



Greg Clark

Comments to the document

“The Impact of Globalization: Opportunities and Challenges for Glocal Development in Europe, Latin America and the Caribbean”

by Giovanni Bressi

1. Introduction

I was delighted to read Prof Bressi’s excellent paper that articulates important insights and fundamental principles concerning local development in a global economy. For me, as a practitioner and practical advisor in local development, the paper is a tour de force in setting out the challenges to which local development, and its supporters, must now respond. From Prof Bressi’s paper I take these to be as follows:

- Global economic trends and dynamics are, on their own, insufficient to ensure that policy goals of social cohesion and economic development are achieved at the local level. Indeed, global economic trends and dynamics are likely to contribute to an aggregate worsening of local social and economic conditions in the majority of localities without concerted action.
- Global economic integration will work best when coupled with investment in local capacities to add value to external investment, so that these investments can perform better in both commercial terms, and from a local development/public policy perspective.
- Investment in local capacities needs to be a goal of local, national, and multi-national policies if the global economy is to succeed. There are clear lessons to be learned from existing programmes, such as those of the European Union and OECD, in how to make a long-term investment in local development capabilities, in the face of economic internationalisation.
- Achieving the right combination of globalisation and devolution requires a dedicated role for national/federal governments and multi-national institutions in consciously building the capacity and expertise at the local level to manage and shape local development effectively.

Prof Bressi has done us all an important service in setting out this analysis clearly and fully, and his argument for a new programme of investment in ‘glocal’ development capacities is compelling.

My contribution to this discussion will be as a practitioner in local development who is concerned to ensure that we are learning well from the international practices of doing and managing local development. I believe that implementation is the key variable, rather than policy or strategy. By this I mean that I am most interested in the factors that help us to achieve policy goals at the local level, and how we deal with the factors that might prevent their achievement. This is a distinctive discussion from that concerning what the policy goals are or should be. In local development terms, there is a broad set of debates about the goals, but very limited discussion of the means required. (This is especially true when countries and continents are encouraged to borrow or copy policy initiatives from elsewhere).

This sometimes creates situations where sophisticated and clever policies and strategies are put together, but there is no real effort to deliver them, often because capacity to implement is absent. It also occasionally creates the situation where policy and strategy is very limited, but robust and courageous action at the level leads to some good outcomes being achieved. There is no direct link between having good local development policies, and having the ability to achieve them. The capacity to implement local development has to be carefully built. Prof Bressi makes this point very clearly in his assessment of how local development capacity has been built in the EU. He concludes rightly, in my view, with questions about how we are to proceed, rather than a further discussion of what is needed.

I want to encourage an international observatory and a new science on what effective local development implementation really looks like. The OECD LEED Programme is already taking significant initiatives which should be of interest in Latin America and the Caribbean. I want to make some comments in this regard, after congratulating Prof Bressi on what I view as an excellent paper.

2. Explaining local success in the global economy.

No one city or locality is uniquely successful, and yet there are clearly economic trajectories that some have achieved which outstrip the performance of both their national economies, and the main trends for their regions, or do better than other cities with apparently similar assets and opportunities. What is it that has made Barcelona faster growing than Valencia, or Frankfurt more than Cologne, or Atlanta more than Birmingham, or Sydney more than Melbourne?

National economic policies across the world are converging. The growth of world and regional trade arrangements, shared currencies, and external fiscal disciplines agreed with multi-national investors, fuels this convergence, leaving less to choose in pure policy terms between different countries as sites for investment. Local leaders are realising that the greater locational differentiation may now be possible at the sub-national level. Cities and metropolitan-regions might exploit their natural assets and investments

in distinctive ways, ways which provide a significantly enhanced platform for commercial success and job creation, relative to both their basic trend rates, and to some other cities and metropolitan regions.

The mandate to encourage local leaders to pursue local economic development objectives continues to grow. Localities and cities may be able to differentiate themselves from one another in ways which nations, and federations of states, now find much more difficult. They may achieve very differentiated economic performance, and therefore provide distinctive investment opportunities which offer returns not easily available elsewhere.

This assumes that different localities and cities must have some distinctive and diverse assets and opportunities in economic development terms, and it also assumes that they might have relatively coherent and effective means to promote their own advantages and to be pro-active in 'setting out their stall' in the international economy. Many are doing so, but are all equally capable of participating, and of succeeding? **They may have the territorial assets and goals, but do they all equally have the necessary territorial development tools and means?**

Prof Bressi reminds us that without such means local actors may find it very difficult to lead their own development process. Over the past 10-20 years there has been dynamic growth of the efforts to promote local development in most of the developed world. Not all of the developments tend in exactly the same directions, but there are now few absolutely fundamental differences of philosophy.

As an overall framework, it is clear that local economic development now takes, as a starting point, dynamic macro-economic change. Indeed the beginnings of active economic development promotion in many developed countries can be traced back to much wider processes of de-industrialisation, massive technological change, or continental economic integration (OECD). It is recognised that the larger drivers of change have recently tended to have highly divergent sub-national impacts (OECD). Recent economic history has given a particular emphasis to the internationalisation of the economy, and its relationship with a new global trade regime and trading blocks (with shifts in the global geography of supply and distribution chains), the evolution of new generation ICTs, widespread public sector reform and de-centralisation, and large scale (mainly pro-urban) demographic shifts.

These together have combined to accelerate sub-national economic differentiation, and to trigger the re-organisation of the economic functions within, and between continents, nations, cities and regions. Some localities, cities and metropolitan regions have faced substantial problems, and some have gained significantly. Overall, the world is becoming more urban as a consequence, and de-urbanisation in the developed world has been reversed. Global processes have had discernable differential local impacts.

Cities and Metropolitan regions have been re-established as fundamental economic units, and some have learned how to do better than others.

In this context, some of the key dimensions of local economic development have become more clearly visible, and definable. It is now possible to state that a key aspect of local economic development is about **local attempts to manage and shape economic change** positively, and to be pro-active in doing so. Essentially such efforts are trying to position their locality to benefit from the new demand side drivers in the international economy. Local development may look, to the un-initiated, like a series of ambitious but disconnected projects and programmes to help (for example) workers, small firms, and land adjust to new crises and opportunities. But, in this context, local economic development is **fundamentally a change, risk, asset and relationship, management activity** undertaken within a territorial framework. These issues are all well reflected in Prof Bressi's paper.

Local economic development efforts must recognise and articulate the dynamic external contexts in which a local economy is operating and seek to actively manage and shape them, bringing forward improved supply side responses at the local level and (as Prof Bressi has reminded us) to negotiate a better deal for the locality, and its people, in doing so. Whilst National and Federal Governments pull the macro-economic levers, local economic development attempts to make interventions at the sub-national level which can enhance the beneficial (or remediate the negative) impacts of the macro economic trends and the higher tier policies.

Local economic 'management' is at least as important now as local economic 'development', meaning that localities, cities and metropolitan areas have to manage their economic environment and important 'client relationships' with existing key industries and investors, as well as with workers, and consumers, and individual firms, if they are to make the most of macro changes and militate the risks it brings. This is why local economic development has shifted much more towards strategic management functions in the past two decades, and rather less on the simple chasing of key outcomes (eg individual FDI deals). This in part is reflected by how the organisation of local economic development has changed from being a departmental activity within Local Governments to also being a civic leadership and partnership activity, with many stakeholders involved, and capable development agencies managing it.

But these changes in how local economic development is implemented have an important echo in Prof Bressi's paper. He rightly observes that globalisation has made local development a different kind of task; more complex, more challenging, and in some ways more dangerous or risky. He identifies correctly, that this creates a significantly enlarged mandate to invest in local development capacities if the global economy is to be a partner rather than an enemy of local development.

3. A Distinctive Activity of Local and Metropolitan Governments.

Consequently, economic development is rather different from many other activities of Local and Metropolitan Governments. For example, it is not like many municipal service functions where units of service delivery and performance can be easily and adequately monitored and measured (eg provision of sanitation services). It is about influencing market based processes and activities, by positioning the locality effectively to address them, not simply about delivering public services (though some key services are a key part of any locality's economic development offering). Equally, Local Government is very rarely a monopoly provider of all the 'local' things that economic development needs to embrace.

This is a key reason why local development agencies are established as partnership vehicles. For example, local utility provision, banking and investment services, higher and vocational education, trade and tourism promotion, crime prevention, and many others can be key aspects of local economic development, but are not always delivered directly by Local Governments. This means that there is often a requirement to build alliances, new implementation vehicles, and/or both, in order to achieve any coherent economic development strategy delivery.

Last year, I undertook a national analysis of the roles of Local Government in economic development in the UK, looking to the future. We tried to assess in considered what the unique contribution of local government needs to be. After all, in many developed countries there are other organisations that could deliver local development activities (chambers of commerce, universities, civic groups, etc).¹ The assessment identified 8 key rationales for the Local Government role, the most fundamental of which was the need for accountable and far-sighted leadership. Because local development is about managing risks and relationships, setting priorities and mobilising resources, negotiating with external and often powerful partners, a robust local mandate to perform those tasks is required. Prof Bressi presents a compelling argument in this regard.

An important recent development in local economic development has been the recognition that it is fundamentally about taking a view of the **locality's potential and actual offering as a location, from the point of view of various key economic and social stakeholders**. For example, a locality can repeatedly ask: what is our actual or potential offering as a location for jobs, workers, incomes, consumers, firms large and small, investors, asset holders, tax revenues, donors and lenders? Asking these questions consistently, and seeking to answer them well, brings insights and perspectives that are often otherwise absent in municipal thinking. It can remind the local players that the local business environment does need to be actively managed, and this is a key component of local development.

A typical example of this approach concerns the pursuit of ‘business retention’ programmes by many local governments in Europe and North America. Many localities now understand, better, that successful businesses spend 80% of their marketing effort keeping and expanding the value of the client base they have, and only 20% of their effort seeking new clients. So too with local economies. Successful cities and localities now spend much more of their effort liaising with existing business investors to find out how those businesses, and their networks of suppliers and key collaborators, could be helped to expand, and to learn about any perceptions their businesses have of weaknesses in the way the local business environment operates.

Whilst Foreign Direct Investment (FDI) remains important to localities, it is recognised that a precondition of having successful and enduring FDI is the effective management of business retention and expansion at the local level. FDI and business retention are complementary, not alternative, policy goals. Importantly though, a business retention and expansion programme is likely to lead a locality to systematically address ‘product improvements’ in the local economic environment much more than FDI efforts which will often be more shaped by ‘marketing’ efforts. To follow Prof Bressi’s line of reasoning, a locality that is focused on improving its local economic environment will have more leverage in negotiations with global investors.

4. Good governance and metropolitan/municipal reform.

Local economic development efforts frequently highlight the imperative of aligning economic geography with administrative/governance geography at the sub-national level. Many of the interventions that economic development strategies might seek to encourage have optimal impact at the level of the functional sub-national economy (often a widely defined metropolitan region). This is often an overlapping series of market-based spaces. For example, a labour market geography bounded by acceptable daily travel to work distances, an acceptable supply chain distance for a smaller company, a user-geography for logistics facilities and infrastructures such as a major train station or an airport. These are some of things that add up to a functional sub-national economy. (In Europe and North America this would now normally be called a ‘regional’ economy, but I understand that in other settings the word ‘regional’ often refers to larger sub-divisions of continents).

Few of these sub-national economies usually have a governance system that covers all of the included areas. This creates fundamental challenges for local economic development because it increases the scope for unintended negative consequences arising from local development activities. Substitution, spill over effects, displacement, dead weight etc, can occur. Meaning that the local economic development interventions are likely to have impacts across the whole functional sub-national economy, and any notion that these effects (jobs created, procurement decisions, etc) can be captured solely within certain

administrative jurisdictions is fanciful. For these reasons, local economic development has been a strong driver of, or imperative for, metropolitan/municipal reform processes, and local economic development strategies developed at the metropolitan level have been better informed by a clearer understanding of detailed economic geography.

Metropolitan reform processes have also therefore enabled a series of local administrative units to share the costs of the key local economic development infrastructures from which they all benefit. A good example of this is the growing range of Metropolitan Economic Development Organisations where several municipalities will 'club together' with business leadership organisations, utility companies, universities, and others to form a metro-wide economic development agency and programme, recognising the fundamental economic interdependence all parts of the region.

5. Roles for National and Federal Governments and Multi-national Agencies to encourage local development.

As we build up this picture of how local economic development is changing, it is important to dwell on the re-calibrated role of national and federal governments and multi-national agencies (and to a similar extent the roles of state and provincial governments). Just as cities and metropolitan regions have started to learn how to adjust to the new international economic order, so they have done so in ways that often reflect changing perspectives and practices at the national/federal level. National macro-economic policy now more readily admits its limitations, just as it simultaneously seeks to both reinvent and to pool its power in the global context. Many national and federal governments in the developed world have begun to address the renewed importance of sub-national economies by reviewing and updating their policy tools, and this has brought localities, cities and metropolitan regions to the fore.

For example, in the last ten years we have had national urban policy reviews in several countries including Japan, Germany, UK, USA, Australia, Netherlands, Italy and France. Such reviews have taken up many of the themes also addressed by the World Bank in its new Urban Strategy document (and the urban strategies of other multi-national organisations such as the UN and other continental development/investment banks), and several have resulted in new national policies. Fundamentally, these reviews have stated that the big drivers of change are creating a more urban world in which cities are both the most basic form of human settlement, and fundamental units of economic production. As such, cities are seen as offering the principal infrastructures for both economic growth and for social justice.

Cities are places where both must be achieved, and they offer the fundamental assets and opportunities needed to do it. But they need help from higher tier governments that must be calibrated in ways which empower cities and help to create a national system of cities and metropolitan regions which will move

beyond the zero sum of inter-jurisdictional competition. This is a redefinition of what local economic development is for. Cities are also the places where de-stabilisation will occur if economic, social, and environmental imperatives are not met.

Additionally, in the past decade we have also had a series of national 'regional' policies reviews (again here 'regional' is used in its sub-national sense). Countries like Poland, Portugal, UK again, Mexico, USA and France have looked at their sub-national economies and tried to put in place some new arrangements to address the sub-national regions. In much of Europe this has resulted in efforts to create and sustain Regional Economic Development organisations/agencies (Poland, Portugal, UK, and others), whilst in the USA it has led to a rather more 'regional' focus to national economic development programmes (EDA, HUD, etc) with efforts to encourage more intra-regional co-operation between local development actors. It has also led to a much stronger regional alliances and partnerships (such as the growing number of metro-regional economic councils in the USA).

Two clear policy lines stand out from these reviews and the policies that have followed them:

- Cities and regional economies are now seen fundamentally as economic assets and building blocks rather than as problems and challenges. As a consequence city and regional economic development is much more accepted as a national priority.
- In the context of an increasingly global economy, national policies have shifted to being about helping all cities and regions to do better, rather than simply helping the worse off by seeking to redistribute national economic activity and public expenditure from other cities and regions towards them.

Two clear implications have resulted from these basic policy changes.

- National and Federal Governments (and multi-national agencies) have started to reinvent their role in supporting city and regional economies and economic development.
- City and regional organisations have started to more fundamentally reinvent what economic development is, in order to respond to 'higher tier' criteria for greater investment (eg eligibility for European Regional Development Fund in the EU, access to EDA technical assistance funds in the USA, or preparation of an investment programme for World Bank support, such as a City Development Strategy).

There are several ways that these have started to play themselves out, and these need to be fully set out in order to see the full extent of the change process with which we are involved:

- Firstly, the focus of interest has shifted towards **finding and defining what the sub-national economies actually are**. As more detailed economic analysis has been done at the sub-national level so this has shown how little we actually knew about the local interdependence of places. Old enclaves between cities and suburbs, or between two neighbouring cities, or between urban and rural areas, have not disappeared, but evidence is starting to show that they are much more economically inter-dependent (mutually reinforcing) than was previously understood. They cannot ‘go it alone’ but must work across their whole sub-national region to create the tools to ‘steward’ their business environment, promote new forms of employment, deal with image problems, and tackle the limitations of infrastructure.
- Secondly, this changed definition of the appropriate site of local economic action has led to a need to create new vehicles for addressing the new local economy that is seen as the more appropriate site of economic development activities. One result has been **a large expansion in the creation of both local economic development agencies** and other special purpose organisations and partnerships, many of them working at the metropolitan and neighbourhood levels.
- A third dimension has been the **attempts to build new metropolitan governance structures** to better address the territorial development imperative that such reviews have highlighted. For example, there have been metropolitan/municipal re-organisations in Miami, Toronto, London, Montreal, Berlin, and Mexico in the past 7 years, and there are many more now planned.
- Fourthly, **the goals of local economic development have substantially broadened**. They do not now simply include the creation of jobs or the generation of municipal tax revenues. Local economic development objectives now frequently include quality of life/liveability objectives, economic diversification aspirations, incomes and disposable incomes targets, labour market participation rates, business formation rates, productivity and innovative measures, and very precise local investment targets and mechanisms. More is now known about what makes a sub-national economy develop sustainably and this is translated directly into economic development efforts.

6. Changing practices of Local Economic Development.

Another way to view recent changes in local economic development practice would be to look at what a local economic development programme actually does with the resources at its disposal. There have been some significant changes here recently in Europe and North America. A brief summary of the shifts would include:

- From crises response to long-term analysis and strategy led interventions.
- From a focus on sites and buildings to a focus on firms, people, and skills.
- From the direct management of individual site developments to a wider role in Mater Planning, setting design standards, organising architectural competitions, and the phased/planned release of land/sites into local real estate markets.
- From hard infrastructure to soft infrastructure.
- From FDI focus to one of building a balanced regional economy.
- From Business Attraction to Business Retention and Expansion.
- From work with individual large firms to increasing work with networks and ‘clusters’ of smaller and linked firms, and supply chains with tradable capacities.
- From focus on tax or cash based incentives (price) to a focus on local product and environmental improvements (quality) and relationship management (customer care).
- From ‘job creation’ initiatives to employment strategies that emphasise income goals, skills enhancement, employment preparation, labour market access, and ‘on the job’ development and support.
- From municipal economic development offices to leadership councils, development agencies/corporations, and public/private partnership.
- From community involvement to community empowerment through asset transfers, community development corporations, and balance sheet strength.
- From a narrow focus on private sector partnerships, to a realisation of need to engage all of public and community sectors too.
- From provision of ongoing subsidies to ‘public sector enhanced’ market based financial engineering and investment instruments.
- From short term to longer-term visions, missions, and strategic goals.
- From ‘stand alone economic development programmes’ to long-term economic development strategies integrated with growth management, public transport and infrastructure, quality public services, good governance, liveability, bankability, community safety.
- From a focus on local development being a job for everyone to an increased professionalisation and more defined niches and roles.

This brief summary of all the changes emphasised in the literature won’t capture all of the sorts of things that local development programmes now do, but it does give an impression of the dynamic changes and learning that have started to occur. One way to summarise these would be to say that local economic development has been integrated into the main flows of public sector reform and reinvention at the sub-national level, and has also started to pick up key lessons from it’s interplay with the private sector.

7. Local Development Agencies and the implementation of Economic Development Strategies.

A major response to the challenges of globalisation described in Prof Bressi's paper concerns the creation of Local Development Agencies. Creating an organised vehicle for pursuing local development goals is an option considered necessary by many localities once they realise that local development activity goes beyond the provision of services, and indeed requires local actors to become 'agents' in their own future. This is an observable phenomenon in the member countries of the OECD where more than 20,000 such local development agencies now exist. International experience of local economic development agencies is extremely diverse however, and there is no single template or formula for a local development agency. Three basic variables can be isolated to help develop an approach:

- The nature of the **challenges faced in the local economy**, their complexity, and sensitivity to local interventions. Local economic development challenges are not all the same, even if they increasingly happen in the same global context. Some are amenable to local and regional interventions; others require substantial national and international efforts. Some will respond well to national economic growth, others will see their fortunes diminish whilst the nation prospers. Places (Cities, Localities) have the tendency to go through 'cycles' of opportunity and need, not necessarily in sync with the performance of the national economy. Different kinds of local development agencies and strategies are needed at different points in the re-development process.
- The **political, financial, and fiscal contexts** in which local development agencies are established. These vary hugely from the centralised national efforts in certain parts of Europe in the 1940s and 1950s, to the municipal and business efforts in the rust belt cities of the USA in the 1960s and 1970s, to the wide-ranging establishment of local development agencies in the developing countries of the Asia Pacific region and the 'accession countries' to the EU in the 1980s and 1990s. A key variable concerns which tiers of government are the key sponsors of an agency and to what extent financial and fiscal freedoms exist for those tiers. For example, local development agencies that are sponsored directly by national and federal government tend to have much greater financial resources and freedoms than those sponsored by municipal governments alone.
- The **inter-institutional settlement** (who does what?) in terms of the whole economic development programme for a locality. For example, some local development agencies are 'comprehensive', providing, or co-ordinating, all the main inputs to the economic development process at the local level, others are 'niche', providing a particular aspect of the process (eg Site Preparation and Master Planning, or Inward Investment Promotion, or Small Business Support and Finance), others still are

‘sectoral’ focusing largely on one key dimension of the local economy (eg Tourism, Sports, or Manufacturing). Many local development agencies have moved from being ‘niche’ towards being comprehensive, some have moved the other way successfully too. An additional issue concerns the links the local development agency has with those who have responsibility for; organising business leadership, advocacy and development of infrastructure, management of public land, skills training and vocational education, housing, and broader international promotion or marketing of the locality.

These three basic variables at the international level provide the backdrop for much of what needs to be considered in terms of international experience of local development agencies. What a local development agency is, and can do, is significantly shaped by the prevailing conditions that exist within these three basic lenses.

Local development agencies are potentially a key mechanism for strengthening local development efforts, they are a source new and additional local development tools. The justifications used for establishing, maintaining, or expanding a local development agency are not always the same. They include the need to create for the local economy an entity which is:

- more investor facing and ‘business like’ in it’s style than a municipal office or department, including the ability to negotiate directly with developers, deliver services to businesses, and other actors,
- able to respond to a crisis or challenge for which there is no other logical agent (eg the closure of a key site or facilities),
- able to focus on the specific needs of an identified redevelopment area,
- a new and ‘independent’ (and more flexible) vehicle for partnership co -investment,
- capable of integrating the inputs of diverse range of public and private partners,
- able to cover a geographical area which has no other ‘ready’ governance structure,
- able to fulfil an ‘outward facing’ role for the city,
- able to develop more flexible procedures and human resource arrangements,
- able to undertake a focussed task over a defined time-period unencumbered by other missions and goals,
- able to achieve a legal or fiscal status which will allow it to utilise or develop additional tools and interventions that are otherwise absent,
- able to manage a transparent process for delivering financial assistance and incentives to businesses in ways which are not directly politically controlled,
- able to share risks and costs effectively across a range of interested parties.

Essentially, local development agencies are special purpose vehicles. Justification for creating them, or enhancing their role, rests upon defining how they could achieve more than is possible with pre-existing

municipal arrangements. Working relationships with other local players are also important. There are several kinds of distinctive working relationships that need to be attended to by a local development agency, in addition to its own role of bringing key partners together within its structure and constitution. These include:

- joint work and co-ordination with other parts of city government (eg, Planning, Transport, Policy, Housing, Estates, Infrastructure, Education, Culture/Amenities/Leisure, etc).
- joint work and co-ordination with economic development entities in neighbouring municipalities and regions.
- collaborative work with politicians at all levels to give them insights into what the development agency is doing.
- joint work and co-ordination with other parts of the public sector in the city (eg Universities, Hospitals, Housing, etc).
- joint work and co-ordination with business leadership groupings and other specialist economic development entities.
- consultative liaison with community interests and organisations.

None of these are especially easy, but all are important. Much of this relationship management and co-ordination is invisible in terms of the delivery of key programmes of the development agency, and yet these are critical relationships to ensure smooth working. Development agencies have often been set up to be 'business facing', yet they need to be 'partner facing' and 'colleague facing' also. Depending upon the local institutional arrangements, there are various ways to address these priorities. Explicit, planned, and agreed mechanisms for managing these relationships are key, and it should involve the most senior officials from the entities concerned.

There is now a tacit acceptance that most cities and regions need more than one kind of development agency. A good example of this comes from recent US trend analysis. In effect this suggests that most major US cities and metropolitan regions will now have a variety of development agencies covering varying geographies. These will include:

- | | |
|----------------|---|
| City-wide | a single multi-functional economic development agency. |
| CBD | a range of Business Improvement Districts and other targeted efforts. |
| Neighbourhoods | a range of community based development entities. |

Metropolitan a regional co-operation/marketing coalition of some kind plus perhaps some technology diffusion entities.

Whilst this is now the typical approach in most larger US cities, it is not necessarily the case in Europe, where regional efforts are more developed and there are fewer jurisdictions within most metropolitan regions, with larger (boundaried) cities at their centre. In Europe we are more likely to find:

City-wide a single multi-functional economic development agency with several specialist agencies working alongside it (eg in SME support).

Regional one main regional development agency operating as a partnership between business and government.

Others a wide range of specialist local development agencies, but not with a statutory strategic remit.

If the use of local development agencies is to spread it is important to better understand how different arrangements work, rather simply to borrow or copy one model.

8. Financing Local Development: a Role for Multi-National Institutions in Leveraging Private Investment.

Leveraging private finance into localities, cities and regions is a fundamental imperative for governments of all kinds. OECD countries, and their sub-national governments, are embarked on a quest for effective means to encourage private investors to view localities, cities and regions as good places to secure a return on investment. Bankers, fund managers, and investment advisors are taking note. Investments that help local economies to perform better can add value to other localised transactions too, by providing a more competitive platform for business, raising local incomes and revenues, and improving asset values.

Mayors and regional leaders are now advocating local economic development strategies that increasingly seek to perform the role of being 'investment prospectuses' for their territories, demonstrating to financiers that they have the ability to grow in ways which can sustain borrowing to support economic expansion, and provide an acceptable return on capital deployed. Some local and regional financial instruments are already able to demonstrate a competitive performance relative to more established investment vehicles. Put simply, more private investment can help a city or region achieve more than public investment cycles alone can afford, especially in times of tight fiscal discipline. Local leaders and financiers have important business to do together.

It is a key task, therefore, of local economic development activity to make cities and regions both more 'investable' and more 'investment ready'. 'Investable' in that they need to clearly demonstrate how good returns can be made on investments in their territory, and be ready to help make those deals attractive. 'Investment ready' in that they must become preoccupied with directly helping to stimulate a strong deal flow of good quality propositions for financiers to evaluate. Just as cities and regions still spend significant effort seeking to attract international corporate investments through FDI deals, they now need also to attract institutional and commercial investment into their locally focused financial instruments and assets.

The major changes in global economic development over the past decades have produced a different set of financing propositions at the local level from the past. Economic development in localities, cities, and regions is now much less about roads, bridges, and factories (which are tangible collateral), and much more about re-used brownfield land, high tech space, creativity hubs, science parks, supply chains, knowledge capital, small companies, joint promotion, and community development. These are less tangible collateral. They often offer more variable revenue covenants. Investing in these assets require something new. The public sector can use its resources flexibly to help the private sector find means to commercially finance this new generation of job and wealth creation activities. National assistance through tax relief and incentives can be coupled with more localised participation in financial instruments to improve returns, or to reduce risks and costs, for private co-investors.

In some places this is happening more quickly than others: Catalan Banks have played a major role in financing the re-development of Barcelona, in New York City the financial services sector has been an important investor in community development successes, and fast growing smaller companies in Australia and New Zealand are seeing their growth supported by public and private capital programmes.

We've made some progress in London too. Our municipal pension funds are now significant investors in small capable firms and urban regeneration, our banks are providing patient capital for disadvantaged entrepreneurs, social housing in poor neighbourhoods is regularly financed through private debentures, bonds, and EIB lending, and community development organisations are starting to leverage bank lending for capitalisation projects.

We now know that investment opportunities that are principally territorial (localised) can be competitive for commercial finance when compared against other opportunities in business stocks and shares, government bonds, or other traditional investment instruments. However, there are credibility and profitability gaps, issues of scale and risk, and matters of cost and confidence, that have to be addressed if cities and regions are to attract private investment over the long term. A better flow of good local propositions (allied with clear investment instruments) has to be built if the local investment markets are

to grow. Thus localities, cities, and regions themselves can become better at attracting private investment if they will diligently build the basic dimensions of a healthy local investment market. To do this, most localities, cities, and regions need help from their national governments and multi-national financial institutions, and robust advice from partners in the financial services sector.

For those seeking to build local economies, private co-investment can add important ingredients that are otherwise absent. Economic development programmes are increasingly moving away from traditional attempts to substitute for the absence of private investment, and are now more concerned with explicit attempts to leverage private investment instead. Tackling market failure through market making is the focus. Private finance is key to economic development because:

- It provides more capital than is otherwise available, more quickly, and more efficiently.
- It helps to rebuild local investment markets and averts other ‘disinvestment’ from occurring.
- It builds a more sustainable finance strategy into economic development initiatives, allowing public funds to be gradually unlocked for alternative actions.
- It creates a greater commercial and professional discipline within economic development policies and initiatives.
- It attracts wider interest from other commercial players, giving confidence that something of value must be occurring which might merit their interest.
- It re-positions good economic development activity as an ‘investment’, rather than an ‘expenditure’, in the modern economy.

Localities, cities and regions are therefore increasingly in search of the best propositions and instruments to attract commercial investment. Equally, for private finance providers, participation in economic development programmes can provide some important contributions to business strategy. It can:

- Utilise public sector support to help develop new business and markets sectors that would otherwise not be easily accessed, acting as R&D activity for future product lines.
- Contribute to diversification of the asset classes over which investment is spread.
- Contribute to achieving ethical and/or local investment priorities.
- Provide some predictable returns in periods of instability.
- Build relationships with a wider set of partners from which other business might evolve.
- Strengthen local and regional economies in ways which can safeguard or improve other investments, or expand the market for other financial services.

Local and regional governments want to be in business with private financiers, and it is time to learn together about how to do this more effectively. Multi-national institutions have a key role to play.

Encouraging local economic development which is focused on attracting and sustaining external co-investment in a robust manner should be a deliberate focus. For example, multi-national institutions can:

- Invest in improving corporate and project finance skills at the local levels, especially amongst local development agencies and practitioners.
- Invest in creating simple and robust templates for public/private co-investment in local development projects so that propositions can be generated to a 'model' which is well understood, is legally tight, and is therefore less expensive to appraise.
- Invest in local development programmes which will stimulate the flow of local propositions for external finance. For example 'investment readiness' programmes for local real estate or growth orientated SMEs.
- Invest in financing instruments that will help off set costs, improve returns, or mitigate risk by supporting good quality projects which are close to market thresholds. Many local development initiatives are able to service external finance effectively, but not be able to provide equivalent returns or security. These are the factors that need to be addressed directly to keep external finance engaged.

Much more could be written on all of these themes. Prof Bressi has stimulated an important debate about the future significance of local development in the new era.

To contact Greg Clark: gregclark@london.com

¹ Sharing Future Prosperity, A Survey of the Local Authority Role in Economic Regeneration, UK Local Government Association, 2001.