferred to the Economic Promotion Department of the City Council (Barcelona Activa) with a politician, the deputy Mayor, Jordi William as the new President, replacing Barceló and a more technical manager, Mr. Josep Miquel Piqué was appointed CEO.

At the same time, the AEI Plan³¹⁹, launched by the Spanish Ministry of Industry, Trade and Tourism, started providing funds to labeled clusters, thereby promoting the legal registration of cluster organizations, and most of the informal Local PPDs were transformed or absorbed into legal entities so that they could receive these funds. That access to new resources directly given to the Local PPD platforms ended up with the role of 22@Barcelona as a strategic planner and coordinating agent for economic development in the area.

But given 22@Barcelona’s past success in Poblenou, the City Council decided to use it as the city’s Economic Development Agency working with all the sectors in the city, among others, fresh food, higher education, aeronautics or mobility. The merge with a traditional local development agency, even if it has increased the number of staff, has limited the tools and flexibility that 22@Barcelona had in the past. The question is if it will be able to do the job that it is being asked to do without the proper tools. A new municipal government, from a different party, has recently taken over and it is not clear yet how they will structure this area.

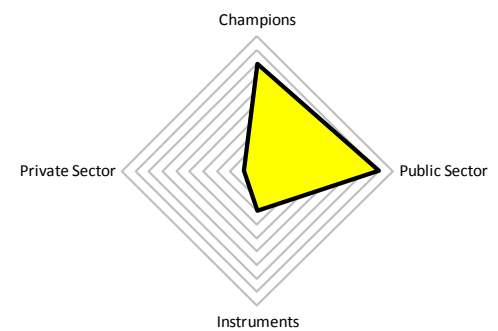
³¹⁹ AEI Plan is a Spanish cluster label of the National Ministry of Industry, Tourism and Trade which make clusters eligible for state subsidies. AEI means “Agrupación de Empresas Innovadoras”, Group of Innovative Businesses.

D.4.1.2 Public and Private Ownership in the Evolution of the Local PPD



- Birth

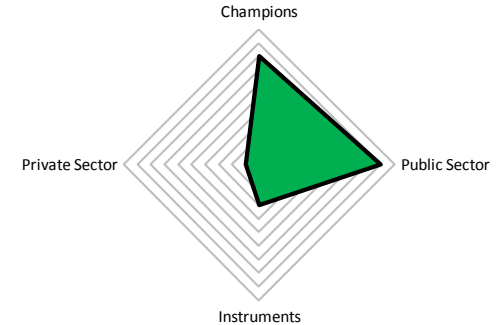
The Birth stage was marked by a strong leadership role of the public sector (the Urban Department of the City Council) led by Ramon García Bragado and the Mayor, Joan Clos. The dialogue was centered on urban planning and only a few companies were involved.



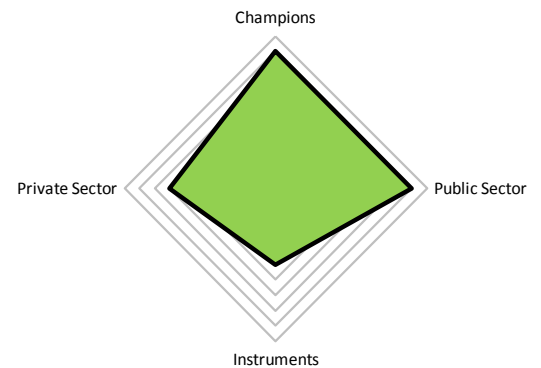
- Development

There were 2 different Development Phases.

Throughout the first phase (2000-2004), the focus was on real estate development and the Local PPD was not being driven by companies. The diamond in this phase is therefore similar to the Birth stage.



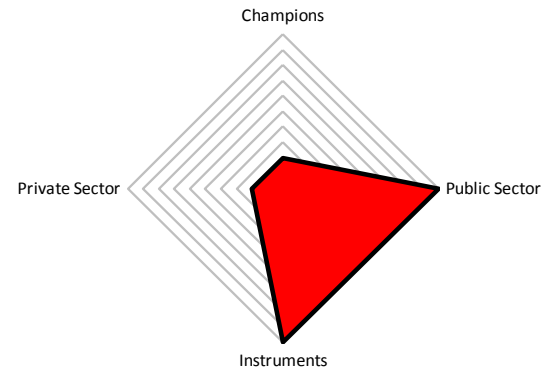
In the second phase (2004-2007), a sector-specific focus prevailed. The Local PPD was championed by 22@Barcelona's President, at that time, Miquel Barceló. The lack of public funds in this stage forced Barceló to find ways to include the private sector in the formulation and implementation of the development objectives. This was also accomplished and the private sector got efficiently involved in the dialogue.



- Maturity

This phase was started off with a change in the CEO position from Miquel Barceló to Jordi William and Josep Miquel Piqué as CEO. 22@Barcelona has been also transferred to the Economic Promotion Department of the City Council, following its rules and procedures. 22@Barcelona became an agency of the City Council, thereby limiting its flexibility to make innovative joint actions with the private sector.

This structural change also implied that the 22@Barcelona's projects relied more on public financing; therefore there were fewer incentives to bring the private sector on board and to let companies scrutinize those projects. The Local PPD checks and balances that the private sector put in place when public funding was scarce were gradually being lost.

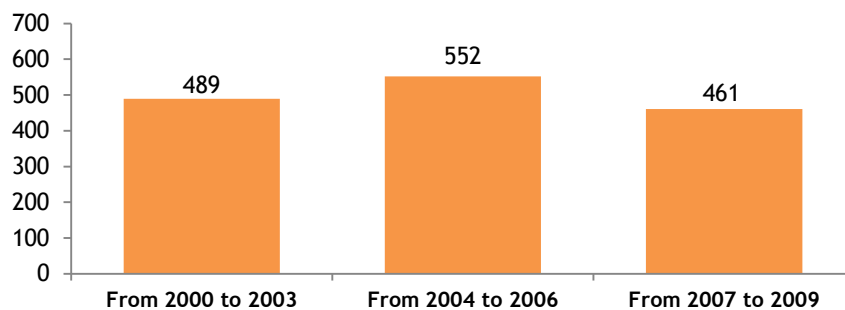


D.4.1.3 Overall Impact of the Local PPD on Competitiveness

With regards to the impact on the urban plan, the Local PPD accounted for 2,830,596 m² of floor space in the total approved plans as of 31 December 2009. This is more than 136,837 m² of land dedicated to facilities, 119,720 m² of land for open spaces and nearly 3,000 housing units with some sort of public subsidy. 65% of the Poblenou industrial area is under renovation with 117 approved plans, 78 of which (66.7%) were promoted by the private sector.

The regeneration of the district has led to the establishment of 10 universities with more than 25,000 students, 12 R&D and technology transfer centers. Moreover, as can be seen below, the 22@Barcelona business census has been growing since 2000.

Evolution of the Number of Companies located in 22@ (2000-2009)
(2009 Census=1,502 companies)

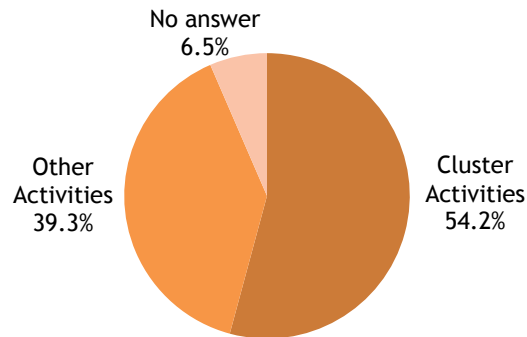


Source: "10 years of 22@: the innovation district", Barcelona City Council (2010)

The Local PPD carried out has also had an impact in terms of the type of activities that companies in 22@Barcelona carry out, as shown below:

22@ Companies Active in One of the 5 Clusters

(Census sample = 603 companies)

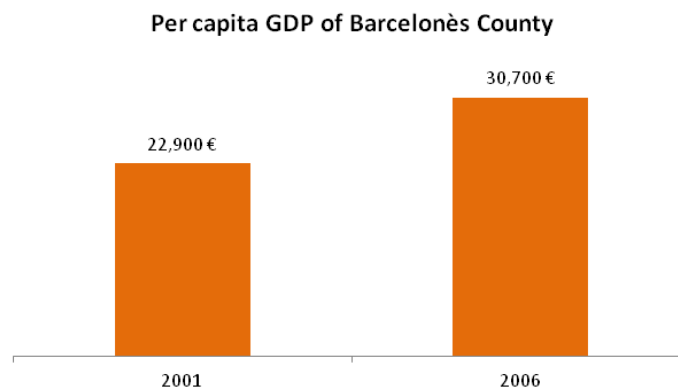


Source: "10 years of 22@: the innovation district", Barcelona City Council (2010)

With regards to jobs, the number of employees in the 22@Barcelona area has increased to 44,600. This increase is a result of the combination of more companies in the district and existing companies hiring more workers.

One criticism could be made of this Local PPD process. 22@Barcelona gave a specific use by business typology to the floor space sold to companies. Should companies want to leave the area, it will probably be difficult to find another technology company that wants to buy it. This is a likely long-term effect that should be taken into account.

Although measuring competitiveness at a company level is difficult, it is possible to say that the global balance of the process has been very positive for the companies and the county. The following figure shows that GDP has grown by 34% in the county between 2001 and 2006.



Source: Idescat, 2001-2006 (base 2005)

This case shows that, in general, it is easier to get things right in a Local PPD when the private sector is needed in order to make things happen. The public sector, originator of the process, had no sufficient funds to carry out the initiative *solo*, and had to heavily rely on the private sector (local companies, private universities, etc.). This meant that the projects that

were proposed were permanently scrutinized by its beneficiaries who felt ownership for the whole process. However, the case also teaches us that when public funds are actually available, the chances of losing focus and leaving the private sector aside are greater.

D.4.2 ENERGY EFFICIENCY CLUSTER: Looking for a Sustainable Business Model in Barcelona

D.4.2.1 Origins and Evolution of the Local PPD

Energy Efficiency Initiatives in Barcelona

With global energy demand, prices growing at an unprecedented pace, and the traditional energy resources becoming increasingly scarce, energy efficiency is a key channel towards securing more stable and sustainable energy access.

Given the security and economic prospects related to energy access, the Catalan Government together with researchers and the private sector launched collaboration initiatives on several fronts. This case study presents the example of Barcelona, a city that hosts a significant number of domestic and international companies acting in the field of energy efficiency.

In 2000, two initiatives kicked off in Barcelona: the Diagonal-Besòs Campus³²⁰ and the Catalonia Energy Efficiency Cluster (CEEC), both a result of the efforts of the aforementioned public-private research agents. While the first focuses on transforming knowledge into efficient economic activity (thereby emphasizing research-industry collaboration channels), the latter is a stronger public-private process case that is largely supported by the knowledge and know-how transfer undertaken within the Campus. Given the stronger public-private dimension of CEEC, this case study focuses on the CEEC initiative.

The CEEC Initiative: Too Broad for a Sector-specific Local PPD

CEEC was formed in 2009 by local Catalan companies, supported by both the regional and national Government. The CEEC aims to offer innovative and integrated energy-efficiency solutions to the market, combining different products and services from the value chain, including products, installation, maintenance and management. The starter of the initiative was the Catalan Energy Institute (ICAEN) of the Catalan Government, which worked to implement the Catalan Energy Plan and also coordinated the private enterprises' application for funds provided by the Spanish Ministry of Industry, Tourism and Trade under the Group of Innovative Businesses Plan (AEI Plan).³²¹ The other two main actors at the start of the process were the Regional Development Agency of the Catalan Government (ACC1Ó) and the bTEC Foundation, which is a public-private research foundation created to lead the design, organization and management of the Diagonal-Besòs Campus.

³²⁰ First, the Diagonal-Besòs Campus is a vast research park launched by the Barcelona Technological Innovation Foundation (bTEC). The Campus is expected to span on an area of 77,332 m² devoted to teaching, research and business to be used by universities and companies. The Consortium encompassed the Technical University of Catalonia, University of Barcelona, the Catalan Government and the Barcelona Chamber of Commerce.

³²¹ AEI Plan is a Spanish cluster label of the National Ministry of Industry, Tourism and Trade which make clusters eligible for state subsidies.

In its early stages, CEEC's companies focused on communication, organization and lobby for energy efficiency without a real strategic direction. At this point, bTEC offered to act as facilitator³²² to develop a Strategic Plan for the Energy Efficiency Sector in Catalonia.

The first step taken by the facilitator was to differentiate between the various business segments that existed in the efficiency sector in order to explain how companies aligned in the same business or activity share similar competitive challenges. In this sense, being part of the same segment was an important pre-condition of a successful collaboration.

Given the presence of several businesses under the "energy efficiency umbrella", the segment of energy efficiency for buildings was selected as the focus area for the strategic plan. Two criteria were used to make this decision, it was the segment with the greater number of companies; and it had the highest energy expenditure: the building industry consumes two fifths of global energy production.³²³

In order to differentiate that initiative from the whole CEEC (cluster), it was given a different name so that it could be identified. The project name given to the local energy efficiency for buildings PPD was bEfien.

³²² Recruiting, training and coaching of the facilitator were provided by Competitiveness.

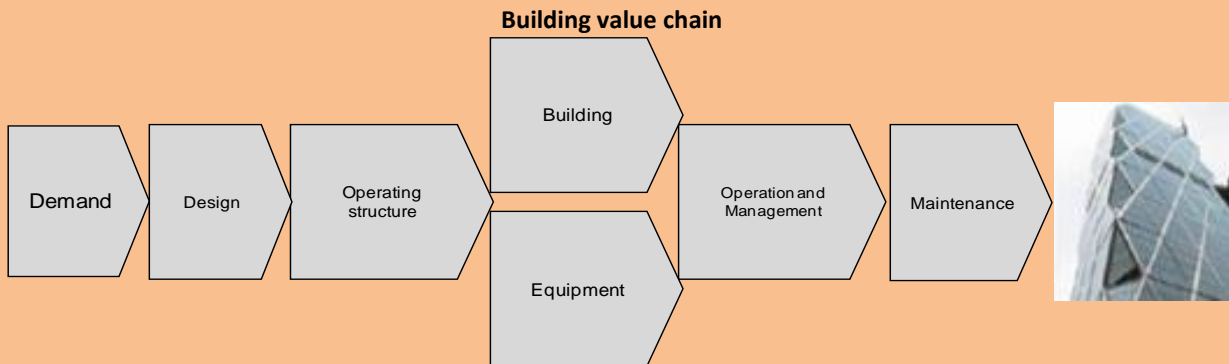
³²³ Roodman and Lenssen, "A Building Evolution: How Ecology and Health Concerns Are Transforming Construction", 1995.

Energy Demand and Building Efficiency

Energy efficient heating and cooling technologies in buildings possess a great potential for dramatic reductions in energy demand, according to the International Energy Agency (IEA).³²⁴ IEA estimates that buildings (residential, commercial and public) account for one third of the globe's total final energy consumption.

Challenges

The current functioning of the building value chain (see chart below) consists of a large number of actors interacting in a sequential way, with no one taking responsibility for the building life-cycle cost (Total Life Cost-TLC). Nevertheless, the costs of building operation and maintenance far outweigh TLC.



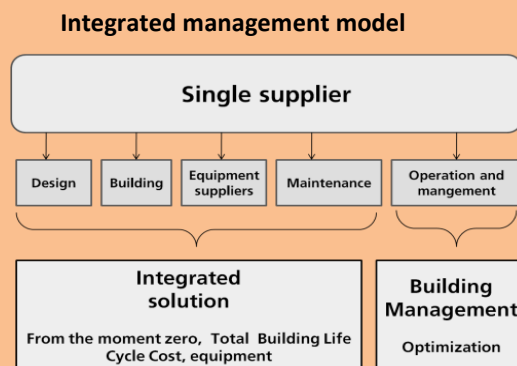
Source: Competitiveness, 2008

To optimize supply management and operation and maintenance, a shared responsibility principle needs to be embedded in the value chain.

Energy efficiency as a tool of profitability

It is important to mention that energy is the highest building operation cost item. Therefore, an adequate knowledge of energy efficiency is essential to guarantee a profitable management of the building throughout its entire life cycle

An **integrated management model** starts with an initial design phase that takes into account the future use of the building, and that considers management fees and the maintenance of equipment and structures.



Source: Competitiveness, 2008

³²⁴ Technology Roadmaps - Energy-efficient Buildings: Heating and Cooling Equipment. International Energy Agency. http://www.iea.org/publications/free_new_Desc.asp?PUBS_ID=2400.

The Absence of the Public Sector when It Was Needed

After sharing the strategic analysis, an action plan was defined emphasizing the importance of the public sector's role in sophisticating the demand for energy. The model to achieve this was the inclusion of various energy efficiency criteria in public sector buildings, formulating legislative reforms to raise performance requirements in buildings, thereby opening up opportunities for innovations in the field. Basically the objective was to develop a business model of building and operating public buildings, first in Barcelona and then expand it abroad.

An example, obtained during a reference trip to Sweden, showed that the role that the public sector had to play in developing this business models was crucial. The leading example was Akademiska Hus, a private company owned by the Swedish Government, which owned and managed all academic buildings in Sweden, investing in their energy efficiency with impressive results, 50% energy cost reduction in six years.

The Catalan and Spanish public sector, which had been so eager to promote the AEI, the bTEC and other efforts, were not able to react in time and coordinate their internal procedures to facilitate the change of business model, by creating a Barcelona equivalent of Akademiska Hus, or similar.

Fortunately some of the participating companies in the bEfien Local PPD understood the challenge and went ahead towards that integration. The merger described in the article below, between a construction company COMSA and an operator of installations and facilities management EMTE, which took place soon after the Development Phase of the Local PPD, is a good indicator that the dialogue was useful, despite the limited response from the public sector when it was most needed.

Article published in "Expansión" on May 7, 2009

CREAN UN GRUPO DE 2.200 MILLONES DE EUROS

Las constructoras Comsa y Emte confirman su fusión

Publicado el 07-05-2009, por José Orihuela/Sergi Sabarrit, Barcelona

El grupo constructor Comsa y la compañía de instalaciones Emte han confirmado esta mañana su fusión, tal y como ha adelantado EXPANSIÓN en exclusiva en la edición de hoy. La nueva compañía estará controlada en un 70% por la familia Miamau, dueña de Comsa, y en un 30% por los actuales propietarios de Emte: familia Sumarroca, Caja Madrid y Banco Sabadell.



Jorge Miamau y Carles Sumarroca se funden en un apretón de manos para sellar el acuerdo. Grupo COMSA EMTE.

La nueva sociedad sumará una facturación de 2.200 millones de euros, por lo que se convertirá en la octava compañía española de infraestructuras y en el segundo grupo no cotizado del sector.

El presidente de Comsa, Jorge Miamau, asumirá la presidencia del nuevo grupo, mientras que el consejero delegado de Emte, Carles Sumarroca Claverol, será el vicepresidente. El objetivo es que en un plazo de cinco años se produzca un reequilibrio accionarial, de forma que los dueños de Emte elevarán al 40% su participación en el grupo y los socios de Comsa pasarán a controlar el 60%.

La nueva Comsa-Emte contará con 8.600 empleados y aglutinará 60 sociedades en doce países que actualmente cuentan con una cartera de obra contratada de 3.000 millones de euros. El grupo operará en cuatro áreas de negocio: infraestructuras (ferroviarias, civiles, edificación, anillos y prefabricados); ingeniería y sistemas (instalaciones eléctricas y mecánicas y mantenimiento); medio ambiente, servicios y logística; y concesiones y energías renovables.

El negocio inmobiliario, al margen

Según fuentes del nuevo grupo, los negocios inmobiliarios de ambos grupos quedarán al margen del proceso de integración. Así, no pasarán a formar parte de la nueva empresa la cartera hotelera y de edificios en alquiler del grupo Comsa y otros activos propiedad de la familia, como una bodega y la empresa de aceite de oliva La Boella. Por su parte, la familia Sumarroca mantendrá también al margen los otros negocios que actualmente ya gestionaba de forma separada a Emte, como la constructora Teyco, General Lab y la bodega Sumarroca.

Con la fusión las dos compañías catalanas pretenden reforzar su presencia internacional y crear "un proyecto empresarial atractivo para los mejores profesionales" gracias a su "solvencia financiera y crecimiento sostenido". Según la empresa, la integración supone "una clara apuesta de futuro" y la mejor fórmula para "multiplicar las capacidades de ambas organizaciones, que son totalmente complementarias".

Según Jorge Miamau, "la estrategia del nuevo grupo se orienta a alcanzar un mayor tamaño que nos permita competir en proyectos de mayor dimensión, tanto en España como en el extranjero". Por su parte, Carles Sumarroca ha explicado que "hoy damos el primer paso para la creación de una compañía mejor y más fuerte. En el actual contexto económico Comsa Emte tiene la oportunidad de abordar nuevos y mayores proyectos con un impulso renovado y aportar valor a sus empleados, a sus clientes y a las comunidades donde desarrolla su actividad".

Article translation:

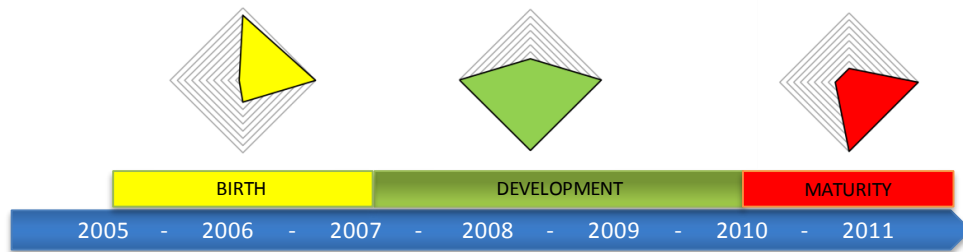
"The Construction Companies Comsa and Emte Confirm their Merger

The construction group Comsa and the facilities company Emte confirmed their merger this morning, as it was foreseen by EXPANSIÓN in an exclusive report in today's edition. ... The new corporation has a total income of €2.2 billion. With this figure, the company is now the eighth company in the Spanish infrastructure and the second one that is privately held.

...The new company, Comsa-Emte, will have 8,600 employees and will encompass 60 companies in 12 countries that currently hold a customer base of €3 billion worth in contracts. The group will operate in four main areas: infrastructure (railroads, civil, edification, aggregates and prefabricated); engineering and systems (electrical and mechanical installations and maintenance); environment projects, services and logistics; and public concessions and renewable energies."

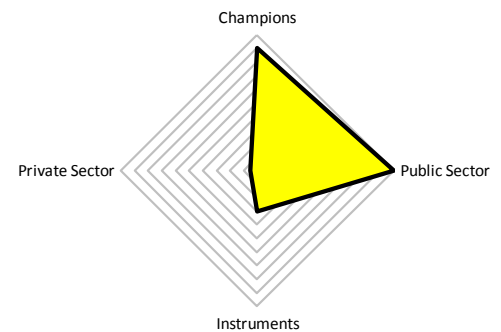
Source:<http://www.expansion.com/2009/05/07/catalunya/1241691058.html>

D.4.2.2 The Public and Private Ownership in the Evolution of the Local PPD



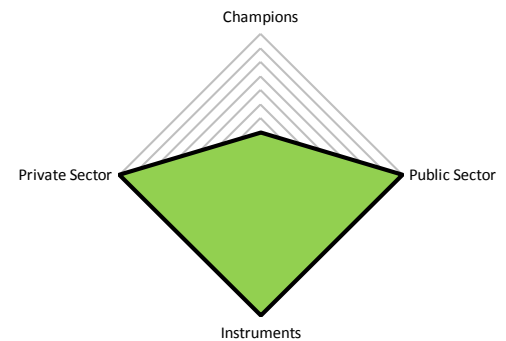
- Birth

The initiative was launched by the Catalan government and the Catalan Energy Institute (ICAEN, also a government-led institution), which championed the collaboration. This case is a politically driven example as it came to life just before the socialist and green parties coalition was formed with the goal to support and strengthen the ties with local businesses.



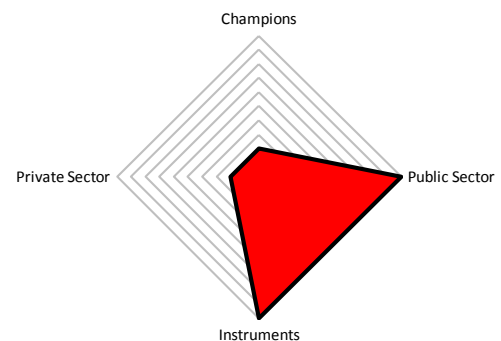
- Development

A group of private companies constituted the original Board and became the actual owner of the initiative as the cluster developed. The public sector's role was to provide support through policies and funds to keep the cluster developing.



- Maturity

As the cluster organization evolved into a more professionalized structure, and the funding from the public sector grew. The public sector became a co-owner of the whole process, providing support and funding without constantly questioning the project's legitimacy.



D.4.2.3 Overall Impact of the Local PPD on Competitiveness

Measuring the impact of the local PDD in the sector's competitiveness appears difficult given the different segments involved (energy efficient buildings, construction companies, street battery charger producers, electric utilities and others have different value chains), and therefore the different ways in which competitiveness should be measured.

However, it becomes clear that the Local PPD, with its too broad approach, has not been able to build up any real common competitive advantages. Although the cluster (CEEC) structure is composed of several working groups, their activities so far have been very project-oriented with limited strategic focus. Re-defining the cluster's overall vision and adapting it to the needs of the individual segments will be needed to increase participation and to be able to effectively evaluate results.

All in all, some companies did react to the initiative's message and took individual actions to better compete in the energy efficient building business. An example of this was the merger of two large Spanish companies, COMSA and EMTE.

As a concluding note, this case is a good example of how Local PPD initiatives can highlight the need for the public sector to become a sophisticated buyer of complex solutions provided by the private sector, thereby igniting the demand for new and innovative business segments. In this case, the adjustments of the public procurement policies did not take place, mainly because it was easier to subsidize structures like the CEEC AIE than to reorganize the way government purchased and managed its building. Maybe the initial partners from the public sector, the Institute for Energy or bTec were not the right ones to carry out this Local PPD, and other parts of the government (the building owners) should have been involved.

D.4.3 Learning from Local PPD Implementation in the Metropolitan Area of Barcelona

The Champions

In the case of Barcelona 22@ Innovation District, the champions have been changing over the years. At the beginning, with the Public sector as the initiator, the Champions were both Ramon García Bragado, responsible for the urban department, and the Mayor, Joan Clos. During the 2nd Development Phase, Miquel Barceló boosted the Local PPD.

Whereas in the Local PPD on Energy Efficiency in Barcelona, it was a government initiative championed by ICAEN, which coordinated the private enterprises' application for funds coming from Madrid in its 1st call for proposals under the Association of Innovative Businesses (AEIs). The Local PPD was thus born as a reaction to the availability of government funds. The process, therefore, aimed at making profit from available funds with no previous analysis of the actual needs of that industry.

In the Development Phase, it was hard to establish a common vision among companies. This made different interests prevail among different actors.

As the Maturity Phase approaches, the external funding ‘mindset’ and the lack of a common vision are still a reality that involves significant challenges for the upcoming transformation stage. Furthermore, it will now be very difficult to transform the initiative in a way that would benefit the participants, especially considering the fact that energy efficiency is a very popular topic and that the people involved have very high profiles.

The Facilitators

The facilitators in 22@Barcelona have been changing over time according to the skills needed at each stage. In the Birth Phase the facilitators were the staff of the Urban Department of the City Council as they adapted laws and developed the urban project.

During the 2nd Development Phase, high level professionals with business management skills became the facilitators as they were able to negotiate with companies. The consulting firm that was hired to focus on the Local PPD was also acting as a facilitator.

In the last part of the Local PPD, the Maturity Phase, as 22@Barcelona became busier managing all the sectors in the city (and not only the 22@ clusters), and despite having skilled professionals on board, its capacity to negotiate with all the companies involved was lost.

This has not happened in the case of Energy in Barcelona, where the original facilitator had neither strategic thinking skills nor an adequate mandate to implement the Local PPD. In the Development Phase, a new facilitator was trained in the methodology to reinforce the competitiveness of companies throughout the initiative. However, in the Maturity Phase, this facilitator suffered budget cuts and changed from being a fund provider to becoming a fund receiver, seeking to use the initiative to recover its fixed costs. As a result, the facilitator’s position ceased to exist.

Sector-Specific Scope

In both cases the focus at the start was too broad and represented some initial mistakes involving the wrong agents in the Local PPD.

In 22@Barcelona, initially the Local PPD’s focus was far too broad and companies failed to see the benefits of the process. A first attempt was made to narrow the focus using 5 clusters: energy, ICT, design, medical technologies and media. In the 2nd Development Phase, it was decided that clusters were still too broad and continued narrowing the focus to be able to better access companies. As a result, and with the help of a consulting firm to narrow towards a more sector-specific scope, several other smaller Local PPDs were developed. An example that illustrates this is the energy cluster, which initially included too many companies in different businesses: energy producers, energy distributors, battery manufacturers, distributors of solar energy panels, electric installers, home automation, etc. Once the focus was identified, a smaller Local PPD was launched just with the agents working in the business for energy efficient buildings. All the companies involved in that sector-specific Local PPD shared common interests and challenges.

In the Implementation phase, they started facing other focus problems as a result of becoming the Economic Promotion Agency of the city and having to deal with a much larger number of sectors and companies.

In a similar initial way, the case of Energy in Barcelona illustrates the ‘wrong birth of a Local PPD’, which rightly brings together stakeholders around one common goal (promoting energy efficiency), but fails to differentiate the distinct business models in the process.

In the Development Phase, the new facilitator (bTEC) tried to address the lack of focus with a strategic segmentation that helped identify the business of efficiency for public buildings (b-Efien initiative). The segmentation, therefore, was crucial to narrow down the focus on the service/client pair dimension which was embedded in a very specific value chain.

In the Maturity Phase, the focus dispersion was brought back when all the companies registered at the AEI were asked to participate in the initiative, even those that had nothing to do with the specified business segment.

The rapid growth of the public sector had a negative effect on the Local PPD as it prevented it from becoming an effective sophisticated buyer for the energy for buildings segment and to restructure its procurement programs to buy from those local companies that were in fact changing towards that sustainable and efficient business model.

International Links and References

Today, 22@Barcelona is a benchmark for cities such as Rio de Janeiro, Boston, Istanbul and Cape Town in urban, economic and social transformation issues. 22@Barcelona’s model is studied and followed by science and technology parks worldwide, some of which have established successful relationships from mutual collaboration. However, being a reference could become a problem for 22@Barcelona should this turn into self-complacency and a lack of self-criticism.

In the case of Energy, the main motivation (and justification) for bringing together such a broad and versatile group of companies was to replicate other clusters. However, the mistakes made by those clusters were also replicated locally.

In the Development Phase, a trip was organized to Sweden to visit Akademiska Hus, a government-led initiative in Sweden. The Swedish Government has brought all its academic buildings (later they did it with offices and security buildings as well) under one company’s ownership with the goal of investing jointly and thereby achieving energy savings. The initiative was successful as the buildings managed to reduce energy consumption by 50% (measured per square meter) in 6 years. However, all the learning and knowledge transfer regarding this experience was interrupted after the trained facilitators were dismissed without keeping information records for subsequent facilitators.

Outputs: Action Lines and Recommendations

Almost all the outputs in 22@Barcelona during the Local PPD had to do with infrastructure, as they came directly from the urban plan. However, knowledge outputs as a result of involving companies in the process were also reached during the 2nd Development Phase. These outputs are difficult to reach as they need complex negotiation processes.

In relation to local Energy PPD, numerous actions, small projects and training are under way. This creates the impression that the business is dynamic and evolving in the right direction.

However, in terms of competitiveness, these piecemeal actions are not sufficient to give the Catalan companies an edge in relation to its competitors (they are already doing similar things). Catalan companies are doing the minimum required and certainly not enough strategic actions to develop a sustained competitive advantage.

Outreach and Communication

The Local PPD of 22@Barcelona shows 2 phases regarding communication: the first stage and the implementation stage.

The first stage is centered in internal communication. For example, the stakeholders of the urban project who were against the urban plan, the neighbors, can be included here. It is worth highlighting that the 22@Barcelona team was able to include all the agents in the process (the local communities, the neighbors, etc.) at the right moment.

During the last stage (implementation), especially with the entry of the new mayor, Jordi Hereu, the City Council started to use 22@Barcelona's image for political purposes.

In the other case, one of the main challenges to refocus the Local Energy PPD was the media's high interest in the initiative since its inception. This was fostered by the government at that time which wanted to attract the media's attention to capitalize politically from launching the actions linked to the initiative.

The Structure and Participation

In 22@Barcelona, during the Birth Phase and the 1st Development Phase, the structure consisted of technical staff that could implement the urban plan.

During the 2nd Development Phase, Miquel Barceló surrounded himself with a small, highly-skilled team capable of negotiating with the Private sector. They also had the complicity of the Mayor who could influence political decision-making at the city level.

During the last phase, the City Government change and the integration with Barcelona Activa occurred, breaking the dynamism of the previous phase: 22@Barcelona lost direct contact with the mayor and became dependent on the deputy mayor and middle management decision makers. At the same time, the staff at 22@Barcelona changed. Economic Development professionals were brought in but they lacked the necessary skills to negotiate with private companies. 22@Barcelona became an executor of the City Council, but was not able to influence political decisions.

However, the Energy case had a structure before it had strategy, as one requirement of the funding process was the existence of a legal entity to receive the funds. The rules of the bidding game also stated that the structure had to remain independent.

The participation was originally based on a selection process in which some companies connected to the field of energy and energy efficiency, and entitled to ask for funds were selected. The selection process, however, was very short and did not include a due identification of suitable candidates. Today, the CEEC is managed by large enterprises that represent their own interests.

The Mandate and Institutional Alignment of the Local PPD Stakeholders

An initial merit in the 22@Barcelona case is the fact that the Local PPD was external to the City Council. This provided more flexibility and speed when talking with the Private Sector. The Local PPD was strengthened during the Miquel Barceló's phase with a highly skilled team that negotiated with the private sector and influenced adaptations on the City Council afterwards. This was during the last stage of the Local PPD, as they passed to report directly to the City Council, having to also fulfill their requirements.

On the other hand, in the Birth stage of the Energy case, the initiative was promoted by different Ministry departments. The Economy Department was in charge of the energy agenda, while all other industrial reinforcement initiatives belonged to the Enterprise Department. Both Departments were led by different political parties and had different mandates. While the Economic Department's mandate was to save energy, the Enterprise Department's mandate was to promote the competitiveness of companies.

The Development Phase proved that, despite the efforts to address the Departments' division by creating Steering Committees, this was a problem difficult to fix as the representation levels were uneven: ICAEN was represented by the Director General who reported directly to the Minister, whilst ACCIÓ was represented by a project officer who was six levels under the Minister.

Involvement of Sub-national and Local Levels

Even though the Local PPD of 22@Barcelona was initially planned inside the city of Barcelona, other neighboring municipalities were included to the extent that certain projects required it.

In relation to the Energy case, the AElS applied to the whole region of Catalonia. However, one of the lessons learned from the bEfiEn initiative was that it is more effective to start with a test city that can become a procurement reference for the rest of the region. For example, the international reference case in Sweden took place in the city of Borås, a relatively small city that adopted the first innovative energy-saving model for its own buildings.

Conflict Recovery Capabilities of the Local PPD

In the case of 22@Barcelona, conflict solving (example: neighbors against the project) was better done working outside the City Council. This is lost as 22@Barcelona loses neutral ground and becomes integrated with the City Council.

In the case of Energy, as explained before in the explanation of the Local PPD, the design of the AEI to call for proposals (structure, focus, financial requirements, etc.) created more problems than it solved. This continues to be the case and needs to be urgently addressed by the stakeholders.

Role of Development Partners

One of the main strengths of the Local PPD of 22@Barcelona is that it has been done without any external help. There was no initial master plan with funds coming from Spain or Europe where everything had to be planned initially and actually, the merit of beginning as an idea that has been adapted according to requirements.

Regarding Energy, the Spanish Ministry of Industry, Trade and Tourism (the donor) ended up achieving the opposite effect to the one originally envisioned. Asking companies to create consortia to bid for grants does not necessarily mean that companies with high innovation potential will be joining the group. Many times, companies that are successful in bidding contests turn out to be the ones with sufficient idle resources (to participate) and not the ones innovating or growing.

Monitoring and Evaluation

The evaluation of the 22@Barcelona Local PPD has been done according to the first focus that was planned. It assumed new employment creation and more companies being established in the area. The return of investment of the Local PPD has been extremely positive considering the small amount of money that was invested by the City Council.

In contrast, as in many other public-funded projects, the focus of the evaluation in the case of Energy is the proper execution of the budgeted items, as opposed to measuring the impact on sector competitiveness.

D.5 TWO CASES IN CLUSTERS INTEGRATED TO INTERNATIONAL VALUE CHAIN (MOTORCYCLES, MOULDS)

When industries become global, they tend to expand their value chains across a continent or even across different continents. Some of the original industry clusters may remain as home-base clusters; others may become just one link in the value chain. These clusters are more concerned with what is happening in the home-base cluster than what is happening locally.

In Catalonia, two converging phenomena accelerated the local clusters' integration into global value chains:

- The **autarchic industries** that developed before 1970s did not have the capabilities to compete in the open markets, which made them an easy prey for multinationals eager to enter the Spanish market of 40 million consumers.
- In the 1980s and 1990s, Spain counted as a low cost producer within the European Union, however, this changed when the Central and Eastern European countries joined the EU in 2004 and **competition** increased.

The Regional Government understood that this kind of PPD had to be different and that the clusters' future could not be decided in a local dialogue, but required understanding and involvement of the actual orchestrators of the value chains. Minister Subirà was aware of these requirements and kept a very fluid relationship with the headquarters of the main multinationals. His frequent visits to Japan resulted in the Emperor awarding him the Order of the Rising Sun in November 2003 for his contribution to the dialogue between Catalonia and Japan.

The cases presented in this section are very different:

- The Motorcycle industry is an example of a local industry that insists on maintaining a privileged dialogue with the regional government, while the whole industry has moved to another scale.
- The Mould-makers case shows how a value added supplier industry could have taken advantage of the "pass" by Catalonia for the leading Consumer Electronics companies, but it didn't.

D.5.1 MOTORCYCLES IN BARCELONA: Facing the Unbalanced Dialogue with “World Champions”



The main motorcycle manufactures in Spain are located in the industrial belt of Barcelona, particularly the county of Eastern Vallès, which has for decades been home to the main motorcycle manufacturers such as Derbi, Montesa-Honda, Yamaha and many suppliers. The county has been very diverse and encompassed industrial areas but also large natural parks and woods. The presented aggregate data snapshot for the county from 1996 thus serves as a reference to the location where the Local PPD took place and should be considered with caution.

D.5.1.1 Origins and Evolution of the Local PPD in the Motorcycle Sector in Barcelona

A Dialogue with Champions

In the case of the motorcycle industry in Barcelona, the dialogue has always been driven by “the Champions”, namely a company called DERBI, which got 19 World Motorcycle Racing Championships for Spain.

19 World Motorcycle Racing Championships



Source: DERBI, <http://www.derbi.com/>

³²⁵ Idescat

In 1969 Angel Nieto, won his first World Championship riding a 50cc racing DERBI motorcycle. His victory in the next four years in a row made the Catalan manufacturers to national heroes as well. This industry's story is thus one of the few cases where the Spanish technology became known worldwide while it was still a poor developing country.

These moments set the tone for collaboration between the motorcycle industry and the government, making it a dialogue between “national champions” and “national government”. A testimony of the dialogue in the sixties is less visible; however, the rules of the collaboration were evident: *“You win championships and put Spain on the map, and we protect your market”*.

Protectionism and Dialogue

DERBI made impressive investments in engine technology and produced high performing motorcycles in the race field, while the domestic market was protected by tariffs or cumbersome technical regulations. These kept the international competitors, such as the Japanese Honda and Yamaha outside.

The protectionist dialogue involved the key actors from the technical departments in the Ministry of Industry and DERBI's Board Secretary, Mr. Marc Garreta, a lawyer representing the industry association. The industry regulations were clearly orchestrated for a protectionist purpose. For example, scooters were required to have pedals identical or similar to those that DERBI had (actually the name meant “Derivados de la Bicicleta” bicycle derivatives) or weight just and an amount less than the Japanese models.

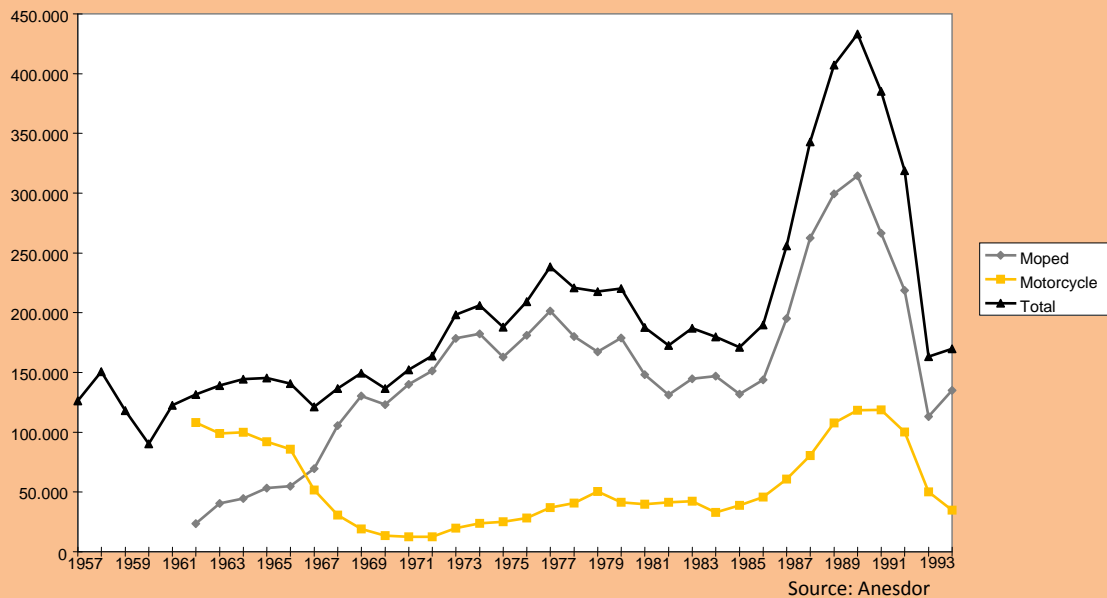
The situation changed dramatically after the opening of the Spanish economy in the late 1970s, which meant the demise of the motorcycle industry. Manufacturers such as Bultaco and OSSA were closed and Montesa was acquired by Honda and Sanglas by Yamaha. From that time on, the “enemy” was at home, and the silo of the industry dialogue was between the “national firms”, basically DERBI and a few smaller ones, and the Japanese competitors.

THE EVOLUTION OF THE CATALAN MOTORCYCLE INDUSTRY

Between 1940 and the beginning of the 1960s the motorcycle sector was developed in an autarchic economy characterized by a corporatist economy with restricted offer, which was not adapted to the existing increasing demand.

The motorcycle industry history from the end of the Spanish Civil war until the beginning of the 1990s was marked by three periods of crises: the one at the beginning of the 1960s, which was caused by the spread of the automobile, the one at the end of the 1970s, which emerged after having finished a productive model without competence or technology innovation capacity, and at the last one in the early 1990s.

The three crises of the motorcycle



DerbiAntorcha, 1965 model 49cc



Source: DERBI, <http://www.derbi.com/>

The launch of an utilitarian car, the SEAT 600³²⁶ and the automobile expansion, made the motorcycles' demand decrease considerably during the 1960s. That situation triggered a structural change inside the companies, which started to specialize on attractive segments (mainly mopeds and what were known as "mountain bikes"). This required the development of certain technology and a product that fitted the demand needs. (it also allowed exportation to the United States, as Bultaco did).

However, these new competitiveness advantages diluted soon and two big problem areas were responsible: those referring to technology development and to market orientation.

Regarding the first element, companies were not investing enough in R+D and in general technology, and kept an

³²⁶ The most popular car in Spain during the 1960s and 1970s. http://en.wikipedia.org/wiki/SEAT_600.

obsolete production system unable to easily adapt to change, such as the changing regulations of external markets. The second problem was related to fact that companies did not follow the market developments. As a result of the autarchy effects and a strong protectionism, the product model offer became reduced. The fact that the demand covered the entire production made companies somewhat lazy to innovate and improve. This company culture became a weakness with the opening of the Spanish market and the increasing competition from the Japanese and Italian companies who possessed products with higher technology, quality and design.

From the end of the 1970s, the contacts with Japanese manufacturers were intensive and sought to address these problems. The new dynamism implied several acquisitions of Spanish companies. During the 1980s, the cluster was characterized by a deep modification in the motorcycle offer, with the spread of Japanese models across all market segments. This context marked the beginning of the current cluster situation.

Source: Competitiveness, El microcluster de motocicletes al Vallès (1995)

The Competitiveness Reinforcement Initiative of 1995 in Catalonia

It was in this context when the Industry Department, which facilitated the entrance of the Japanese multinationals, thought that a Local PPD would enable collaboration between them and the national players.

This was the stimulus for the first Competitiveness Reinforcement Initiative in the Motorcycle sector in Catalonia in 1995, which was launched by the government and a designated consulting firm, Cluster Competitiveness, which acted as a facilitator. After initial difficulties of bringing the Spanish and Japanese manufacturers to the same table, the facilitator opted for quick inroads using the connections of suppliers who were working for both sides and learnt a lot from the most advanced, the Japanese.

A reference trip to small manufacturers premises in Italy and a visit to the large ones, namely Yamaha, Suzuki and Honda in Hamamatsu in Japan made it clear that in order for the motorcycle industry to achieve the required scale, a European-wide effort would be necessary and not only the Catalan one. The numbers speak for themselves: the minimum efficient scale for an engine manufacturer was 500,000 engines, while entire Europe was manufacturing less than 2 million. In addition, the production was spread among 14 different manufacturers. Hence, none of the Catalonia-based companies was even close to the minimum efficient scale.

The Europe-wide Initiative of 1996-98

As a part of the effort to shift the discussion to the European level, the results of the Local PPD were presented in the Executive Board of the European Motorcycle Manufacturers Association (ACEM), which was at that time chaired by Giovanni Alberto Agnelli, the President of Piaggio and heir apparent of FIAT. His and ACEM General Secretary's (Bernd Thomas) reaction was enthusiastic. Soon, they took the initiative into their own hands and championed the initiative, the European Scooter Supplier Project, at the European level.

THE EUROPEAN SCOOTER SUPPLIER PROJECT 1996-98

Project Objectives and Envisioned Results

The project's main objectives were defined as follows:

- To achieve a two-tier supplier structure for the scooter industry. 1st Tier Suppliers would assume the role of leaders in the component systems development. 2nd Tier Suppliers would coordinate their developments through 1st Tier Suppliers.
- To develop joint programs in technology, production processes, quality systems, and similar among non-competing tier 1 and tier 2 suppliers in Europe.
- To identify potential standardized components that would need non-European technology.

Project Process Dynamics: Key Ingredients

Change in attitude and trust

The process dynamics for the program acted at three consecutive levels of action:

- Helping internal strategic change in the supplier company.
- Building trust within suppliers.
- Building trust between supplier groups, or tier 1 suppliers, and manufacturers.

Facilitators

A key issue in the process was the **independence of the facilitators** who were clearly distinguished from manufacturers and were backed by the European Commission as a guarantee of their neutrality.

Project Main Activities

The process included several strategic analysis, reflection and trust building activities. The following list summarizes the most relevant ones:

- Three rounds of strategic thinking workgroups.
- Presentations of situations with strategic challenges that the supply companies were facing or would face in the future (technological innovations, new competitors, market trends variations and others).
- Individual self-diagnosis of Participant Suppliers.
- Participant Suppliers Joint Diagnosis and Performance Measurement Indicators.
- Benchmarking Trips: A benchmarking trip to Japan was carried out by all the participants of the project in order to understand state of the art best practices of strategies, operations and industry relationships.
- Working groups: The last phases of the project were dedicated to the celebration of several workgroups to work in different cooperation initiatives. Two kinds of initiatives were developed: the Horizontal Cooperation Initiatives (open to all the industry) and the Cooperation Agreements (between companies).

Benefits of the Project

Beyond formal process indicators, the overall project success were expressed in terms of real benefits accruing to the scooter supply-chain:

- Manufacturer relations improvement: The active participation of manufacturers purchasing departments and others in joint visits to suppliers, inter-cluster meetings and benchmarking activities facilitated a better exchange of purchasing best practices. The joint activities carried out had two rounds of visits to 31 participant suppliers, always including a minimum of 2 manufacturers. 14 Spanish companies participated in the joint initiatives. In the case of handlebar sub-assembly in Barcelona, Derbi, Montesa-Honda and Yamaha España worked jointly in order to define how the sub-assembly service should be organized.
- Supplier relations improvement: Both competitors and complementary suppliers improved their common knowledge, sharing strategic challenges and joining cooperation projects.
- Inter-cluster knowledge: National boundaries overcame by a deeper collaboration (joint ventures,

consortiums, etc.) of suppliers and manufacturers from three different countries.













- Cost reduction: Substantial cost reduction benefits were identified and specific proposals were made in a pilot project. The initiatives with more direct economic gain were those related to the standardization of components. The handlebar sub-assembly could entail significant savings for manufacturers related to outsourcing employees, which increased flexibility and transfers to the suppliers, responsibility for quality control and the second tier supplier management.
- Time to market reduction: Time to market in the bottleneck of the development processes (plastic parts development) was reduced by suppliers' and engineering companies' stable cooperation. Reduction in new product development time was key for the success of scooter manufacturers. Two suppliers, Themaplast and the Spanish Clipterplast, together with an engineering company (SPM), developed a new company to offer to the manufacturers the full development of plastic parts for new scooters. The joint responsibility of the three companies to the manufacturers was an additional guarantee for the latter.

Source: Competitiveness /ACEM/cluster project "European scooter suppliers project" 1998

The project had an important impact on the industry in its initial phase, although the leadership of its two champions ceased as Bernd Thomas, a BMW executive, had to retire, and Giovanni Alberto Agnelli suffered a rare illness and died very young.

The industry, however, consolidated only as a result of market forces, and not due to the orderly discussions that the European level dialogue had offered: Piaggio, which was acquired by a private equity firm, initially began supplying their engines to old competitors that could not afford the high development costs required by environmental friendly engines. DERBI started using Piaggio's engines in some of their models and, in 2001, was purchased by them together with the other competitors. The loss of DERBI, the "national champion", led to a further concern of the sustainability of the industry and the Industry Department decided to conduct new market diagnostics in 2006.

Sector Profile in Catalonia - MANUFACTURERS

Estructure	Company	Logo	Employees	%	Billing (million)	%	Units produced (*)
Integrated in multinational groups	Yamaha Motor España SA		440	28.4	318	37.6	99.000
	Montesa Honda SA		371	24	305	36.1	45.000
	Nacional Motor SA		331	21.4	96	11.3	50.000
Catalonian manufacturers	Gas Gas Motos SA		173	11.2	53	6.3	15.000
	Rieju SA		112	7.2	30	3.5	Nd
	Beta Trueba SL		20	1.3	11	1.3	5.000
	Sherco		55(*)	3.5	12(*)	1.4	6.500
	Famoto		5	0.3	Nd	Nd	500
Paramanufacturers	Factory Bike		Nd	Nd	Nd	Nd	3.800
	Clipic		19	1.2	0.5	0.05	5.000
	Motos Bordoy		12	0.7	16	1.9	nd
	CSR Motorcycles		9(*)	0.6	3.5(*)	0.4	2.300
Totals			1.547	<100	845	<100	

Source: Diagnosi del sector motocicleta i ciclomotor, Observatori de Prospectiva Industrial, 2006

The AEI (Group of Innovative Companies)

With the industry in dire straits, the remaining players, namely the small manufacturers and suppliers used their historic leverage to get funds from a national program for “groups of innovative companies” (AEI). The also created an association and debated many similar issues that had been discussed at the Catalan and European level in the last 15 years. The need for a strategic change in the sector was one that definitely stood out. At that time, the only difference to previous efforts was the institutionalization of the discussion into a formal organization, subsidized by the public sector.

The dialogue, as was already agreed in 1996, could not progress unless taken to a European level. With no change on this front, the previous Catalan efforts to save the industry were thus futile. But even at the European level, there was a sense that the opportunity was gone.

“L’AIRBUS de la moto ne peut pas fonctionner”³²⁷ says Jacques Compagne, today the General Secretary of ACEM and at the time of the European Scooter Suppliers Project and a senior manager in PEUGEOT. The project had proposed that smaller players like Peugeot or DERBI shared the engines and other standardized parts that required high R+D costs, while maintaining their own personalized design and commercial strategies, but it was never

³²⁷ Interview, July 2011.

accepted. During that project, Aprilia's founder proposed via the facilitator to join efforts with DERBI via a common engine manufacturing plant, but DERBI rejected this idea for relationship reasons. They both ended up building their engine plants and selling their companies, at no value, to their arch rival, Piaggio.

The Electric Motorcycle

But the story was not over yet. The Catalan motorcycle industry, always in fluid dialogue with the Catalan government, identified a window of opportunity in the latest trends towards electric transportation, the "green car". So why not "green motorcycles" as well?

Their traditionally strong lobbying power positioned them conveniently to obtain a substantial subsidy for the development of an electric motorcycle. However, by that time, the only local player left was RIEJU, one of the smallest companies and a couple of suppliers. The possibility of offering a full service in connection with urban public transportation (similar to the bike share system in Barcelona) was considered since this would assure commercialization via the public sector. Nevertheless, this opportunity ended up not pursued. The main obstacle was the requirement to involve new partners in the dialogue, which in practical terms meant redistribution of subsidies that had already been allocated among the existing partners. Thus, the Catalan electric scooter was developed but its utilization was uncertain.

The End of the Champion

In 2011, Piaggio, now owner of DERBI, announced they were going to close their plant in Barcelona and move the remaining production to Italy.

Given the pressure from the trade unions and the historical importance of DERBI and the motorcycle industry overall, the Catalan government decided to "save" the motorcycle industry (or what remained of it) and allocated €12 million in the middle of a deep financial crisis.

Online article published by Bernat Garcia in "Expansion", June 6th 2011, Barcelona

"Government's strategic plan to save the Spanish motorcycle industry"

Following the announcement of closure of Yamaha's and Derbi's plants, which account for three quarters of motorcycle production in Catalonia, the Regional Government has been forced to launch what it calls a strategic plan to save what remains of the industry and attract new manufacturers.



Source: <http://www.expansion.com>

The proposal, presented to industry representatives, is based on lines of funding and subsidies and the promotion of legislative changes to increase the demand for these vehicles.

The Government, through ACCIÓ, will open a credit line of up to €12 million for the development of new models and to take steps toward making electric motorcycles, and to facilitate mergers and acquisitions. The Government will also open a line of grants of up to €1 million to finance new business opportunities, as explained yesterday the General Director of Industry, Joan Sureda.

Some of the measures agreed by the regional government are challenging to achieve, for example, lower the minimum age to obtain a moped license that the central government has set to 15 years old. Mr. Sureda explained yesterday that they tried "open the debate" to rethink this measures.

Another measure that is highly controversial is the so-called green card authorization, and artifice to enable these drivers to enter areas like parks that are hitherto restricted. These are some of the measures created to encourage a higher demand for motorcycles.

Those who were not there

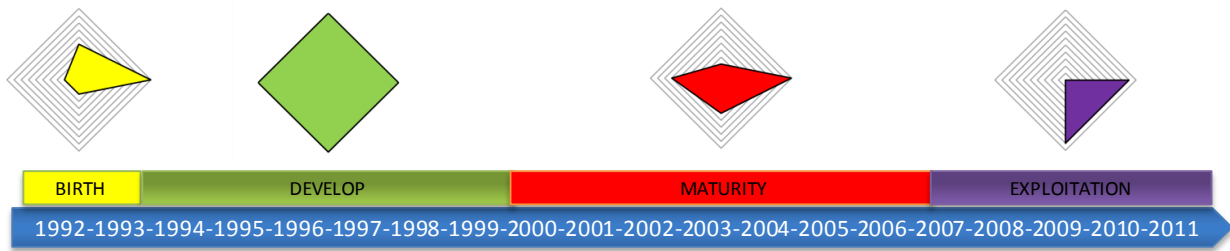
Among those attending the presentation of the strategic plan were manufacturers like Rieju, Gas Gas, Ossa, Derbi, Sherco, Volta Motorbikes and Motorbikes XispaAlfer. By the input providers' side were Manaut, J. John Part and FACOMSA Motor Racing. Honda (which has moved its production to Italy) and Yamaha (that has its closing process paralyzed after the central Government rejected its Regulatory Record of Employment) did not attend the meeting. "We have invited everyone, if they did not come, was by their own choice," said Mr. Sureda in the subsequent press conference.

A senior executive of the department of Business and Employment pointed that Derbi was present but with a less active role at the meeting. On the record of Yamaha, Mr. Sureda avoided to give details on the negotiations. The Rieju's CEO, Jordi Riera, said his brand is about to start producing electric motorcycles from June on. Mr. Riera is also the president of the motorcycle cluster.

The plan also envisages attracting more investment under the name of Catalanian's Motorcycles, using the Invest in Catalonia's team. Sureda said that negotiations will be organized to attract manufacturers, but did not put any name on the table. The Government will also promote the creation of a center of excellence in R & D and will continue working on the risk map of the sector."

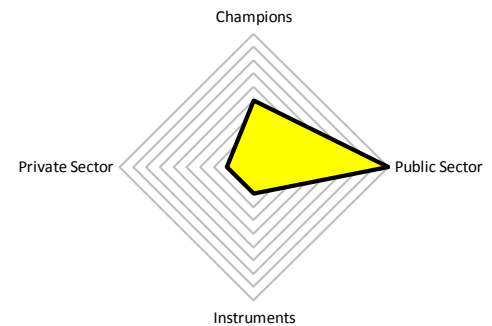
Source: <http://www.expansion.com/2011/06/06/catalunya/1307374008.html>

D.5.1.2 The Public and Private Ownership in the Evolution of the Local PPD



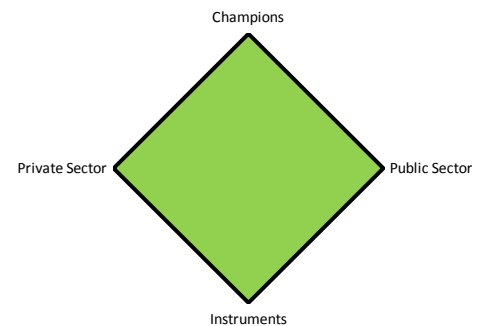
- Birth

Back in the early industry origins, under Franco's dictatorship, there was no room for dialogue and the relationship between the motorcycle manufacturers and the regime was just a convenience. A real dialogue attempt in Catalonia began in the early 1990s when the Industry Department introduced the Competitiveness Reinforcement Initiative. The initiative remained a public one and the private sector's role was very low as a result of the strong division between the national and Japanese manufacturers (involvement of one or the other would have created a boycott of the other side).



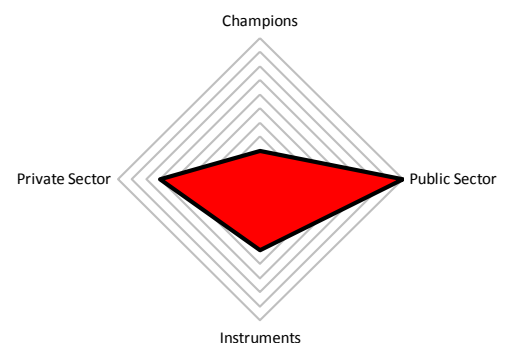
- Development

The Development Phase started first at the Catalan level and achieved a balanced participation of the private sector (the national and international original equipment manufacturers (OEM) and suppliers), the public sector and the new champions coming from the suppliers' ranks, such as Jaume Xicola, who was the CEO of NADSL, and Carlos Juan, the CEO of JJUAN. When the dialogue expanded to the European level, the champion became Bern Thomas, the General Secretary of ACEM. Instruments were also amplified: the European project was funded with EUR 1.5 million in equal parts by suppliers, OEM and the EU.



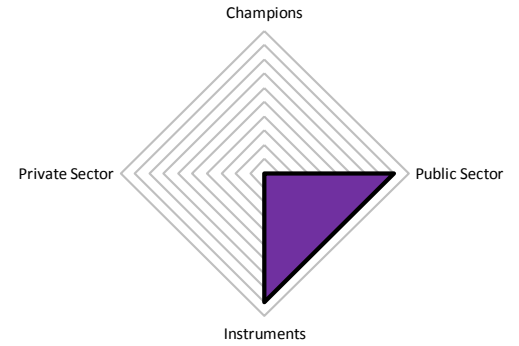
- Maturity

Once the strong instruments (meetings, seminars, international trips and other) of the European project wound down and with Bernd Thomas' retirement and the death of Giovanni Alberto Agnelli, the European impulse and the role of champions vanished.



- Exploitation

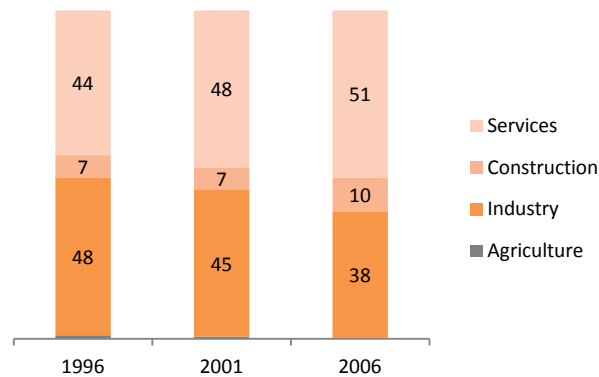
Unable to reinvent itself into a new business model (the urban transportation project using an electrical motorcycle), the manufacturers resorted back to producing machines that run and “create emotions”. Each national champion (DERBI in Spain, Peugeot in France and Piaggio in Italy) returned to discussions with their own governments, which in some instances became almost coercive.



D.5.1.3 Overall Impact of the Local PPD on Competitiveness

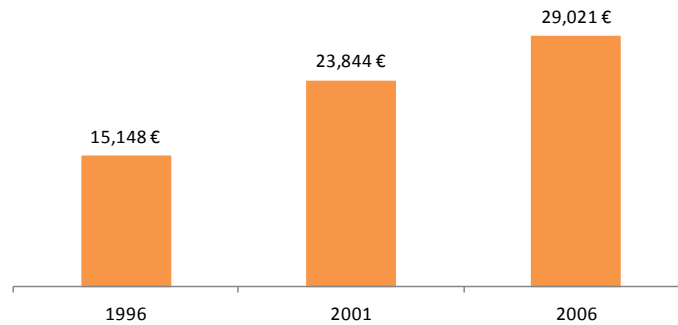
Although the attention of the Local PPD has frequently been directed on decisions related to closures of plants (and ways to avoid it), some of the suppliers that used to be at the mercy of the strong OEM embraced more enthusiastically the initiatives to reinforce competitiveness, both at the Catalan and European level. These were able to quietly grow their business in terms of product and service complexity as well as in the geographical scope. GDP per capita in the Eastern Vallès County has been growing but the industry share of GDP continues to shrink over the years as shown below.

Eastern Vallès County-GDP Share Evolution 1996-2006 (%)



Source: Idescat: 1996 (base 1995), 2001-2006 (base 2000)

Eastern Vallès County - GDP per capita



Source: Idescat 1996 (base 1995), 2001-2006 (base 2000)

Two examples of companies that became champions and recorded growth were JJUAN and NADSL. The first one evolved from a small cable producer to a technological company that has plants in China and develops complete braking systems for major companies such as Harley Davidson. NADSL moved from being a supplier of seats to the national champions to a leading producer of boxes and seats for motorcycles worldwide.

NADSL



Source: NADSL website

The origins of NADSL date back to 1973 when Jaume Xicola Gascón founded the company in Eastern Vallès not far from Barcelona. From the very outset, the company was dedicated to manufacturing seats for motorcycles. In this initial stage, it manufactured seats for motorcycle companies located in or around the county, such as DERBI, MONTESA, BULTACO, SANGLAS, etc. Later, during the 1980s, the sector underwent a significant industrial overhaul, which was when NADSL began its cycle of growth taking advantage of the entry of the main Japanese motorcycle manufacturers into the European market: YAMAHA, HONDA and SUZUKI. At the same time, the company began supplying to PIAGGIO Spain which, combined with their Japanese manufacturers clients represented a significant industrial step

forward for NADSL. This client portfolio catapulted the company into the list of the top ranking European manufacturers of motorcycle seats. However, it wasn't until the early nineties that NADSL began to manufacture seats for the major European manufacturers, such as PEUGEOT, BMW and MBK (YAMAHA France).

Between 1998 and 2010, NADSL began to get even more ambitious and technologically complex projects until it eventually became the leading European manufacturer of primary equipment (seats and top cases) for the main brands of motorcycle manufacturers in Europe, and the second most important company in the world for manufacturing and marketing top cases. It distributes the SHAD brand under its trademark and is in more than 60 countries worldwide.³²⁸

³²⁸ NAD SL, <http://www.shad.es/>

JJUAN

Although the national champions had failed, the supplier industry took advantage of their presence to build up a first market and expand their products and services worldwide. The question that Carlos Juan, present CEO of JJUAN kept asking himself was: “is there any reason for us to still keep this large plant in Catalonia, or should we move everything to China?”³²⁹ Companies such as JJuan are a good example of how individual companies understood and took advantage of the PPD started by the regional government in 1995 to redefine their strategies, their investments and above all, their ambitions.



Source: JJUAN website

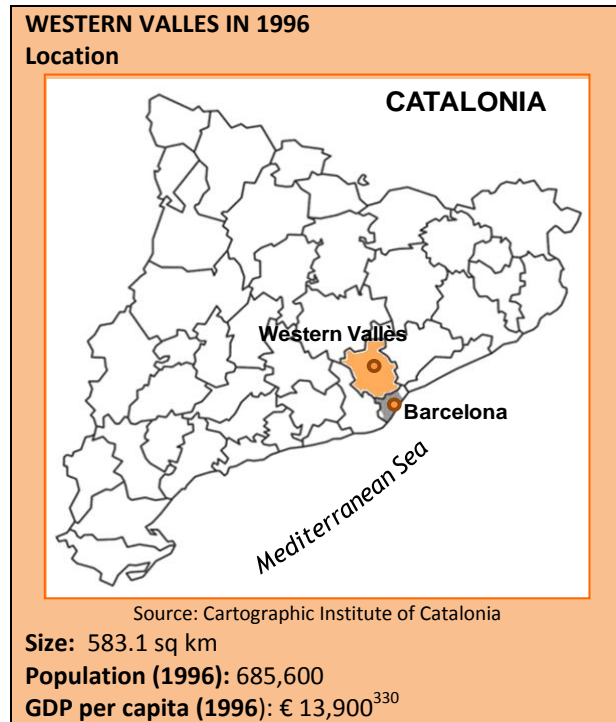
In this case, the public sector, through the Local PPD process, made several attempts to keep the motorcycle industry in Catalonia, while the industry itself was inevitably going global. It is also a case where the dialogue naturally moved from the local level to a European level, posing several challenges to champions, facilitators and other actors involved in the process.

D.5.2 MOULD MAKERS IN VALLÈS: Losing an Opportunity to Add Value in Consumer Electronics

D.5.2.1 Origins and Evolution of the Local PPD

In 1994, Spain accounted for 10% of the electronics production in the EU. From this, 84% was produced in Catalonia's Consumer Electronics Cluster. Apart from the large multinational manufacturers, an important network of related companies, mainly the suppliers of personalized components such as plastic molders, metal pieces and printed circuit boards (PCB) were present there. Despite their position as dominant suppliers for large companies, only a few were able to achieve a level of quality and costs comparable to global supplier companies. To address the gaps in their competitiveness, in 1995, the Regional Government of Catalonia launched a Local PPD initiative amongst the Government, the manufacturers and suppliers. Most of them were located in a County called Western Vallès in the Barcelona industrial belt.

³²⁹ Interview, July 2011.



A Successful Case of Foreign Direct Investment (FDI)

In the early 1990s, Catalonia was, together with Wales, a model case for FDI, especially in attracting manufacturing plants of Japanese companies. Spain had just joined the European Union, its labor costs were still low compared to the European levels and Eastern Europe and China were still not on the competitive map. With this advantages and an aggressive FDI policy, an important concentration of consumer electronics companies, including Samsung, Hewlett Packard, Sony, Sanyo, Sharp, and Panasonic emerged in Catalonia. These companies were expanding their production capacity in both, existing and new products. Approximately 54 firms with a total turnover of €600 million and 5,000 workers participated in the cluster.

New Demands from the Consumer Electronics Firms

Two types of demand had to be met by large electronics firms: the demand for basic products compatible in all countries and the demand for locally adjusted applications. On the supply front, two types of suppliers were needed:

- Global suppliers of standard components with whom they could collaboratively develop their products.
- Personalized components suppliers who were able to deliver low costs and supply at the continental level (Europe).

Overall, the production had to be large enough to serve the high market demand and to achieve lower costs.

The Threats from Eastern European Competitors and the Launch of the Local PPD

In the mid 1990s, suppliers in Vallès began to face the competitive threat from the Eastern European countries. As a result of the growing market (sales for Sony in Eastern Europe increased from 10% to 30% in 1994), sales and the number of potential competitors increased. The need for improved cost effectiveness and the upgrading of the production became clear.

³³⁰ Idescat

In this setting, the Catalan Government recognized the need for a Local PPD. The objectives were clear: to foster and encourage actions to reinforce local competitiveness. The initiative was undertaken under the supervision of the General Industry Department of the Catalan Government and was one of Catalonia's ongoing Local PPDs that followed the conclusions of a preliminary study of the same department about competitiveness advantages of Catalonia. The initiative was also managed by the same facilitator, the local consulting firm, Cluster Competitiveness.

Local PPD: Adding Value to Consumer Electronics

A preliminary analysis carried out by the facilitator found out that given the little value added and labor cost dependency of the assembly operations, it would be more profitable for mould makers to move their operations to lower cost countries. The focus of the Local PPD was thus on sustaining the supplier base in Catalonia. The goal was to develop the know-how and scale while the assembly operations were still in Catalonia, but also to better prepare for the eventual relocation of the industry abroad.

An analysis of the Vallès consumer electronics cluster pointed out that in some manufacturing processes, such as moulders or small weight pieces production, there was a strong continental dependence of the supply. One example was TR Fastenings, a British manufacturer of screws, which supplied to three European Sony factories in Spain, Germany and United Kingdom. Their continental focus was a result of two main factors:

- **Cost:** as a result of the price drop suffered in the consumer electronics products at that time, a constant pressure on cost reduction, both in procurement and production, was inevitable.
- **Experience:** the supplier-buyer relationship and learning had some positive spill-over effects on further expansion of businesses to other client subsidiaries in Europe.

This was also the case of the Catalan producers. In order to decrease their production costs, Catalonian suppliers had to increase their capacity to (1) obtain economies of scale and (2) have the capacity to supply quality components to the entire European continent. Vallès, compared to other similar areas in Europe, was in a good position to undertake this transformation, considering its industrial history, which spurred the development of important know-how in the manufacturing process.

Moving from Assembly to Co-development

By the end of the 1990s, it was clear that the assembly operations were going to disappear in Catalonia. The only “contract manufacturers” were opportunistic operations, which sought to reduce the number of employees in the OEMs³³¹ that could not compete anymore with global contract manufacturers such as Flextronics.

³³¹ OEM: Original equipment manufacturers.

The Local PPD relied strongly on the local management from the multinational companies (mostly Catalan), which saw their “sister plants” in other countries as their real competitors about to take away their assembly operations. Their competitor’s plants in Vallès, on the other hand, were perceived as allies in building a more attractive cluster for consumer electronics production. Their strategy was to convince their headquarters to locate more product development capabilities to their plants, since those jobs had a higher value added and did not depend only on lower cost. It was also clear, however, that most of these jobs were not in the design phase, but in the industrialization of product development, such as product engineering, mould development and testing and product certification.

The Local PPD thus involved the Engineering and Design Schools in developing programs to support Product Development capabilities, and two already prestigious institutions already present in the Vallès, the ASCAMM Technology Center³³² (a mould makers association further explained below) and the LGAI (Catalonia’s Testing and Certification Laboratory).

The LGAI, a government-owned organization, followed the recommendations of the Local PPD that had pointed out important deficiencies in its functioning, and made significant investments in anechoic chambers to speed up their electromagnetic compatibility test and certifications, among others. LGAI was also serving the automotive sector, where a similar strategy to globalize suppliers was followed. Their owner, the Catalan Government, realized that to facilitate its international growth along with the Catalan suppliers, it needed to be privatized. After this decision was put into practice in 2000, the organization became Applus+ (www.applus.com), which today is a US\$ 1.3 billion company with a worldwide presence.

Role of ASCAMM in the Upgrading of the Mould Makers

To boost moulders’ performance and innovation, a program was launched that involved nine moulders, two OEMs (Sony and Hewlett Packard) and the Catalan Government, which provided a small financial contribution.

ASCAMM played a central role in the program together with the Local PPD facilitator. The program included a series of custom-made case studies to encourage moulders to merge and create partnerships with international partners in order to gain scale and access to international markets. A trip to visit mould makers in Singapore and Japan was organized.

The results were not encouraging and a second attempt was made a few years later under a European Union program, this time involving not only the Catalan molders, but French and Portuguese as well. However, no mergers, creation of large companies, or international expansion followed.

Decline of the Consumer Electronics Production in Catalonia

Meanwhile, the consumer electronics cluster suffered a dramatic transformation and in 2011, manufacturing has almost disappeared. Only two of the companies have developed significant product development activities, curiously those that supported the Local PPD: Sony, which

³³² ASCAMM website. <http://www.ascamm.com/en/Entity/index.php>.

maintains a TDT Research Center, and HP, which has its Large Printer Division headquartered in Vallès.

Other mould makers have suffered enormously from the delocalization of production to Eastern Europe and the Far East, and have seen their numbers halved in the last years with the more significant companies disappearing and the remaining ones put in danger by the present economic crisis.

ASCAMM Technology Center³³³

ASCAMM is a design and industrial production technology centre, which was set up in 1987 by the Catalan Association of Mould and Die Manufacturers. In 1997, it became an independent entity and has the form of a private non-profit foundation. ASCAMM Foundation is located in the Vallès Technological Park and stretches over an area of 11,000 m². It has 130 employees, most of whom are technical staff.

ASCAMM's objectives are:

- To generate, through their own research and development activities, technological knowledge in the production technologies field.
- Transferring this knowledge to the industry and facilitating its usage.

Annually, more than 200 companies are involved in over 70 ongoing, collaborative research, technology development and innovation projects, in which it is the leader or a technical partner. To date, the center has generated 8 patents of industrial application, 4 technology-based start-ups and 12 innovative technological products. Most of ASCAMM's know-how focuses on the design and production technologies field, in particular those related to polymers and metals (ferrous materials and light alloys), and composites.

The second objective, the knowledge transfer, is done through contract R&D projects, technological services, advisory services, training, and the dissemination of knowledge through conferences, publications, and other.

ASCAMM Foundation actively collaborates with more than 500 companies in the transport (in the automotive, aeronautics and railway sectors), industrial equipment, energy, biomedical and healthcare (devices and equipment), packaging, consumer goods, plastic and metal transformers and other sectors. It collaborates with many industrial, technological and training organizations throughout Europe and the rest of the world.

ASCAMM also collaborates with other technology centers and associations, such as the Center for Sensors, Instruments and Systems of the Polytechnic University of Catalonia, with which it established a joint unit of Quality Plastic Optics. Within the Technology Alliance of Catalonia, promoted by ACCIÓ, ASCAMM collaborates with several advanced technology centers to encourage the technological competitiveness of Catalan industry.³³⁴

ASCAMM was the first organization to obtain the label of "Technology Center" from the Department of Labor and Industry of the Catalan Government. ASCAMM is also a Centre of Innovation and Technology and an Office for the Transfer of Research Results recognized by the Spanish Ministry of Science and Innovation.³³⁵

³³³ Ibid.

³³⁴ 2010 Annual report, ASCAMM.

³³⁵ Ibid.

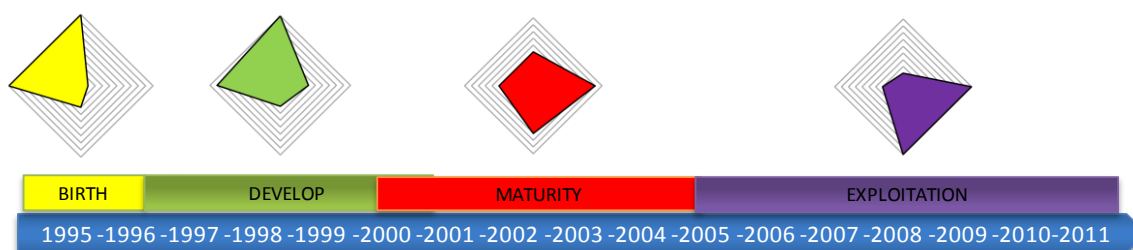
Transformation of ASCAMM

In the meantime, ASCAMM followed its own path, independently from the mould makers industry and became one of the leading technology centers in Catalonia and Spain. Originally, it specialized in plastic injection and molding but later the center enlarged its interest into new areas, such as businesses creation.

The association eventually created the present Foundation to allow its growth in areas that were not significantly related to its original function. The ability of the management to obtain funding and good results of their services and research projects paved its way towards financial self-sufficiency (60% from services and 40% from competitive research), and eventually to the recognition as an Advanced Technological Center (CTA) by the Catalan government. This made it eligible for an annual non-competitive subsidy covering around 12% of their budget. In exchange, they committed to promote technologically based ventures, which they did until transforming to a venture capitalist.

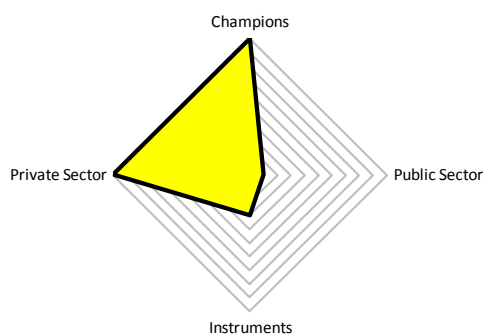
Unfortunately, according to the words of Josep Muixi, the ASCAMM Foundation President, “*very few of the original members*” of the association have remained clients of the Foundation”.³³⁶

D.5.2.2 The Public and Private Ownership in the Evolution of the Local PPD



- Birth

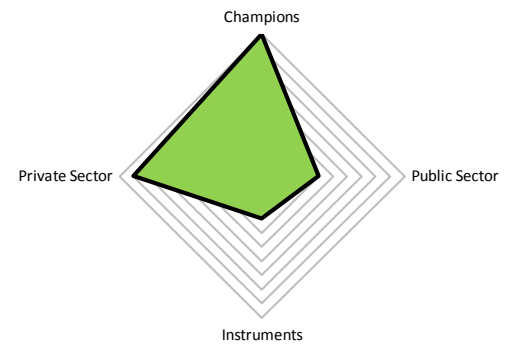
The Catalan government has traditionally had a fluid dialogue with the consumer electronics multinationals. The dialogue was led by a Japanese professional and focused mainly on the FDI area and issues related to financial and tax conditions for investments, real estate, etc., while the issues of sector competitiveness were neglected. Minister Subirà, who had direct contacts with companies drove the Local PPD initiative. In particular, Carly Fiorina, the CEO at Hewlett Packard spoke highly of the Catalan cluster and Subirà felt encouraged to develop it further.



³³⁶ Interview, July 2011.

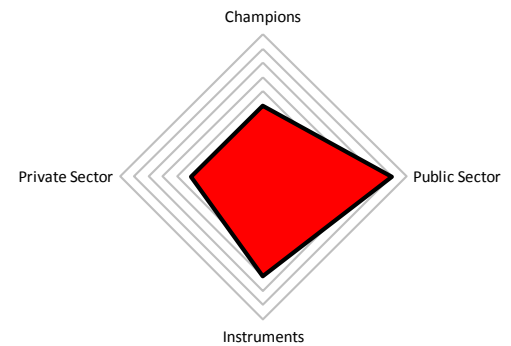
- Development

Even though the dialogue was still driven by the facilitators commissioned by the government, two new leaders from the private sector's ranks got involved. These were representatives of Sony and Hewlett Packard and were proactive in the initiative adoption. It was also at this point when ASCAMM and LGAI became institutions that shared the Local PPD objectives and were willing to take responsibility for implementing some of the actions. Given the rapidly changing scenario of this industry, the facilitators had to accelerate the strategies defined in 1995 (in 1999, it was already clear that the assembly operations were starting to move abroad). This was, however, already addressed within the established Local PPD, which allowed for a quick reaction and adaptation of the supporting instruments, passing from supplier quality to financing their plants in Hungary (and even sending the President to inaugurate it).



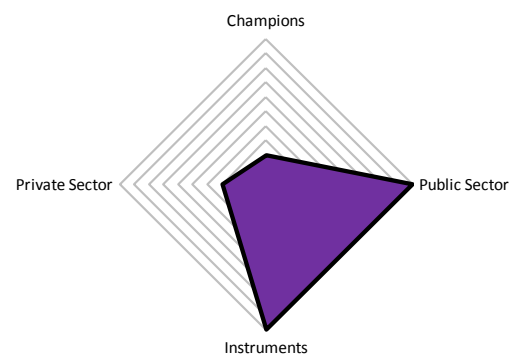
- Maturity

It is in the Maturity Phase, when the pressure from the original champions calmed down and the professionals from institutions assumed more important roles in the implementation. A growing role of associations, such as ASCAMM, could be seen as well as of the instruments in the form of programs funded by the government (regional, national or EU). The companies were still present there, but as Josep Font, the General Secretary of the mould makers association said: *"Once their original ideas were achieved, there was an inhibition from the entrepreneurs, they always said amen to what was proposed to them."*



- Exploitation

In this stage, the industry has not really been able to transform itself (neither the whole consumer electronics, nor the mould makers). However, the institutions that were supposedly built to help their development and competitiveness have survived, showing a strong resilience and veering toward other areas where they could find funds (public and private). The dialogue is now very intense, almost at the level of complicity, between the instruments (the projects that they get funded) and the government officials who are responsible for those funds.



D.5.2.3 Overall Impact of the Local PPD on Competitiveness

It has already been mentioned that both, the consumer electronics industry and their mould makers' suppliers have almost disappeared from Catalonia. It could be argued that this was the usual evolution in all industrialized countries that had seen lower scale assembly jobs move to low cost countries, although the main purpose of the Local PPD was, in fact, to avoid or minimize this.

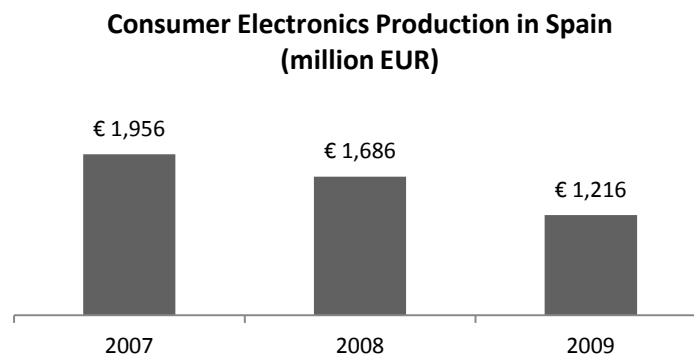
On the other side, there are some positive results since some of the institutions, namely ASCAMM and LGAI, which were created to support this sector (among others) and managed to consolidate (independently of the decline of the sector).

It is noteworthy that these two organizations are very different. Even if both are successful, Applus+ (former LGAI) is a global player that competes in world markets under a clear private ownership, ASCAMM is a Foundation created by an industry association (that is disappearing) that reinvented itself and now serves different sectors. In a large part, its activities also follow the guidelines of the government's programs.

The decline of the overall competitiveness of the industry is a pattern comparable with many other manufacturing industries that have suffered as a result of globalization. The loss of competitiveness in the low value added parts of the value chain, if not counterbalanced by developing higher value added activities, resulted in heavy losses of employment and contribution to the economy.

In the mould maker case for example, 2,500 mould makers' medium-income jobs in tax contributing companies were lost, as has the industry share of GDP over the years. Meanwhile, 130 higher-income jobs in engineering and services were created in the ASCAMM foundation, mostly funded from projects and services that have some kind of government subsidy. This could be read as a failure in the original intentions of the Local PPD but it can also be read as the best result the Local PPD could get out of the industry trends.

As for the consumer electronics, the very recent internal production in Spain has been decreasing as shown in the figure below.



Source: AETIC (2011)³³⁷

³³⁷ <http://www.aetic.es/>

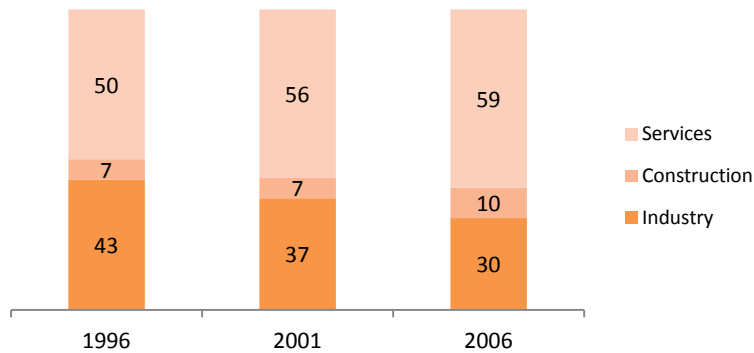
As demonstrated below, since the Birth of the Local PPD the GDP almost doubled in the county between 1996 and 2006, but there are no direct correlations and the share of industry fell over time as well.

GDP per capita of Western Vallès County



Source: Idescat: 1991-1996 (base 1995), 2001-2006 (base 2000)

Western Vallès County-GDP Share Evolution 1996-2006 (%)



Source: Idescat: 1996 (base 1995), 2001-2006 (base 2000)

This is a case driven by an excellent technology center that provides services to the mould making industry but fails to upgrade its members to serve the consumer electronics industry when it goes global. The Local PPD has involved different levels of dialogue and protagonists along the entire PPD lifespan. What started as a dialogue between the Government of Catalonia and some multinational consumer electronics manufacturers, led to a sub-dialogue with some suppliers to those, which are now absorbed by a powerful service institution. This, however, ended up growing and receiving government funds, even though the original industry has already disappeared.

D.5.3 Learning from Local PPD Implementation in International Value Chain Links

The Champions

In Eastern Vallès, in the Birth of the Local PPD, the motorcycle manufacturers reaped a legendary role, beyond being just an economic player with connotations of national pride and manhood. They did not reach the extent of fame of Harley Davidson, defending the American values against the “treacherous Japanese” (burning a Japanese motorcycle in their annual rallies), but did come close. These kinds of champions were not rational in their dialogue and make the whole process more difficult. Thankfully, young leaders like Giovanni Alberto Agnelli broke that pattern allowing the process of collaboration to flow.

The original champions in the Local PPD of Mould Makers in Western Vallès tended to diminish their role in the Maturity phase, but the presence of ASCAMM, which was a very strong and efficient organization, served as a magnet attracting the stakeholders under its leadership.

The Facilitators

The case of Motorcycles demonstrates the importance of facilitators’ adaptation to the circumstances. Moving from the Catalan level to the European level meant that seminars and workshops had to be run simultaneously in three languages (Italian, French and Spanish), and that field work was required in all of those countries. The profile was not of a local consultant or professional but of a multi-local group (a role that Cluster Competitiveness fit well with their offices in Barcelona, Lyon and Varese).

In the case of Mould Makers, the role of the facilitators may have been not so relevant, since the implementers of some of the specific actions end up driving the process.

Sector-Specific Scope

The official definition of the motorcycles sector was the Powered Two Wheeler Industry, but the the dialogue soon distinguished two sub-sectors, the large road motorcycles (BMW’s...) and off-road vehicles from the urban use scooters. The same distinction was done in the case of suppliers. These were composed of the global players that make standardized products and the continental ones that make personalized components or systems.

The case of Mould Makers in Western Vallès shows the interaction between a well-defined sector-specific scope, consumer electronics, and some horizontal technologies, such as engineering and mould making, or services such as product certification. Even if the Local PPD was focused, it might have in certain instances been closely related to other areas, which led to the redefining of the dialogue’s perimeter.

International Links and References

The initiatives of Motorcycle producers relied strongly on international trips to Japan and within the participating countries.

In the case of Mould Makers, a strong effort was made to show examples of successful electronics suppliers, especially mould makers, with visits to Singapore and Japan, and joint

workshops with French and Portuguese mould makers, however, with very limited results. Only a handful of suppliers established operations abroad, while none of them really became a global player.

On the other hand, there is the example of LGAI, originally an underperforming public laboratory, which after privatization became Applus+, a billion \$ multinational.

There had to be certain deep barrier between the companies that did not allow them to cross that line. According to one of ASCAMM's managers: "*the internationalization was not for them*".

Outputs: Action Lines and Recommendations

In the Motorcycles of Eastern Vallès Local PPD, very detailed outputs were planned and achieved.

In the same way, in the Western Vallès case, the actions and recommendations during the process were sound and appropriate, but clearly did not have the expected results most likely due to the invisible barriers described before.

Outreach and Communication

The dialogue of Motorcycles had always been performed in a public space, with lots of press coverage, acting as an amplifier of the industry positions as a way to press the government to accept their proposals. In the end, the governments had fallen victim to their own use of the motorcycle's success in races, being asked to support them unconditionally. Maybe they should ban government officials from being photographed with "champions".

In contrast, the Local PPD of Mould Makers was kept among the concerned parties and companies, achieving only unwanted external notoriety when the announcements of factory closings started, usually accompanied by street demonstrations. After 2003, some reactions of the government went in the opposite direction of the Local PPD, blaming the multinationals for abandoning Catalonia, instead of focusing on saving the Catalan suppliers by also "abandoning" part of their higher cost production there.

The Structure and Participation

In Motorcycles, one of the positive things of the first phases (prior to the creation of a formal Local PPD mechanism), was the flexible perimeter of the participants, geographically, meeting in Italy, in France, in Austria and the product knowledge. In the later stages, the institutionalization within the AEI freezes the perimeter, limiting the participation of more interesting partners.

The same happened to the Mould Makers Local PPD, as it exposed the flexible perimeter that a Local PPD may have, from the Consumer Electronic firms to the mould makers. This confirms that the level for discussing the strategy and identifying the weaknesses to develop need a different level of dialogue than the one for implementing specific corrective or improvement actions.

The imbalance between the thinking platforms structures, in this case very nimble, and the implementing platform (ASCAMM with 130 employees) can tilt the process towards actions and lose the original thinking.

The Mandate and Institutional Alignment of the Local PPD Stakeholders

The alignment of Motorcycles case should have come from an open honest discussion, not from pressure to accept the industry's vision, but pointing out the risks of too much alignment.

On the contrary, there has always been a good alignment in the Mould Makers case, from the Birth Phase to the Exploitation, but originally there was an agreement to change things that required the creation of new institutions and in the later stages the alignment of interests to maintain an institution with no real owners in the private sector but not directly part of the public sector.

Involvement of Sub-National and Local Levels

A positive lesson of both Local PPDs was the need to move the level of intervention. Given the multinational character of Motorcycles and Mould Makers experiences, there was involvement at Catalonia and Spain and European Union level.

Conflict Recovery Capabilities of the Local PPD

Probably, this was a link point in the Motorcycles case, because the project really failed after the unexpected sudden death of the ACEM president, and never really recovered from that dramatic moment.

In the case of Mould Makers, the original Local PPD at consumer electronics level had the flexibility to review its strategy and actions in light of a much faster evolution than expected, basically by repeating the analytic process again.

Role of Development Partners

Regarding the Motorcycles Local PPD, in an industry with such tension between European and Japanese manufacturers, the roles of the Development partners, the government of Catalonia and the EU, were critical, and not so much for the funds they brought, but the neutrality they were bringing.

The case of Mould Makers, in the Maturity Phase the different financing levels, where institutions like ASCAMM can find funds for projects, may play a secondary intentional role, by financing an institution, theoretically to promote their constituency, but actually redirecting them to another constituency.

Monitoring and Evaluation

The involvement of the EU in the Motorcycles project meant a strong emphasis on the execution of the project tasks, which was done, but without bringing most of the desired effects.

In the Mould Makers case, if the financing organizations had evaluated the results of ASCAMM based on the development of its members (has lost 50% of the industry) the results would have been very different from the present ones, which measure how efficiently they administered the funds they received to execute research or business development projects.

E IMPLICATIONS OF THE STUDY

E.1 METHODOLOGICAL OBSERVATIONS

E.1.1 The effect of the global market forces on SPPDs

This study was aimed at assessing how the different country settings (EU members, access countries, post conflict countries, etc.) would influence the Sector-specific PPD, but the examples studied have shown that the market forces are much more important than any local consideration. Competing in open markets sets equal game rules for all, independent of their degree of preparation, background or history. Consumers are not willing to adapt their expectations to the different country settings; they expect the same quality from products or services, regardless of their country of origin.

However, each country has to overcome different sets of constraints in order to compete in that game, therefore different degrees of effort will be necessary to reach the minimum level to compete. In soccer terms, the rules are the same for all, regardless of whether they have trained on a grass field or on a mud field.

Mediterranean countries exporting their citrus fruit to Northern European markets, for example, are all going to face the same competition from the cheap Brazilian orange juice concentrate at the low end, and the high-pressure pasteurized fresh orange juice from Spain at the high end. The markets will not give them any credit for being more or less developed.

For a cruise operator, the switching cost of a port of call is minimal, the competition among ports is fierce and the tourist expects the same level of comfort and attention along the whole cruise route.

This evidence eases the methodology, as it pivots around main universal market principles, while the focus is on helping each case to overcome the weaknesses in its local system, to be able to play in an open market.

E.1.2 The sector-specificity and local dimension of the PPDs

From a methodological point of view, the samples of the Citrus and Cruise Tourism are sector-specific cases and the samples of local development in Catalonia are focused on territory; however, in the reality of the cases studied, both variables, sector and territory, cannot be isolated. In most cases the sector and the territory are intrinsically related, forming what academics have defined as *clusters*³³⁸ or *industrial districts*³³⁹.

For example, the Cruise Tourism sector is linked to specific ports with their specialized services and tourist attractions that form the Izmir, Barcelona or Alexandria clusters. Similarly, the Citrus orchards are linked to territories in each country, the Valencia region or the Beak Valley.

³³⁸ Porter, M., *The Competitive Advantage of Nations*, Free Press, 1990.

³³⁹ Becattini, G., "Dal "settore" industriale al "distretto" industriale. Alcune considerazioni sull'unità di indagine dell'economia industriale", *Rivista di economia e politica industriale*, 1, 1979.

In the Catalonia cases the same effect can be observed, but as seen from an opposite angle: almost all local territories have some kind of specialization, in some cases in a single sector, (such as La Bisbal in ceramics), in others in only two sectors (as Igualada, in leather tanning and knitwear). And, even in industrially dense areas, like the belt around Barcelona, the industries from the same sector tend to group in certain areas: for example, the Motorcycle industry is concentrated in the Eastern Vallès district within a radius of less than 15km.

Given that most Sector-specific PPD will have a local aspect and most Local PPD will have some sector specialization, for methodological purposes the guidelines will be addressed as Local SPPD.

E.1.3 The evolution along the lifespan of the PPD

The Principles of Good Practice for a PPD have been already well developed and tested in numerous projects run by the World Bank and others, but this study provides an interesting insight on the role of those principles along the life of a PPD.

Having had the opportunity to study examples of Local SPPDs in Catalonia that span almost two decades, some common patterns have been identified, indicating points of concern as well as suggested guidelines for prevention.

- In the *Birth Phase*, the effects of certain “bad practices” that can certainly harm the newborn Local SPPD can be identified.
- In the *Development Phase*, there is a clear indication of the right ingredients and steps that a growing Local SPPD needs to reach maturity.
- In the *Maturity Phase*, although there are not so many clear rules, because every Local SPPD will settle naturally in different ways, it can be identified how certain public interventions (namely subsidies to the organization or activities) alter that natural settlement and alter the PPD’s capacity to transform, reinvent itself, or to disappear.
- In that *Transformation Phase*, two possible outcomes can be foreseen: the positive one facilitates a reinvention of the PPD and the negative one turns the PPD into an objective by itself and perpetuates it through the exploitation of its bargaining power to obtain public subsidies.

The lessons derived from the cases studied show that there are more differences among Local SPPDs in a different phase of their lives than among Local SPPDs coming from different local contexts. Therefore, in the next section these lessons will be summarized according to the lifespan phases of the Local SPPD.

E.2 GUIDELINES FOR LOCAL ECONOMIC DEVELOPMENT AND SPPD PRACTITIONERS

Even though the number of cases analyzed is reduced, the regularity in the errors and successes observed allows building a series of guidelines for developing Local Sector-specific PPDs based on these experiences. These guidelines are not a comprehensive manual on how to build a Local SPPD, as they are just intended to transmit to practitioners the lessons learned during the experiences studied.

E.2.1 Guidelines for practitioners during the Local SPPDs Birth Phase

In this phase it is critical to define the perimeter for the Local SPPD effort, for which it would be crucial to work in the identification of Champions and Facilitators and in a proper definition of the Sector Scope. The Birth stage should be brief, no more than 2-3 months, to avoid reaching conclusions or actions too fast, without the proper process of the Development Phase.

Champions in the Birth Phase

The Champions in this stage should not necessarily be the Champions that will be needed when the strategies for the future are defined. Therefore it is very important to avoid traditional industry association leaders as Champions of the initiative and leave an open and flexible leadership in order to facilitate the renewal of Champions in the next phase. Champions should not be publicly endorsed in this stage.

A good example can be the process of Champion Identification in the Solsonès case, where the facilitators actually let the Champion emerge from a selection of local entrepreneurs, assuring that the Local SPPD was not captured by the already established local powers.

Facilitators in the Birth Phase

The Facilitators will have to play the role of change agent in the next phase; therefore it is important that they have both local knowledge and wide acceptance by all sides, as well as awareness of the latest methodologies worldwide. The change process that the Local SPPD pursues might be slow and therefore it is crucial that the facilitators are local agents, already embedded in the community, but at the same time independent from the private sector, to avoid being captured by it.

In the Agricultural Machinery sector in Lleida, the Facilitator was a consultant with an international profile and strategic analysis capabilities, but originally from that region, knowledgeable of the local context and language.

Sector Scope in the Birth Phase

It is important to dedicate some analytical capabilities and resources prior to the launching of the Local SPPD to define the Sector Scope: a neutral team can do a screening of the existing businesses in the territory, separating those that could need PPD to improve their

competitiveness and those that could use other tools. This exercise must be used to center the scope of the initiative.

If that is not possible, it would be advisable to leave the Local SPPD perimeter more open in this phase, defining it in imprecise terms, so as to allow further refining in the next phase.

This screening exercise allowed the Barcelona 22@ Innovation District to be reborn by focusing on specific clusters (ITC, Biotech, Energy, Media...) and within these establishing Local SPPD initiatives at strategic segment (or distinct business) levels, for example: Shared Services in ITC or Public Building Management in Energy.

International References in the Birth Phase

Prior to evaluating the strategic options for the companies in the Local SPPD, targeting any international reference could result in an imitation effect of a wrong model. The choice of the international references is part of the process to be developed in the next phase.

Referring to the German model of the Fraunhofer Institutes did not help the CTM in Manresa to define the structures needed to develop their district; on the contrary, it may have distracted its focus

Outputs in the Birth Phase

Going too fast into tangible Outputs could lead to actions without strategy. Outputs at this stage should be limited to setting the process objectives and rules, ideally in a written document agreed by all the initiators of the Local SPPD.

The ideas and requests that come at this stage risk being too short-sighted, like in the case of Igualada, where the tanners were originally only asking for protection from the new environmental regulation, that later on proved beneficial to their competitiveness.

Outreach and Communications in the Birth Phase

The Local SPPD is still fragile, so exposing it to too much publicity could have negative effects. It is therefore important that all Communication and Outreach at this stage are done in controlled groups, where the messages can be tested before going public.

From 1993 to 1998 the Catalan Government launched several Local SPPD initiatives, among them six of the cases studied, and did not issue a single press release, limiting the communication to the participants and their peers, but not publicizing them outside the Local SPPD for political gain.

Structure and Participation in the Birth Phase

In order to face the competitive challenges, it is most likely that the Local SPPD will have to add new participants, representing activities and skills not present yet: as a consequence, it is important not to define a formal structure at this stage.

The Solsonès and the Lleida cases made the right move of not creating a structure immediately, while the Igualada and the Alicante ones just used an existing one; in contrast, the Energy AEI in Barcelona points out the conflict of enlarging a Local SPPD when some funds have already been allocated to the structure.

Mandate and Institutional Alignment in the Birth Phase

If the Local SPPD is launched by the Public Sector, this would be the moment to have a clear written agreement between the responsible officials of the government agencies involved, as well as a clear understanding of the potential risks involved.

The case of ceramics in La Bisbal shows how the top management of the Department of Industry had already agreed on the implications and risk of opening the Pandora's Box of the policies to support artisans, being ready to take it to the ultimate consequences.

Sub-national and Local Level Involvement in the Birth Phase

The definition of the Sector Scope and perimeter needs to take into account the socio-economic characteristics of the Sub-national and the local level.

The need to focus at a lower level of territory was detected in all of the sector cases of citrus and of cruise tourism, and examples like Izmir in Cruise show the adaptation of the PPD at the local level. Even in the local cases in Catalonia, there were also several levels of PPD: for example, the Igualada tanners engaged in dialogue both with the EU for environmental regulations and with their municipality for the re-location of their plants.

Conflict Resolution Capabilities in the Birth Phase

The history and the burden to be carried by the Local SPPD, resulting from conflict situations, have to be taken into account at this stage, and the necessary compensation mechanisms added when needed.

The Citrus case in Lebanon is a good example of the heavy burden on the Local SPPD of the historical conflicts in two of the areas of cultivation, Southern Lebanon and the Bekaa Valley, and of how the Local SPPD allows focusing on the future challenges

Role of Development Partners in the Birth Phase

The role of the Development Partners, whether international, national or even regional governments, is especially critical at this stage, since they are the best positioned to initiate the process while maintaining a neutrality that no one else can.

The role of FAO in launching the Local SPPDs in agriculture in Lebanon is a good example of an important role played by a Development Partner, without really making important financial contributions.

Monitoring and Evaluation in the Birth Phase

Since once the process of the Local SPPD has started, it is going to be difficult to stop. Therefore, it is important that the milestones, the variables and the values are defined in the Birth Phase. It must be decided when to stop the Local SPPD before it starts.

The Solsonès example started with not very high expectations and had in place a very simple stop/go measure: if a minimum of 12 entrepreneurs were not to participate in the launching of the initiative, then it would have been stopped.

E.2.2 Guidelines for practitioners during the Local SPPDs Development Phase

In the Development Phase the Local SPPD has to set the strategies to build a sustainable competitive advantage for the companies participating. Most likely, the sources for that competitive advantage will require joint investments (specialized infrastructure, R+D...) and actions (capability building, market research...) by the public and private sector. Therefore, the Local SPPD should devote particular attention to the Sector Scope, the International References, the Outputs and the Structure and Participation principles.

Champions in the Development Phase

This is the moment to support the new Champions, more aligned with the future strategy for the sector. The facilitators should identify these new Champions through one-on-one meetings and should allow them to gain the respect of other participants through their active role, first in small workgroups and then in larger meetings.

A new, more technically skilled Champion arose in the Igualada case, when the Local SPPD changed from asking for protection to developing a joint water treatment plant.

Facilitators in the Development Phase

The Facilitators in the Development Phase have to perform the role of a strategy consultant, but they must elaborate the analysis together with all of the Local SPPD participants. The Facilitators will need to combine strong strategic analysis skills and group change management capabilities. Mastering the English language will be a requirement in order to allow them to access information worldwide, but a deep local knowledge and commitment will be required as well, since they need to be seen as “one of them”.

A consulting firm acted as facilitator in a large number of the cases on Catalonia, evolving from its first initiatives, when the consultants assigned to a project were the Facilitators, to the most recent example of the Energy Efficiency Initiative: here it is an employee of bTec (the local development agency) that acts as the Facilitator, executing all the analysis and moderating all the processes, only with the support, “behind the scenes”, of tutors and specialists of the consulting firm.

Sector Scope in the Development Phase

Even if the sector has been well defined through an analytic screening or just ad hoc, a deeper industry analysis³⁴⁰ should identify new and more attractive strategic segments. These are combinations of products/services and target markets that have intrinsic higher attractiveness, which would translate into higher margins for the companies competing in them³⁴¹. These new strategic segments would normally require value chains with new activities, some of them to be developed by each company, some of them jointly.

In the motorcycle case example a more attractive strategic segment was identified for the suppliers of components (plastic pieces that form the scooter body), namely to provide full solutions, co-designing and providing the full body of a scooter. Moving to that more attractive strategic segment required them to acquire skills in design, engineering, and mould making. Finally, three companies, from Catalonia and Italy, joined forces and created a single new unit opposite to Yamaha's main European plant in France, being commissioned for most of their business.

International References in the Development Phase

In the Development Phase the international references can add the most value to the Local SPPD. The international references are of two different types: the Advanced Buyers can signal to the Local SPPD participants the trends and future requirements, and the examples of the new activities to be developed to serve those more attractive market segments. These may even be best practice activities in other industries.

In the Barcelona energy efficiency initiative bEfién, the inputs given about the future demand requirements for integral building management by visiting Akademiska Hus, a company of the Swedish Government that owns and manages most academic buildings in Sweden, were critical to clarify the needs for the future: these inputs could have been obtained neither from any local client, nor through any brainstorming of the Local SPPD participants.

In cruise tourism, attending the annual Cruise Industry Fair in Miami and interviewing the most advance buyers was the way to gather that critical information.

The second type of reference, that of new activities to develop, can be seen in the example of Igualada, when the companies and government traveled to Santa Croce Sull'Arno to visit the functioning of a joint waste water treatment plant, even if it was producing a leather type different from the one manufactured in Igualada.

Outputs in the Development Phase

The Outputs of the Development Phase need to incorporate a clearly defined roadmap towards a more attractive business model, which needs to be agreed by the most innovative participants in the Local SPPD. The roadmap should point towards long-term goals of

³⁴⁰ Using for example Michael Porter's model of five forces. Competitive Strategy, Free Press, 1984.

³⁴¹ Porter, M., Competitive Advantage, Free Press, 1988.

sustainable competitive advantages, but it should also contain action lines of different levels of complexity and timing, to allow for some quick-wins along the road.

The leather tanning Local SPPD in Igualada combined long-term high investment actions, like their 17M US\$ waste water treatment plant that took 10 years to build, with shorter term actions, like the development of their technology center that was accomplished in stages, the first one in less than a year.

Outreach and Communications in the Development Phase

In this Development Phase the Local SPPD has to reach all the possible participants in the territory or sector addressed, as well as the companies and institutions that, while being external to the territory or sector, belong to the same value chain. Since the purpose of the Local SPPD is to develop competitiveness and inclusion, the Outreach and Communication in this Phase cannot be done through newsletters or indirect methods, but requires face-to-face intensive dialogue.

Intensive one-on-one interviews for a significant number of participants is needed (20 or 30 in the private sector), followed by workgroups for specific tasks and Local SPPD wide meetings open to all. But since all Communication in this Phase is still about setting goals and roadmaps, it is recommended to not involve the press yet, as the Local SPPD participants could interpret this as being manipulated by the public sector.

Most of the Catalan examples went through a process developed by The Cluster Competitiveness Group³⁴², the facilitators working for the Department of industry, and later on applied worldwide, called the Competitiveness Reinforcement Initiative: it is a 6 -7 months process of intense dialogue and strategic analysis, that leads the Local SPPD through a series of tasks, workshops and meetings, culminating in a presentation in which the private sector, with the support of the government, presents publicly a roadmap and a set of proposed joint actions, setting the course for the Maturity of the Local SPPD.

Structure and Participation in the Development Phase

During the Development Phase the focus of the Local SPPD has to be in the content of the dialogue, not in its structure. The structure will be defined at the end of the Development Phase in function of the action lines and reforms proposed.

During this phase the structure will be kept very low, basically maintained by the Facilitator team, which is usually composed of a project leader and a junior analyst. However, it is advisable that this team be part of a larger organization, so that resources can be marshaled when needed and back-up capabilities can be summoned if one of the team members has to leave.³⁴³

³⁴² Formerly named Cluster Competitiveness.

³⁴³ An interesting model is the one of Clusterland Upper Austria (www.clusterland.at). Here the teams that act as facilitators to 10 different Local SPPDs are actually formed by employees of the same organization. The organization provide the teams with common support in CRM, publications, events organization, etc., and can assign other facilitators if needed.

The participation has to be open to all interested parties, but the facilitators will have to make efforts to assure the presence of the more innovative companies and persons, otherwise the participants with the spare time to attend will “highjack” the Local SPPD.

The facilitator team of the Energy Efficiency Initiative in Barcelona was able to manage the Development Phase with the facilitator and one trainee because it had the support of the whole bTec organization that provided logistical and managerial support when needed.

Mandate and Institutional Alignment in the Development Phase

During this Phase the Local SPPD is going to define new directions that will require changes in the government support policies. In order to facilitate the understanding and alignment of all involved public institutions it is important to hold internal briefings between the Facilitators and the key government institutions before any meetings of the Local SPPD, to make sure that all public positions are aligned, or to work on solving the differences before the public meetings. It is advisable that all briefings are documented and the stakeholders approve them. The role of the public meetings is to present publicly the alignment between public and private sector views, especially in the last public meeting of the Development Phase, in which they should co-present the resulting action plan.

The necessary alignments between the Industry and the Environment Departments of the Catalan Government, in the case of Igualada Leather, required a previous coordination and alignment of the public side before meeting the private.

Sub-national and Local Level Involvement in the Development Phase

In some cases the original perimeter of the Local SPPD has to be changed during the Development Phase, in which case it may be needed to adjust the involvement of other levels of the government at sub-national or local level.

Conflict Resolution Capabilities in the Development Phase

Existing conflicts between public and private sector and among them need to be identified during the one-to-one visits, before putting all of the actors in a public meeting. The Facilitator should document the existing conflicts in the briefing and prepare the parts to avoid confrontation.

Once identified it is important that all underlying conflicts are exposed in the early stages of the Development Phase, to address them, solve them if possible and put them behind, so the Local SPPD can focus on building the next goals, and not solving old conflicts.

In regulated sectors, as was the case in Motorcycles, it was normal that the private sector has a list of complaints against the public sector (more strict safety regulations, limitation of access to nature areas...) in which the public side participating in the Local SPPD cannot do anything, and that unless exposed and put aside, would hamper the dialogue and come back later on.

Role of Development Partners in the Development Phase

This Development Phase requires that the Facilitators act without concern for pleasing the public or the private sector, they should really be neutral and therefore the great advantage that can represent if they are funded by a third party, ideally a Development Partner, which guarantees the neutrality of the team.

The ACEM European Scooter project was structured in a way that the motorcycle manufacturers would cover 1/3 of the cost of the facilitator and Local SPPD process, the suppliers another 1/3 and the European Union guaranteed the neutrality by contributing the other 1/3.

Monitoring and Evaluation in the Development Phase

There are simple process milestones (number of participants...) that should have been set before this Development Phase that just needs to be monitored. If the Local SPPD really has an innovative approach, most likely it will not have many supporters, therefore this phase should not be monitored in absolute number, but in the evolution of those.

E.2.3 Guidelines for practitioners during the Local SPPDs Maturity Phase

In the Maturity Phase, the Local SPPD has to settle into its "natural" form, executing the action lines that were included in its roadmap and eventually reinventing itself in the next phase. the guidelines in this Maturity Phase are not as clear as in the previous phases, since local SPPDs take very different shapes in their Maturity Phase. No examples of good practices will be presented to avoid promoting one model; instead the following are more like points of attention that Local SPPD practitioners should take into account.

Champions in the Maturity Phase

When the Local SPPDs reach their Maturity they tend to become more professionalized, being managed by Executive Directors that stand between the original Champions that drove the idea and the funding agencies that are supporting the structure of the Local SPPD and its actions.

It is therefore important not to lose the figure of the Champion, not letting the professional replace them. That may require some periodic formal recognition of the Champions. The original Champions were real entrepreneurs, risking their time and prestige for promoting something that had no guarantee of being successful, whereas the professional managers are already there because the initiative has already been a success, at least because it is paying his or her salary.

It is therefore important to maintain a clear separation between the leadership that should always be independent, from the paid professionals. Unfortunately that was not always the case in the cases studied and many organizations were perpetuating themselves just to save their jobs.

Facilitators in the Maturity Phase

The Facilitators need to slowly withdraw in this Phase, limiting their role to coaching the Local SPPD and supervision that the project managers, and project teams, are implementing the specific actions or reforms that were assigned to them.

Maintaining the facilitator actively involved in the Maturity Phase can lead to reopening unnecessary debate on subjects that are already being addressed, creating a meeting fatigue. Some consulting companies that act as facilitators in the Development Phase of the Local SPPD, try to stay of as facilitators or cluster managers in the Maturity Phase, understandable from their business interest but from whoever is paying their cost, is just like maintaining the dialogue artificially.

Sector Scope in the Maturity Phase

The narrow focus of strategic segments was needed to have more accurate strategic diagnostics in the Development Phase, but in the Maturity Phase the Local SPPD should be working on the implementation of action lines, the effort should be made to make those action lines as horizontal as possible, so other segments or sectors can benefit as well, and to try to extrapolate the implications of those lines to the existing policies.

In order to facilitate the extrapolation of the reforms and improvement actions to other sectors, it is very important that the Local SPPDs maintains relations with other similar initiatives in nearby sectors and localities. It is the same region or country that some of these policy “extensions” can happen more easily, not in linking all the clusters from the same sector in one continent.

International References in the Maturity Phase

In the Maturity Phase mechanisms to monitor competitors, advance buyers patterns, trend observatories, etc. should be established as a way of detecting structural changes that would require the Local SPPD to rethink itself.

The collaboration that may have been established with best practice international references in the activities or capabilities that the Local SPPD was weak in should be maintained and updated, to avoid staying behind technologically from the world-class practice.

The tendency to establish international linkages with other similar initiatives should be carefully considered, to avoid industrial tourism, evaluating carefully what can be learned from those linkages. On the other extreme, transforming the Local SPPD in to an export consortium, which are always commercial operations that benefit more one or other company, is a recipe for losing the trust among the participants.

Outputs in the Maturity Phase

The execution of the projects and actions that have been defined in the Development Phase are the Outputs of this Phase. No other actions should distract the Local SPPD from its

mission. Special attention should be made to the completion of the easier intermediate actions planned, so the Local SPPD can present some quick wins. It should be avoided that the Local SPPD is just a generator of ideas or proposals, mostly not implemented.

The Outputs in this Phase should be only the project management tools and reports that follow every one of the reforms or action lines being developed. That does not mean that the Local SPPDs should stop its dialogue, just that it should focus on making sure that the previous decisions are being implemented. In this Maturity Phase the outputs should not be anymore proposals or ideas, but just reports on how those are being implemented.

Outreach and Communications in the Maturity Phase

Once the first actions have been executed a constant flow of communication should start, emphasizing the executed projects and actions, not the structure of the Local SPPD. The messages should be on the accomplishments on competitiveness and inclusion, or on the joint projects to achieve that, but not on the tool, the Local SPPD.

What needs to be publicized are the results, or even the objectives if the results are not there, like improved productivity, increase in exports, higher quality standards, etc., but not the fact that there is a Local SPPD, because that puts the tool in the political realm, it is seen as being used politically and risks to be cancelled in the next government change. Even if it is very tempting for every politician to get his picture with the group of entrepreneurs that is trying to fix a problem, the consequence of that picture can be that the whole initiative is stalled by the next government.

Structure and Participation in the Maturity Phase

While being inclusive and assuring that any participant can access the Local SPPD, the structure should be kept light and flexible for the overall management, and more structured for the management of the projects underway, ideally incorporating those under a larger project management structure at regional or local level.

In the Maturity Phase the resources, in financial and time contribution, should be devoted to the project management of the improvement actions. The structures should limit their overheads and focus in their project managers.

Mandate and Institutional Alignment in the Maturity Phase

Formalize the continuous Alignment or re-Alignment by holding annual policy seminars in which the lessons for the Local SPPD are shared and brought up to all interested public sector levels.

While the Local SPPD at this Maturity Phase should have already internalized the necessary changes and action proposals, it cannot be assumed that other parts of the government not directly participating in the Local SPPD have done it, or simply that the normal rotation among public officials may end the continuity. Periodical updates of the objectives of the Local SPPD and its implications for other areas of the government should be organized.

Sub-national and Local Level Involvement in the Maturity Phase

Within that framework for alignment the coordination effort should be addressed as well to integrate with national and eventually federal type support actions, following a real bottom-up policy making.

Conflict Resolution Capabilities in the Maturity Phase

At this Phase the Local SPPD should not go back to open old conflicts, and focus its energies in the implementation phase, therefore it is advisable to isolate the projects from new conflicts, avoid the constant rethinking of goals, and limit the number of open meetings (no more than 2 a year) where the whole strategy could be questioned.

Role of Development Partners in the Maturity Phase

Development Partners can support the implementation, as long as they focus on the projects and not on the structures or organizations. One of the most important things that Development Partners could do is to discontinue the support to other actions or programs that do not reinforce the strategy that the companies in the Local SPPD want to follow. Simply refocus all their resources in to then new recommendations and discontinue other programs.

Monitoring and Evaluation in the Maturity Phase

Monitoring at this stage is mostly the monitoring of project implementation, a technical role, in which the attribution issue of the impact of the Local SPPD on the competitiveness is not the key, but only how the execution of the proposed actions is measured.

The time span of this phase, as some of the Catalan examples have showed, can be between 3 to 10 years, well beyond the typical time frame of political agenda or even donor programs. So the issue is not only about what parameters to measure, but also with what frequency. Clearly an annual reporting can be misleading.

E.2.4 Guidelines for practitioners during the Local SPPDs Transformation Phase

As it has already been mentioned in the introduction, the *Transformation Phase* can lead to the reinvention of the Local SPPD or to an exploitation of its position. There are not many good examples of reinvention in the cases studied, some because they have not yet arrived at that Phase, and others mostly in Catalonia, because they have entered into the Exploitation Phase. The Guidelines below are just some recommendations, based on these observations, of what could have been done to avoid falling into the Exploitation Phase.

Champions in the Transformation Phase

To facilitate the renewal of the Champions, formal transition processes could be established, and new innovative Champions should replace the existing ones every 5-10 years.

Searching for new Champions has to follow the same steps that were already proposed for the Birth and Development Phase; the Champions will be found once the direction of where the Local SPPD can go.

Facilitators in the Transformation Phase

The Facilitators should review the premises on which the strategy was built at least every 3 to 5 years, and then search for more adequate Champions.

Basically this is a repetition of the process started in the Development Phase, in which the existing Local SPPD organization is the incumbent, and an independent party should bring in the facilitators.

Sector Scope in the Transformation Phase

Formally redefine the business scope every three to five years. The timing for redefining the strategic segment in which the Local SPPD companies should compete is variable, cannot be predetermined, but during the Development Phase it should be made clear what are the hypotheses that should force revisiting the decisions. Those should be the warnings that detonate a new strategic analysis redefining the sector scope.

International References in the Transformation Phase

The international reference exercise done in the Development Phase should be formally reviewed every 3 to 5 years, revisiting Advanced Buyers abroad and locally. Linked with the previous principle, the international reference exercise becomes part of the reviewed strategic analysis.

Outputs in the Transformation Phase

A complete redefinition of Strategic Segments should be done and, if needed, a new set of actions lines should be developed. The same processes used for the Development Phase should be repeated,

Outreach and Communications in the Transformation Phase

At this stage, the Local SPPD should build on mechanisms to downplay the old Champion's role and leave room for new blood. Instead of publishing stories about the local Champion, the Local SPPD should promote the Outreach and communication of foreign innovative examples. The capacity to change of the Local SPPD will be limited by the relevance that it has gained in the media, so after it has been consolidated in the Development Phase, the Outreach and Communication should avoid emphasizing the structure.

Structure and Participation in the Transformation Phase

Facilitate the transformation of structures by keeping all regional Local SPPD structures under one single legal entity, with flexibility to change budgets, persons, etc. Even with names that do not describe the content of the Local SPPD, so an internal redefinition of tasks or functions could be easier without having to change the core names.

Mandate and Institutional Alignment in the Transformation Phase

Establish formal transformation process of the different levels of government involved based on strategic reviews every 3 to 5 years. Basically following the same models of the Development Phase, of aligning the different public stakeholders, by involving them in the process of reinvention, through briefings and participation in workshops and reference trips.

Sub-national and Local Level Involvement in the Transformation Phase

Initiate the transformation by redefining the Local SPPD from the local level.

Conflict Resolution Capabilities in the Transformation Phase

Provoke crisis by questioning existing models formally, for example by holding provocative seminars with foreign experts. In many cases the crisis would already be promoted by the market, but even so the Local SPPD should maintain always an external pressure for change.

Role of Development Partners in the Transformation Phase

Development Partners could play the same role as in the Development Phase, that of a neutral honest broker, for example by organizing international exchanges to facilitate the renewal.

Monitoring and Evaluation in the Transformation Phase

Evaluate the competitive position of the Local SPPD based on the need for renewal, alerting of obsolete business models. In a certain way it could be counterintuitive, when the monitoring starts to detect patterns of self satisfaction, so when the responses to surveys are too positive, then the Local SPPD seems to have arrived to its limits. It is important that the evaluations distinguish those patterns that will denote the need to transform.

E.2.5 Summary of the guidelines for practitioners

The Birth and Development Phases will Shape the Future of the Local SPPD

The study establishes **Guidelines for PPD practitioners** (summarized in the table below). The Birth and Development phases are where the shape and future of the Local SPPD are defined. These are the critical areas that should draw the attention of practitioners and policymakers. In the same way as the education of a person is shaped during childhood, the success of a Local SPPD depends more on having gone through the right steps in its Birth and Development phases, "getting the right education," than on the local or sector context where it was born and developed.

It is critical to define the perimeter for the Local SPPD effort in the **Birth Phase**. For this it is crucial to work on identifying Champions and Facilitators, once a proper definition of the Sector Scope has been agreed upon. The Birth stage should be brief, no more than 2-3 months, to avoid reaching conclusions or actions too fast, without the proper process of the Development phase.

In the **Development Phase**, the Local SPPD has to set the strategies to build a sustainable competitive advantage for the companies participating. Most likely, the sources for that competitive advantage will require joint investments (specialized infrastructure, R&D, etc.) and actions (capability building, market research, etc.) as well as work on policy reforms by the public and private sector. Therefore, the Local SPPD should devote particular attention to Sector Scope, International Benchmarks, Outputs and the Structure and Participation principles.

In the **Maturity Phase**, the Local SPPD has to settle into its "natural" form, executing the action lines that were included in its roadmap and eventually reinventing itself in the next Phase. This Maturity Phase does not have such clear guidelines as the previous phases, since the shape that Local SPPDs take in their Maturity is very different.

The **Transformation Phase** should evolve positively into a **Reinvention Phase** (basically going back to the Development Phase). Unfortunately, in several of the cases studied, dialogue mechanisms tend to turn into an imbalanced stakeholders' relationship, usually with the private sector capturing the resources from the public sector, in what has been called an **Exploitation Phase**.

Guidelines for Local SPPD Practitioners

PHASES/ PRINCIPLES	BIRTH PHASE	DEVELOPMENT PHASE	MATURITY PHASE	TRANSFORMATION PHASE
CHAMPIONS	<ul style="list-style-type: none"> • Avoid traditional sector leaders • Do not endorse yet any champion 	<ul style="list-style-type: none"> • Support the possible champions aligned with future strategy 	<ul style="list-style-type: none"> • Do not let the professionals become the champion • Formally recognize the champions 	<ul style="list-style-type: none"> • Establish formal processes to transition to new champions
FACILITATORS (CHANGE AGENTS)	<ul style="list-style-type: none"> • Neutral, not depending from Private sector (PrS) • Local presence to follow PPD 	<ul style="list-style-type: none"> • Strategic and change skills • Local and global capabilities (English and travel skills) 	<ul style="list-style-type: none"> • Limit to coaching the PPD • Engage and supervise project managers for specific actions 	<ul style="list-style-type: none"> • Every 3-5 years review strategy • Search for more appropriate champions to new strategy
SECTOR SCOPE	<ul style="list-style-type: none"> • Do not define scope beforehand • Screen for distinct businesses 	<ul style="list-style-type: none"> • Identify new Strategic Segments • Design new Shared Value System 	<ul style="list-style-type: none"> • Extend actions to other sectors • Identify implications for policy 	<ul style="list-style-type: none"> • Redefine the business scope every 3-5 years
INTERNATIONAL REFERENCES	<ul style="list-style-type: none"> • Do not use international references yet (avoid imitation) 	<ul style="list-style-type: none"> • Visit Advance Buyers of new Segments abroad and locally • Benchmark Value Chain activities 	<ul style="list-style-type: none"> • Monitor competitors • Collaborate with experts on new activities, not with similar SPPD 	<ul style="list-style-type: none"> • Visit again Advanced Buyers abroad and locally • Benchmark new Value Chain
OUTPUTS	<ul style="list-style-type: none"> • Internal “Kick off meeting” of PuS stakeholders and Kick off document 	<ul style="list-style-type: none"> • Shared new Strategic Segment • Action Lines to build capabilities 	<ul style="list-style-type: none"> • Execution of action lines to support new strategy • Keep quick wins as well 	<ul style="list-style-type: none"> • Redefinition of Strategic Segments • Redefinition of Action Lines
OUTREACH & COMMUNICATION	<ul style="list-style-type: none"> • Reach only “friendly” PrS to test • No communications at this stage 	<ul style="list-style-type: none"> • Inform one by one 20-30 PrS • Invite all PrS to 3 Public meetings • No press yet 	<ul style="list-style-type: none"> • Launch communication once first actions start • Publicize actions not structures 	<ul style="list-style-type: none"> • Do not promote the old champion • Publish success stories abroad to promote change of leadership
STRUCTURE & PARTICIPATION	<ul style="list-style-type: none"> • No structure at this stage • Participation on one to one basis 	<ul style="list-style-type: none"> • Facilitator runs structure • Participation open to all PrS 	<ul style="list-style-type: none"> • Open participation in projects • Structure only to follow projects based at regional/local level 	<ul style="list-style-type: none"> • Facilitate transformation by keeping all regional PPD structures under one single legal entity
MANDATE & INSTITUTIONAL ALIGNMENT	<ul style="list-style-type: none"> • Agreement at top level PuS to go • Understanding of risks by PuS 	<ul style="list-style-type: none"> • Formal briefings with key PuS • Compromise in public of both sides by co-presenting actions 	<ul style="list-style-type: none"> • Yearly “Horizontal policy” seminars with all PuS to align policies 	<ul style="list-style-type: none"> • Establish formal transformation process based in strategic reviews at 3-5 years
SUBNATIONAL & LOCAL	<ul style="list-style-type: none"> • Redefine initiative perimeter in function of local socio-economy 	<ul style="list-style-type: none"> • Involve regional and local levels of government and institutions 	<ul style="list-style-type: none"> • Coordinate and integrate support actions at national and federal level • Bottom-up policy making 	<ul style="list-style-type: none"> • Go back to the local level to redefine strategies
CONFLICT RESOLUTION	<ul style="list-style-type: none"> • Consider weight of preexisting conflicts and counterbalance 	<ul style="list-style-type: none"> • Identify conflicts on one by one • Use first Public Meeting to vent • Focus to new goal in second one 	<ul style="list-style-type: none"> • Isolate projects from new conflicts • Avoid constant rethinking of goals • Limit broad meetings (2 x year) 	<ul style="list-style-type: none"> • Provoke crisis by questioning existing models formally (seminars with foreign experts)
ROLE OF DEV. PARTNERS	<ul style="list-style-type: none"> • Act as guarantors of the neutrality of the process 	<ul style="list-style-type: none"> • Pay for the neutral facilitators in the development process 	<ul style="list-style-type: none"> • Finance and support actions • Do not support structures 	<ul style="list-style-type: none"> • Organize international exchanges to facilitate the renewal
MONITORING & EVALUATION	<ul style="list-style-type: none"> • Establish milestones and go/ no go for Development Phase 	<ul style="list-style-type: none"> • Establish M&E for each proposed action, not for the PPD • Control go/ no go milestones 	<ul style="list-style-type: none"> • Monitor project implementation, discontinuing if needed 	<ul style="list-style-type: none"> • Evaluate the competitive position as a measure of need for renewal

E.3 LOCAL SPPDs AND THE GOVERNANCE AGENDA³⁴⁴

This study's empirical and analytical work at the sector level corroborates that close collaboration between governments and the private sector offers great potential for defining opportunities and removing binding constraints related to factors for building competitiveness, such as skills and capability development, access to technology, access to finance, a supportive tax and regulatory environment, and industrial infrastructure.

However, without the structure provided by private sector participatory mechanisms, business advocacy can involve individual firms pressing for reforms regardless of their impacts on other sectors, which can result in weak service delivery, capture and cronyism. Private sector engagement with competitiveness issues offers a formal mechanism through which reform proposals must pass, allowing the impact of policy decisions to be discussed before they are proposed to the government. This process transforms self-centered lobbying into a more structured input and ideally nurtures in the private sector a more holistic view of the interests of the wider economy. When governments can be confident that the input they receive from the private sector is legitimate, in the sense that it reflects the well-considered advice of a broad spectrum of interests, the quality of lawmaking is clearly improved. Local SPPDs can thus improve the quality of governance—both public and corporate—in three ways: by setting an example; by shedding light on the workings of institutions; and by improving the quality of the business environment with which the government endows the private sector.

The case studies show that this is especially true for the **tourism sector**, because its growth, if not framed by sound governance mechanisms, can have a negative impact on environmental change and sustainability. The development of voluntary and mandated environmental standards, the environmental impact of tourism infrastructure, the transparency in tourism concessions, the relationship between tourism operators and local economic players, the taxation of tourists and tourism assets, etc. are all represent policy topics that need to be debated through coordinated policy making. A strong inclusion of the smaller private sector, and transparent policy making processes such as those offered the MCN (Malta Cruise Network) in Malta, or the Cruise Tourism project of Izmir Chamber of Commerce in Turkey, have for instance positively influenced both the sustainability of tourism in those areas and its growth along more inclusive value chains.

Governance benefits of Local SPPD in the **agribusiness sector** can also be observed, especially as the food crisis has raised the stakes on ownership and exploitation of agricultural land. Current production technologies, supply chain logistics and quality control over large volumes are resulting in increasing momentum towards large estate production. While agribusiness growth can provide competitive jobs, the risk of concentration and thus capture are large, as the integration into agribusiness value chains bears the risk of impoverishment in the long term for smallholders exploiting diversified crops. The citrus sector in Egypt is a case in point in this regard. The lack of PPD mechanism first resulted in a process of dispossession of the rural poor and of user rights to their land. According to an interview with the Alexandria Chamber of Commerce, "*the SMEs felt excluded.*" Only when the Local SPPD was launched in 2009, under the "Sustainable Agriculture Development Strategy towards 2030", the small private producers started to be included in the agribusiness governance and policy debate.

³⁴⁴ This section was contributed to by the study coordinator Benjamin Herzberg, and borrows from his background paper on Private Sector Engagement for Good Governance, WBI Open Governance Practice, 2011.

Laws were enacted and implementation mechanisms were created to tackle abusive buying and trading practices, and cronyism when it came to government control over distribution of agricultural support policies was curtailed. A similar example can be seen as a result of the work of the Agro-food Platform Initiative led by the Mersin Chamber of Commerce (Turkey), which demonstrates that if inclusion is ensured in the policymaking process through an open governance mechanism, such as those provided by the Local SPPDs, stakeholders can ensure to promote and protect decentralized and sustainable agribusiness supply chains that provide multifunctional benefits and ensure inclusive and sustainable growth.

At the **local level**, while coordination, regulations, transactions and information are directly linked to sector impact, their intrinsic values in terms of governance improvements should also be recognized. Coordination brings more **inclusiveness**; regulatory improvements result in more **fairness** and a level playing field between the economic actors of the area; streamlined transactions mean more **transparency** in who gets awarded what contract, and thus ensure, for instance, a better enforcement of public procurement contracts, which is especially important at the local level when constituents can see a direct impact on service delivery; and finally, the additional information revealed by Local SPPDs translates into stronger **accountability** from the public officials to address the constraints faced by their constituency and deliver on their promises. This study thus argues that beyond sector improvement, practitioners should not neglect these intermediate governance outcomes of Local SPPDs. At the local level, this is especially true during the Maturity Phase of the Local SPPD. In numerous cases studied, the actors lost sight of the original objectives of the Local SPPD, and the platforms or institutions that were created to support a geographic area or a group of companies ended up just perpetuating themselves. Such is the case of the CTM technology center in Manresa, which is still mandated to develop the competitiveness of metallurgy in the Bagès county of Catalonia, while the metallurgy industry has all but disappeared. Similarly the mould makers association Local SPPD, ASCAMM Foundation, is still significantly funded while its original constituents have been virtually decimated by their international competition. It is therefore important for good governance that the focus on implementation is on the reform actions proposed, not on the platform that holds them. If the actions cannot be accomplished, the platform should be dissolved in order to avoid political capture risks. In fact, the evolution of the lifespan of the studied cases, especially those in Catalonia, makes it possible to pinpoint the dangerous moments in which the platforms in charge of implementation themselves can become the object of said implementation, artificially subsidized by the public sector that funds them.

Thus, for better governance (and this is true not only at the local level but also for sectors such as tourism and agribusiness) the implementation should focus on the projects or actions to be developed, not on the platforms that support the PPD. And the measurement and evaluation mechanisms should not focus on the performance of the PPD platform but on their impact on the sector they were supposed to help.

Because virtually all public sector driven initiatives for empowering sector development are subject to capture and collusion risks, or at the very least create the risk of creating market distortions, the report thus concludes that intermediate governance objectives are not merely "nice to have" but a "must have" in attempting to improve sector competitiveness.

E.4 CONCLUSION

The lessons and recommendations of this study are intended to help private sector stakeholders, policymakers and development practitioners use Local Sector-Specific Public-Private Dialogue to improve the business environment and enable sector competitiveness at the local level.

Public Private Dialogue is a means to an end, and in essence it seeks to make companies more competitive and sustainable, while generating more prosperity and inclusiveness for local communities.

The lessons of this study are crucial for the Mediterranean region, as companies operating in a crisis environment face increased market challenges. Transitions such as the ones unleashed by the 2011 Arab Spring pose significant difficulties inherent to instability, but also offer a tremendous opportunity to ignite positive socio-economic change. Boosting growth implies sustaining competitiveness levels by creating a fertile ground where companies can develop, generate jobs and compete with other national and international businesses. It has become increasingly clear that, in order to prosper, countries need to focus on both competitiveness and inclusion.

The lessons proposed here should thus resonate beyond the Mediterranean region and have implications for all private sector development initiatives. Such sector development projects, as the case studies and analysis presented here have shown, can only succeed if they consider public-private dialogue dimensions as an integral part of sector competitiveness at the local level.

ANNEXES

The Charter of Good Practice in Using Public-Private Dialogue for Private Sector Development

Recognizing that economic progress depends on a business climate conducive to private investment and enterprise, which in turn requires a range of private sector development policies and institutions, infrastructure, access to services, and supporting laws and regulations designed within a coherent policy framework and with sensitivity to the interests of all sectors of society,

Observing in particular that reforms designed to improve the business climate are more effective when dialogue between the public and private sectors involves the ultimate beneficiaries of those reforms in diagnostics, solution design, implementation and monitoring,

Aware of the challenges experienced by practitioners in capitalizing on the benefits of dialogue, such as accelerating the reform process, maximizing returns on investment climate reforms and public-private investments, contributing to broader poverty reduction strategies and allowing public and private sectors to build mutual trust that commands widespread confidence,

Conscious of the demand that practitioners have voiced for good practice recommendations and a monitoring and evaluation baseline aimed at providing guidance, measuring success and increasing performance,

Drawing from experiences of numerous professionals from the public, private and donor communities and lessons learned from research into dialogue mechanisms, consolidated at the international workshop for PPD held in Paris in February 2006,

Now, therefore, by consensus, practitioners are recommended to draw on the following principles hereby set forth as the Charter of Good Practice in using Public-Private Dialogue for Private Sector Development.

PRINCIPLE I: MANDATE AND INSTITUTIONAL ALIGNMENT

A statement of objective is helpful for clarity. A formal or legal mandate can be an important help in some political and economic contexts, but mandates are never sufficient to establish good PPD. Wherever hosted and whenever possible, PPD should be aligned with existing institutions to maximize the institutional potential and minimize friction.

- Dialogue depends on the capacity and mindset of participants, and a legal mandate is not sufficient to create this.
- Nonetheless, a formal mandate is a signal that can establish credibility, make continuity more probable, and enable dialogue to be better integrated into an existing institutional framework.

- A mandate with legal backing is especially likely to be helpful in transition economies or countries with strongly bureaucratic traditions.
- However, energy should not be diverted into establishing a legal status at the expense of losing momentum on substantive reform efforts.
- Legal mandates that are too detailed carry the risk of restricting flexibility and restraining initiatives from adapting to changing circumstances.
- Existing institutions should be capitalized on as much as possible. Even when hosted outside existing institutional frameworks, PPD is more effective when aligning its structure with existing institutional priorities and lines of command.

PRINCIPLE II: STRUCTURE AND PARTICIPATION

PPD's structure should be manageable while flexible, enable participation to be both balanced and effective, and reflect the local private sector context.

- Appropriate structures can be formal, informal or a mixture. Their design needs to take into account existing processes and institutions.
- Participation of relevant representative stakeholders should be agreed on in a transparent manner and be balanced and practicable, so as to best serve the objectives of the dialogue.
- Dialogue structures can be set up to carry out specific participatory processes in a series of working groups, for example to contribute to the elaboration of reform strategies for specific sectors, issues or regional areas.
- An organizational design operated under the umbrella of a secretariat is often useful to help ensure a coherent approach to PPD, including the shaping of an overarching policy framework.

PRINCIPLE III: CHAMPIONS

It is difficult to sustain dialogue without champions from both the public and private sectors who invest in the process and drive it forward.

- Backing the right champions is the most important part of outside support to PPD.
- It is easier for dialogue to survive weakness of champions in the private sector than the public sector.

- If champions are too strong, the agenda can become too narrowly focused, or dialogue can come to depend too heavily on individuals.

PRINCIPLE IV: FACILITATOR

A facilitator who commands the respect of stakeholders can greatly improve the prospects of PPD.

- Important qualifications include negotiation skills, understanding of technical issues and an ability to converse easily with everyone from ministers to micro-entrepreneurs.
- An innovative and entrepreneurial approach is often helpful.
- A difficult question is whether the facilitator should be local or external - local knowledge is an advantage, but so is a lack of any personal baggage with participants.

PRINCIPLE V: OUTPUTS

Outputs can take the shape of structure and process outputs, analytical outputs or recommendations. All should contribute to agreed private sector development outcomes.

- Analytical outputs can include identification and analysis of business roadblocks, agreement on private sector development objectives, and private sector assessment of government service delivery.
- Recommendations can address policy or legal reform issues, identification of development opportunities in priority regions, zones or sectors, or definition of action plans.
- Structure and process outputs can include a formalized structure for private sector dialogue with government, periodic conferences and meetings, ongoing monitoring of PPD outputs and outcomes, and a media program to disseminate information.

PRINCIPLE VI: OUTREACH AND COMMUNICATIONS

Enabling communication of a shared vision and understanding through the development of a common language is essential for building trust among stakeholders.

- Common communication requires a mutual understanding of core motivation, which depends on frequent and iterative interactions between all parties.
- Dialogue should be as open-access and broadly inclusive as feasible. This necessitates an outreach program to the reform constituency. Elements can include use of the media, seminars, workshops, and road shows.

- This also necessitates attention to building the capacity of the private sector to participate in dialogue to achieve a concerted strategy to communicate reform issues through clear and targeted messages.
- Transparency of process - in particular, an open approach towards the media - is essential for outreach, and also contributes to measurement and evaluation.

PRINCIPLE VII: MONITORING & EVALUATION

Monitoring and evaluation (M&E) is an effective tool to manage the PPD process and to demonstrate its purpose and performance.

- While remaining flexible, user friendly and light, the monitoring and evaluation framework adopted by a PPD should provide stakeholders with the ability to monitor internal processes and encourage transparency and accountability.
- Definition of inputs, outputs, outcomes and impacts will be enhanced with designation of appropriate indicators with periodic review from stakeholders, which will rely on the collection of reliable data.
- Monitoring and evaluation techniques enable better overall planning, can ignite potential advocacy, and provide both internal and external motivation to promote more effective implementation.
- To this effect, PPDs should develop a baseline assessment to measure their effectiveness in order to enable the partnership to better measure how it is achieving its goals over time and delivering on its envisaged benefits.

PRINCIPLE VIII: SUB-NATIONAL

PPD is desirable at all levels of decision-making, down to the most local possible level, especially as this is likely to be more practically capable of involving micro-entrepreneurs, SMEs and other local stakeholders.

- Local level PPD allows local issues and solutions to be identified and taken to decentralized decision makers or channeled upwards to the appropriate level of authority at which they can be solved.
- Local dialogue can contribute to effective implementation of national policies. It may be particularly effective when explicitly aligned with dialogue taking place at a national or regional level.
- Local level dialogues can especially benefit from use of participatory tools, capacity building initiatives, and the use of local and neutral facilitators.

PRINCIPLE IX: SECTOR-SPECIFIC

Sector-specific or issue-specific PPDs should be encouraged because they provide more focus, greater incentive to collaborate, and more opportunity for action.

- To tackle the risk of missing the big picture, sector-specific dialogues should be linked to a broader, cross-cutting dialogue process.
- The choice of sectors to involve in dialogue can be controversial, especially where institutions are weak. This can be mitigated by a transparent process.
- Dialogue works best with the sectors most willing to invest time and resources - though this requires safeguards against unfairly favoring already-strong sectors.
- Rent-seeking activity is more of a risk in sector-specific dialogue.
- This can be mitigated by greater transparency, explicit enunciation of intended outcomes, and an inclusive approach that creates open access for all stakeholders with an interest in the sector's or cluster's value chain.

PRINCIPLE X: INTERNATIONAL ROLE

Broad and inclusive PPD can effectively represent and promote national and regional interests of both public and private actors in international negotiations and international dialogue processes.

- Complex international challenges require broad, ad hoc alliances between state and non-state actors. These should be transparent, inclusive, and open-access.
- Involving local partnerships at the international level can give a more effective voice to national and regional interests by helping public and private sectors coordinate and thus widen their room for maneuver.
- International partners can foster an informal process of regional and multilateral policy dialogue, setting an example for national-level initiatives.

PRINCIPLE XI: POST-CONFLICT / CRISIS-RECOVERY / RECONCILIATION

PPD is particularly valuable in post-conflict and crisis environments - including post-natural disaster - to consolidate peace and rebuild the economy through private sector development.

- Because they focus on the specific and tangible issues of entrepreneurship, economic reconstruction and investment climate improvement leading to job creation and

poverty reduction, PPD initiatives are very effective at building trust among social groups and at reconciling ethnic, religious, or political opponents.

- PPD can be especially valuable in enabling the sharing of resources and building capacity - a particular priority in crisis environments.
- Structures and instruments for dialogue need to be adapted to each post-conflict or crisis context. They need to take into account the inherent informality of the economic actors and the potential role of customary systems in re-establishing the rule of law.
- An external “honest broker”, possibly linked to international organizations in charge of peace building, may be needed to kick-start dialogue. But mechanisms should be put in place for quick transfer of the initiative to local ownership.

PRINCIPLE XII: DEVELOPMENT PARTNERS

PPD initiatives can benefit from the input and support of donors (development partners) when their role is determined by the local context, demand driven, and based on partnership, coordination and additionality.

- Development partners can encourage conditions for dialogue, and initiate, promote, support, fund, and facilitate dialogue.
- Capacity building and disseminating international best practice are two areas where development partners can play a particular role.
- The role of development partners should be as neutral as possible, maximizing the local ownership and capacity, the development of trust, and the maintenance of a conducive and transparent environment.
- Development partners should consider social, economic, and political context, as well as exit strategies and sustainability issues.
- They should coordinate among themselves to avoid duplicating their efforts and maximize the availability of funds when partnerships are found to be worth supporting.

This Charter was initially drawn up on the Second of February, Two Thousand and Six, at the International Workshop on Public-Private Dialogue, organized by a cross-sectoral team from DFID, the World Bank, the IFC and OECD Development Centre, held at the World Bank Paris Conference Centre, and attended by over a hundred participants from thirty countries

List of interviews

INSTITUTIONS AND AGENTS INTERVIEWED IN CITRUS AND CRUISE SECTORS

Citrus sector	Cruise sector	Both sectors
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SPAIN		
INSTITUTION	INTERVIEWEE	POSITION
Economy Department Generalitat Valenciana, Government of Valencia	<i>Vicent Ahuir</i>	Responsible for the Service of Analysis, Evaluation and Economic Programming
PGI Regulatory Council “Valencian Citrus” (Consejo Regulador “Cítricos Valencianos”)	<i>Juan Bautista Juan</i>	Managing director
Valencian Agricultural Research Institute (Instituto Valenciano de Investigaciones Agrarias)	<i>Florentino Juste</i>	Managing director
GARCÍA BALLESTER S.L.	<i>Jorge García</i>	Managing director
Porto de Barcelona/Creuers de Barcelona	<i>Carla Salvadó</i>	Cruise Strategy and Marketing Manager
Baleares Consignatarios	<i>Mario Sennacheribbo</i>	Owner
Julia Travel	<i>Ignacio Casanova</i>	General Manager
Turisme de Barcelona	<i>Ignasi de Delàs</i> <i>Josep Anton Rojas</i>	Deputy Manager Promotion Director
Turisme de Barcelona/Chamber of Commerce in Barcelona	<i>Ramon Masia</i>	Executive Committee Member
Aspro Ocio - Aquarium de Barcelona	<i>Anton Vidal Agustí</i>	Sales and Marketing Manager
Port of Alicante	<i>Luis Carlos López</i>	Commercial Director for Cruises Division

TURKEY		
INSTITUTION	INTERVIEWEE	POSITION
Mersin Chamber of Commerce and Industry	<i>Hürrem Betül Levent</i>	Project Directorate
Union of Adana Citrus Growers (AYTÜB)	<i>Several members</i>	Members of the board and others
Ministry of Agriculture and Rural Affairs (Adana)	<i>Eren Kaya</i>	Agricultural Engineer
Adilkimya (Chemicals for citrus)	<i>Yavuz Turhan</i>	Agricultural Engineer
Atay Tarım	<i>Murat Uçtu Mustafa Koca</i>	Director Agro Technical Manager
Esmé Gıda Agricultural Co.	<i>Vedat Esmé</i>	Chairman
Izmir Chamber of Commerce	<i>Mine Gunes</i>	Izmir Cruise Port Representative, Foreign Economic Relations and International Events
Chamber of Shipping Izmir	<i>Geza Dologh Halil N. Hatipoglu</i>	President Manager
Ministry of Transportation, Undersecretariat of Marine Directorate of Izmir	<i>Ahmet Karaman</i>	Vice Director Izmir
MSC Turkey	<i>Savas Ercan</i>	Vessel Operation Port and Custom Services Manager
TURA Turizm	<i>Gülhan Çagatay</i>	Izmir Incoming Department Manager
Izmir Culture and Tourism Office	<i>Güzfent Dilemre</i>	City Promotion Manager
Izmir Tourism Department	<i>Murat Karaçanta</i>	Vice Secretary for Tourism
TCDD Alsancak Port Administration	<i>Turan Yalçın</i>	Port Manager
Izmir Development Agency (IZKA)	<i>Barlas Selçuk</i>	City Marketing and Foreign Relations Unit Expert
Prime Ministry Privatization Administration	<i>Ali Güner Tekin</i>	Head of Advisory Services Department
Undersecretariat of State Planning Organization - Department of Public Private Partnership	<i>Caner Sarcan</i>	Planning Expert
Independent Consultant	<i>Yeliz Cuvalcı</i>	Specialist in Cluster Development

MALTA		
INSTITUTION	INTERVIEWEE	POSITION
European and Mediterranean Plant Protection Organization (EPPO), Malta	<i>Marica Gatt</i>	Director Plant Health Directorate
The Ministry for Resources and Rural Affairs (MRA)	<i>Carmelo Briffa</i>	Director Agriculture Directorate's Fruit Tree Nursery and Expert in fruit tree propagation
Farmers' Market	<i>Anthony Zarb</i>	Senior Manager
Citrus grower	<i>Victor de Guerra</i>	Farmer
Citrus grower	<i>Michel Azzopardi</i>	Farmer
The Farmers' Central Co-operative Society	<i>n/a</i>	Member of the Board
Valetta Port Cruise	<i>John Portelli</i>	CEO Valetta Cruise Port
University of Malta - Institute for Tourism, Travel and Culture	<i>Nadia Theuma</i>	Senior Lecturer, Director
Mifsud Brothers Ltd - Malta Cruise Services	<i>Ivan Mifsud</i>	Managing Director
Mifsud Brothers Ltd - Libya Cruise Services	<i>Maria Mifsud</i>	Director
Malta Tourism Authority	<i>Francesca Vincenti</i>	Cruise, Leisure and Growth Markets
Malta Hotels and Restaurants Association (MHRA)	<i>Tony Zahra</i>	Vice President
Malta Airport	<i>Alan Borg</i>	Head Airline Marketing
Chamber of Commerce	<i>Klaus Pedersen</i>	Manager - Internationalization

EGYPT		
INSTITUTION	INTERVIEWEE	POSITION
Egyptian Agricultural Research Center (ARC)	<i>Hesham Allam</i>	Chief Researcher
Food and Agriculture Organization of the United Nations (FAO) Egypt Horticultural Research Institute	<i>Mohamed ElAnsary</i>	Assistant FAO Representative
Horticultural Export Improvement Association (HEIA) Magrabi Agriculture - MAFA	<i>Salama Eid Salem Sherif Latif F. Guindy</i>	Director Citrus Department Representative
Agricultural Export Council (AEC)	<i>Abdel Hamid Demerdash</i>	Chairman Managing Director
Ministry of Tourism	<i>Sherif El Beltagy</i>	Chairman
Egyptian Tourism Federation	<i>Hisham Zaazou</i>	Senior Assistant Minister of Tourism
Egyptian Hotel Association	<i>Nader El Biblawi</i>	Vice Chairman
EastMed Egypt Group S.A.E.	<i>Nagui Erian</i>	Vice Chairman
METCO (Modern Egyptian Transport Co.)	<i>Waleed Badr</i>	Chairman
French Chamber of Commerce, Egypt	<i>Amr Kabil</i>	Chairman / CEO
Elkady Group	<i>Amr Kabil</i>	Co-President
CID Consulting	<i>Amira Abd Elmaksoud</i>	Marketing Department
Nasco Tours	<i>Jeena Mitry Rafeh Saleh</i>	Senior Consulting Manager Management Consulting
Chamber of Tourism Establishments (Alexandria)	<i>Machi Gavalas</i>	General Manager
Egyptian Chamber of Commerce in Alexandria (ACC)	<i>Adel Araf</i>	Foreign Relations Department
Egyptian Regulatory Reform and Development Activity (ERRADA)	<i>Sherif Fawzi Abdel Gawad Maggie Kamel</i>	Executive Director Chief Economic Policy Analyst
Egyptian National Competitiveness Council (ENCC)	<i>Dina Kafafy Asraf Ibrahim Tarek Tawfik Heba Zayed</i>	Exec. Director for Business Develop. Chairman of the Tourism Sub-Council Chairman of the Agricultural Sub-Council Exec. Director Research
Research Triangle Institute	<i>Jason Wares</i>	Senior Economic Growth Specialist

LEBANON		
INSTITUTION	INTERVIEWEE	POSITION
Food and Agriculture Organization of the United Nations (FAO) Lebanon	<i>Elie Choueiri</i> <i>Dany Lichaa El Khoury</i>	FAO Main National Consultant and in charge of Lebanese Observatory for Agricultural Development Project Manager
Farmers' Cooperative of Citrus and Tropical Fruits; Union of the Farmers of the South	<i>Ali Dbouk</i>	Member
Tyre (Sour) Municipality	<i>Ali Dbouk</i>	President of the Agriculture and Environment Commission
Association for Lebanese Organic Agriculture (ALOA)	<i>Rania Touma Wanna</i>	President
Healthy Basket Project	<i>Rania Touma Wanna</i>	General Manager
Syndicate Agri-food Traders in Lebanon AFTL	<i>Isam Ajouz</i>	Executive Manager
Tyr District Municipalities Union Jabal Amel Cooperative	<i>Abed Mohsen Hosaini</i>	President
South Lebanon Growers Chamber and the Syndicate Board	<i>Hani Abdallah Safieddine</i>	President
South Lebanon Growers	<i>Khalil A. Zantout</i>	General Secretary and citrus orchard owner
Ministry of Agriculture	<i>Samir el Chami</i> <i>n/a</i>	General Director Tyr Extension Director
American University of Beirut, Central Research Science Lab.	<i>Youssef Mouneimne</i>	Director
Vent Nouveau Travel and Tourism	<i>Joseph Kanakry</i>	President
Association of Travel and Tourist Agents in Lebanon (ATTAL)	<i>Jean Abboud Ghassan Hitti</i>	President Manager
Federation for Tourism and Hotel Association in Lebanon	<i>Pierre Achkar</i>	President
Ministry of Tourism	<i>Nada Sardouk</i> <i>Joumana Kebrit</i> <i>Jean Claude</i> <i>Dina Sleiman</i>	Director General Director of Studies and Research Department Head of Facilities Head of Travel Agents and Tour Guides
International Chamber of Navigation of Beirut	<i>Eli Zakhour</i>	President
Uniship Group	<i>Eli Zakhour</i>	Managing Director
Port of Beirut	<i>Hassan Koraytem</i>	CEO
The Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon (CCIABML)	<i>Elie Massoud</i>	Coordinator of the Agricultural Committee
International Finance Corporation (IFC) Lebanon	<i>Carol Khouzami</i>	ADR - Project Officer

INSTITUTIONS AND AGENTS INTERVIEWED IN CATALONIA AND VALENCIA

LEATHER TANNING IN IGUALADA		
INSTITUTION	INTERVIEWE	POSITION
Association for research of leather industry and annexes, AIICA (Asociación de Investigación de las Industrias del Curtido y Anexas)	<i>Miquel Vila</i>	Former Director

AGRICULTURAL MACHINERY IN LLEIDA		
INSTITUTION	INTERVIEWE	POSITION
FEMAC (Cluster of Agricultural Machinery of Catalonia)	<i>Enric Pedrós</i>	Cluster Manager
JYMPA	<i>Josep Maria Pradas</i>	Owner

RURAL TOURISM IN SOLSONÈS		
INSTITUTION	INTERVIEWE	POSITION
El Call d'Odèn	<i>Josep Call</i>	Owner and Director
Business Association for Solsonès County (Empresaris Solsonès)	<i>Joan Moreno Montse Rius</i>	Business owner Executive secretary

CERAMICS IN LA BISBAL		
INSTITUTION	INTERVIEWE	POSITION
School of Ceramics La Bisbal (Escola de ceràmica)	<i>Dolors Ros</i>	Owner and Director
Ceramica Mestres	<i>Josep Mestres</i>	Owner and Director
Industrial and Energy Security Department, Government of Catalonia	<i>Carles Sans</i>	Service Manager

MOULD MAKERS IN EL VALLES		
INSTITUTION	INTERVIEWE	POSITION
ASCAMM Foundation Technology Centre	<i>José M^a Muxí</i>	President
Catalan Association of Mould and Die Manufacturers	<i>Josep Font</i>	Secretary General

METALLURGY IN MANRESA		
INSTITUTION	INTERVIEWEE	POSITION
Technology Center of Manresa (CTM)	<i>Jordi Martí</i>	Sales Director

THE 22@ TECHNOLOGY DISTRICT IN BARCELONA		
INSTITUTION	INTERVIEWEE	POSITION
22@Barcelona	<i>Miquel Barceló</i> <i>Josep M. Piqué</i>	Former President (2004-2007) CEO

FOOTWEAR IN ALICANTE		
INSTITUTION	INTERVIEWEE	POSITION
CAM - Caja de Ahorros del Mediterráneo (Savings Bank)	<i>Roberto López Abad</i>	Former CEO (until 2010)
Economy Department, Service of Analysis, Evaluation and Economic Programming, Government of Valencia	<i>Vicent Ahuir</i>	Responsible for the Service of Analysis, Evaluation and Economic Programming
Pikolinos	<i>Tomás Martínez</i>	Operations manager
Florencia Marco	<i>Vicente Pastor</i>	Vice-Director

MOTORCYCLES IN BARCELONA		
INSTITUTION	INTERVIEWEE	POSITION
JJUAN, Co.	<i>Carlos Juan</i>	Owner, General Manager
European Motorcycle Industry Association (ACEM - Brussels)	<i>Jacques Compagne</i>	General Secretary

ENERGY IN BARCELONA		
INSTITUTION	INTERVIEWEE	POSITION
b_TEC Foundation	<i>Xavier de Caso</i>	Energy Project Manager
Catalan Energy Institute (ICAEN)	<i>Oscar Sanchez</i>	Energy Project Manager

OTHER		
INSTITUTION	INTERVIEWEE	POSITION
Catalan Government	<i>Antoni Subirà</i>	Former Minister of Industry 1989-2002
Catalan Government	<i>Jordi Conejos</i>	Former General Director of Industry Department 1995-2001

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