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Local Government and Economic Development in CEE

The case of Bratislava

By Peter Nientied

Local Government and Economic Development in CEE: the Case of Bratislava

Peter Nientied

13

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**Local Government and Economic
Development in CEE: the Case of
Bratislava**

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Peter Nientied



**Institute for Housing and Urban Development Studies
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Abbreviations used

| | |
|------|--|
| CEE | Central and Eastern Europe(an) |
| EU | European Union |
| OECD | Organisation for Economic Co-operation and Development |
| R&D | research and development |
| SKK | Slovak Koruna (currency) |





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Local Government and Economic Development in CEE: the Case of Bratislava

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Introduction

Aim and Context of the Study

Aim

It is remarkable that only limited academic and professional work has been carried out on the economies of intermediate and large cities in CEE, and on the local government's involvement in economic development policy. Likely reasons for this are the relative novelty of urban economic studies in academic circles, and the near absence of local economic policy and projects in the local public sector, with a subsequent lack of commissioned studies. Regional economic development and labour market studies receive more attention, possibly due to the priorities of institutions such as the EU.

This paper aims to contribute to the development of the discussion on urban economic development, and will pay specific attention to the roles and responsibilities of local government in economic development. It will discuss the case study of Bratislava, the capital of Slovak Republic. Within the national economic context of Slovak Republic, the economic development of Bratislava will be discussed. Attention will then turn to positive and negative place factors of Bratislava in comparative perspective, the relationships between Vienna and Bratislava, and the potential of R&D development in Bratislava. The next issue this paper will deal with is Bratislava's local government capacity (responsibilities, fiscal base, organisational competence etc.) and the effective influence local government exerts over Bratislava's economy. Finally, local policy issues will be discussed.

Theoretical context

In Central and Eastern European cities the discussion of the role of local government in the transition process addresses all sorts of new questions. Should local government - under the present conditions of severe fiscal stress - be actively involved in business operations and thereby strengthen its revenue base? Should local government provide risk bearing equity



capital to new enterprises? Should local government commercially exploit its portfolio of properties? Local opinion in the CEE region varies: some say that local government should just stay far away from the market. Others favour a rather far-reaching public intervention in the local economy.

Various approaches towards the role of local government in economic development can be found in the academic literature and in practice in Western European cities.¹ An understanding of how much or how little government could and should do, is informed by political-economic viewpoints. This report argues that in the short and medium term local government in CEE should in general concentrate on horizontal strategies, aimed at making the local productive environment more attractive. This is a rather liberal perspective, suggesting that local government should create favourable conditions for firms, and should by and large abstain from entering into commercial ventures. It suggests that local government should not do what can be done by the private sector, and only provide as effectively and efficiently as possible those items which the private sector cannot manage. These include primary production factors (land, labour, and to a much lesser extent capital). Also on pragmatic grounds, it is concluded that local government could better abstain from direct job creation and substantial business support. Local governments generally do not have the resources (funds, skills, experience) to design and implement more substantive economic development plans, and could better concentrate on removing bottlenecks to urban economic development.

A local economic policy should be designed to respond to the longer term development plan for the city on the one hand, and as much as possible satisfy the concrete demands from entrepreneurs and other sectors intending to invest in a city on the other hand. Conceivable priority actions would be in physical development, business development, human resource development, and city marketing. On some of the points remarks will be made before turning to the case of Bratislava.

Property development

Two items could be taken up under property development.

a) *Land*. Local governments usually have sufficient land for office development, industrial sites, housing, etc. The key issues are costs of servicing land and the inefficient land development regulatory framework. Especially the procedures and management of releasing land (ranging from obsolete regulations to slow and unprofessional handling of the file) can frustrate potential investors. Sometimes, local governments only offer large tracks of land for large firms, thereby not responding to the potential demand from the sector of small and medium enterprises for small plots. Improvements in land management are essential for local economic development.

b) *Buildings*. Buildings (offices, factories, housing, theatres, etc.) are another type of asset of CEE local governments. A number of those assets have a market value, and can be sold or rented out to the private sector, or otherwise be used for a economic purposes. However, few local governments have a complete inventory of their municipal assets in a form which can be used for management decisions, and therefore lack the essential tools for considering the options of conversion of municipal assets for commercial use (Maas and Nientied, 1997).

¹ See among others Boivard (1992; 1993; 1994), Blakely (1994), Meyer (1993a, 1993b), Moulaert, F., and Demaziere (1994), Nientied (1995), Oatley (1994), Stöhr (1990).



Business development

In general, CEE local government on its own lacks the expertise to apply direct instruments for business development. In many CEE countries, municipalities have the discretion to enter into joint ventures, but it is questionable whether this is the right kind of action to undertake. The most important actions for local government in the area of business development consist of:

- a) Information and services. The expedient and reliable provision of information, and assistance to firms with their land search, building permit procedures, market demands, labour demands, and perhaps the creation of a one stop shop, etc. is relevant for firms. The opposite frustrates firms in their investments, and thus hampers economic development.
- b) Linkages between the public and private sector. Local government can work together with the private sector in a variety of ways. The most important is that local government listens to private sector representatives, and if possible responds to their demands. Informal and formal partnerships can be important mechanisms for local economic development, if local government and the private sector can identify their mutual interest.

People development

The experience of the last five years in CEE shows that the private sector has been quite responsive to the new needs for skills in modern service sectors, by providing in-company training and specialised courses. For certain groups of unemployed and under-employed people, and for selected firms, skills development for specific economic development objectives is a priority. Perhaps the most important element of human resource development is training for local government staff, in order to achieve a more professional attitude towards local economic development, land management, infrastructure provision, and a service attitude towards the private sector.

City marketing

The promotion of a city and its products receives quite a lot of attention, but mere promotion is only the end product of marketing. If city marketing should be taken in a broader sense than promotion of city attractions, and seen as making the supply of urban products (sites for firms, residential space, facilities for inhabitants, companies and visitors) correspond with specific markets (Van den Berg *et al.*, 1990), then city marketing is a useful tool in two ways. First, city marketing requires knowledge about what has to be marketed and what the target groups, and thus stimulates thinking about local development strategies, and second, therefore the quality of information from CEE cities to the outside world will greatly improve.²

² Too often, CEE towns produce very general brochures, promoting their location, labour, history and culture, etc. This kind of information is not targeted at all





1. Slovak Economic Development

The Slovak economy in general, and Bratislava's economy in particular, have been undergoing major changes over the last half decade, and are expected to restructure much further. Like other transition countries, Slovak Republic has been restructured in a framework of *macro-economic reform*, which includes: (OECD, 1996; World Bank, 1996)

- liberalisation of the centrally planned economy to market forces
- relative withdrawal of government from price setting and marketplace control, privatisation of economic activities
- movement to orderly public finances
- opening up towards an export focus in international trade relations.

With inflation down to 6%, balanced public budgets, a rather stable currency, a share of private sector in GDP of 65% in 1995 (from 39% in 1993), an economic growth figure of around 6-7%, and a relatively low external debt (26% of GDP), Slovak Republic appears to be in a relatively favourable economic position. Indeed, the Slovakian Finance Ministry gives a positive assessment of the development of the national economy. The Finance Ministry, in its *Strategy for Financial Policy by 2000*, projects a real GNP growth of 5.9% in 1997, to slow down marginally to 5.8% by the year 2000. Inflation figures for the same two years are 6.2% and 5.9% respectively, while the unemployment rate is planned to decrease from the current 12 - 13% to 9.3% by 2000 (Slovak Spectator, October 23, 1996). Inflation was at 25.1% at the end of 1993, and declined to well below 6% in the third quarter of 1996. The GNP development since 1991 and its forecast is summarised in table 1.3.

Table 1.1 Development % GDP (at constant prices) _

| year | % change |
|-----------|----------|
| 1991 | - 14.5 |
| 1992 | - 1.6 |
| 1993 | - 3.7 |
| 1994 | + 4.9 |
| 1995 | + 7.4 |
| 1996 | + 7.0* |
| 1997-2000 | + 5.9* |

* forecast. Source: Karasz et al. (1996), OECD (1996)

OECD (1996), in its detailed economic survey of the Slovak Republic, tries to explain the unexpectedly positive economic development. Unexpected indeed; OECD suggested in its 1994 survey of the Czech and Slovak Republics, published in 1995, "The outlook was poor, .." "Output growth was negative, inflation was accelerating and unemployment was expected to rise." (ibid., 1-2) OECD now analyses that first, the recovery in western Europe created an opportunity for export led growth in Slovak Republic, and second, that the direction of macro-economic politics at the time the survey was written in 1994 was still unclear. While economic growth in 1994 was largely led by exports, in 1995 a larger role was played by strengthening domestic demand. Unemployment declined in 1995 and 1996: from the peak of 15.2% in 1995 unemployment has gone down to 13% in 1995 and 12% in 1996 (ibid., 16). The services sector, and in 1995 also industry and construction, showed production growth rates of 13%. The ratio of exports plus imports over GDP has increased substantially over the last years, and was at 122% in 1995, with the Czech Republic and Germany as main trading partners. Export growth in recent years has occurred mainly in the area of semi-



finished products (esp. iron and steel, chemicals, machinery, textiles, timber and paper), although the range of export goods is broadening since recently (ibid.). Whereas the national government over the last years has progressed in the restructuring of the economy (OECD, 1996; World Bank, 1996) and is at par with Visegrad countries (Poland, Hungary, Czech Republic), serious questions remain about the restructuring / privatisation of the public enterprise sector, and the strengthening of the financial sector through allowing for more competition.

1.1 Bratislava

In 1992 the Czech and Slovak Federal Republic adopted the Act on the Dissolution of the Federation. The Slovak Constitution was ratified, and this marked the beginning of statehood for the Slovak People. Bratislava, which was the capital of the Slovak state, and an important regional centre, became the capital city of the Slovak Republic.

The total area of the City of Bratislava is 367,58 sq. km., occupied as follows: for residential purposes 34.18 sq.km., for business purposes 35.13 sq.km., for agriculture and forest 235.36 sq.km., for transportation purposes 11.78 sq.km. and for other categories 51.13 sq. km.

Bratislava City has more than 450.000 inhabitants, which is about 8% of the Slovak population of 5.3 million. This percentage is slowly increasing. The city lies 60 kilometres north-east of Vienna, with the Hungarian town of Győr as the main other city (and competitor) in the region. As the economic, political and cultural capital of Slovak Republic, Bratislava finds itself in a favourable national economic climate, as was demonstrated in the preceding section.

Its economy is rather diversified: it has a strong petro-chemical and manufacturing sector, Slovakia's largest port, an increasing business services sector and a concentration of universities and research institutes, cultural institutions, a national financial sector and the headquarters of the central government and its ministries and foreign diplomatic representatives.

The age structure of the population is as follows.

Table 1.2 Population of Bratislava

| year | total | 0-14 y. | 15-59 y. | 60 and older |
|------|---------|---------|----------|--------------|
| 1989 | 440 629 | 106 068 | 269 653 | 64 908 |
| 1991 | 444 987 | 100 910 | 276 381 | 67 616 |
| 1993 | 448 785 | 94 135 | 285 305 | 69 341 |
| 1995 | 452 053 | 86 806 | 293 399 | 71 848 |

Source: UHA Bratislava

The population of Bratislava is rather young, and the city is still growing. The educational level of the population is high. Bratislava has more employment opportunities, higher wages, and significantly lower unemployment than other regions in Slovak Republic (see below). It



can therefore be expected that the city population will grow once housing markets function well, and the still ineffective demands for housing are satisfied.³

Local Government in Bratislava

The City of Bratislava is governed through a rather intricate, two tier system of government.⁴ The Municipal Government (Magistrat) is responsible for the overall development of the city, whereas 17 so-called City Parts have own responsibilities and autonomy over their jurisdictions. Each City Part has its own 'mayor' and an elected Local Council. At the city level two elected bodies have been established: the General Assembly of 80 elected members (including at least one member per City Part) and the smaller City Council (28 members). Nineteen committees, headed by councillors elected by the General Assembly, handle matters and recommend to the City Council, General Assembly, and the mayor and his 4 deputy mayors. The Magistrat and City Parts have the right to establish so-called budgetary and contributory organisations, to provide services to the community. The Magistrat itself is a rather modest organisation, with less than 500 employees, and is organised in sections, departments and 'referats'.

In general, the Magistrat is considered to be a rather inadequate organisation. Its revenue base is rather poor, the City lacks a vision of future urban development of Bratislava (there is no urban master plan for example), and it has problems in keeping qualified staff. The relationship between Magistrat and City Parts leaves much to be desired; the institutions at times compete rather than co-operate on issues such as land development. This problem leads to unplanned city development.

Economic development responsibilities

The situation of local responsibilities in relation to higher-level government responsibilities is shown in the next table (cf. Lukacs, 1995).

table 1.3 Responsibilities for economic development policy

| item | central government influence / responsibility | local government influence / responsibility |
|--|--|--|
| • economic, financial and legal reform | x | - |
| • trade regulations | x | - |
| • telecommunication | x | - |
| • labour market | x | - |
| • transport-infrastructure | x | x/- |
| • logistics, port | x | x/- |
| • education and research | x | - |
| • business incentives | x | x/- |
| • land supply for business | - | x |
| • image and marketing of City | x/- | x |
| • planning and regulation | x/- | x |

x = main function - = no or minor function x/- = supporting function

³ For this to happen, more flexible mortgage instruments have to be developed, and local government should prioritise land and infrastructure supports for housing development. See Maas and Nientied (1997).

⁴ See the Act of the Slovak National Council No. 377/1990 on the Capital of the Slovak Republic Bratislava, and its later amendments. The acts do not provide sufficient clarity regarding responsibilities and relationships between the two tiers of local government, and are at the basis of critical argumentation between Magistrat and City Parts.

This division of responsibilities points to the importance of the role of Central Government with regards to the economic development of Bratislava. It can be added that the limited financial capabilities and the dependence of Bratislava's local government on Central Government funding further limits the space of the Magistrat to initiate actions supporting the local economy. Yet, the influence of the local government should not be underestimated, as was explained in section 1.1.

The regional intentions of the present national government with regards to Bratislava are not very clear (Ministry of Environment, 1996; OECD, 1996). Due to the strict fiscal regime, regional policies of Central Government are generally limited to investments in infrastructure (highways, railway). Such investments will benefit Bratislava in any case, since they connect the country better with the capital, and provide better connections with other countries. National government's funding of local government follows more or less the inter-related levels of regional income and unemployment (regions with high unemployment receive more public funds per capita than better off regions, cf. Karasz et al., 1996). It is reported that since Bratislava is governed by an 'opposition' local government, fostering good relations with central government is a difficult process. This may be one of the reasons why Bratislava Magistrat's very inadequate revenue base is not improved by national government. On the other hand, Bratislava's important position in the national economy, its higher income level and lower unemployment rate, would warrant less direct support if Central Government would strongly pursue equitable regional development. In Bratislava the share of municipalities' budget income on GDP in % was only 0.7, the lowest of the whole of Slovak Republic, against the Slovak Republic's average of 2.8, and the (second lowest) Kosice with 1.4% (Karasz et al., 1996, 73). The practice that large cities have special problems, and therefore receive a relatively higher amount of revenues, is not found in Slovak Republic. In Slovak Republic there exists a rather direct, positive correlation between low regional GDP and high transfers from Central Government.



1.2 Bratislava's Economic Condition

Table 1.4 depicts the employment structure of Bratislava, according to the so-called spatial and enterprise methods.

Table 1.4 Bratislava's employment structure 1992 - 1994

| Category | Number of employees * 1,000, spatial method (in cursory: enterprise method) | | | Average monthly salary 1995 in SKK (spatial method) |
|--|--|----------------|----------------|---|
| | 1992 | 1993 | 1994 | 1994 |
| 1. agriculture and fisheries | 2.1 1.3 | 1.7 1.1 | 1.5 0.9 | 5.537 |
| 2. mining and raw materials | 1.0 0.7 | 0.2 0.6 | 0.2 0.5 | 8.078 |
| 3. industry | 41.3 50.6 | 35.0 46.5 | 31.9 43.6 | 8.159 |
| 4. electricity, gas, water | 5.7 26.2 | 5.4 26.6 | 5.4 26.4 | 10.090 |
| 5. construction | 17.4 30.9 | 15.8 26.9 | 15.0 22.8 | 7.814 |
| 6. retail, repair of industrial goods and cars | 16.2 25.6 | 13.2 24.0 | 12.5 22.8 | 8.652 |
| 7. restaurants and hotels | 3.6 4.5 | 3.5 4.7 | 3.2 4.6 | 6.222 |
| 8. transport, storage and telecommunications | 26.3 109.2 | 24.5 112.6 | 24.0 106.9 | 8.465 |
| 9. banking and insurance | 3.9 14.8 | 5.7 18.7 | 8.7 22.4 | 14.341 |
| 10. real estate, leasing, enterprise services, R&D | 25.6 28.5 | 21.5 26.0 | 20.2 25.2 | 7.518 |
| 11. public administration defence, social insurance | 11.3 15.9 | 12.7 19.1 | 12.9 19.0 | 9.166 |
| 12. education | 27.5 27.4 | 25.1 26.7 | 22.8 24.0 | 5.763 |
| 13. health care, veterinary and social activities | 17.1 19.3 | 17.1 19.3 | 17.3 18.9 | 5.761 |
| 14. other public, social and personal services | 13.5 17.1 | 14.0 17.4 | 14.0 17.2 | 7.275 |
| Total | 212.6 384.3 | 195.6 380.5 | 189.5 363.6 | average: 7.923 |

Source: calculated from Bratislava Statistical Yearbook 1994/1995.

The *enterprise method* states the number of employees of Bratislava based enterprises (these employees do not necessarily work in Bratislava, for example the large difference between the methods under category 8 is caused by the Railways, employing many staff working all over the country). The *spatial method* indicates the sectoral occupations of inhabitants of Bratislava.



Although the period covered in the above table is short, a number of developments are striking. The most significant is that the share of the working population in industry declined substantially. The share of workers in the university and enterprise service and R&D sectors went down as well. The banking and insurance sector, as expected, has gained in significance. Important is that this restructuring of the local economy has not resulted in high unemployment, as will be indicated below. Significant too is the decrease of the number of jobs from about 212.000 in 1994 to 189.500 in 1995.

It should be mentioned that national and local statistical sources are not consistent with regard to these data. Given the facts of very low out-migration and an unemployment percentage to the tune of 4-5 % over the years, an obvious inference would be that the labour participation rate has gone down substantially. A satisfactory detailed explanation for this development cannot be given,⁵ but the following points are relevant. First, the longer term unemployed administratively transferred to the social affairs administration after two years. Second, there is an outflow of unemployed to not registered economic activities. Third, a socially acceptable method to implement labour shake-out has been early retirement. Fourth, perhaps migration data would show in the future that the unemployed return to the countryside, because costs of living in Bratislava are high (a phenomenon also recorded in Hungary).

Unemployment in Bratislava is lower than elsewhere in Slovak Republic. In the table below, comparative figures are given for Slovak Republic, Bratislava and Kosice, the second largest town.

table 1.5 Unemployment rate 1995

| Unemployment rate at end of 1995 | |
|----------------------------------|-------|
| Slovak Republic | 13.1% |
| Bratislava | 4.7% |
| Kosice | 11.3% |

The unemployment rate in Bratislava in 1990 was slightly above 1%, rising to above 5% in 1993, and decreasing in the years 1994 and 1995 to 4.7% and 4.3% resp. An analysis of statistical data showed that there was hardly any significant correlation between unemployment and age, and unemployment and education level.

About Slovak Republic, it is noted by OECD (1996) that unemployment is highest outside the regions with concentration of industry (mainly along the Czech - Slovak border). The unemployed are mainly lower educated people. Bratislava's low unemployment rate can thus be explained: it has a relatively diversified economic base, benefits most from the modernisation of the economy as primate city, and has the highest education levels in the country. It is a question however how Bratislava's industrial base will further restructure; whether companies will close, and whether increases in productivity will result in substantial labour lay-offs. Blue collar unemployment could then be expected to rise in Bratislava as well. The educational levels of Bratislava versus the Slovak Republic are illustrated in the next table.

⁵ OECD (1996, 18-20) report an estimated national decrease of employment during 1991-1993, and a slight increase during the period 1994/1995. It report too rather modest outflows from unemployment (ibid., 104)

table 1.6 Educational levels of economically active population

| level | Bratislava | Slovak Republic |
|-------------------|------------|-----------------|
| university | 21.9 | 11.6 |
| secondary | 52.4 | 42.0 |
| primary and lower | 22.6 | 46.9 |

Development towards a more diversified company structure can be witnessed in this relatively short period as well. The table below gives an overview of industrial companies according to size. The rather rapid development of smaller enterprises is clear.

Table 1.7 Industrial companies in Bratislava according to size

| size | Number of companies | | Number of employees | |
|--------------|---------------------|------|---------------------|--------|
| | 1991 | 1994 | 1991 | 1994 |
| 0 - 100 | - | 197 | - | 5.676 |
| 101 - 500 | 43 | 69 | 9.110 | 15.506 |
| 501 - 1.000 | 13 | 14 | 9.605 | 9.916 |
| 1001 - 2.500 | 14 | 5 | 20.762 | 8.026 |
| 2501 - 5.000 | 3 | 3 | 10.893 | 10.254 |
| 5.001 up | 3 | 3 | 25.697 | 21.355 |
| total | 76 | 197 | 76.067 | 70.733 |

Source: Bratislava Statistical Yearbook 95

The overall number of small enterprises established is of course much higher (cf. OECD, 1996, 105), and can typically be found in the services sectors.. The pattern of companies that has emerged during the last 5 years does not show surprising developments. A substantial number of foreign trade and retail companies and their local branches were established. There were 3 banks (not including branch offices) in 1992, and there were 27 registered banks in 1995. Also, in the tourism sector: the number of travel agencies was 66 in 1992, and 100 in 1994. Given the stagnation in tourism, this number is not likely to grow very much further if no active tourism policy is formulated and implemented.

Bratislava benefits from the positive national economic development nationally. The dominant position of Bratislava region with regards to location of inflow of direct foreign investment is shown in the next table. For comparison, the second ranking district up until the end of 1995 (ziar nad Hromon) is shown in comparison.



Table 1.8 Location of foreign capital

| district | volume | till end 1993 | | till end 1994 | | till end 1995 | |
|--------------------------|--------|----------------|------|----------------|------|----------------|------|
| | | in billion SKK | in % | in billion SKK | in % | in billion SKK | in % |
| Bratislava District | | 6.0 | 56 | 10.0 | 61 | 13.6 | 62 |
| Ziar nad Hromon district | | 0.06 | 0.6 | 0.07 | 0.5 | 0.96 | 4.4 |
| Slovak Republic Total | | 10.7 | 100 | 16.5 | 100 | 21.9 | 100 |
| | | | | | | (US\$ 732 m.) | |

Source: Karazc et al. (1996), OECD (1996)

Noteworthy is that the largest foreign direct investment was in retail (K-Mart, in 1996 sold to Tesco), the second largest in cars (Volkswagen), the third largest in electronic goods (Sony), and numbers 4-10 all in chemicals. The eleventh-largest investor is Pepsi-Cola (OECD, 1996, 137; Slovak Spectator 23 October 1996). The volume of investments is rather modest, and it is obvious that one substantial investment (of say 30 million US\$) makes a lot of difference for the ranking of regions other than Bratislava. The situation was described by Slovak Spectator (October 9, 1996) under the heading "Capital's investment success highlights country's failure." OECD (1996) records that the foreign investment in Slovak Republic has been modest compared to investment needs. Compared to Hungary and Czech Republic, the foreign direct investment inflow was low. More worrying is that in 1995 the foreign investment slightly decreased in comparison to 1994 (5.3 billion SKK and 5.7 million SKK resp.).

The economically attractive tourism sector is also stagnating. Although the number of border crossings increased rapidly (it doubled between 1993 and 1995), the number of hotel nights decreased in 1995 (5.8 million) compared to 1994 (6.3 million).⁶ About 20% of the hotel nights are spent in Bratislava. Compared to Western Europe, the amount visitors spend per night is very low. A beneficial economic development objective consists of increasing this amount and the number of hotel nights.

Despite these points, it can be concluded that as long as the national economy of Slovak Republic develops well, and it forecasts point in that direction, the economy of Bratislava will develop equally well. If it is anticipated that - in line with EU national economies and the developments witnessed in other Visegrad countries - the national economic growth sectors of the coming years will include the financial and insurance sector, other professional services for firms and government, the transportation / distribution sector and perhaps the tourism sector, it can be safely assumed that Bratislava will benefit from these developments. Sectors likely to further decline in importance during the coming years are agriculture and industry. The former does not affect Bratislava very much, whereas the experience of the last years have shown that reduced employment due to industrial restructuring was compensated for in the services sector (and also partially unexplained by statistical data).

⁶ Bulletin of Tourism 2/96, Ministry of Economy, Section of Tourism.

Municipal finance⁷

Key municipal finance details are summarised below from the point view of the contribution of revenues from municipal assets (sales, leases, rent) to Bratislava Magistrat's income. Budgets of the 17 City Parts are not related to this budget.⁸ The motive for highlighting the income from municipal property is to show that the Magistrat has been forced so dispose of property largely for recurrent expenditures.

Table 1.9 Municipal Budget and Property Income (* SKK 1 million)

| | 1992 | 1993 | 1994 | 1995 |
|--|-------|-------|-------|-------|
| nominal income from municipal property | 506 | 801 | 490 | 533 |
| <i>real prices (basis 1992)</i> | 506 | 640 | 350 | 356 |
| nominal municipal budget | 3,193 | 2,475 | 1,854 | 3,554 |
| <i>real prices (basis 1992)</i> | 3,193 | 1,978 | 1,327 | 2,373 |
| property income / budget in % | 15.8 | 32.4 | 26.4 | 15.0 |
| excluding municipal bond income 1995 | | | | 1,671 |
| <i>real prices (basis 1992)</i> | | | | 1,116 |
| property income / budget in % | | | | 31.9 |

Source: calculated from Magistrat accounts 1992-1995

Two points are noteworthy here: first, the decline in real and even in nominal terms of Magistrat revenues till 1995, and second, the significance of the revenues from municipal properties for the overall Magistrat budget. In 1995 the Magistrat issued municipal bonds (US\$ 65m., 4.1%), and enjoyed interest from the bond revenues since the bond revenues were not spent, and put in a Slovak bank account at favourable terms.

Within the current framework of assignment of responsibilities to the Magistrat, the revenue base of the Magistrat was weak in 1992, and has become only weaker over the last four years, down to a disturbingly low level. Revenues of the whole municipal sector have declined (less in the case of Bratislava's City Parts). Factors at stake in the Magistrat's weakening financial situation have been: the abolition of the housing construction grant, reduced finance for public transportation, the national laws on increase in public sector wage levels and the introduction of premiums for pensions and social security, lead to a higher expenditures pattern.

There are intrinsic weaknesses in the assignment of responsibilities, which are not reflected in the systems of grants to the Magistrat. The current sharing formula of the Personal Income Tax (the largest Central Government grant) is based on the population of cities only. This mechanism is simple and does not take into account the special circumstances of cities. For Bratislava, some of these special circumstances are that Bratislava receives about 150.000 commuters daily, who make use of services (esp. public transport), whereas a large part of the costs thereof are for the Magistrat; Bratislava, as capital, has social and cultural

⁷ An unpublished report on Bratislava's municipal finance by B. Maas (1996), is available from IHS, Rotterdam.

⁸ In fact, given their financial independence from one another, City Parts and Magistrat do not make much efforts to even inform each other.

institutions, and has to bear the costs. Other disadvantages related to the revenue base can be pinpointed as well: Bratislava houses many public buildings of the state (of national interest), which do not give any substantial income to the Magistrat; the Magistrat has to maintain special services, which are state services in other municipalities (public transport is only a municipal service in the largest 4 municipalities, fire brigade in the 2 largest, and homes for the elderly and other services only in Bratislava).

Within the current framework, serious flaws exist in the revenue base. The most important ones are revenue inadequacy and revenue uncertainty. In other words, the revenues are insufficient, and in terms of certainty about revenues for the next years it can be stated that during the last four years the only certainty has been that the revenue base generated less funds every year. It may be true that the whole municipal sector has suffered from the (no doubt required) public sector financial reforms. The result for the Magistrat of Bratislava has been that, with a couple of exceptions, the Magistrat was unable to make any substantial investments.

2. Bratislava's Economic Development Factors

In this chapter, a concise review is made of positive and negative place factors, followed by a juxtaposition of Bratislava's reality against models of Bratislava in its regional perspective, and the model of Bratislava as a research and development centre. Then the chapter continues with an audit of the organisational capacity of the City.

2.1 Strong and Weak Place Factors

Significant positive place factors of Bratislava include the following:

- Bratislava is primate capital city, and seat of central government
- Bratislava finds itself in a context of positive macro-economic developments, increasing volumes of domestic consumption
- the city has a relatively diversified economy (financial sector, cars, chemicals)
- the city has an educated and, compared to Western Europe, relatively cheap labour force
- many universities and research capabilities are located in Bratislava
- Bratislava's location is close to Vienna, in the potential growth region Vienna - Bratislava - Győr
- the city has reasonable to good infrastructure, while traffic with Vienna is increasing
- Bratislava has attractive quality of life factors.

Weak place factors include the following:

- Bratislava is a relatively unknown place in a small country
- national politics of the present Meciar government discredit Slovak Republic's reputation
- the city suffers from infrastructure deficiencies
- the number of very small firms is limited
- the city has inadequate public organisational capacities, including fragmented local government.



It is important to keep the argument of the well educated (and cheap) labour force into perspective. It was observed that professionals and policy makers believe that this factor is a key for developing Bratislava into a city with high tech and R&D functions (Bratislava Magistrat 1993; 1996b). This notion is questioned. It is true that Bratislava has a positive score regarding the average education level compared to other main Visegrad cities. However, it remains to be studied 1) whether the skills and education levels meet the demands of new firms; and 2) whether the research capacities available are relevant for the market.⁹ In a scan of employment opportunities in Bratislava newspapers in October - November 1996, it appeared that the most articulated demands were made for various types of economists, various management personnel, secretarial staff with language capabilities, computer specialists, and lawyers. In these fields, Bratislava's research institutes are not known for their expertise. Interviews revealed that in general the private sector in Bratislava is content with the educational quality of the younger generations, especially in the technical fields. It was mentioned that university education in Slovak Republic is less specialised than in Western Europe, and that graduates have the aptitude to learn on the job. It will take some more time before the (felt) shortage of skills in the labour market in the field of professional business services (accountancy, law, etc.) is covered by the higher education institutions.

Wages are lower in Slovak Republic than in other Visegrad capitals, but the differences between Bratislava and other cities are not very big (in the tune of 10-20%, cf. Lukacs, 1995). Moreover, foreign investors primarily seek new markets, and in the second place cheaper production locations. An argument insufficiently taken into account is that productivity indicators - unit costs - are more important than wage levels (World Bank, 1996).

Bratislava is located in a *potentially* favourable region: the Vienna-Györ-Bratislava triangle. In 1993, this area was identified by Empirika, a German economic development consultant, as one of the most favourable places in Europe for investment. Some reservations regarding this conclusion are made below in a discussion of the Vienna-Györ-Bratislava triangle as a functional urban region.

Unlike Budapest and Prague, Bratislava is a relatively unknown place, and is the capital of a small country. Bratislava has no place image to speak of, it is neither positive nor negative, it is just absent (Lukacs, 1995).¹⁰ Budapest and Prague, also capitals of rather small countries, are bigger, and have a more positive place image.

With regards to infrastructure, it can be mentioned that the existing *road network* in and around the city is in a reasonable state, but that the national infrastructure situation is characterised by under-investment (OECD, 1996, 139-140). It is being improved through an East - West and an North - South corridor. Slovak Republic in general and Bratislava in particular, will then be better connected to other countries. A new border crossing, likely accompanied by a Jarovce - Kitsee cross-border business park has been planned. Another positive development is the planned light railway line between Bratislava and Vienna. Bratislava's *airport* is rather insignificant, has very few international connections and can obviously not compete with Vienna's airport. Bratislava's airport can consequently not function as an economic centre of importance. Bratislava is connected through a *railway system* with the rest of the country. The railway system in Slovak Republic calls for

⁹ In a study of St. Petersburg, it was concluded that the existing research and development sector was not appropriate for modern demands, and that major unemployment was expected among those with the highest educational levels. Cf. Eronen (1995).

¹⁰ One may compare the nondescript place image of Bratislava to that of Ljubljana, the capital of Slovenia.



substantial investment needed for modernisation (only one third of the track is electrified, there are no high speed railways). The national and international *bus transport* system, which would require less investment and is very suitable private sector participation, could provide short and medium term solutions. *Telecom* facilities in Slovak Republic are still mediocre, but are in a process of improvement. *Gas and oil pipelines* are an important infrastructure for Bratislava, since Russian exports go via Bratislava. *Organisational infrastructure*, in the form of public organisational capacities for local development is inadequate. The Magistrat for example lacks an information centre for enterprises, and maintains a bare minimum of contacts with the Chamber of Commerce. This issue will be discussed in detail below.

2.2 Place Factor Evaluation

Bratislava place factors are evaluated against two scenarios. The first is a comparison between Bratislava and - Prague / Budapest; - Győr; - other cities in Slovak Republic; and - EU cities, according to a set of criteria identified by Parkinson in his well known study carried out for the European Union regarding conditions for potential economic success of cities (Parkinson, 1992). The second is a specific longer term scenario advocated by economists and policy makers in Bratislava, namely the development of Bratislava as a high-tech / R&D city.

Based on a review of European cities, both winners and losers in recent European economic development history, Parkinson (1992, 81) suggests that the cities with the greatest economic potential in the 1990s will be those which have:

- a diverse economic base in a range of service and manufacturing sectors, particularly the high-value added sectors;
- the human capital to develop and exploit commercially advances in high technology sectors;
- the knowledge based institutions to develop a flow of skilled workers for those advanced sectors of the economy;
- the quality of life - cultural and environmental - to attract and retain a highly skilled and mobile workforce;
- good physical and telecommunication links with the most dynamic areas of the community's economy; and
- the local institutional capacity to identify and generate the political, financial and personnel resources to successfully implement it.

It may be reminded that Parkinson does not pay very much attention to the factors of strategic location and infrastructure, assuming that transportation facilities and infrastructure are available in any case in cities in European Union countries. These factors are set off against three standards: those of Slovak Republic at large, standards of Prague and Budapest, Győr, and the standards of the European Union. We take Vienna as a city for comparison.

table 2.1 Bratislava (BLA) in Comparative Perspective

| factors cited by Parkinson | BLA versus cities in Slovakia | BLA versus Budapest and Prague | BLA versus Győr | BLA versus EU / Vienna |
|---------------------------------------|-------------------------------|--------------------------------|-----------------|------------------------|
| diverse economic base | ++ | - | + | - |
| human capital | ++ | 0 | + | +/- |
| relevant knowledge based institutions | ++ | 0/- | ++ | - |
| quality of life | ++ | - | + | - |
| communication | + | - | + | -- |
| institutional capacity | 0/- | - | - | -- |

the scale ranges from double negative (--), to double positive (++), with 0 as neutral

From this comparison, it is concluded that Bratislava has a superior position in Slovak Republic, that it has certain advantages over Győr, but far fewer against Budapest and Prague, and that it has to admit that Vienna is in most factors clearly superior. Looking at competition for national and foreign investment, one may of course question the basis of this comparison. Does Bratislava compete indeed with Vienna, with Prague and Budapest? It looks very doubtful that these three cities are competing on the same market. Vienna is attuned to very different economic segments than Bratislava. It is concluded that Bratislava's most direct competitors are other Slovak cities, and to an extent Győr. These cities may not offer the locational advantages Bratislava has, but they have other - perhaps incidental factors - which attract investment, for example: foreign investors searching for expansion of their markets buy up local factories, or start partnerships with them.¹¹ They search for the advantages of existing companies, and less for greenfield development. This point also signifies *inter alia* the limitations of an analysis of strengths and weaknesses of Bratislava.

Bratislava as R&D City

We may now turn to one future scenario, which is that Bratislava should develop into research and development (R&D) city, and a city with high tech activities. It is strongly believed by a number of economists, planners and local politicians that the future of Bratislava lies in such development, and that this will exploit optimally the basis of available researchers and university staff. In the table below, a framework is given depicting the genesis and development of high-tech regions, based on a study of such regions in a number of OECD countries (Sternberg, 1996). The requirements and favourable conditions for R&D place development are in the first column, whereas a check of the Bratislava reality is made in the second column.

¹¹ As an example the recent SKK 190 million investment of Sony in a factory producing television parts in Trnava.



table 2.2 R&D Induction Factors and Bratislava's Reality

| Bratislava as international R&D and high-tech centre | |
|--|---|
| <i>requirement / environment condition</i> | <i>reality</i> |
| networks between R&D intensive enterprises | not developed |
| technology, research, industrial and regional policy co-ordination for high tech | absent |
| research infrastructure | available. check market relevance |
| central and local government subsidies | hardly available |
| skilled labour pools | generally available. study on skills mix needed |
| access to product markets | yes |
| venture capital | finance for risky undertakings not easily available |
| availability of large enterprises | yes, but R&D needs unknown |
| entrepreneurial spirit | no track record in high tech fields, but is emerging. |
| competition | global, fierce |

From this table it can be concluded that the development of Bratislava as a R&D and high-tech city is not very realistic at this point of time. Planning and investing into this direction would thus be speculative. This is not to say that no research and development should take place in Bratislava, on the contrary, the point is that this R&D will be of national rather than international importance. Development of R&D may be a longer term aspiration of Bratislava. Further studies are needed to assess whether Bratislava has enough locational advantages to offer, and what the contribution from local government is with regards to the private sector and central government. Central government's higher education policy and research policy will be critical for any development in this direction. At present, the universities and research institutes suffer from ever tighter budgets.

Vienna - Győr - Bratislava as FUR

There is general optimism in Bratislava with regards to the development of Vienna - Győr - Bratislava as a functional urban (economic) region (FUR), in which diversity, competition and complementarity can be exploited for the general progress of the region's economy. Detailed research on the position of Austria in general and Vienna in particular (Mayerhofer, 1996; Havlik, 1996) showed that during the period 1989-1995 the impacts of the transition in neighbouring economies on the Austrian economy have been positive, in the sense that the trade balance between Austria and Hungary, Slovak Republic, Czech Republic and Slovenia improved for Austria. These studies also expect that over the coming years no substantial changes in this pattern are expected, and that in the longer run, with improvement of management and production structures in the Visegrad countries, the wage differentials between these countries and Austria will benefit to the Visegrad countries. For the time

being, more production specialisation along wage costs could be expected.¹² The studies support the statement that Vienna and Bratislava do not compete on the same market segment. Instead, if the cities would collaborate, they could benefit from their complementarity. However, they don't; problems in this regard have been noted some years ago, and have not been tackled since (Holly and Kostovsky, 1994; OIR, 1994).

The perceived function of Vienna in the CEE region would be as a centre for headquarters of firms operating regionally; and as an information and communication centre for the region. Regarding the relations with Győr and Bratislava, Vienna's perspective is that complementarity is more important than competition. An obvious example is the sector of tourism: Bratislava / Slovak Republic can easily be packaged as tourist product from Vienna.

Some reservations can be mentioned with regards to the Győr - Bratislava - Vienna FUR, from Bratislava's perspective. First of all, the region covers three countries, and is divided by borders, including a border between an EU and two non-EU countries. Austria has to respect the EU border regulations, and cannot make exceptions for Slovak Republic. Second, Vienna, as the dominant economic centre, has better connections and longer relations with Hungary, and it is a question whether these collaborations can be built up with Bratislava (OIR, 1994). The progress achieved so far is modest: no common strategy has been formulated during the last few years.¹³ Next to practical bottlenecks, the critical question seems to lie in finding a balance between the cities' competition and complementarity in the region, and defining the planning instruments and institutional capacity required.

In conclusion, the region Vienna - Győr - Bratislava is not an institutionalised economic space. There is no operational system of flexible specialisation between the cities and their regions in three countries. The potential advantages are therefore not well utilised (cf. OECD, 1996).

2.3 Audit of Organisational Capacities

It was argued in Chapter 1 that the scope for local government action in promoting economic development is constrained by higher level policies, and that the organisational capacity of local government is reported to be inadequate. For these reasons it is concluded that in the short and medium term local government can best concentrate on design and implementation of policy and policy instruments which meet more direct demands from firms, and are part of current Magistrat's responsibilities. In this section the question of inadequate organisational capacities will be given substance.

Organisational capacity for local economic development can be understood as a set of local public sector management properties, which are used, in collaboration with the private sector, to foster the productive milieu of the city. The concept of organisational capacity has a number of dimensions (van den Berg *et al.*, 1996). These dimensions have been originally developed as criteria for metropolitan development bodies, and have been translated below to the Bratislava situation. The criteria are as follows.

¹² A question is to what extent Austria can and will protect itself against the negative effects of the unfavourable wage differential. Sceptics in Bratislava point out that the taxi drivers of Vienna's Schwechat Airport got their government to close off the border for taxi's from Bratislava to protect their business. At the face value of the fact that it is not possible to take a Bratislava taxi to the Vienna airport, it looks a long way indeed from this measure to one functional economic region.

¹³ Inducting studies and cross-border projects now requires funding from the EU, and already substantial delays in the implementation of the Cross Border project can be witnessed. This can be seen as a lack of priority.



Table 2.3 Criteria of Organisational Capacity for Bratislava

| Criterion | Description |
|---|---|
| • adequacy of scale | do administrative boundaries match the scale of economic problems and opportunities? |
| • competence | has the body power to bind lower level local authorities? |
| • democracy | is the head of the body elected, are policies transparent and accessible? |
| • delineation of tasks | are tasks of the body and lower units well defined? |
| • resource base | does the body have an adequate resource base? |
| • effectiveness | can the body act promptly and decisively? |
| • vision and strategy | does the city have a vision, shared between public, private and civic sector? |
| • networks | are relations with higher government, private sector, and international relations well established? |
| • leadership and organisational culture | are leadership qualities sufficiently available, and do they motivate and drive the organisation? |
| • political support | is top national political support available? |
| • societal support | is the private and civic sector actively involved in co-ordinated city development? |
| • spatial-economic conditions | is the overall economy prospering or declining? |

On the basis of this set of criteria, comments can now be made on the situation in Bratislava.

Table 2.4 Criteria of Organisational Capacity Applied to Bratislava

| Criterion | Description Bratislava situation |
|------------------------|--|
| • adequacy of scale | the area of administration of Bratislava local government is adequate. Questions have emerged recently about the new definition of regional boundaries by Central Government, and its implications for Bratislava. |
| • competence | the Magistrat has no competence to bind the City Parts. The lowest step of co-ordination, i.e. information exchange, is not effective. Budgets of Magistrat and City Parts are not connected at all; City Parts even search for ways of avoiding sharing of land sale revenues. City Parts plan and construct without respecting overall urban planning and city interest. Some City Parts search for complete independence from the Magistrat, and to this end have send a proposal to national parliament. |
| • democracy | a democratic system based on direct elections is functioning. However, the political culture is still developing. The General Assembly sees close supervision as it democratic task, and is thus concerned with minor issues too. General Assembly meetings are normally chaotic. |
| • delineation of tasks | task division between Magistrat and City Parts is at times vague, and is subject to various interpretations. The legal framework is inconclusive. |
| • resource base | the Magistrat has an inadequate resource base, to the extent that it uses revenues from land sales for recurrent expenditures. |
| • effectiveness | the Magistrat is considered to be rather ineffective. It cannot solve political issues with the City Parts, and does not have the effective capability to be proactive in urban development. |

- vision and strategy there is no approved Master Plan, nor any other strategy paper of significance for implementation discussed in the General Assembly on the socio-economic future of the city. Visions are not shared between Magistrat, City Parts and private and the civic sector.
 - networks relationships with City Parts are inadequate, relationships with Central Government are weak. Organised public - private relationships yet have to emerge. International networks are minimal, relationships with Vienna are inadequate.
 - leadership and organisational culture staff turnover in the Magistrat is high, generally speaking the working conditions (rewards, organisational culture, leadership) at City Part level are better than those at Magistrat level. Councillors of the General Assembly consider the General Assembly as ineffective and disordered.
 - political support in view of the political divergence of opinions (Bratislava is governed by opposition parties), political support from the present Central Government is locally considered to be a question mark.
 - societal support involvement and participation of the private and civic sector in the Magistrat's plans is minimal. The private sector has been active in marketing Bratislava, but this potential support is not exploited by the Magistrat. Relationships between Magistrat and Chamber of Commerce are rather insignificant.
 - spatial-economic conditions the overall condition of the economy is improving. the economy is growing. National economic prospects are relatively positive.
-

A few remarks should accompany this overview of organisational capacities. With regards to the resource base, comparisons between regions show that the local government is underfunded. In some sectors of the Bratislava local government, such as the Magistrat Tourism Department and various sections involved in planning and municipal asset management, the situation is better than would appear from the table above. This is largely due to efforts of individual staff in the Magistrat. Their efforts have not been institutionalised, and have therefore only limited positive impact on the organisation. An example is that some officers try to maintain working level contacts with their counterparts in Vienna, but they face problems in getting approval to pay a visit to Vienna. In the prevailing conditions, their Viennese counterparts see little reason in coming over to Bratislava.

Remarkable is that the apparatus of the Bratislava Magistrat has a department with the name Economic Strategy Department, but that its activities have more to do with the disposal of land and buildings (Baross et al., 1996). None of the 19 committees of the General Assembly is concerned with the topic of economic strategy. The Planning Committee of the General Assembly focuses on land use planning and physical planning, mostly at project level, whereas the Finance Committee deals with the municipal budget in a narrow meaning.

Perhaps the most difficult issue is the administrative model adopted in Bratislava, with 17 more or less independent City Parts and an Magistrat responsible for city wide concerns. This model works out in a way that City Parts give priority to their self-interest, not seldom at the cost of the overall interest of the City.¹⁴ Especially the more assertive City Parts, for

¹⁴ This administrative model has been applied too in Prague and Budapest. Similar problems can be found in Budapest, although perhaps not so severe as in Bratislava (personal communication Pal Baross). The situation in Bratislava has been studied in detail with regards to planning, municipal asset management and local finance, and a separate report will be written on the findings of this study.



example City Part Nove Mesto, benefit from the weaknesses of the Magistrat, and basically do what they feel like. While many in Bratislava would agree that a structural change of the present model is required, it is at the same time acknowledged that such change of the structure of the administrative model for the better is beyond the scope of the present leaders of City Parts and Magistrat: City Parts are unlikely to agree with a required upward transfer of tasks and responsibilities, and consequently parts of their revenue base. It is also questionable whether the Magistrat would have the necessary capabilities to assume more responsibilities. It is expected that the system will only change when the lack of co-ordination and strategy at the city level is directly felt by the City Parts and starts to result in more negative consequences which can only be handled by a higher authority.

2.4 Conclusions for Policy

Bratislava is located in a region with a perceived high development potential, and Bratislava's economy is a focal point of positive national economic development. Bratislava has Vienna as a major economic neighbour at a distance of 60 km. Vienna and Bratislava compete in different segments of the market, but collaboration between the two cities is far from optimal. Functional linkages with Győr, Bratislava's closest Hungarian competitor, are limited. It was concluded that:

- Bratislava is likely to gain from co-operation with Vienna
- the triangle Vienna - Győr - Bratislava as a development region exists on the map only, and has not been institutionalised
- serious reflection and studies are needed with regards to the short term perceived role of Bratislava as a centre for R&D and high-tech activities
- the organisational capacities in Bratislava are limited.

It can be expected that, in the absence of substantial central government funding, the development of Bratislava will be largely private sector driven. The Bratislava Magistrat would do well to listen carefully to the wishes of the private sector. Having stated that economic opportunities are unlikely to be found in the R&D and high tech sector in the short run, pragmatic opportunities are likely to emerge in the following fields:

- tourism, especially city tourism from Vienna, and transit tourism for the Slovak Republic. At national level, Bratislava is likely to develop into a convention centre, but as such it will have limited significance internationally speaking
- development of finance and insurance sectors. With the further restructuring of the financial sectors, more (catch-up) development can be expected.
- (catch-up) development of professional services. Bratislava is the best place in Slovak Republic for professional services (accountants, lawyers, economists, publications, etc.)
- distribution functions. Bratislava is a natural centre for distribution and transit of goods and people, since it is close to Vienna, Slovak Republic's gateway to Western Europe.

It is expected that most development in Bratislava would be in the sector of small and medium enterprises.

Bratislava's longer term economic tasks would have to concentrate on the following fields, and could be formulated as follows:

- building an appropriate economic and employment base for the population, i.e. to facilitate the development of economic sectors which generate income and utilise the well educated human resource potential
- building a stable, market oriented, and diverse productive environment, which suits the needs of small and large firms
- functioning as a capital and chief economic centre in Slovak Republic, i.e. as financial, business support and logistical chief town, and thereby support national economic development
- supporting an ecologically sustainable economic development

Such a basic set of long term objectives - or a revised set - responds to the longer term aspirations of the city. It needs to be checked against present economic reality, and be translated into shorter term plans and concrete actions. The *first long term goal* responds to taking advantage of the available human resource base, which supports economic development, and at the same time advances an economy which supplies meaningful employment to the people. This aim requires that highly qualified economic activity needs to be developed, activities with generally a higher added value. The *second objective* declares that facilities for the needs of the private sector have to be ensured or developed. Items here are land, labour, buildings, information, education, infrastructure, and research etc. The *third aim* imposes a task upon Bratislava to support national economic development. Bratislava can best do this if national government enables the city to perform this role. Finally, the *fourth goal* states that environmentally acceptable methods of production is required for the longer term sustainability of the economy.

In annex 2 to this report, a more detailed proposal is given for local economic development policy.

Institutional Aspects

It was concluded above that the present organisational capacities are limited. Yet, a start would need to be made with building up adequate institutions for local economic development. The study makes the following recommendations.

- the Magistrat assumes responsibility for fostering local economic development

To this end, the Mayor of Bratislava has to institute the responsibility for local economic development affairs into an existing or new committee of the General Assembly. This General Assembly committee should receive support from a Working Group with members from the Magistrat and the City Parts. This Working Group should be enabled to contract out studies on themes for local economic development.

- City Parts are formally involved in working groups for Master Planning

In the present set-up, representatives from City Parts are not involved at a formal level in the preparation of the Master Plan. City Parts learn about the outcomes of the planning exercise only in a General Assembly meeting. City Parts are an intrinsic party in Bratislava's urban management, and should thus co-operate in the development of a Master Plan. Moreover, if City Parts would have serious objections to the Master Plan, the risk exists that the Plan is sent back to the drawing table, and that the master plan preparation process will take even more time.

- The Mayor initiates a series of dialogues with the private sector

Bratislava's local government initiate discussion rounds with the private sector, initially in the form of working seminars perhaps for different sections of private sector representatives. A bit more structured dialogue can result in setting up a Bratislava Club or Forum.

Many West-European cities have come to the conclusion that local government tasks related to land and economic development can best be carried out through a development corporation or company, with an appropriate degree of discretion and with adequate relationships with the private sector. Quite a few among the interviewees of this study favoured the idea of creating a development corporation, with substantial tasks and discretion in land development (and economic development).¹⁵ Typically, such a corporation would have responsibilities for strategic economic planning, development and implementation of comprehensive key projects (city development, city regeneration), relationships with private sector, support to small and medium enterprises, and so on. The notion of a Bratislava Development Corporation is attractive, but is also a way of escaping the resolution of present institutional weaknesses. Local economic development policy through whatever institutional solution cannot be expected to function if the critical issues of Magistrat - City Parts relationships are left unresolved.

¹⁵ It is however also seen by the interviewees as a - partial - solution to the administrative impasse of the Magistrate, and the far from optimal relationship between General Assembly and Magistrat apparatus.

3. Conclusions

3.1 Bratislava's Economic Development

Over the last few years, the national positive economic climate and Bratislava's inherent role as capital and prime economic centre have in a way made up for the limited organisational capacity of local government. The City however could do much better and make a more substantial contribution to economic development, provided that the local capacity issue is tackled.

It has become evident in this paper that Bratislava has a serious agenda regarding the economic development of the city, and that the position for the Magistrat with regards to local economic development is in fact not very strong. It is expected that the private sector will encourage the development of the city, and that the appropriate role for the Magistrat is to respond to the demands from the private sector as much as possible within the context of the overall interest of the City.

A local economic strategy will have to commence with 'getting organised'. As a first step towards solving the current lack of institutional arrangements around local economic development, it would be necessary for the Bratislava mayor:

- to place the responsibility for economic development in the General Assembly, with subsequent working group capacity in the Magistrat.
- to establish the working group, to study the suggestions made in the present report, and initiate further studies in strategic development sectors of - tourism; - collaboration with Vienna; - logistics function; - appropriate business services; and - housing development.

It is concluded that the issue of organisational capacity is the most important bottleneck for improving local economic development policy and planning. A range of interesting studies will have little impact if this critical problem is not taken up, for the results of such studies cannot be followed up if no responsibilities are defined. Resolving the issue of the Magistrat - City Parts relationships question into a direction of a new legal framework for the City Administration is essential.

3.2 Relevance of the findings in the CEE urban context

The low priority assigned to pragmatic urban economic development policy is not uncommon in the CEE region. From work in local government in countries such as Poland, Romania, Russia and Slovak Republic, it is concluded that local governments often give a *political* priority to attracting economic development and inward investment, but fail to see that they need improved organisational capacities on the one hand and a realistic perspective on their place factors and economic opportunity sectors on the other hand. Thus, many local governments are incapable of translating their political economic priorities into actions for implementation. Different reasons may explain this reality (cf. Nientied, 1997).



First, with the possible exception of Hungary and Poland, decentralisation policies in the CEE region have so far not been very effective.¹⁶ Consequently, local governments have not been assigned adequate powers to foster local economic development, and have not received the means to strengthen their apparatus and to implement economic policy. Second, there is still sufficient confusion in local government with regards to its roles and responsibilities. This confusion seems to lead to passive attitudes. Third, inherited bureaucratic attitudes, harsh political behaviour¹⁷ and corruption in the public sector are important factors for the fact that local government tends to concentrate on short term action and political survival, and to underestimate the importance of longer-term economic policy. Moreover, cities with a two-tier administrative model (such as Bratislava, Budapest, Prague, and Bucharest) face major problems in co-ordination between the city hall and the districts. This is exacerbated by ambiguities in the law, which make co-ordination difficult. The (understandable) self-interest of the city districts are at times incompatible with the overall interest of the city (cf. Douglas, 1997). In conclusion, it seems that the Bratislava case is rather typical for the CEE context, but these observations cannot be supported by serious studies. There is an obvious need for academic documentation in this area.

A second priority for urban economic development research lies in the point that despite the rather mediocre local government capacities, cities like Bratislava are economically speaking doing rather well. In his early, stimulating article on the development of urban systems, Musil (1993) identified a number of place factors influencing the development of the urban system. Capitals, cities close to the borders with EU countries, and cities along major transport lines, Musil concluded, would develop better than other cities. From the present study it is concluded that the national economic development of Slovak Republic and to an extent Bratislava's city capital status have been far more important than Bratislava's location close to Vienna. What is still unclear is how the impact of corporate restructuring and privatisation will affect Bratislava, and other CEE cities, and what the influence of central government spending is on urban development.¹⁸

¹⁶ See: Coulson (editor, 1995); Gibson and Hanson (editors, 1996); ILGPS (1994); and Bird *et al.*, (editors, 1995).

¹⁷ See some chapters in the volume of Gibson and Hanson (editors, 1996).

¹⁸ From a thorough study on the development of regional disparities in Romania (Rambøll Consultancy Group, 1996), it appeared that in terms of economic development the ranking of the 40 Romanian counties indicators had hardly changed at all over the period 1990 - 1994. A possible explanation for this lies in the central government funding of county and local government, that tends to reinforce existing inequalities.



4. Annex 1

Statistical Data for the Slovak Republic (1995 figures, unless mentioned otherwise)

| | | |
|-------------------------------------|--|-------------------|
| Area | | 49.036 sq. km. |
| Inhabitants | | 5.368.000 persons |
| Main cities | Bratislava | 452.000 persons |
| | Kosice | 241.000 - |
| | Trnava | 87.000 - |
| | Nitra | 70.000 - |
| GDP | | 17.4 billion US\$ |
| GDP per capita | | 3.244 US\$ |
| Structure of production as % of GDP | | |
| | Agriculture and forestry | 5.6% |
| | Industry | 28.6% |
| | Services | 53.4% |
| | Other | 7.8% |
| Unemployment | 1st quarter 1994 | 15.2% |
| | 4th quarter 1996 | 12.0% |
| growth of GDP | | 7.4% |
| Government expenditure as % of GDP | | 48.3% |
| Public debt as % of GDP | | 26.0% |
| Official Foreign Debt as % of GDP | | 6.6% |
| Exports of goods and services | | 10.9 billion US\$ |
| Imports of goods and services | | 10.4 billion US\$ |
| Imports plus exports / GDP in % | | 122 % |
| Exchange rate | 1 US\$ equals about 30.5 Slovak Crowns (SKK) (Nov. 1996, Nov. 1995: 29.5 SKK) | |

Sources: OECD (1996), Ministry of Environment (1996)



5. Annex 2

Shorter Term Objectives for Bratislava's Local Economic Policy

This annex seeks to present a more realistic set of economic policy objectives for Bratislava's local government, as follows:

1. to develop transparent urban policy, linking up an economic strategy document with the Bratislava master plan
2. to provide business support, and especially information
3. to facilitate land markets, buildings and infrastructure, clear planning and regulations, and exploit municipal properties
4. to foster partnerships with central government in general, and to assess the logistics function of Bratislava in particular
5. to organise partnerships with the private sector, and assess future demands for R&D facilities
6. to improve city marketing, and foster relationships especially with Vienna
7. to initiate development projects in the fields of
 - tourism
 - housing
 - small and medium enterprises for R&D.

This set of activities could be expanded once the Magistrat has developed more adequate organisational capacities.

The shorter term objectives are elaborated as follows.

1. to develop transparent urban policy, linking up an economic strategy document with the Bratislava master plan

Persons interviewed expressed the opinion that the current development policy of Bratislava is incomplete, incoherent, and does not serve as a guide for action. Positive actions, such as office development, are of an ad-hoc nature, uncoordinated between Magistrat and City Parts. The master plan - conceived as a rather conventional land use plan - is under preparation for some time already, but insufficient progress has been witnessed. Bratislava lacks clear economic development objectives, and has no long term aspiration of its desired development direction. An active environment policy is missing.

It is important that the master plan be completed, and that this plan identify a number of key development projects of strategic importance. These projects should link up with the results of a broad discussion around the theme of local economic development. City Parts should participate in this discussion.

2. to provide business support, especially information

Potential investors are not well received by the local government. One local official said that private sector people are seen as suspected opponents, instead of partners and investors in the future of the city. This calls for a change in attitude. The private sector would benefit from better information, and a better explanation of regulations and facilities. A so-called one stop shop, or local centre for investors, is recommended.



3. to facilitate land markets, arrange buildings and infrastructure, clear planning and regulations, and exploit municipal properties

The regulatory framework and practice of land management, disposal of buildings, and planning and building permits, leaves much to be desired. Despite the stock of properties owned by the Magistrate, private sector investors have to go through complicated procedures for obtaining a piece of land or a building (cf. Baross et al., 1996). Again, cases are handled on an ad-hoc basis, there is no prospectus with serviced land and buildings available. The Magistrat may prepare such a prospectus. Transparency on regulations and the planning status of land and buildings is required too. Special attention may be paid to the problem of derelict industrial land (Solcanska, 1996), for environmental reasons, and for the fact that such areas are serviced with infrastructure, and clearing and cleaning them may be cheaper than greenfield development.

There are no planning assessments of the area of land needed for retail, industry and offices. At present the initiative for development is with the private sector, and the Magistrat and City parts supply.

4. to foster partnerships with central government in general, and to assess the economic and logistics function of Bratislava in particular

Central government is prominent in overall economic development policy, not only in terms of macro-economic policy, trade policies, etc., but also with regards to infrastructure development. For Bratislava the national government's perception of the role of Bratislava as a catalyst in Slovak Republic's national economy is of special importance. How central government can provide the minimal required support to Bratislava to play such a role is a related question. Presently the fiscal stress on Bratislava is counter-productive.

5. to organise partnerships with private sector, to assess future demands for R&D facilities

Relationships with the private sector are not organised into a coalition, or city dialogue or city forum. The established private sector and the local government both could benefit from economic development. It may be considered whether a City Forum can be established. A City Forum would be a broadly based public - private co-ordination and promotion committee fostering local economic development. The private sector can also impress on government its expectations regarding research and development needs in the future. This will help the longer term goals of the Magistrat.

6. to improve city marketing

The amount of direct foreign investment in Slovak Republic is low compared to Hungary and Czech Republic. This has various explanations, one of which is that Bratislava has little image among foreign investors. It is important is that Bratislava rid itself of its negative image, and that national government undertakes actions to promote investment opportunities in general. The Magistrat may, in close collaboration with national government, develop more efforts to attract positive attention to Bratislava. Next to general image building in commercial circuits abroad, targeted actions for tourism development should be a good instrument. It was suggested that Bratislava would benefit from economic relations with Vienna. The EU Phare Cross Border program provide incentives for developing this relationship. The Magistrat may develop a complementary, active approach towards collaboration with Vienna.



Table 3.1 Overview of Short Term Objectives

| Subject | What / why | Who | Funding questions |
|---|---|--|---|
| <p>1. - to foster the partnership with central government - to assess the logistics function of Bratislava in particular</p> | <p>- central government key agent - study needed on logistics demands, improvement plans railways, airport and harbour, border crossings etc.</p> | <p>Magistrat may initiate. Central government concerns for infrastructure.</p> | <p>- partnerships are internal matters - most infrastructure investment should come from central government</p> |
| <p>2. to develop transparent urban policy, linking up an economic strategy document with the Bratislava master plan</p> | <p>investors are uncertain about the planned development of Bratislava</p> | <p>Magistrat. A strategy paper should proceed Master Plan preparation</p> | <p>limited, Magistrat internal funding</p> |
| <p>3. to provide business support, especially information (regulations, prospectus etc.)</p> | <p>one stop shop, with info. on regulations, land and buildings available, subsidies, etc.</p> | <p>Magistrat, collaboration with Chamber of Commerce and central Ministries</p> | <p>limited, Magistrat internal funding</p> |
| <p>4. to facilitate markets of land, buildings and infrastructure, clear planning and regulations, exploit the municipal properties</p> | <p>market oriented land and infrastructure delivery needed</p> | <p>Magistrat internal, infrastructure funding from utility companies</p> | <p>Magistrat, utility companies</p> |
| <p>5. to organise partnerships with private sector, to assess future demands for R&D facilities</p> | <p>public - private relationships inadequate. Magistrat not client and business oriented</p> | <p>Magistrat can start City Club or Forum with for example Chamber of Commerce</p> | <p>limited, Magistrat internal funding</p> |
| <p>6. to improve city marketing, to foster relationships especially with Vienna</p> | <p>Bratislava has poor place image, Bratislava will benefit from relations with Vienna</p> | <p>Magistrat, central ministries, Chamber of Commerce</p> | <p>Magistrat internal funding</p> |



table 3.1 Overview short term objectives (continued)

| Subject | What / why | Who | Funding questions |
|-------------------------|---|---|---|
| 7a. tourism development | <ul style="list-style-type: none"> - employment spin-off - revenue generator - city marketing value | <ul style="list-style-type: none"> - dept. of Tourism has action plan ready - private sector and Ministry involved - dept. of Tourism should be strengthened | <ul style="list-style-type: none"> - internal finance of Magistrat, consider tourism tax (10 SKK per hotel night for foreigners) |
| 7b. housing | <ul style="list-style-type: none"> - develop up-market apartments - utilises idle production capacities - respond to demand, will receive political approval | <ul style="list-style-type: none"> - loan facilities Bausparkasse available - loans Central Government available - land from Magistrat | <ul style="list-style-type: none"> - can be commercially exploited, if Magistrat provides flexible loan arrangements for the land |
| 7c. SME for R&D sector | <ul style="list-style-type: none"> - initial efforts to stimulate R&D sector - oriented to demand from Slovak firms | <ul style="list-style-type: none"> - partnership R&D institutions (which are weak perhaps), Magistrat and Public/Private Company | <ul style="list-style-type: none"> - Magistrat may provide land and / or building - national SME funds may provide financial and technical assistance |



7. to initiate development projects in the field of - tourism; - housing; - small and medium enterprises for R&D

- 7a Tourism

Sources as different as the Tourism Department of the Magistrate and OECD (1996) have identified tourism as an economic growth sector. Tourism brings in revenues, it creates employment and contributes to the good atmosphere in the city. It can have positive knock-on effects, such as positive image building abroad for Bratislava. The Tourism Department has made in late 1994 an action plan, which has only partly been implemented. This plan may be reconsidered and be given more support.

- 7b Housing

There are opportunities in Bratislava for the development of the housing sector, especially in the upper-middle and upper income segments. There is little discussion about the need to construct housing. Through the *bausparkasse* loans are available, complemented by central government loans, while local government. The construction sector will benefit from action in the housing sector. It has been calculated that effective demand is available too.¹⁹

- 7c Small and Medium Enterprises (SME) for R&D

To foster the initial development of research and development firms, the Magistrate may get involved, jointly with the private sector, in supporting the environment for small firms in the advanced sectors. EU Phare, in collaboration with the Ministry of Economy, plans to conduct a feasibility study in this field.²⁰ It would be opportune to wait for the results before deciding on next actions. At national level, institutions are set up for the development of SME, and Bratislava could well benefit from the programs developed by these institutions. Specific actions for the Magistrate could be in the field of land and buildings, perhaps in the development of business centres.

¹⁹ In collaboration with the Magistrate, IHS calculated with the savings banks the market potential, and came to positive conclusions about the demand for higher income housing. City Part Nove Mesto is among the City Parts who carry out activities on new housing (which the Magistrat is hardly aware of by the way)

²⁰ As a part of the 1995 Phare Program for Slovak Republic. The study is called Project 04 Science and Technology Park, Bratislava Region, and its commencement has unfortunately been postponed till 1997.



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