

# Lecture notes in Sustainable Local Economic Development



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**Faculty of Economics and Social Sciences**  
**Institute of Regional Economics and Rural**  
**Development**

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# **Lecture notes in Sustainable Local Economic Development**

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# Introduction

'... all settlements are equal, but cities are more equal than villages.'

(György Enyedi, 1990)

Today the boundaries between public and private roles in economic development continue to blur. On one hand, it has become apparent that markets are imperfect; therefore, pure market-driven strategies are not the appropriate means of local economic development activities. On the other hand, the scarce resources of local governments are not sufficient to deliver the kinds of services their citizens would like, so there is a clear need for collaboration between the sectors (Hamlin and Lyons, 1996). Local Economic Development (LED) has emerged globally as a vital planning approach for local economies. The emergence and growing significance of LED planning approaches are inseparable from the changing world economy and especially the advance of globalization.

Without theory, the developer can do only what is politically feasible. Local economic development has many practices and theories as well as many other disciplines. In this lecture notes we give an overview of the global practices and theories (covering the U. S. and European ones too) in order to give an overall perspective on the topic. Development activity in the United States and Canada holds many similarities. The target audiences of this note are undergraduate and graduate students, economic development professionals, researchers and community leaders.

The objective of the course is to assist the future generation of economic developers and also the practitioners in understanding this more and more complex topic. Besides the theoretical foundations we provide practical solutions in the form of case studies from all over the world. 'Increasing complexity requires that economic developers possess a better understanding of the local economy and the nature of its internal connections and its connections to the global economy:' (Malizia and Feser, 1999).

The structure of the lecture notes is built to be practical, so each chapter consists of the presentation of the topic, study questions and useful links and further reading. At the end of the book, a glossary can be found with the most important technical definitions.

We wish all readers - students, scholars, practitioners and interested citizens – enjoyable reading and hope that you find ideas and information in this lecture notes that will contribute to your future success.

# Chapter 1: Defining LED

## Regional policy of the EU

The European Union (EU) is a union of 28 member states that originates from the European Coal and Steel Community (ECSC) and the European Economic Community (EEC) formed by six countries in 1951 and 1958. Under its current name, the EU was established by the Maastricht Treaty in 1993 and the EU has developed a single market and the Schengen Area. The monetary union was established in 1999 and came into force in 2002 (it is currently composed of 19 member states). The EU is elaborating policies at the EU level and maintains permanent diplomatic missions throughout the world. The EU's population is over 500 million inhabitants, exceeding 7.3 % of the world population.

The regional policy is the main investment policy of the EU that supports job creation, competitiveness, economic growth, improved quality of life and sustainable development. It targets regions and cities and the three main funds are the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF). The European Structural and Investment (ESI) Funds consist of these three funds and additionally the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

The main strategy of the EU is the so-called Europe 2020 strategy (March 2010) that targets smart, sustainable and inclusive growth in the European Union by 2020.

### **The five targets for the EU in 2020 are:**

1. Employment: 75% of the 20-64 year-olds to be employed
2. Research & Development: 3% of the EU's GDP to be invested in R&D
3. Climate change and energy sustainability:
  - Greenhouse gas emissions 20% (or even 30%, if the conditions are right)
  - 20% of energy from renewables
  - 20 % increase of energy efficiency
4. Education:
  - Reducing the rates of early school leavers below 10%
  - At least 20 million fewer people in or at risk of poverty and social exclusion
5. Fighting poverty and social exclusion: At least 20 million fewer people in or at risk of poverty and social exclusion

The Member States of the EU have adopted specific national targets in these areas.

Regional and policy and the ESI Funds concentrate funding for less developed European countries and act as a main source for local economic development activities. They help underdeveloped areas to catch up and reduce the economic, social and territorial disparities existing in the EU. Regional policy also mitigated the impact of the financial crisis (started in 2008) and acts as a catalyst for further public and private funding.

### **The history of Regional Policy in the EU:**

According to the European Commission (n.d.), the history of the EU regional policy can be divided to five phases:

#### **Phase I.: 1957-1987: The Treaty of Rome and the basic steps**

- **1957** – origins of Regional Policy in the Treaty of Rome founding the European Economic Community
- **1968** – establishment of the Directorate-General for Regional Policy
- **1975** – establishment of the European Regional Development Fund

#### **Phase II.: 1988-1993: From projects to programs**

- – after the accession of Greece (1981), Spain and Portugal (1986), the Structural Funds were integrated into an overarching cohesion policy with a total budget of 64 billion ECU (European Currency Unit), introducing key principles:
  - focusing on the poorest and most backward regions
  - multi-annual programming
  - strategic orientation of investments
  - involvement of regional and local partners
- **1993** - the Maastricht Treaty introduced three novelties: (1) the Cohesion Fund; (2) the Committee of the Regions; and (3) the principle of subsidiarity
- **1993** – establishment of the Financial Instrument for Fisheries Guidance

#### **Phase III.: 1994-1999: Consolidation and doubling the effort**

- **1994-99** – the total budget of the structural and cohesion funds were doubled, to equal one third of the EU budget (ECU 168 billion). The euro was introduced in 1 January 1999.
- **1995** - a special objective was added to support the sparsely-populated regions of Finland and Sweden

#### **Phase IV: 2000-2006: Making enlargement a success**

- **2000** – shift in the EU's priorities and in the cohesion funds' objectives towards growth, jobs and innovation by the Lisbon Strategy.
- **2000-04**- introduction of the so-called pre-accession instruments (Phare, Sapard and Ispa) in countries waiting to join the EU (accession countries)

- **2004** - ten new countries accessed the EU (increasing the EU's population by 20%, and GDP by 5%)
- **Budget:** €213 billion for the 15 existing; €22 billion for the new member countries (2004-06)

**Phase V: 2000-2006: Focus on growth and jobs**

- structural reform: simplified rules and structures
- emphasis on transparency and communication and an even stronger focus on growth and jobs
- **Budget:** €347 billion (of which 25% has been earmarked for research and innovation, and 30% for environmental infrastructure and measures to combat climate change)

According to the European Commission (EC, 2013/A.), the results of the EU Cohesion Policy between 2000-2006 can be summarised as follows:

- 8400 km of rail built or improved
- 5100 km of road built or improved
- access to clean drinking water for 20 million more people
- training for 10 million people each year
- over 1 million jobs created
- GDP/capita up 5 % in newer Member States.

In the book “Europe, Regions and European Regionalism” (2010), the authors address the ‘multi-level’ governance question and the role of regionalism in Europe. They present analyses of both the larger states of Europe and many of their smaller counterparts, the impact of the enlargements (in 2004 and 2007) and interesting conclusions and remarks. The case of Hungary (Regionalism in a unitary state) is summarised by Horvath in the book (Horvath, 2010) as country specialist.

Europe 2020 Strategy is the main policy document of the European Union for the programming period between 2014-2020. It targets smart, sustainable and inclusive growth. Territorial cohesion will be strengthened in this period as:

- there will be a strong focus on sustainable urban development: at least 5 % of ERDF resources will be allocated to this purpose
- an urban development platform will be created to facilitate the networking between cities and exchanges on urban policy
- innovative actions for sustainable urban development will be implemented to a ceiling of 0.2 % of the annual funding and lastly
- the areas with specific natural or demographic features will be supported by additional allocation of funds for outermost & sparsely populated regions.

Recent measures and tools in regional policy are the S<sup>3</sup> strategies and the CLLDs.

Smart Specialisation or RIS3 (Research and Innovation strategies for Smart Specialisation) is a strategic approach to economic development through targeted support for research and development and innovation (RDI). It is a new innovation policy concept, involving the process of developing a vision, identifying the place-based areas with the greatest strategic potential, developing multi-stakeholder governance mechanisms, setting strategic priorities and using smart policies. Each region should identify its best assets and R&I potential in order to concentrate its efforts and resources on a limited number of priorities where it can really develop excellence and compete in the global economy. The objectives of S3 are (1) to maximize the knowledge-based development potential of a region, regardless of whether it is strong or weak, high-tech or low-tech, (2) to promote the efficient and effective use of public investment in research and (3) to boost regional innovation in order to achieve economic growth and prosperity, by enabling regions to focus on their strengths. (EC, n. d./2).

CLLD or Community-led Local Development is a specific tool for use at sub-regional level, which is complementary to other development support at local level. CLLD can mobilise and involve local communities and organisations to contribute to achieving the Europe 2020 Strategy goals of smart, sustainable and inclusive growth, fostering territorial cohesion and reaching specific policy objectives. The CLLD will:

- encourage local communities to develop integrated bottom-up approaches in circumstances where there is a need to respond to territorial and local challenges calling for structural change;
- build community capacity and stimulate innovation (including social innovation), entrepreneurship and capacity for change by encouraging the development and discovery of untapped potential from within communities and territories;
- promote community ownership by increasing participation within communities and build the sense of involvement and ownership that can increase the effectiveness of EU policies; and
- assist multi-level governance by providing a route for local communities to fully take part in shaping the implementation of EU objectives in all areas. (EC, n.d./3).

### **What do we mean by ‘local’?**

Local Economic Development (LED) can take place at different territorial levels. When we consider local economic development we most frequently refer to the municipal level of the specific cities/towns that can be extended by their agglomeration. Economic development means different things to different professionals. From sustainability to job creation programmes it covers a wide range of topics and initiatives globally applied mostly at the local level.

LED means short-term, quick-fix solutions and the elaboration of long term strategies and programming documents both. The target is to keep up with the global competition

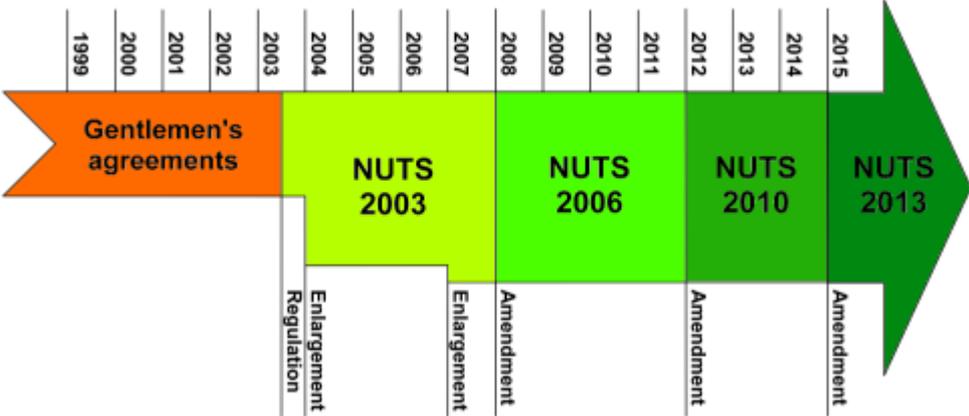
between territories, and to show that our location and incentives are better than any others for investment, development programmes, sustainable and liveable environment and workplaces.

In the followings, we examine the so-called regional (territorial) classifications in the EU and in other parts of the world.

**Statistical regions in the EU**

First of all, we should clarify the definition of 'local'. The Oxford Dictionary defines local as an adjective meaning relating or restricted to a particular area or one's neighbourhood.

In the European Union, the Nomenclature of territorial units for statistics, abbreviated as NUTS (from the French Nomenclature des Unités territoriales statistiques) is a geographical nomenclature. It subdivides the territory of the EU into regions at three different levels (NUTS 1, 2 and 3). The Nomenclature of Territorial Units for Statistics (NUTS) was established by Eurostat at the beginning of the 1970s, to provide a single uniform, coherent breakdown of territorial units for the production of regional statistics for the European Union. Figure 1. presents the history of the NUTS classification.



**Figure 1: The history of the NUTS classification**

Source: <http://ec.europa.eu/eurostat/web/nuts/history>

NUTS areas aim to provide a single and coherent territorial breakdown for the compilation of EU regional statistics. The current version of NUTS (2008) subdivides the territory of the European Union and its 28 Member States into 98 NUTS 1 regions, 272 NUTS 2 regions and 1315 NUTS 3 regions. The NUTS is based on Regulation 1059/2003 that was amended several times, namely in 2005, 2006, 2008 and 2011 in the form of regular amendments and amendments connected to the subsequent accession and extension process. Above NUTS 1 is the 'national' level of the Member State.

RAMON (Reference and Management of Nomenclatures) is the Eurostat's metadata server that contains up-to-date information on the Eurostat's concepts and definitions,

legislation and methodology, classifications, glossaries, standard code lists and national methodologies.

The NUTS nomenclature was created and developed according to the following three principles:

Principle 1: NUTS is a hierarchical classification of regions The NUTS regulation lays down the following minimum and maximum population thresholds for the average size of the NUTS regions:

Level	Minimum	Maximum
NUTS 1	3,000,000	7,000,000
NUTS 2	800,000	3,000,000
NUTS 3	150,000	800,000

Principle 2: NUTS favours administrative divisions: For practical reasons the NUTS classification is based on the administrative divisions applied in the Member States (normative criterion).

Principle 3: NUTS favours general geographical units: General geographical units are in general, more suitable for any given indicator (such as "number of hospital beds") than geographical units specific to certain fields of activity (e.g. "extent of forest cover"). (EC, 2013/B.)

To meet the demand for statistics at local level, Eurostat has set up a system of Local Administrative Units (LAUs) compatible with NUTS. At the local level, two levels of Local Administrative Units (LAU) have been defined:

- The upper LAU level (LAU level 1, formerly NUTS level 4) is defined for most, but not all of the countries.
- The lower LAU level (LAU level 2, formerly NUTS level 5) consists of municipalities or equivalent units in the 27 EU Member States.

Since there are frequent changes to the LAUs, Eurostat follows up its development from year to year.

## **Statistical regions outside the EU**

The NUTS classification is defined only for the Member States of the EU.

Eurostat, in agreement with the countries concerned, also defines a coding of Statistical Regions for countries that do not belong to the EU but are either:

- Candidate Countries (CC) awaiting accession to the EU or countries belonging to the European Free Trade Association (EFTA).
- The regions presented in this Classification of Statistical Regions for Candidate Countries and EFTA countries have been defined according to principles similar

to those used in the establishment of the NUTS classification. The CC currently consists of six countries: Montenegro, the former Yugoslav Republic of Macedonia (FYROM), Albania, Serbia, Turkey and Iceland.

The EFTA countries are: Iceland, Liechtenstein, Norway and Switzerland. The first three of these countries, together with the countries of the European Union, belong to the EEA (European Economic Area). Switzerland does not belong to the EEA. Nevertheless, similar codes have been defined for regions in Switzerland as well. Table 1. shows some examples of the NUTS classifications.

Table 1: Examples of NUTS and LAU classification (in EU 28)

	NUTS 1		NUTS 2		NUTS 3		LAU 1		LAU 2	
<b>U</b>	Statisztikai nagyrégiók	3	Tervezési-statisztikai régiók	7	Megyék + Budapest	20	Statisztikai kistérségek	174	Települések	3154
<b>K</b>	Government OHce Regions; Country	12	Counties (some grouped); Inner and Outer London; Groups of unitary authorities	40	Upper tier authorities or groups of lower tier authorities (unitary authorities or districts)	173	Lower tier authorities (districts) or individual unitary authorities; Individual unitary authorities or LECs (or parts thereof); Districts	380	Wards (or parts thereof)	10310
<b>R</b>	Z.E.A.T + DOM	9	Régions + DOM	27	Départements + DOM	101	Cantons de rattachement	3785	Communes	36680
<b>E</b>	Länder	16	Regierungs-bezirke	38	Kreise	402	Verwaltungsge-meinschaften	1481	Gemeinden	12066

Source: <http://ec.europa.eu/eurostat/web/nuts/national-structures-eu>

Regarding the administrative division of the United States, as a federal republic, we can differentiate 3 levels, the first, the second and the third levels. The United States Census Bureau defines four statistical regions, with nine divisions. The four statistical regions are the Region 1: Northeast; Region 2: Midwest; Region 3: South; and Region 4: West. Additionally there are 10 so-called standard federal regions established by the OMB (Office for Management and Budget) in April, 1974.

States are the primary subdivisions of the US, the country consists of 50 states, one federal district and one incorporated territory. The first level consists of the (1) state/commonwealth; (2) the federal districts, territories/commonwealth and the (3) Indian reservation. The second level consists of the (1) county; (2) the consolidated city-county and the independent city; (3) and the state-recognized tribes. The third level consists of the (1) cities, towns and villages; (2) and the civil township and consolidated civil township. There are 574 primary statistical areas (PSAs) in the United States. The United States Office of

Management and Budget (OMB) delineates metropolitan and micropolitan statistical areas according to published standards that are applied to Census Bureau data. The general concept of a metropolitan or micropolitan statistical area is that of a core area containing a substantial population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Current metropolitan and micropolitan statistical area delineations were announced by OMB effective February 2013. The term "core based statistical area" (CBSA) became effective in 2000 and refers collectively to metropolitan and micropolitan statistical areas. As of February 2013, there are 381 metropolitan statistical areas and 536 micropolitan statistical areas in the United States. In addition, there are 7 metropolitan statistical areas and 5 micropolitan statistical areas in Puerto Rico.

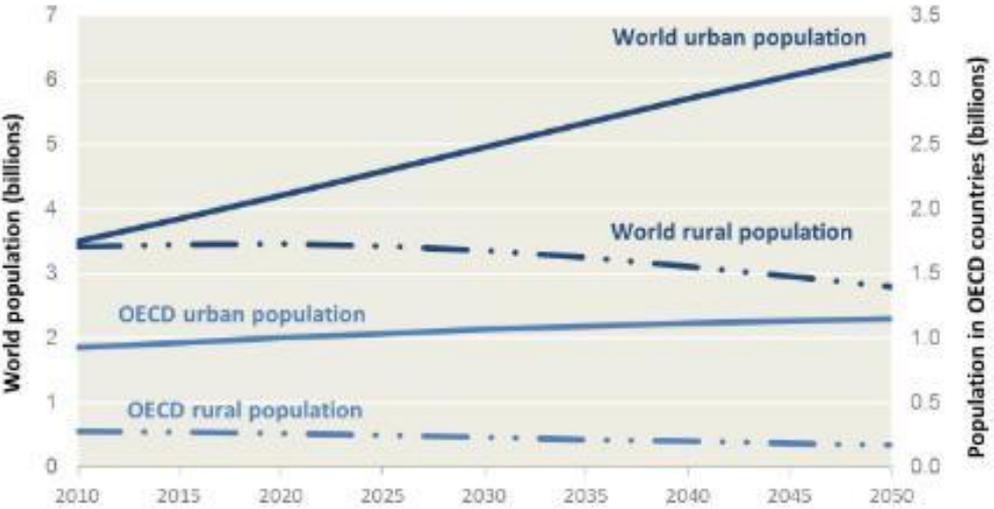
The largest city in each metropolitan or micropolitan statistical area is designated a "principal city." Additional cities qualify if specified requirements are met concerning population size and employment. The title of each metropolitan or micropolitan statistical area consists of the names of up to three of its principal cities and the name of each state into which the metropolitan or micropolitan statistical area extends. Titles of metropolitan divisions also typically are based on principal city names but in certain cases consist of county names. Governmental services in the U.S. are provided through a complex structure made up of numerous public bodies and agencies. In addition to the federal government and the 50 state governments, the Census Bureau recognizes five basic types of local governments. Of these five types, three are general-purpose governments: as counties, municipalities and townships. The other two types are special-purpose governments as special districts and school districts. County, municipal, and township governments are readily recognized and generally present no serious problem of classification. However, legislative provisions for school district and special district governments are diverse. Numerous single-function and multiple-function districts, authorities, commissions, boards, and other entities, which have varying degrees of autonomy, exist in the United States. The basic pattern of these entities varies widely from state to state. Moreover, various classes of local governments within a particular state also differ in their characteristics. (United States Census Bureau, n. d.)

As regards China, there are five practical (de facto) levels of administration as the province, prefecture, county, township, and village. The provinces serve an important cultural role in China, as people tend to identify with their native province. China administers 33 provincial level regions, 333 prefectural level regions, 2,862 county-level regions, 41,636 township-level regions and even more village-level regions. (Curran, Funke, Wang, 2007)

### **The types of cities and tendencies in urban development**

More than half of the world's population (about 3 billion people) now lives in cities and in some form of urban area. This share is projected to keep growing (Figure 2.) and as a direct consequence, urban issues are increasingly prominent on national policy agendas. Cities and metropolitan areas are major contributors to national economies and play a key role as nodes

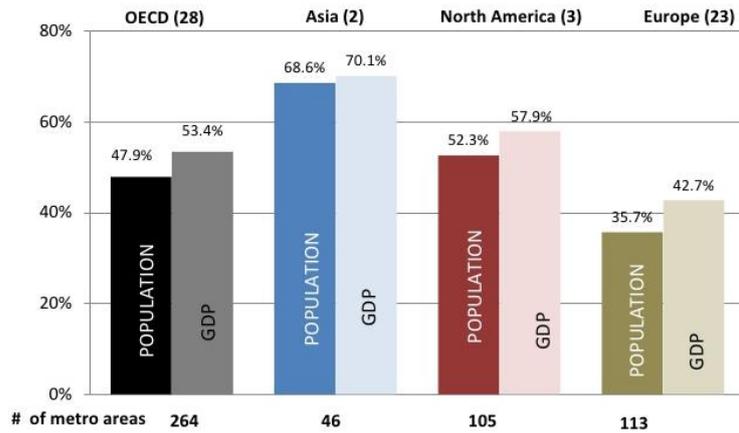
in global markets. Moreover, at a time of deepening globalisation and increasing international competition for investment, metropolitan regions have become the targets of a wide range of public interventions. As a result, throughout the OECD, urban development policies seek to address a range of issues. Controversially, we don't have universally accepted definitions or understandings of what these urban areas are. (OECD, n. d./A)



**Figure 2: Projected tendencies for urban population growth**

*Source: OECD, n.d./A*

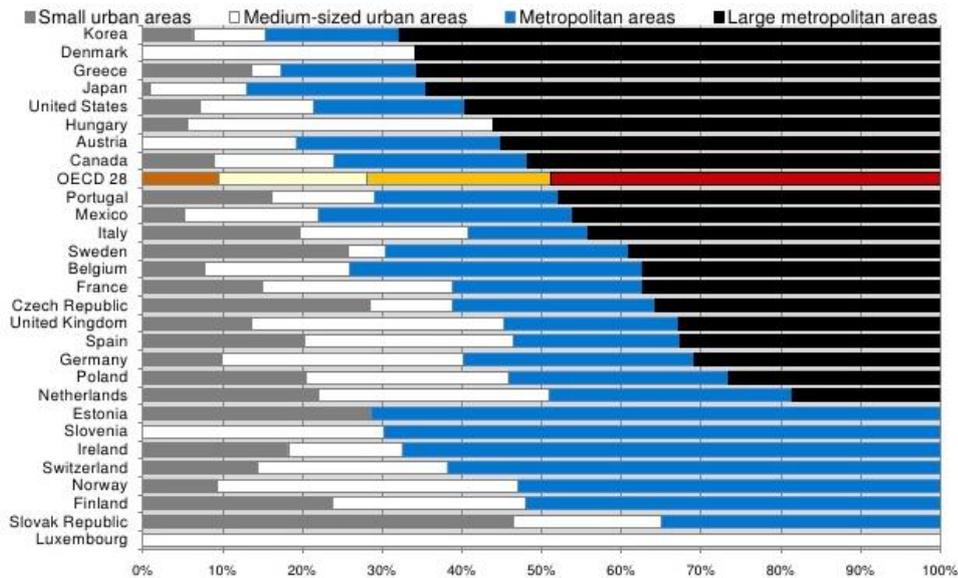
The new classification (OECD-EC) identifies urban areas beyond city boundaries, as integrated labour market areas. It identifies 1,148 urban areas of different size: small urban, medium-sized urban, metropolitan and large metropolitan. The extension of land for urban use differs greatly and so does the urban population density. A good example is the case of Tokyo (Japan) and Napoli (Italy) where both cities have the same urban population density (around 8,500 people per m<sup>2</sup> of urban area), even if Tokyo is 10 times bigger than Napoli in population size. The following chart (Figure 3.) illustrates the population living in urban areas (metro areas, meaning a population of at least 500,000) and their contribution to the OECD GDP (altogether they account for 53%).



**Figure 3: Percentage of population and GDP in metro areas (2008)**

Source: OECD, 2012

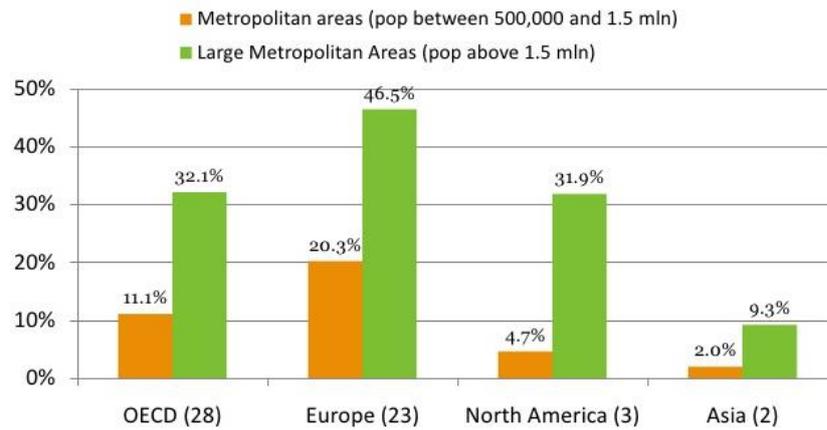
Two-thirds of the OECD population live in urban areas, but the urban experience is very different in each country. Around 65% of the urban population in Korea live in large metropolitan areas, while in most European countries around 25% of urban population live in medium-sized areas. Figure 4. shows the percentage of urban population by city size in 2008.



**Figure 4: Percentage of urban population by city size (2008)**

Source: [http://www.oecd.org/regional/flyer\\_redefining%20urban.pdf](http://www.oecd.org/regional/flyer_redefining%20urban.pdf)

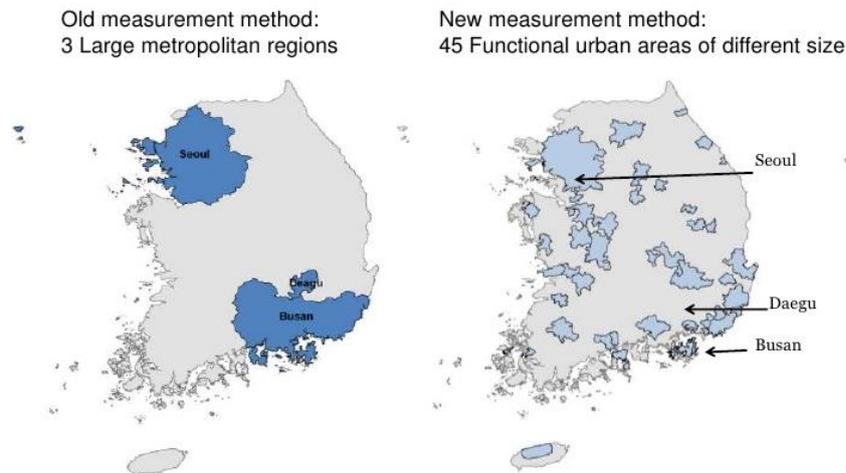
Regarding the well-being and wealth of the citizens, metro areas tend to be wealthier than the rest of the economy (Figure 5.). GDP per capita premium is generally higher in metro areas (particularly in large metro areas) and it varies by country and continent.



**Figure 5: Per capita GDP gap between metro areas and the rest of the economy (2008)**

Source: [http://www.oecd.org/regional/flyer\\_redefining%20urban.pdf](http://www.oecd.org/regional/flyer_redefining%20urban.pdf)

The new classification and the accompanied new measurement method brought several surprises for example in case of Korea and the UK (Figure 6. and 7.).



**Figure 6: The Korean example**

Source:

<http://www.oecd.org/regional/redefiningurbananewwaytomeasuremetropolitanareas.htm>  
(2012)

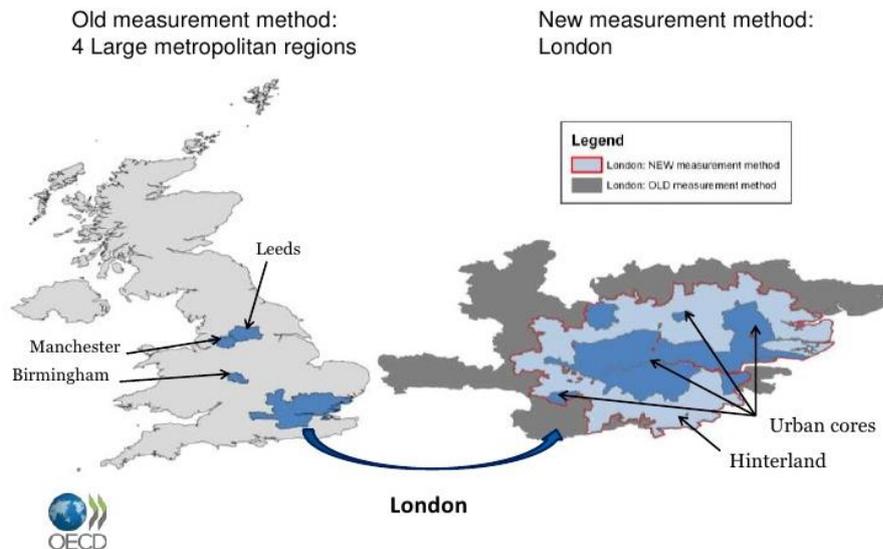


Figure 7: The UK example

Source:

<http://www.oecd.org/regional/redefiningurbananewwaytomeasuremetropolitanareas.htm>  
(2012)

### Definition of the city

Each country has its own method of defining a city based on a wide range of criteria. These criteria often include population size and density, but also more functional or historic ones such as having urban functions, being a recipient of national urban policy funds or having received city rights through a charter sometime between the Middle Ages and today. For example, in the UK city status is conferred by the Monarch since 16<sup>th</sup> century and still is today. This does lead to some surprising cities, such as St Davids in Wales with less than 2,000 inhabitants. Comparing the number of cities based on national definitions across countries is a hopelessly distorted by difference in methodology.

According to the new OECD-EC definition from 2012 the new definition of a city works in four basic steps and is based on the presence of an ‘urban centre’ a new spatial concept based on high-density population grid cells.

**Step 1:** All grid cells with a density of more than 1,500 inhabitants per sq km are selected.

**Step 2:** The contiguous high-density cells are then clustered, gaps are filled and only the clusters with a minimum population of 50,000 inhabitants are kept as an ‘urban centre’.

**Step 3:** All the municipalities (LAU2) with at least half their population inside the urban centre are selected as candidates to become part of the city.

**Step 4:** The city is defined ensuring that 1) there is a link to political level, 2) that at least 50% of the city population lives in an urban centre and 3) that at least 75% of the population of the urban centre lives in a city.

This new definition does not rely on functions re feudal history, but is purely based on population size and density. To a large extent, the definition identifies the European urban hierarchy and the two largest cities in the EU are, of course, London and Paris. These cities are so-called global cities too. The six cities with an urban centre of around three million inhabitants are Athens, Berlin, Madrid, Barcelona, Naples and Milan.

Overall, in the EU two out of five residents live in a city with a centre of 50,000 inhabitants and one out of five lives in a commuting zone of these cities. Together about three out of five residents live in a city or a commuting zone (or Larger Urban Zone that consists of the city and its commuting zone).<sup>1</sup>

This new OECD-EC definition identified 828 (greater) cities with an urban centre of at least 50,000 inhabitants in the EU, Switzerland, Croatia, Iceland and Norway. In addition, a further 492 cities were identified in Canada, Mexico, Japan, Korea and the United States.

### **The definition of a global city**

Saskia Sassen literally wrote a book on global cities in 1991. In her opinion, a city's economic function at an international level is a defining factor together with the complexity of the central functions (Sassen, 1991). She argued that in the age of globalization, the activities of production are scattered on a global basis. These complex, globalized production networks can be managed only by new forms of complex financial and producer services requiring highly specialized skills. Thus they are subject to agglomeration economics, and tend to cluster in a limited number of cities that are called "global cities". So, a global city is a significant production point of specialized financial and producer services that make the globalized economy run. Typical examples are New York, London, and Tokyo but there are many more global cities than this. As there are actually a quite a few of these specialized production nodes, they don't necessarily directly compete with each other, as they have different groupings of specialties. Certainly there are many critics on the definition and on her book too.

### **The concept of urbanisation**

The concept of 'urbanisation' has been introduced to indicate the character of the area where the respondent lives. Three types of area have been identified and defined using a criterion of geographical contiguity in combination with a minimum population threshold based on population grid square cells of 1 km<sup>2</sup>. These grids all have the same shape and surface, which avoids distortions caused by using units varying in size. The three types to be distinguished are:

- densely-populated (Code 1; alternative names: cities/large urban area, at least 50% lives in high-density clusters.)

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<sup>1</sup> Cities in Europe, The new OECD-EC definition, 2012

- intermediate (Code 2; alternative name: towns and suburbs/small urban area, less than 50% of the population lives in rural grid cells and less than 50% lives in high-density clusters)
- thinly-populated (Code 3; alternative name: rural area, more than 50% of the population lives in rural grid cells)

From the historical point of view, by the early 1900s both Great Britain and the United States had become predominantly urbanized nations. Since that time, urbanization has been occurring around the globe at a rapid rate and today more than 50 percent of the world's population lives in urban areas. Three distinct historical stages can be identified in the process of city development as preindustrial, metropolitan and megalopolitan stages.

### **Preindustrial cities**

In the largest part of human history our ancestors could never find enough food in one area to sustain themselves for an extended period of time. Consequently, they had to keep moving until they could find another place in which to settle temporarily. Technological improvements, especially farming and animal raising, allowed people to settle in one place and build villages. About 5,000 years ago, more innovations were developed (irrigation, metallurgy, animal-drawn plows) that allowed the production of an excess of food beyond the short-term necessities. This surplus contributed to the development of new activities, such as exchange and non-agricultural activities and this way to the formulation of cities. Most preindustrial cities housed fewer than 10,000 inhabitants while for example Rome, may have contained several hundred thousand people. Preindustrial cities differed significantly from today's cities though segregation was significant on the basis of class, ethnicity and religion.

### **Industrial cities**

Between 1700 and 1900, urban revolution occurred as more and more people moved to cities. Urbanisation was also driven by the Industrial Revolution and the subsequent mechanization of agriculture. The migration of workers from rural to urban areas then gave rise to the industrial city. The industrial city was larger and more densely populated than its preindustrial counterpart and contained many people of varying backgrounds, interests, and skills.

### **Metropolis and megalopolis cities**

Industrial cities in the early 1900s have become larger and larger and they formed metropolises. These are large cities that include surrounding “suburbs”, which are lands outside the city limits, usually with separate governance. Many metropolitan areas house a million or more residents. Beginning in the 1970s, most suburbs were largely “bedroom

communities”. Today, suburbs continue to grow and develop. Offices, hospitals, and factories coexist with shopping malls, sports complexes, and housing subdivisions. In this way, many suburbs have essentially become small (and, in some cases, not so small) cities. Sikos T. summarised several aspects of the connections between suburbs and shopping centers (Sikos T., 2009) and in his book (Sikos T., 2000), he gave a thorough overview on the history, literature and future challenges of marketing geography.

Other people have chosen to return from the countryside and revive their cities by renovating and remodeling buildings and neighborhoods. This process is called urban renewal (also called gentrification). The vast urban complex known as a megalopolis was created as suburbs continued to grow and merge with other suburbs and metropolitan areas and this way they formed a virtually continuous region. One example of a megalopolis is the hundreds of miles of almost uninterrupted urbanization from Boston to Washington, D.C. The typical megalopolis consists of millions of people. (Cliffsnotes, n. d.)

### **The steps (stages) of urbanisation**

About the 1940's, Dutch and US geographers started to formulate a multi-level model on urban growth. They began to come to terms with the fact that urbanisation had not been accompanied by continuous population growth in cities of the most developed countries. According to this model, urban growth would be followed by population decline (called “de-urbanisation” or “counter-urbanisation”) before the onset of a new stage of growth (referred to as “re-urbanisation”). The “Dutch School” argues that the subsequent steps are urbanisation (1), sub-urbanisation (2), counter-urbanisation (3) and reurbanisation (4). A few years later Enyedi (1982) proposed a revision of this model (Enyedi, 2011) about the stages of urban growth in three respects. First, he transformed it into a global model arguing that development stages in advanced economies spread (or would spread) to emerging economies and subsequently to developing countries as well. Second, he assumed that the impact of long-term economic cycles (the so-called Kondratiev cycles) could explain different stages of urban growth. Third, he found too little evidence pointing to re-urbanisation (i.e., new population growth in city centres due to urban renewal). Instead, he suggested that new, geographically de-concentrated urban networks (information cities) would develop in advanced economies. So, urban explosion (1) is followed by a relative de-concentration in urban agglomerations, then counter-urbanisation (3) and the urbanisation of informatics (4). Later on Enyedi revised his model also.

### **Resilient versus fragile cities**

Resiliency is a relatively new definition used in regional development. In the followings we summarised some definitions of resiliency and resilient city.

“Resilience is the capacity of a system to absorb disturbance and reorganize while undergoing change, so as to still remain essentially the same function, structure, identity, and feedbacks.” (Walker et al, 2004).

“A Resilient City is one that has developed capacities to help absorb future shocks and stresses to its social, economic, and technical systems and infrastructures so as to still be able to maintain essentially the same functions, structures, systems, and identity.” (Working Definition, ResilientCity.org)

“Resilience is the ability to absorb disturbances, to be changed and then to re-organise and still have the same identity (retain the same basic structure and ways of functioning). It includes the ability to learn from the disturbance. A resilient system is forgiving of external shocks.” (The Resilience Alliance)

Regarding the concept of “Fragile City” there is no universally accepted definition. Despite this general lack of consensus on what a fragile city is, a path can be recognised in the stress allocated to the functional role of the city as the central space for economic, political and social development of a country. Typical characteristics can be the lack of security, high crime rates, inefficient management, the lack of funds, exposure to economic downturns and shocks and inefficient delivery of public services. On the other hand, over the past 40 years, the urban population in lower income and fragile countries has increased by an astonishing 326 per cent (IDMC, 2014). Continuing population growth and urbanization are projected to add another 2.5 billion people to the world’s urban population by 2050 and nearly 90 per cent of that increase will be concentrated in Asia and Africa.

Local economic development can contribute significantly to higher level of urban resilience by the means of policies, regulations and administrative practices. These incentives will be detailed in the following chapters.

## **What is LED?**

“The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation.” (The World Bank, n. d./A.)

“Communities, cities and governments around the world increasingly turn to Local Economic Development (LED) strategies in response to the challenges of globalization and the drive for decentralization. LED means more than just economic growth. It is promoting participation and local dialogue, connecting people and their resources for better employment and a higher quality of life for both men and women.”

“Economic development is the process of creating wealth through the mobilization of human, financial, capital, physical and natural resources to generate marketable goods and

services. The economic developer's role is to influence the process for the benefit of the community through expanding job opportunities and the tax base." (AECD, 1984)

Recent economic crises have revealed and often widened inequalities within countries. Decentralization reforms provide ample opportunities to tap into the potential of local economies. LED strategies contribute to stronger policy coherence between national and sub-national levels to and the implementation of "smart regulation", whilst connecting to cross-border value chains and markets. Local Economic Development strategies are multidisciplinary, encompassing international labour standards, employment, social protection and social dialogue.

### **What is sustainable?**

There is no universally agreed definition on what sustainability means. There are many different views on what it is and how it can be achieved. The idea of sustainability stems from the concept of sustainable development which became common language at the World's first Earth Summit in Rio in 1992.

The original definition of sustainable development is usually considered to be:

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

It contains within it two key concepts:

- the concept of **needs**, in particular the essential needs of the world's poor, to which overriding priority should be given; and
- the idea of **limitations** imposed by the state of technology and social organization on the environment's ability to meet present and future needs." (Bruntland Report, 1992)

People concerned about sustainable development suggest that meeting the needs of the future depends on how well we balance social, economic, and environmental objectives--or needs--when making decisions today. Sustainability has many aspects including economic, social, environmental and organisational sustainability among many others.

Some of the objectives may seem to conflict with each other in the short term, like industrial growth might conflict with preserving natural resources. Yet, in the long term, responsible use of natural resources now will help ensure that there are resources available for sustained industrial growth far into the future. All definitions of sustainable development require that we see the world as a system—a system that connects space; and a system that connects time.

### **Sustainable development**

Concerns over the compatibility of economic development policies and environmental preservation are at the heart of debates recently. Advocates of sustainable development argue

that economic development and environmental protection can, and should, take place in harmony. Careful planning and management processes can ensure the compatibility between the two factors. Some examples for sustainable development are the eco-industrial parks, smart growth, and focus on the social costs, social sustainability also.

According to some authors (Koven and Lyons, 2003) the 10 principles of smart growth are:

1. Mix land uses.
2. Take advantage of compact building design.
3. Create a range of housing opportunities and choices.
4. Create walkable neighborhoods.
5. Foster distinctive, attractive communities with a strong sense of place.
6. Preserve open space, farmland, natural beauty, and critical environmental areas.
7. Strengthen and direct development towards existing communities.
8. Provide a variety of transportation choices.
9. Make development decisions predictable, fair, and cost-effective.
10. Encourage community and stakeholder collaboration in development decisions.

An eco-industrial park is a parcel of land that has been designated for occupancy by a collection of environmentally-responsible businesses. The firms can also pool resources and exchange inputs and outputs, including residuals (waste by-products). Good examples are the Londonderry Eco-Industrial Park (New Hampshire) and the Fairfield Ecological Industrial Park (South Baltimore).

Smart growth policies are aimed at curbing the negative effects of suburban sprawl. Supporters of the approach attempt to find a common ground between anti- or slow-growth groups, pro-growth groups, inner-city development supporters and better-growth groups. The definition of smart growth varies from locale to locale but there exists some agreement about four general concepts as follows:

- Protecting the natural environment and preserving open space
- Encouraging inner-city redevelopment
- Making it easier to design innovative communities that encourage compact development
- Encouraging community and regional identity.

## **Social sustainability**

Social costs is an issue, often neglected by policy makers, focusing on the job and income generation aspects of economic development. Social costs are often tied to business location decisions as business clustering (the collocation of firms in the same or similar industries) that permits a variety of interactions, for example joint venturing, resource pooling and just-in-time inventorying, can directly contribute to socioeconomic segregation. Job-housing imbalances can occur between inner cities and suburbs, commuting increases as

affordable housing is far from the places of employment. Gridlock and air pollution are direct consequences, together with a loss in family and civic time, under- and unemployment.

Szirmai (2006) gave an extensive overview of social sustainability problems in the CEE Region and identified the differences and similarities between urban development processes in the Western and CEE Regions.

## **Summary**

In this chapter we summarised the basic definitions connected to Local Economic Development (LED) and integrated the process into a wider (EU and global level) environment. Regional policy and the territorial administration system of the EU have been introduced together with other examples from the United States and China. Then we examined the types of cities and the tendencies in urban development. We closed the chapter with some basic definitions of LED, sustainability and sustainable development.

## **Questions**

What is the regional policy of the EU and what are its main historical stages?

What is the territorial classification system of the EU and how does it work?

How can you summarize the differences and similarities between the US and other territorial classifications and the EU level one?

How would you define the city and what are the main stages of city development?

What are the main stages in urbanisation according to the traditional approach and its revision?

How would you define sustainable local economic development and does it have a connection to resiliency?

## Chapter 2: The history and connections of LED

### Why is LED important?

The expression “knowledge is power” dates back to the ancient but is also proved by today’s information-based, technological economies. In the first postindustrial era, nonmanufacturing service functions –health, education, government, finance, research, insurance and recreation- began to replace manufacturing in economic importance. Today, in the second postindustrial era driven by globalisation, innovation and information technology, the so-called high technology is determining the economy. In capitalist economies, the replacement of old industries with new ones is a recurring theme. According to the long-wave theory, these bursts of innovation occur at approx. 60-year intervals and spawn major industries.

Before 1960, economic development was a concern of the developing nations of the „Third World” and the American South. John F. Kennedy’s campaign for the presidential nomination raised the national awareness of urban and rural poverty in the U. S. The Economic Development Administration (EDA) was established to attack area poverty and unemployment. Some federal and regional agencies with similar mandates were also established. In the 1970s, local economic development practice has increasingly become a local activity whereas states and localities took concrete steps to address problems and challenges. Industrial recruitment and promotional programs were elaborated on the state level. Job creation and economic revitalization were encouraged by localities and an increasing number of economic developers were hired to build the necessary capacities for the purpose of LED. That time, the “urban-size ratchet” concept suggested that large places would continue to succeed while smaller, more volatile places would perform worse. On the contrary, “rural renaissance” had begun apparently and the essays of E.F.Schumacher (1973) in *Small is Beautiful* became influential. Bigger no longer meant better.

During the 1980s, the approach to LED changed dramatically. Global competition and international pressures became the major concerns and the enhancement of productivity; economic growth and global market share were in the forefront of policy development instead of elimination of regional disparities and urban and rural poverty. Traditional industrial development approaches were viewed as insufficient and innovation and entrepreneurship support policies and measures were elaborated at state level. At local level, the size and scope of incentive packages grew more controversial over time.

‘By 1990, most counties and cities had accepted economic development as an important function of local government’ (Malizia and Feser, 1999). Public agencies and non-profit development organisations were responsible for LED activities and economic problems became more complex. In the 1990s, the escalation of social tensions, the reduction of

economic security and continues physical and economic deterioration of many urban areas were the major tendencies. Global competition was increasing and the politics of fiscal austerity did not allow much space for redistributive strategies. The preferred objective was to promote economic growth for the entire community and the preferred strategy was to increase competitiveness.

### **International literature review**

There are several models of economic development, for example the laissez-faire model; the mixed-market model; and the location, export and innovation models.

Experts usually disagree about the role government should play in economic development. Plenty of questions arise, for example when and how government should intervene in the private sector, or should it intervene at all. What is the appropriate target of government intervention? Who should be assisted and why?

### **Laissez-faire and mixed-market models**

In the second half of the twentieth century, the era of big government was over: “government is best that governs least”.

According to Adam Smith (1776), government controls could be harmful to economic development and could lead to less wealth creation. He described an “invisible hand” directing free and “unfettered” markets toward the goal of maximising wealth. He advocated only three duties for the state as defense, the administration of justice, and the maintenance of public works.

The British economist, David Ricardo contended (1817) that trade would lead to greater specialisation in production. He believed that each nation could produce certain commodities more efficiently than others. In his opinion, if all countries specialised in the commodities in which they possessed a comparative advantage and also traded with other nations, then a more efficient allocation of world resources would result. Ricardo and his followers are known for applying the law of comparative advantage to the international economic system. Mainstream economists today widely endorse these general ideas about free trade.

Contemporary theorists, such as Michael E. Porter from Harvard University also place a high priority on market solutions to economic problems. He advocates identifying one’s economic strengths and specialising in that area of strength. (Porter, 1985)

Critics of the pure laissez-faire theory of development urge the need for public intervention in the market to address problems that fall into the category of market failure. Market failure occurs when the pursuit of private interest leads to an inefficient use of society’s resources, or when unfettered pursuit of private interest leads to an unacceptable distribution of society’s goods. The most common areas of market failures are collective goods (or public goods), externalities, natural monopolies and information asymmetries (or

imperfect information). When there is government intervention in order to remedy market failure, a mixed market results.

### **Supply-side and demand-side economics**

Subsidies stimulating markets can focus on different sectors and actors. Supply-side strategies (grounded in neoclassical economic thought) assist producers in the belief that benefits for producers and suppliers will eventually benefit the other actors of the economy as well. We can differentiate top-down and bottom-up development strategies.

Classical top-down supply-side inducements are grants (non-refundable), loans, interest subsidies and equity financing (refundable), tax incentives and non-financial assistance. The general philosophy of these incentives is to foster a favourable business climate for investment.

In contrast, demand-side strategies target consumers and encourage greater consumption of goods or services. They generally focus on low-income groups and the aim is to increase the purchasing capacity leading to more spending and economic growth. Demand-side strategy can also assist local businesses to find markets, help entrepreneurs to establish new businesses, support existing businesses to expand and nurture indigenous talent. Typical demand-side bottom-up inducements are the public-private partnerships, subsidies to reduce the price of goods or services to final consumers (tax expenditures and vouchers), social capital building and human capital development. One tenet of the demand-side theory of growth is that growth is promoted through the creation of new businesses. Researchers have documented the dominant role of knowledge-based industries in job creation and economic growth and the role of human capital and knowledge is becoming more and more important in the future.

### **Location, export and innovation models**

The following models explain some specific aspects of economic development. In case of the location model, economists examine the causes of a location decision and they try to explain why development occurred in one place instead of another. Before 1960, costs of transportation; access to natural resources and natural harbours; and the availability of labour were the most influential factors. With globalisation and technology changes, new considerations of industrial location emerged. The following six factors constitute the new list of the most important concerns:

- labour costs;
- labour unionisation;
- proximity to markets;
- proximity to supplies and resources;
- proximity to other company facilities;

- the quality of life. (Koven and Lyons, 2003)

With the decline in manufacturing-based industries and the rise of knowledge-based industries, location models appear to be less relevant recently. Large companies no longer simply investigate the advantages of various areas; they seek to create advantages through negotiations with public leaders and they often team up with government to alter the local environment.

### **Export model**

The export model holds that a region's growth is a function of its interregional and international export performance that is based on increasing the value of existing exports or developing new exports. Export-producing industries are considered to be of critical importance to a region's growth because of (1) attracting income from other regions; (2) being technologically advanced and operating at comparatively higher levels of productivity (multiplier effects); and (3) as they are linked to other regions and industries, the integration of the region within the global and national economy can be enhanced; and lastly (4) because of the opportunity to shift part of the tax burden to residents of other areas.

### **Innovation model**

This model holds that innovation and the creation of unique products will lead to economic growth. As a good example, Great Britain, as a pioneer of the Industrial Revolution can be mentioned in the eighteenth century or the case of the technologically advanced nations (the United States, Germany and Japan) in the nineteenth century. The relationship between technological innovation and economic development has been identified by several studies. The concept is based on the product life cycles and on the fact, that technological sophistication, rarity and demand determine a product's value and price in the free market. This idea can be applied to individuals and communities also as individuals possessing technological skills are in high demand and short supply or as communities fostering innovation and the development of new high-demand products can prosper. The concept that displacement of the obsolete by the novel is not an aberration but an essential component of capitalism and monopoly creation is developed by Joseph Schumpeter in 1976 and named as "creative destruction" (Schumpeter, 1976). He stated that the opening of new markets represented a process of industrial mutation that revolutionised economies from within and this process represents an essential feature of capitalism. He contended that industrial cycles begin as entrepreneurs introduce basic innovations into the economy and innovations create the environment for large profits as innovators build monopoly positions. Over time, the market becomes saturated, profits disappear, and the overall economy turns downward. Based upon the insights of Schumpeter, Raymond Vernon hypothesised that products move through

three phases of development (new, mature and standardized) and that each phase is associated with different markets and production processes. In line with the development phases, the production of the product is re-located to different areas from home production to foreign locations and lastly, production is concentrated in the foreign markets. The production cycle is complete when the domestic productions facilities are closed because of the push from the foreign locations.

Regarding the sectoral division, video games and computer softwares cannot be duplicated easily; they commend high prices on the market, while more mature products such as automobiles and tires can be transferred more easily to other locations. Labour-intensive products, such as clothing, footwear, toys, and basic electronic assembly can be produced in the undeveloped regions of the globe.

## Historical overview of Economic Thought

### Preclassical Economics (cca 1550-1750)



Mercantilism  
Physiocratic Thought

### Classical Economics (cca 1750-1850)



Smith  
Ricardo  
Mill

### Critics of Classical Economics (cca 1850-1890)



Marx  
Utopian Socialists  
Marginalism  
Walras

### Neoclassical Economics (cca 1890-1950)



Marshall  
Welfare Economics  
Keynes

### Critics of Neoclassical Economics (cca 1890 – present)



Institutionalists  
Austrians  
Post-Keynesians  
Radical Economics

### Modern (Neoclassical) Economics (cca 1950-present)



Microeconomics  
Macroeconomics  
Econometric analysis  
Development Economics  
Regional Science/Economics  
Evolutionary Economics, Social sustainability

*Based on Malizia and Feser (1999): Understanding Local Economic Development, p.*

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The link between technology and development became very evident after the industrial revolution. There are several theories about how technology leads to economic development. Product-lifecycle theory and agglomeration theory are particularly relevant to economic

developers. Other concepts of unbalanced growth, the “growth pole” theory for example describe how market forces direct economic activity to leading regions.

Some theoretical approaches to development policies should be summarized as part of the literature review. The two mainstream approaches in economic theory are the Neoclassical and the Keynesian. In the framework of the Neoclassical approach, the Neoclassical ideas on the functioning of the economic process are in the focus. In the pure variant, imbalances on markets are impossible. This is due to the perfect functioning of ‘the market’ that guarantees that potential imbalances are being prevented via rational mechanisms of price or quantity adjustments. Some Neoclassical premises are:

- the existence of the *homo economicus* in all sectors of the economy;
- perfect competition on all markets;
- full and perfect functioning of the pricing mechanism;
- full and perfect factor mobility;
- constant returns to scale;
- Say’s Law (an economic rule saying that production is the source of demand).

Based on this reasoning, regional economic imbalances are impossible to occur because of the well- functioning of the market forces. In real life, however, neither labour and capital, nor prices are perfectly flexible. Neoclassical economists then often defend the argument that these imbalances are the results of temporarily imperfect market conditions. Governments can improve the functioning of market mechanisms by direct interventions such as investment, migration, re-location and other subsidies, or so-called awarding premiums, neutralising the barriers preventing the full mobility of capital and labour. (Dander, 1993)

Regional economics is a relatively young discipline and the publications of Ohlin and Christaller (both in 1933) can be regarded as the first economic studies in which the spatial dimension played a fundamental role. It is true that governments can assist peripheral areas by improving the transport and communication infrastructure. The ERDF (European Regional Development Fund, established in 1975) is aimed at correcting principal regional imbalances within the European Union. The Keynesian approach is a reaction to the strong premises of the Neoclassical approach. Keynes rejected the premise of the perfect functioning of the market mechanism on all markets. According to Keynes’s analysis, a sub-optimal ‘effective demand’ will result in stagnation and unemployment. Both approaches neglect external effects and cannot provide explanations for the increasing regional economic disparities. However, the theory is able to provide insight in elements playing destabilising roles in already existing local disequilibrium situations.

## **Growth poles**

The growth pole concept was originally developed by F. Perroux in 1955 and it has been further developed since then by several authors, including Perroux himself. The essence of the concept is that the starting point of economic growth process is a so-called 'growth pole' that can be an enterprise and a geographical location too. Later on, the process of economic growth spreads out from this point to its surroundings creating spillover effects. This concept does pay attention to external effects. Major points of discussion are the type and kind of company(ies) that would offer the best perspective for economic development (the classical example is a car manufacturing plant) and how the process of leaking away of growth effects to other areas could be prevented. The so-called backwash effects weakening the economic potential of the neighbouring regions are also often criticised.

One disadvantage of the theory is that it does not offer sufficient explanation for the choice of location and regional development. Some authors (Lambooy 1988) state that it can be hardly believed that regional growth can be explained almost exclusively by the location of one or a couple of MNCs. He lists a number of arguments that explain why areas that experience growth have a potential to maintain their relative advantage. Some others (Boekema and Verhoef 1986) noted that the theory has mainly proved useful in explaining the growth of most Western European industrial centres like the Ruhr-area, the region Milano-turino and the London agglomeration. It should be noted that this concept has played an important role in regional economic policies. Some examples are to focus on the location of MNCs in the region, or to relocate parts of the governmental administration or services into the region (eg. in the Netherlands). The Dutch planning concept of 'growth cities' or the French 'Pole de compétitivité' or the Hungarian 'Polus' programmes are only some examples.

The theory of cumulative causation has been developed by Myrdal in 1956. Gunnar Myrdal was a Swedish economist, awarded the Noble Prize in Economics in 1974. He analysed unbalanced economic growth and resulting poverty. Thinking at the global level and originating his thought from the growth pole concept the author declares that a change in one element is at the same time the result of, and the cause for changes of other elements. There is no built-in adjustment mechanism to restore equilibrium in this theory, on the contrary, a region experiencing economic growth will most likely maintain its relative advantage. The theory works in both directions, resulting in an upwards or downwards spirally process. It also takes into account the external effects. Whereas Perroux intended to find an explanation for the process of economic growth in a single region, without regarding the effect of this process on other regions, Myrdal intended to find explanations for the difference in development levels of regions and he also paid attention to both backwash and spread effects. On the other hand, the emergence of new techniques, technologies and resources are not considered. Myrdal saw the development and underdevelopment process as an upward or downward spiral. As opposed to the view of neoclassical economic models of development, the process of economic growth generally increased rather than decreased the gap between the rich and poor, with underdeveloped countries, regions, or social groups tending to lag even further

behind their more developed counterparts. Keys to his theory are backwash (unfavorable) and spread (favorable) effects. The policy advice from cumulative causation is that governments should implement corrective policies to minimise backwash effects and maximise spread effects. A good policy example is the regional ‘Selective Growth policies’ in the Netherlands.

### **Evolutionary economics and economic geography**

The classical approach to regional policy is based on exogenous development by promoting the transfer of mobile capital to less developed regions. It concentrates on the location aspects of investment, typical examples are the cumulative causation and the growth pole approaches. Paul Krugman, who is the recipient of the 2008 Nobel Prize in Economics, have also analysed many traits related to economic geography. He calls his application of spatial thinking to international trade theory the “new economic geography”. According to Krugman, space is the last undiscovered area in economics. “Traditionally, until the early 1990s, spatial economics -- the study of where economic activity takes place and why -- was pretty much neglected. Even now not one of the best-selling introductory textbooks in economics contains a single index entry for "location," "space," or "regions." (Krugman, 1998)

### **The concept of endogenous development**

On the contrary, the concept of endogenous development focuses strongly on the local potential and the local needs. It stresses the importance of cooperation of the different actors and the final goal is to create sustainable jobs through local start-ups or enlargements of existing businesses. The concept underlines that regions should rely to a higher degree on their own resources and potential in order to reach a higher level of economic and social development. It is not a substitute of other strategies but a complementary tool. The region is fully responsible for its development strategy and its implementation.

Table 2. compiles the economic development theories.

**Table 2: Summary of Economic Development Theories**

<i>Theory</i>	<i>Basic Categories</i>	<i>Definition of Development</i>	<i>Essential Dynamic</i>	<i>Strengths and Weaknesses</i>	<i>Applications</i>
<i>Economic Base Theory</i>	<i>Export or basic and nonbasic, local or residentiary actors.</i>	<i>Increasing rate of growth in output, income or employment.</i>	<i>Response to external changes in demand; economic base multiplier effects.</i>	<i>Most popular understanding of economic development in the US and a simple tool for short-term prediction. Inadequate theory for understanding long-term development.</i>	<i>Industrial recruitment and promotion for export expansion and diversification, expansion of existing basic industries, import substitution by strengthening connections between basic and nonbasic industries, and infrastructure development for export expansion.</i>
<i>Staple Theory</i>	<i>Exporting industries.</i>	<i>Export-led economic growth.</i>	<i>Successful production and marketing of the export staple in world markets. External investment in and the demand for the export staple.</i>	<i>Historical perspective on economic development. Descriptive theory difficult to apply.</i>	<i>Build on export specialisations. State does everything possible to increase competitive advantage. Character of economic base shapes political and cultural</i>

					<i>superstructure.</i>
<i>Sector Theory</i>	<i>Primary, secondary and tertiary sectors.</i>	<i>Greater sectoral diversity and higher productivity per worker.</i>	<i>Income elasticity of demand and labor productivity in primary and secondary sectors.</i>	<i>Empirical analysis possible. Categories are too general.</i>	<i>Promote sectoral shifts. Attract and retain producers of income elastic products.</i>
<i>Growth Pole Theory</i>	<i>Industries.</i>	<i>Propulsive industry growth leads to structural change.</i>	<i>Propulsive industries are the poles of growth.</i>	<i>General theory of initiation and diffusion of development based on the domination effect.</i>	<i>Growth center strategies.</i>
<i>Regional Concentration and Diffusion Theories</i>	<i>Commodities and factors (Myrdal) or industries (Hirschman).</i>	<i>Higher income per capita.</i>	<i>Spread and backwash effects (Myrdal) or trickle-down and polarization effects (Hirschman).</i>	<i>Address the dynamics of development.</i>	<i>Active government to mitigate backwash effects and reduce inequalities (Myrdal). Location of public investments spurs development (Hirschman).</i>
<i>Neoclassical Growth Theory</i>	<i>Aggregate (macro) or two-sector regional economy.</i>	<i>Increasing rate of economic growth per capita.</i>	<i>Rate of saving that supports investment and capital formation.</i>	<i>Supply-side model.</i>	<i>Government should promote free trade and economic integration and tolerate</i>

					<i>social inequality and spatial dualism.</i>
<i>Interregional Trade Theory</i>	<i>Prices and quantities of commodities and factors.</i>	<i>Economic growth that leads to greater consumer welfare.</i>	<i>Price adjustments that result in equilibrium terms of trade; price-quantity-effects.</i>	<i>Unique emphasis on consumer welfare and price effects. Ignores the dynamics of development.</i>	<i>Government intervention should promote free trade. Infrastructure development, efficient local government.</i>
<i>Product Cycle Theory</i>	<i>Products: new, maturing, or standardized.</i>	<i>Continual creation and diffusion of new products.</i>	<i>New product development, innovation.</i>	<i>Popular basis for understanding development among researchers.</i>	<i>Development strategies promote product innovation and subsequent diffusion.</i>
<i>Entrepreneurship Theories</i>	<i>Entrepreneurs or the entrepreneurial function.</i>	<i>Resilience and diversity.</i>	<i>Innovation process; new combinations.</i>	<i>Mediated theory.</i>	<i>Support industrial milieu or ecology for development.</i>
<i>Flexible Specialisation Theories</i>	<i>Production regimes, industrial organisation.</i>	<i>Sustained growth through agile production, innovation and specialisation.</i>	<i>Changes in demand requiring flexibility among producers.</i>	<i>Detailed analysis of firm/industry organisation; aggregate outcomes and relationships seldom specified.</i>	<i>Encourage flexibility through adoption of advanced technologies, networks, among small firms, and industry cluster strategies.</i>

Source: Malizia and Feser, 1999 p. 26-28

## **Territorial competitiveness**

The usual meaning of the term competitive is “to be able to withstand market competition”. The term territorial competitiveness has a strictly economic sense, for example, can we produce agricultural raw materials very cheaply? On the other hand, if the production is associated with bad social conditions and with no concern for its environment, can it really be described as competitive? Such considerations justified a broader meaning to the term territorial competitiveness, as an area becomes competitive if it is able to face up to market competition whilst at the same time ensuring environmental, social and cultural sustainability, based on the dual approach of networking and inter-territorial relationships.

In other words, territorial competitiveness means:

- > taking the area’s resources into account in a bid for overall coherence;
- > involving different players and institutions;
- > integrating business sectors into an innovation dynamic;
- > cooperating with other areas and linking up with regional, national and European policies as well as with the global context.

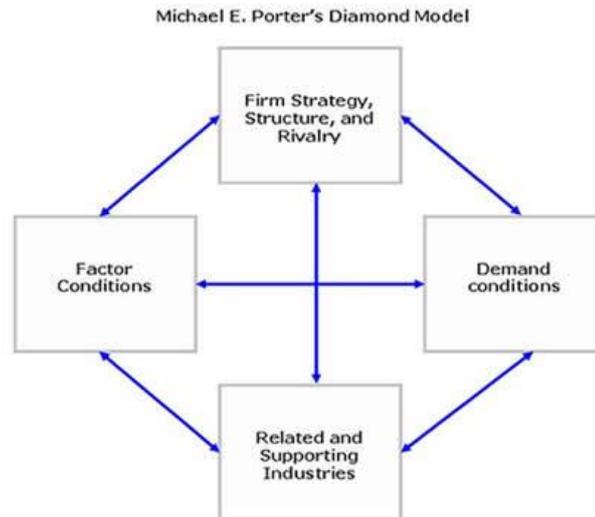
The aim of developing a territorial project is therefore to ensure that local players and institutions acquire four types of skills: the skills to assess their environment, to take joint action, to create links between sectors by ensuring that maximum added value is retained, and lastly to liaise with other areas and the rest of the world. These four skills can be linked with what we call “the four dimensions” of territorial competitiveness, which will be combined differently for each area. They are:

- > “social competitiveness”
- > “environmental competitiveness”
- > “economic competitiveness” and
- > positioning in the global context.

(DG Agriculture, 1999)

Regarding the competitiveness of nations, regions and cities, the so-called “Diamond-model” of Michael E. Porter of Harvard University has to be mentioned also.

Classical theories of international trade propose that comparative advantage resides in the factor endowments of a given country, including land, natural resources, labor, and the size of the local population. Michael E. Porter argued that a nation can create new advanced factor endowments such as skilled labor, a strong technology and knowledge base, government support, and culture. His diamond shaped diagram (Figure 8.) illustrates the determinants of national advantage. This diamond represents the national playing field that countries establish for their industries (Porter, 1998).



**Figure 8: The Diamond Model**

Source: Porter, 1988

The five forces influencing industry is also one of Porter's well-known concept. These forces are: (1) rivalry, (2) buyer power, (3) supplier power, (4) the threat of new entrant(s) and (5) the threat of substitutes.

Regarding regional competitiveness, Lengyel and Rechnitzer have recently analysed the competitiveness of 93 NUTS2 level regions in 8 Central European transition countries with the help of an empirical data base, using multivariable statistical methods (Lengyel and Rechnitzer, 2013).

### **Territorial capital**

The concept of territorial capital was first proposed in a regional policy context by the OECD in its Territorial Outlook (OECD, 2001). It has been reiterated by DG Regio of the Commission of the European Union in 2005 as follows: "Each Region has a specific 'territorial capital' that is distinct from that of other areas and generates a higher return for specific kinds of investments than for others, since these are better suited to the area and use its assets and potential more effectively. Territorial development policies (policies with a territorial approach to development) should first and foremost help areas to develop their territorial capital" ((European Commission, 2005, p. 1 quoted from Camagni, 2008).).

Territorial capital has several elements, it is

- a system of localised externalities, both pecuniary (where their advantages are appropriated through market transactions) and technological (when advantages are exploited by simple proximity to the source);
- a system of localised production activities, traditions, skills and know-hows;
- a system of localised proximity relationships which constitute a 'capital' – of a social psychological and political nature – in that they enhance the static and dynamic productivity of local factors,

- a system of cultural elements and values which attribute sense and meaning to local practices and structures and define local identities; they acquire an economic value whenever they can be transformed into marketable products – goods, services and assets – or they boost the internal capacity to exploit local potentials;
- a system of rules and practices defining a local governance model.

According to the OECD (2001), the factors of territorial capital „may include the area’s geographical location, size, factor of production endowment, climate, traditions, natural resources, quality of life or the agglomeration economies provided by its cities, but may also include its business incubators and industrial districts or other business networks that reduce transaction costs. Other factors may be ‘untraded interdependencies’ such as understandings, customs and informal rules that enable economic actors to work together under conditions of uncertainty, or the solidarity, mutual assistance and co-opting of ideas that often develop in clusters of small and medium-sized enterprises working in the same sector (social capital). Lastly, according to Marshall, there is an intangible factor, ‘something in the air’, called the ‘environment’ and which is the outcome of a combination of institutions, rules, practices, producers, researchers and policy makers that make a certain creativity and innovation possible” (OECD, 2001, p. 15).

According to Camagni (2008), in the long term, supply-oriented approaches have outperformed strictly demand-oriented ones, of a Keynesian nature, in the interpretation of regional development processes. Due to interregional integration and ever-increasing international division of labour, regional internal demand is not relevant. Some industries that were considered to be slow-growing ones (such as textiles, shipbuilding or car production) contributed to the emergence of regional/national success stories. These are for example Tuscany, Korea or Japan, areas that could acquire rapidly-increasing shares of an even stagnant international market. Today, a more selective pattern of regional growth is emerging, differentiating among the development paths of single regions and produces a varied mosaic of development stories. Camagni argues that more stringent and selective interpretations of the different regional development paths are necessary.

### **The three waves of LED**

It is important to distinguish two types of local initiatives, the local employment and the local economic initiatives. The scope of the latter is much broader and they focus on the whole of the local economy.

Since the 1960s, LED has passed through three broad stages or 'waves' of development. In each of these waves LED practitioners have developed a better understanding of successful and unsuccessful programs. Today LED is in its 'third wave'.

Although LED has moved through each of these waves, elements of each wave are still practiced today. The following table summarizes the three waves of LED on the basis of the European process:

<b>Three Waves of Local Economic Development</b>		
<b>Wave</b>	<b>Focus</b>	<b>Tools</b>
<p><b>First:</b> <b>1960s to early 1980s</b></p>	<p>During the first wave the focus was on the attraction of:</p> <ul style="list-style-type: none"> <li>▪ mobile manufacturing investment, attracting outside investment, especially the attraction of foreign direct investment;</li> <li>▪ hard infrastructure investments.</li> </ul>	<p>To achieve this cities used:</p> <ul style="list-style-type: none"> <li>▪ massive grants;</li> <li>▪ subsidized loans usually aimed at inward investing manufacturers;</li> <li>▪ tax breaks;</li> <li>▪ subsidized hard infrastructure investment;</li> <li>▪ expensive "low road" industrial recruitment techniques.</li> </ul>
<p><b>Second:</b> <b>1980s to mid 1990s</b></p>	<p>During the second wave the focus moved towards:</p> <ul style="list-style-type: none"> <li>▪ the retention and growing of existing local businesses;</li> <li>▪ still with an emphasis on inward investment attraction, but usually this was becoming more targeted to specific sectors or from certain geographic areas.</li> </ul>	<p>To achieve this cities provided:</p> <ul style="list-style-type: none"> <li>▪ direct payments to individual businesses;</li> <li>▪ business incubators/workspace;</li> <li>▪ advice and training for small- and medium-sized firms;</li> <li>▪ technical support;</li> <li>▪ business start-up support;</li> <li>▪ some hard and soft infrastructure investment.</li> </ul>
<p><b>Third :</b> <b>Late 1990s onwards</b></p>	<p>The focus then shifted from individual direct firm financial transfers to making the entire business environment more conducive to business.</p> <p>During this third (and current) wave of LED, more focus is placed on:</p> <ul style="list-style-type: none"> <li>▪ soft infrastructure investments;</li> <li>▪ public/private partnerships;</li> <li>▪ networking and the leveraging of private sector investments for the public good;</li> <li>▪ highly targeted inward investment attraction to add to the competitive advantages of local areas.</li> </ul>	<p>To achieve this cities are:</p> <ul style="list-style-type: none"> <li>▪ developing a holistic strategy aimed at growing local firms;</li> <li>▪ providing a competitive local investment climate;</li> <li>▪ supporting and encouraging networking and collaboration;</li> <li>▪ encouraging the development of business clusters;</li> <li>▪ encouraging workforce development and education;</li> <li>▪ closely targeting inward investment to support cluster growth;</li> <li>▪ supporting quality of life improvements.</li> </ul>

Regarding the US, similar waves can be identified as follows:

<b>Three Waves of Local Economic Development</b>		
<b>Wave</b>	<b>Focus</b>	<b>Tools</b>
<b>First:</b> <b>1930s – 1970s</b>	<p>During the first wave the focus was on simple business attraction, competing states and localities</p> <ul style="list-style-type: none"> <li>▪</li> </ul>	<p>To achieve this cities used:</p> <ul style="list-style-type: none"> <li>▪ jurisdiction;</li> <li>▪ tax incentives, direct loans</li> </ul> <p>It was called smokestack chasing (in the era of traditional manufacturing, with the shift to high-tech manufacturing, this strategy is called chip chasing).</p>
<b>Second:</b> <b>early 1980s to mid 1990s</b>	<p>During the second wave the focus moved from attraction towards:</p> <ul style="list-style-type: none"> <li>▪ retention and</li> <li>▪ expansion of existing firms and</li> <li>▪ creation of new ones.</li> </ul>	<p>To achieve this cities provided:</p> <ul style="list-style-type: none"> <li>▪ more indirect incentives;</li> <li>▪ business incubation, microenterprise development, venture capital forums;</li> <li>▪ technical assistance.</li> </ul>
<b>Third :</b> <b>Late 1990s onwards</b>	<p>The focus then shifted from individual direct firm financial transfers to</p> <ul style="list-style-type: none"> <li>▪ industrial clusters and</li> <li>▪ other forms of networking</li> <li>▪ business environment.</li> </ul>	<p>To achieve this cities are:</p> <ul style="list-style-type: none"> <li>▪ building public-private partnerships;</li> <li>▪ human-capital building, and</li> <li>▪ strategic planning.</li> </ul>

Some characteristics of the current (third) wave are:

- Strategic planning, integrated & holistic
- Business friendly red tape reduction
- Horizontal and vertical partnerships to achieve economic competitiveness (Government layers)
- Public/private partnerships (PPPs)
- City networks that leverage effort
- Grow your own jobs rather than import jobs
- Whole business environment counts, not individual firms

The focus shifts do not mean that attraction and retention can substitute each other. The best strategies and organisations use all of these approaches together. Current attraction practices are more commonly in line with the third-wave features. Most incentives are used either as a marketing mechanism towards firms considering (re)location or re-shoring, or as a tool for completing a deal, or a few deals, already under negotiation.

**Connections with other disciplines**

Local Economic Development is an integrated discipline and as such should compliment and contribute to other local and regional planning processes. Greater coordination of LED activities will lead to a more effective local business enabling environment and one that is conducive to private sector growth and development. Greater complementarity between the LED strategic planning process and other planning processes will ensure that individuals, communities, small business and larger scale enterprises do not have to deal with conflicting and contradictory interests and duplicitous rules and regulations.

Successful sustainable communities are those that are able to balance the competing needs of all local strategies. It is important that practitioners in municipal government balance the economic development needs of an area with its social, community and environmental needs. Local government plans that should influence, and be influenced by, the local economic development agenda potentially include.

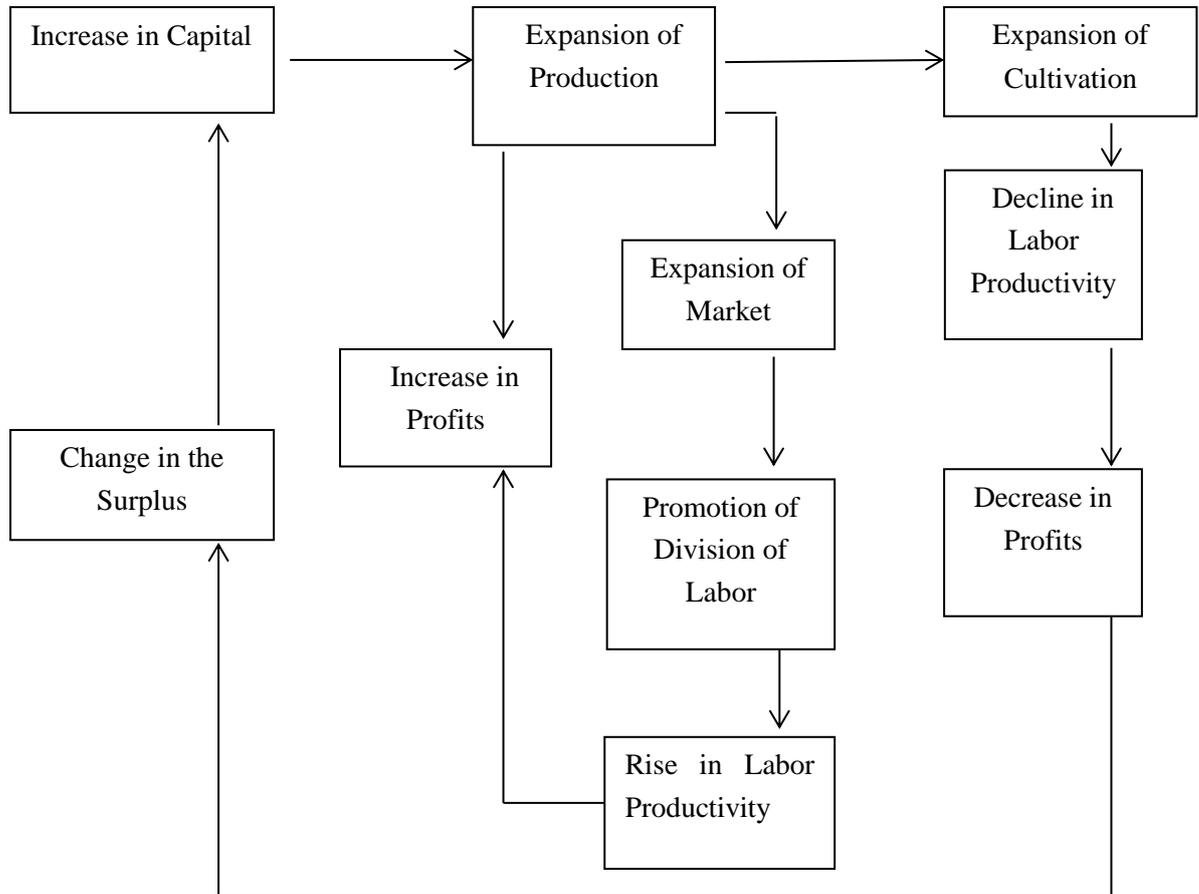
▪ City strategic plan;
▪ Planning, zoning, resource management and land use development strategies;
▪ Transportation strategies;
▪ Leisure and recreation strategies;
▪ Housing strategies;
▪ Anti-poverty strategies;
▪ Education and training strategies;
▪ Crime and public safety strategies;
▪ Environmental strategies and Agenda 21;
▪ Waste disposal and pollution control strategies.

The national government has a key role to play in stimulating an environment within which local communities can practice local economic development. In addition to looking at the relationships that LED has with other local plans, there is a need to look beyond the local area to other national and regional plans, rules and regulations that will impact upon the local economic agenda. These will include national and/or provincial laws and policies, for example

▪ Telecommunications deregulation;
▪ Financial regulations;
▪ Environmental standards;
▪ Taxation;
▪ Land and property laws;
▪ National government infrastructure investment plans.

Source: <http://www.worldbank.org/urban/local/toolkit/pages/link-processes.htm>

The classical economic growth processes are shown in Figure 9.



**Figure 9: Classical Economic Growth Process**

Source: Malizia and Feser (1999) p. 128.

## Summary

In the second chapter we justified the importance of LED and gave a thorough historical overview of the economic thought through centuries to the latest concepts. Some examples and application areas have already been mentioned that will be further detailed in the next chapters. We presented the most important economic development models and identified their major characteristics. The waves of LED have been introduced from the European and the US perspective also and the connections of LED with other principles were also highlighted. The definition and aspects of territorial competitiveness and territorial capital were also detailed. The chart presenting the classical economic growth process will be a perfect starting point to the next chapters examining the aspects and tools of LED.

## Questions

Why is LED important in your opinion?

How would you summarise and differentiate the different economic development models?

What are the basic characteristics of these models?

What are the waves of LED in the EU and in the US, and what are the differences and similarities in the processes?

How would you explain the main differences between the different waves with specific examples?

Can you list some disciplines that are in connection to LED?

How would you define territorial competitiveness and territorial capital?

How the classical economic growth process look like?

## Chapter 3: The aspects of LED

There are many aspect of local economic development that must be considered when creating a development plan. This chapter will deal with some of the most important ones to give an insight about opportunities and the threats.

### Human resources

The importance of employment is unquestionable. Job creation is one of the universal answers to any economic problems countries and regions may face. The main reasons behind this are the following: if the employment rates are high,

- people will earn salary to buy products,
- purchasing products contributes to economic growth (since firms gain revenues after the products sold),
- by growing rates of sold products, companies can employ more people (so basically, the process generates itself),
- during the process the value added tax, the taxes paid by companies and the income taxes rise as well,
- also, governments can cut budget spending if unemployment rates are low.

Important factors of employment processes are the quality and quantity of human resource. Human resource is all the people in a certain area who are able and willing to work, and who possess skills to be utilised. Also, it is one of the factors of productions, which are needed for economic activities.

Human resource management is an important issue for enterprises and local communities. Generally, in human resource management there is a strong relationship between human resource practices and firms' performance. However, the biggest impact of the HR strategy on financial performance will not be direct and immediate (APEC, 2014).

At the organisational level, while human resource development practices vary from organisations to organisations and there is no one system that best meets the needs of all organisations. It is vital for organisations regardless of size to implement some level and extent of human resource development. It would comprise a system that attracts, develops, motivates and retains employees to ensure the survival of the organisation and its members. Human resource development practices establish the tone and conditions of employer-employee relationship. In turn, this relationship can encourage or discourage employees to become more innovative and productive (APEC, 2014).

According to the United Nations (n.d.), human resources development is the core of economic, social and environmental development. And it is also a vital component for expanding opportunities to all people, especially the most vulnerable groups and individuals in society, since it boosts the contributory capacities that they can bring to the improvement of their own quality of life and that of their families, communities, enterprises and societies (United Nations, n.d.).

Human resources development has shifted over time from focusing on only individual capacity to also building institutional capacity at the national level with the help of socio-economic policies and development plan and strategies. Therefore, human resources development nowadays deals with human capacities on a higher level (United Nations, n.d.), due to fact that human resource is a vital basis of a country's or community's economy. For this very reason, HRD strategies must be parts of any development strategies.

As written on the United Nations' website (n.d.): "A comprehensive, cross-sectoral and integrated human resources development approach that is sensitive to gender considerations and attuned to specific needs of vulnerable population should be adopted, incorporating multiple vital areas, such as population, health, nutrition, water, sanitation, housing, communications, education and training, science and technology, and employment. Conscious efforts should be made not to confine these dimensions of human resources development in separate ministries. Human resources development also has respect for fundamental human rights, the rights of workers, and occupational safety and health considerations."

The statement above shows that, besides economic goals, social factors should be considered as well. A socially sensitive central or local government can create strategies which are not only economically and environmentally sustainable, but socially as well. The last factor is vital for the legitimation of strategies and for the increase of general livelihood of the population, since every LED or other development strategies ultimately aim to improve well-being for people.

## **Rural development**

There are certain differences of development levels in almost every country of the world. Usually, more urbanised areas are more developed and endowed with services, infrastructure and job opportunities, while less developed areas lack these elements. The lacking areas are usually rural areas, peripheries, relatively far from the centres.

In the OECD countries, rural areas account for three-quarters of the land and are home to a quarter of the population. These areas are different from urban areas in many ways, so the quick changes of the global economy have different changes in types and rates compared to the urban areas. Thanks the gradual technical improvement however, such as the increasing accessibility to communication systems (e.g. the development of internet) creates more opportunity for rural areas, while cheaper transport and increased leisure time make it easier

for farms to expand into non-farming activities. The changes resulted a shift in government attitude to new directions, essentially to focus on trying to halt a decline, to concentrate more on seizing new opportunities. Some of these opportunities are linked to agriculture, but most will be in non-agricultural activities (OECD, 2006)

The role of agriculture is still important role in many OECD countries, but its weight in rural economies is often low and declining. Productivity increases in recent decades have driven a dramatic decline in agricultural employment across OECD countries. And even taking into account the considerable increase in productivity, agriculture's share of gross value added for the economy remains low (OECD, 2006).

There are certain problems related to employment and productivity, however, agriculture continues to have an important influence on the rural economy. Agriculture, and particularly productive agriculture, can be a major purchaser of local inputs, not only farm-related but also business services, besides providing outputs for local processing and manufacturing. Farms and farm households are also local consumers, so they contribute to the local demand for products as well (OECD, 2006)

In different areas of the world there are different policies for the rural areas. This book will focus mainly on the rural development policy of the European Union (EU).

Rural areas are numerous in the EU. The new, harmonised definition of cities and rural areas (Directorate-General For Regional and Urban Policy, 2014) points out that there are large metropolitan areas with networks of cities in the EU, but there rural areas in much larger quantities (Figure 10.).

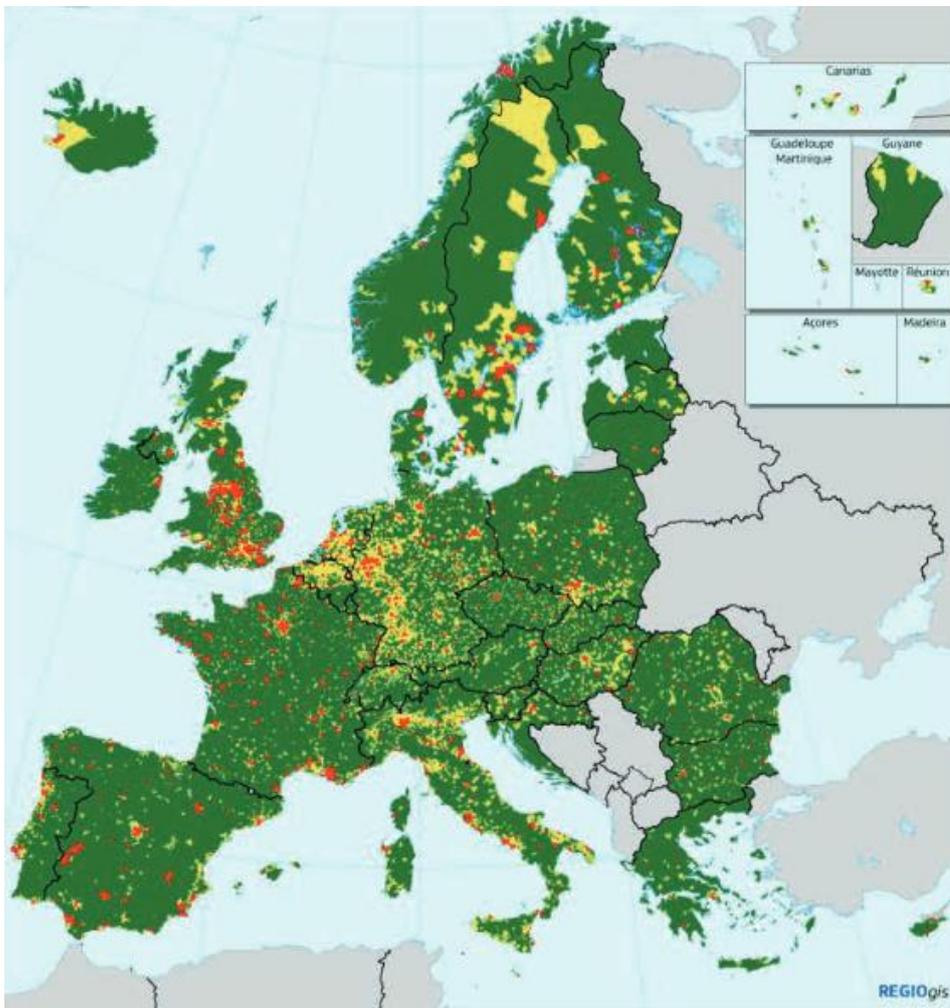
Therefore, we can assume that rural development policies and strategies are still needed. But the role of rural development was not always this important in the European Union.

In the EU rural development gained more focus only in the last 25 years – previously, rural development was not much more than a secondary field of agricultural development. Originally it was completely logical, since agricultural work and processes take place mainly in rural areas; therefore, in order to improve the quality of life and the income levels of the people of those areas it looked obvious to concentrate on agriculture through the Common Agricultural Policy. There was another reason for the agriculture to become a major field in the European Union: the fear of starvation. It is worth mentioning that the Common Agricultural Policy was introduced in 1962, when the memories of World War 2 were relatively fresh.

Therefore, in the first stage of the policy (Figure 11.) the emphasis was on price support, productivity improvement and market stabilisation, but later, instead of simply improving food security, the policy started to put more focus on competitiveness, then sustainability and cohesion, and as a result of the CAP reform in 2003, the policy efficiency.

Throughout the second half of the 20<sup>th</sup> century huge structural changes were brought about (or happened spontaneously) in the EU member states; the role of agricultural production decreased compared to other sectors (industry, and especially compared to the tertiary sector, which grew in an enormous rate since the 1960s). This and many other

problems (environmental, economic and social ones) led the European Union to improve the help provided to the rural areas.



**Figure 10: New degree of urbanisation**

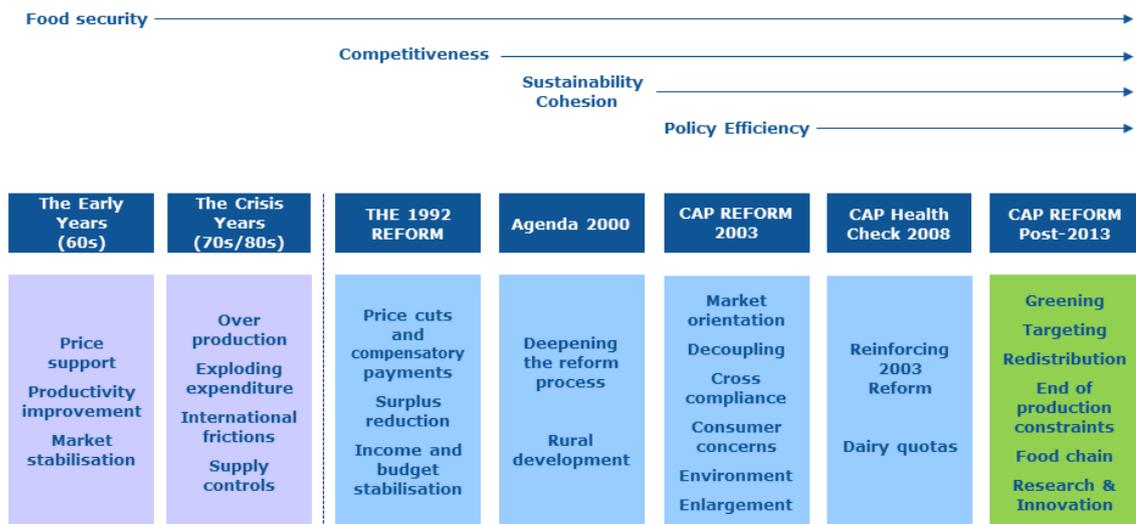
Source: Directorate-General For Regional and Urban Policy, 2014

Among other documents, The Cork Declaration (European Commission, 1996) was one of the most prominent ones. The declaration announced 10 main points, which included the following principals:

- Sustainable rural development, concentrating on out-migration, poverty, employment, equality of opportunity, well-being. Besides social and economic factors, the declaration highlighted the importance of preserving the rural environment and the balanced utilisation of resources.
- Integrated approach, embracing a multi-disciplinary and multi-sectoral approach, with clear territorial dimension, encompassing within the same legal and policy framework

- Diversification of social and economic activities to promote viable rural communities and the renewal of villages.
- Sustainability, being aware of global responsibilities and the environmental heritage we leave for the future generations.
- Subsidiarity, because partnership and co-operation between all levels is needed due to the diversity of characteristics, endowments and needs of the different EU regions (European Commission, 1996).

## Historical development of the CAP (1962 →)



**Figure 11: Historical development of the CAP**

Source: European Commission, 2015/A

The reason why these principals are highlighted in this paper is that they are very closely related to the local economic development principals (even though local economic development can be carried out not only in rural areas).

Local economic development must naturally be socially, economically and environmentally sustainable, since its main objective is the long-term improvement of well-being, to which sustainability is essential. It also has to be handled in a way that the diverse potentials and opportunities of the local areas are addressed, because they do have manifold values. Finally, the very principal of subsidiarity is probably the most important element of LED strategies, because local actors must be motivated and supported in their efforts to make decisions about the areas they are active in.

The next greatly influential document was the AGENDA 2000, which effectively made agriculture the second pillar of Common Agricultural Policy (European Commission, 1997).

The document initiated a process through which rural development gained more and more emphasis within the CAP. By 2014 (for the 2014-2020 planning period) there are three **long-term strategic objectives** for EU rural development policy (European Commission, 2015/B):

fostering the competitiveness of agriculture;  
ensuring the sustainable management of natural resources, and climate action; and  
achieving a balanced territorial development of rural economies and communities including the creation and maintenance of employment.

Also, the Rural Development Programmes of the Member States will have to be in accordance with **six common EU priorities**:

- fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
- enhancing the viability / competitiveness of all types of agriculture, and promoting innovative farm technologies and sustainable forest management;
- promoting food chain organisation, animal welfare and risk management in agriculture;
- restoring, preserving and enhancing ecosystems related to agriculture and forestry;
- promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors;
- promoting social inclusion, poverty reduction and economic development in rural areas (European Commission, 2015/B).

The elements of the 2014-2020 rural development show many changes since the time the AGENDA 2000 was created. There is much more emphasis on rural innovation and social inclusion. It is not surprising that these are among the primary aspects of LED as well, since local areas can generate innovations if their potentials are used well; on the other hand, social inclusion is still an issue to be tackled on local levels.

Rural development and LED not always, but usually go together. The reason behind this is can be that rural areas often need improvement in employment and services, which they cannot always solve with orthodox economic development strategic. However, LED – focusing on the unique aspects, competences, and potentials of the certain levels – may help these areas by revealing new opportunities.

## **Infrastructure**

The importance of infrastructure was not discovered recently, but a long time ago. The famous roads or viaducts of the Roman Empire, the artificial channels built by the ancient

Egyptians or the fine Greek or Phoenician transport ships in their respective ages lead us to think that peoples found out really early on how important it is to have a good, well-maintained infrastructure, which is the basis of economy and social activities.

The definition of infrastructure, however, is not very old. First it was used in the Napoleon-wars in the 19th century and it was related to army supplies and needs. There is some reference to infrastructure during the Second World War in military strategy books, where the definition was made up by all the objects and facilities which determine the passing by ability of a region, as well as the potential for providing supplies (Kerekes et al, 2007). Later, sometime after that time period the word 'infrastructure' became more and more common in the economics as well and the reason for that can be found in the exact translation of the word.

Infrastructure is a Latin word, which means „basic structure“. The expression 'infrastructure' can usually be easily understood and has not changed much related to the economy throughout the past one hundred years. The definitions can be different based on different schools and researchers; however, there are many common points. According to the approach of Hirschmann (1958) infrastructure contains all the basic services without which the primary, secondary and tertiary production activities could not function. The approach of Király (1979) is basically very similar, however, in his opinion infrastructure is not only the basis of production activities, but it provides community services as well through certain facilities and organisations. Also, in his view infrastructure is also considered to be the potential which can provide community services on a long term. The opinion of Kőszegfalvi (1976) about the topic was slightly different; he did not consider infrastructure elements only separate parts, but also networks, which have social and technical purposes as well. His approach is closer to Király's, since he believed that these networks provide community services (in which it is different to some extent from the definition of Hirschmann). Later Kőszegfalvi writes in another publication with Sikos T. (1993) that, in a wider approach, except for the land, every factor (and their technical characteristics) can be considered to be infrastructure which is related to the activities, work and life of people, while in more limited approach, the supplement of settlements and some sectors of the services for the population can be considered infrastructure. In the latter approach the emphasis on the technical view remains, but in my opinion the two authors did not consider significant importance to the „placing“ of infrastructure among the factors of socio-economy, therefore, the concept did not necessarily appear as a basis.

There was a definition which is connected mostly to one branch of the economy: tourism. Jancsik (2007) wrote that infrastructure means a basis which does not only determine the options of touristic development, but their directions, efficiency and volume as well.

The definition of Abonyiné Palotás (2007) is a summarising type; it combines many elements of different definitions from the past. Thus, in her opinion, infrastructure consists of networks or from certain objects, facilities, equipment and knowledge, and these elements are necessary for the economical operations. In his view it is not about only the basic operation of

the economy, but infrastructure is a determinant of growth, sustainable competitiveness and welfare.

In 2007 Káposzta et al formed a similar approach. In their opinions, infrastructure is a highly important factor of regional development. In their view the definition is not much different from the one Abonyiné Palotás wrote about. As such, they said the definition contains a very wide range of resource-system; transportation networks, vehicles, telecommunication, energy supply systems, business services, as well as the supply system of housing areas such as water and sewer systems, educational institution systems, public services, healthcare systems, environment-protection and sport facilities are also parts of it. In their definition infrastructure is made up by two subclasses: production (technical) and social infrastructure. The former provides a background for the operation of economic organisations, while the latter contains the elements which provide services for the population. They also points out that the two subclasses are not separated from each other since certain parts provide services to both the population and the business sector.

One example is transport infrastructure: while it is part of the production infrastructure when the product are being transported to market, or the input materials are being transported to the production plant, it can also be used by the population when they are on a trip to visit a touristic attraction for example, or to provide the means for students to reach their schools, as written by Káposzta et al (2007).

As seen above, infrastructure influences economic activities, but it has a certain effect on the social development as well. Aschauer (1990) thought that some of the improvement of the quality of life and to economic performance might arise from increased infrastructure investment. Numerous past infrastructure investments have been responsible for significant improvements in the overall quality of life in terms of health, safety, economic opportunity, and leisure time and activities. His point is very similar to a study published in 1988 by the National Council on Public Works Improvement of the USA, which said that the quality of a nation's infrastructure is a critical index of its economic vitality. Reliable transportation, clean water, and safe deposit of wastes are basic elements of a civilized society and a productive economy. Their absence or failure introduces a major obstacle to growth and competitiveness. However, maintaining infrastructure can prove to be very costly. Tóth (2002) wrote that the development level of infrastructure can be very different even in one country, and improving the quality of infrastructure takes significant time and costs. This is more emphasised by his statement that the developed capitalist countries' rate of infrastructure investments among all investments can reach 50-60%, which is exceptionally high in my opinion, but perfectly understandable if we consider the potential benefits of such investments.

Infrastructure has many types, forms, as seen above in the respective definitions. Infrastructure can be the elements of telecommunication, the house stock, the human resource (as human infrastructure) or the elements of transport.

## Sustainability

Sustainability is not a relatively new concept, however, it gained special focus only in the second half of the 20<sup>th</sup> century. One of the most influential studies on the topics was the Limits of Growth by Meadows et al (1972). In the introduction part the authors quote U Thant, the Secretary-General of the United Nations between 1961 and 1971. The quotation was this: “I do not wish to seem overdramatic, but I can only conclude from the Information that is available to me as Secretary-General, that the Members of the United Nations have perhaps ten years left in which to subordinate their ancient quarrels and launch a global partnership to curb the arms race, to improve the human environment, to defuse the population explosion, and to supply the required momentum to development efforts. If such a global partnership is not forged within the next decade, then I very much fear that the problems I have mentioned will have reached such staggering proportions that they will be beyond our capacity to control.,,

The quotation above pictured a very grim future, and it is questionable if the situation has changed in better ways since then, or worse. In Limits of Growth (1972) there were three main conclusions:

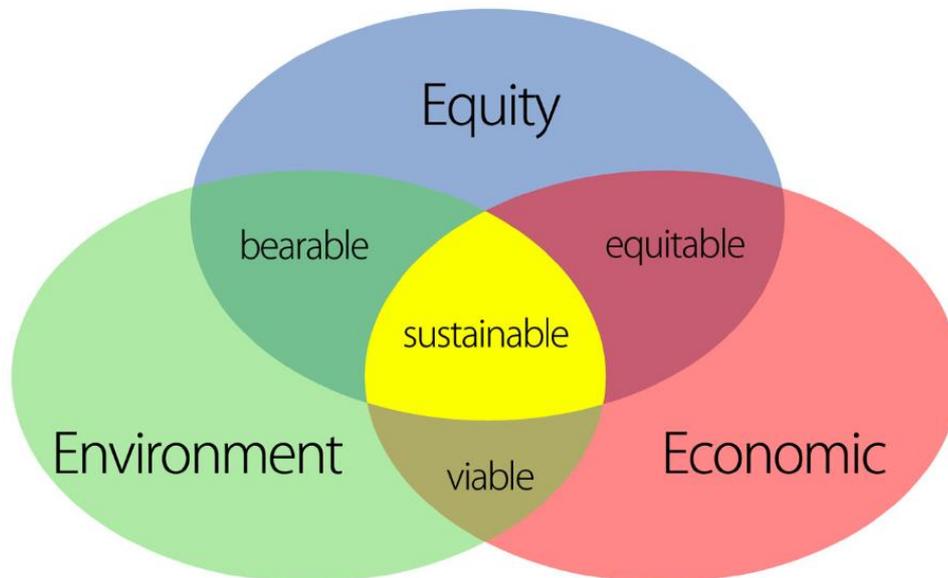
1. Judging by the growth trends in world population, industrialization, pollution, food production, and resource depletion in the 1970s, the planet will reach the limits to growth approximately at the beginning of the second half of the 21<sup>st</sup> century. According to the authors, the trends would eventually result in a sudden decline in both population and industrial capacity.

2. On the other hand, the trends of that time seemed to be alterable (i.e. to reach economic and ecological sustainability), but only if the need for a global equilibrium (in which the basic material needs of each person on earth are satisfied and each person has an equal opportunity to realize his individual human potential) would be supported.

3. The authors pointed out that time is of the essence if the world's people decide to strive for this second out-come, which means strategies, policies and programmes should be created as soon as possible.

The definition of sustainable development has changed a lot over the decades since the 1970s. The Brundtland Report (1987) defined sustainable as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. Adams (2006) states that the abovementioned definition was vague, but it could capture two fundamental issues (causing a certain paradox when being mentioned together): the problem of the environmental degradation and economic growth (the two usually go together, and yet economic growth is needed to alleviate poverty). According to Adams

(2006): “The core of mainstream sustainability thinking has become the idea of three dimensions, environmental, social and economic sustainability. These have been drawn in a variety of ways, as ‘pillars’, as concentric circles, or as interlocking circles.” Such circles were drawn up by, for example, the U.S. Environmental Policy Agency (Figure 12).



**Figure 12: The dimensions of sustainability**

Source: U.S. Environmental Policy Agency, 2009

The author argues that public awareness of environmental and social issues in development are in many cases now well developed. It means that the population in the majority of countries know about environmental issues and they also feel the need to preserve it. Besides individuals, companies are also becoming greener, due to the fact that being environmentally friendly is, despite being costly, can generate new benefits through innovation, and through their social responsibility programmes they may gain competitive advantages. Adams (2006) states: “The ‘greening’ of business has grown to be a central issue in corporate social responsibility for many global companies, although for many it is still a boutique concern within wider relationship management, rather than something that drives structural change in the nature or scale of core business. There is a profound paradox here. On the one hand, the twenty-first century is widely heralded as the era of sustainability, with a rainbow alliance of government, civil society and business devising novel strategies for increasing human welfare within planetary limits.”

He also argues that, even though there are positive trends in the world related to sustainability, the changes are too slow, and there is still less focus on the topic than it should be. He emphasises that environmental and social problems are strongly related to each other (Adams, 2006).

Sustainability is a global and increasingly important issue. Virtually, it affects everyone through issues such as climate change, overfishing, desertification, and other environmental problems which are possible causes of many social and economic issues as well.

On a global level it is the responsibility of governments, international organisations and multinational companies true try and solve the problems. Does it mean that lower levels, such as local communities cannot contribute to changes?

Naturally, every level can do their share to achieve sustainability. Among others, the U.S. Environmental Policy Agency (2009) names some technics with which local communities can improve their practices by the following ways:

- a range of housing choices and price-points based around compact, walkable neighbourhoods
- mixed land use in the form of combined retail and residential development
- community and stakeholder collaboration in development decisions
- preservation of open space, farmland, natural beauty and critical environmental areas
- appropriate remediation and redevelopment of brownfields
- formal parks and plazas in proximity to residential areas
- upgrade and expansion of public transportation services such as bus rapid transit, trolleys, ferries, trains and light rail
- incentives to use public transportation by providing park and ride spaces
- promotion of car sharing services such as providing on-street parking for car sharing businesses in your community
- creation or upgrade of bike lanes and paths, sidewalks and walking paths to encourage non-motorized transportation
- improve information on how to recycle properly and create incentives for recycling programs in your community
- provide opportunities for second life or reuse of soft used items, such as a materials and waste exchange
- buying products that are longer lasting or recyclable, contain less packaging materials, and are less harmful to the environment is a proactive step to reducing your municipal solid waste.
- implement or expand a compost program. Organize short-term seasonal events specifically for grass clippings, fallen leaves or Christmas trees. Later, transition to a long-term municipal-run food waste program for residents, farmer's markets, local restaurants/businesses or schools and hospitals
- conducting an energy audit of city buildings to identify the most cost-effective projects. Utilities and energy service providers often offer them
- supporting energy efficiency upgrades by local industry to Improve the efficiency of appliances; heating, ventilation and air conditioning systems; and industrial process equipment.

Generally, it must be emphasised that sustainability is the interest of every people on the earth, no matter which level we observe, because every socio-economic or environmental process are interrelated to each other. Therefore, although dealing with sustainability is a complex and difficult issue, even the local levels can contribute much to the global changes.

### **Equal opportunities, inclusive societies**

Social inclusion is a timely issue, due to the fact that, similarly to sustainability, it is still a problem to be solved – it is not a surprise knowing that one of the main three dimensions of sustainability is the social one.

We can observe social problems as economic problems, but there must always be an ethical approach acknowledging the fact that social inclusion is humanitarian task; it does not necessarily bring more revenue to companies or have a direct impact on individual life of those taking the task of helping excluded people; however, it carries moral values and strengthens societies by raising awareness of such people and the ways they must be supported.

According to The World Bank (n.d./B), social inclusion is the process of improving the terms for individuals and groups to take part in society. It aims to empower poor and marginalized people to take advantage of global opportunities. It ensures that people have a voice in decisions which affect their lives and that they enjoy equal access to markets, services and political, social and physical spaces – in short, every people should be able to enjoy the same privileges and opportunities.

“While the state cannot be the sole driver, it can play an important catalytic role to accelerate the process of institutional and social change toward a more inclusive society—processes that, left to their own, can at times be too slow and resistant to change. The implicit social contract of the state with its citizens provides the state with important tools—legal, institutional, and economic—to play such a catalytic role, guided by the objective of reducing imbalances in voice and power between different groups. A social contract that is based on the principle of better and equal opportunities for all citizens promotes social inclusion as well. A society that promotes equal opportunities, and is perceived by its citizens to be doing so, is more likely to be able to achieve the stability and cohesiveness needed to generate a sustainable development path.” The World Bank (n.d./B)

There are several indices to measure social factors and process. One of them is the Social Institutions and Gender Index (SIGI). The SIGI is a “cross-country measure of discrimination against women in social institutions (formal and informal laws, social norms, and practices) across 160 countries. Discriminatory social institutions intersect across all stages of girls’ and women’s life, restricting their access to justice, rights and empowerment opportunities and undermining their agency and decision-making authority over their life choices. As underlying drivers of gender inequalities, discriminatory social institutions perpetuate gender gaps in development areas, such as education, employment and health, and

hinder progress towards rights-based social transformation that benefits both women and men.” (OECD, n.d./B)

„The SIGI covers five dimensions of discriminatory social institutions, spanning major socio-economic areas that affect women’s lives: discriminatory family code, restricted physical integrity, son bias, restricted resources and assets, and restricted civil liberties. The SIGI’s variables quantify discriminatory social institutions such as unequal inheritance rights, early marriage, violence against women, and unequal land and property rights. Through its 160 country profiles, country classifications and unique database, the SIGI provides a strong evidence base to more effectively address the discriminatory social institutions that hold back progress on gender equality and women’s empowerment.” (OECD, n.d./B)

Another very useful methodology is implemented by the Indices of Social Development (ISD). The ISD is hosted by the International Institute of Social Studies (ISS). It consists of 200 indicators to track how different societies perform along six dimensions of social development. The six dimensions (ISS, n.d.) are the following:

- Civic Activism, measuring use of media and protest behaviour
- Clubs and Associations, defined as membership in local voluntary associations
- Intergroup Cohesion, which measures ethnic and sectarian tensions, and discrimination
- Interpersonal Safety and Trust, focusing on perceptions and incidences of crime and personal transgressions
- Gender Equality, reflecting gender discrimination in home, work and public life.
- Inclusion of Minorities, measures levels of discrimination against vulnerable groups such as indigenous peoples, migrants, refugees, or lower caste groups.

The indices consist of 25 reputable data sources for 193 countries, over the period from 1990 to 2010, and are updated as new data become available (ISS, n.d.)

As The World Bank (n.d./B) states: „poverty alone is not a comprehensive marker of deprivation. Race, ethnicity, gender, religion, place of residence, disability status, age, HIV/AIDS status, sexual orientation or other stigmatized markers, confer disadvantage that excludes people from a range of processes and opportunities.”

This statement is a powerful message to all policy-makers – the essence of social inclusion, although it has to be measured by objective indices, cannot be translated easily to computer language and it must not be only a motto without real actions. Among others countries and communities, the European Union initiated many programmes to foster social inclusion.

One such programme is the Social Investment Package (European Commission, 2014), through which the Commission provides guidance to Member States to modernise their welfare systems towards social investment throughout life.

The package contains:

- the Employment Package, which sets out the way forward for a job rich recovery,
- the White Paper on Pensions, presenting a strategy for adequate, sustainable and safe pensions,
- the Youth Employment Package, which deals specifically with the situation of young people (European Commission, 2014).

According to the European Commission (2014), „social investment is about investing in people. It means policies designed to strengthen people’s skills and capacities and support them to participate fully in employment and social life. Key policy areas include education, quality childcare, healthcare, training, job-search assistance and rehabilitation.”

As it should be, there are many beneficiaries of the Social Investment Package:

- **Children and young people** – early support to break the inter-generational transmission of disadvantage and address the severe youth unemployment problem
- **Jobseekers** – integrated and more accessible support for finding work, such as skills development
- **Women** – more equal opportunities, better access to the labour market and thus better social protection, notably in retirement
- **Older people** – more opportunities for active participation in society and the economy
- **Disabled people** – support for independent living and adapted workplaces
- **Homeless people** – help with reintegration into society and work
- **Employers** – a larger, healthier and more skilled workforce
- **Our societies** – higher productivity, higher employment, better health and social inclusion, more prosperity and a better life for all (European Commission, 2014).

The implementation of programmes depends on national governments. Therefore, to be successful, just as ordinary EU citizens, policy-makers need great social sensitiveness, because this is an issue which is in the interest of not only excluded people, but of the whole society.

## **Place branding**

Place branding is a relatively new concept in marketing, and it is a great tool for regional development, if done right. The concept of place branding was first used by Kotler (1993) to identify symbols and signs helping regions in competitions. According to Nagy Molnár (2014), the objective of the brand is to differentiate products from others and to make

it easier to identify them for the customers, and through branding regions can also identify and strengthen their image elements and competitive advantages. There are many methods for branding:

- The classic way of using the geographic name (of the place) as the brand name. It is typical, for example, in the case of wine regions.
- Branding can be connected to awards and titles, for example, in the case of the UNESCO sites.
- A brand can be built upon attractions as well. In this case the brand name very much depends on the type and the of the attraction.

Nagy Molnár (2014) compiled the main steps of place branding. According to her, the first step is to find the particular elements upon which the brand will be built up. These elements can be similar to others (therefore, they are not entirely new and can be found in other destinations as well), and different from others (this way the local product becomes more unique). In the first case the task of the local management might be easier, since it does not have to come up with absolutely new innovations, and this way they can decrease the effects of the other competitors utilising the same element. But in the case of the usage of different elements the brand may become more identifiable. It is important to note that regions usually do not use only one of these types, but both of them; however, no matter what sort of elements the managements intends to build their strategy upon, it is vital to make sure that the particular elements are desirable for the consumers (and for the local people). Therefore, a thorough research is required about the **internal image**.

The second step (Nagy Molnár, 2014) is the **external image research**, in which the external influencing factors must be defined in order calculate, and if necessary, counter them. For instance, there is often a so-called shadow-effect, which means that other spatial level influence the reputation and performance of the regions.

The third step should be the consideration of appearing in the media (Nagy Molnár, 2014). It is vital to send our positive image to a wide range of potential customers. Television, printed media, radio advertisement, and of course, a variety of internet methods are at the disposal of modern day marketing experts (bound only by the local financial background). However, advertising methods on the internet (social media, video-sharing sites, destination advisor programmes, etc.) are relatively cheap, and they provide a great opportunity to share information about our new/renewing brand.

According to Piskóti (2012) however, there are many possible ways of failing communication of our image. These are called asynchronous problems. Here are some examples:

- Difference between the perception of stakeholders and the real performance,
- Difference between the perception of managers and the real performance,
- Difference between the desirable self-image and the desirable external image,

- Difference between the image designed by the management and the desirable external image,
- Difference between the current self-image and the desirable self-image.

It is always a question that when can we consider a brand efficient/effective/good? Nagy Molnár (2014) states that a brand is good if

- it is connected to the local specialities,
- it helps the quick identification,
- it helps the orientation, so it gives a clear picture about the geographical place and content of the product,
- it is capable of projecting trust and positive messages.

The creation of a brand characterised by the abovementioned elements can bring regions closer to its desired goals.

## Summary

In the chapter “Aspects of LED” we covered the topics of **human resources, rural development, infrastructure, sustainability, social inclusion** and **place branding**. Individually all of these elements are vital to know for an effective local economic development strategy, but learning how they interrelate with each other is what puts all of them in one system.

**Infrastructure and human resource** are among the most important bases of development on any spatial level (beside, for example, other types of capital). They are not the only determining factors, but without them (and without them being in a well-maintained quality) it is impossible to improve a region on the long run, because many problems are related to

infrastructure and human resource, especially in rural areas. Therefore, it is vital to learn what **rural development** is. Rural areas require different “treatment” compared to urban areas, they face different problems and need unique, innovative solutions. They are usually closely related to land and agriculture, but the trends are changing all around the world (albeit in different rate in different regions).

One of the many possible problems for rural areas (and urban areas as well) is social exclusion. The inequality of people according to gender, age, ethnic group or health conditions is a socio-economical problem. **Social inclusion**, similarly to **sustainability**, has an economic side, but more importantly, a moral aspect as well due to the fact that, appreciating the importance of economic processes, taking care of social and environmental problems is part of our humanity, it must be a common responsibility for every people.

Lastly, we covered the topic of **place branding**, which is a specific method for developing a certain region, by which we can improve the attractiveness of a local area.

There are many more aspects of local economic development to be taken into consideration; however, it was the intention of the authors to provide some basic information about vital information about factors determining the success of LED.

## **Questions**

How does human resource development relate to LED?

Describe the importance of human resource development on a local level!

Name 5 types of infrastructure!

In the developed capitalist countries, among all investments, how high the rate of infrastructure investments approximately?

How can we differentiate rural areas from urban ones with quantitative methods?

What are the main elements of rural development in the rural development after 2010?

How did the structure of rural areas change between 1960 and 2010 in Europe and other parts of the world?

How could you describe sustainability? What are its main dimensions?

Which social groups can be considered 'socially excluded'?

What are the steps of place branding?

## Chapter 4: Strategic planning for LED

The methodology presented in this chapter is a five-step planning process developed by The World Bank. Ideally, the development of an LED strategy will be an integral part of a broader strategic planning process for a subnational region, city, town or rural area. The five-step planning process detailed should be tailored to complement, and correspond with, other local planning processes. The process is not prescriptive and should be adapted to meet the needs of the individual community.

### **Stage One: Organizing the Effort**

A community begins the LED strategy planning process by identifying the people, public institutions, businesses, community organizations and other groups with interests in the local economy. This is often led by the local government, usually the mayor or chief executive. The skills and resources that each of these stakeholders bring to the strategy process provide a critical foundation for success. The identification of these individuals and organizations assumes some basic knowledge of the workings of the city economy. A resource audit is a necessary input to the strategy, and should include the identification of financial, human and other capital resources that can contribute to the LED strategy. Working groups and steering committees can be established to ensure that both formal and informal structures are in place to support strategy development and implementation. Other issues that need to be tackled in the early stages include establishing LED staff teams and appropriate political processes. (The World Bank, n. d./C)

### **Partners in LED**

Partnerships in LED may involve:

- different sectors: private, public, voluntary, associational;
- different intervention levels: central, regional, county, micro-regional, local;
- different types of cooperation: informal or formal structures and/or arrangements;
- different participation types: individual (one SME or MNC) or collective (clusters, trade unions, chambers).

Figure 13. represents some potential partners for the LED process.

<i>Public</i>	<i>Business</i>	<i>Non-Governmental</i>
<ul style="list-style-type: none"> <li>▪ Local government including technical departments.</li> <li>▪ District or regional government.</li> <li>▪ Sector boards and authorities: <ul style="list-style-type: none"> <li>– health</li> <li>– education</li> <li>– transport</li> </ul> </li> <li>▪ Zoning board.</li> <li>▪ Institutions of research and higher learning.</li> <li>▪ Utilities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Large corporations.</li> <li>▪ Trade unions.</li> <li>▪ Small-medium and micro-scale entrepreneurs.</li> <li>▪ Land and real estate developers.</li> <li>▪ Banks and other financial groups.</li> <li>▪ Chambers of Commerce.</li> <li>▪ News media.</li> <li>▪ Other business support groups.</li> <li>▪ Professional associations.</li> <li>▪ Private utilities.</li> <li>▪ Private education establishments.</li> <li>▪ Think tanks.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Community leaders.</li> <li>▪ Neighborhood groups.</li> <li>▪ Community service organizations.</li> <li>▪ Local educational institutions.</li> <li>▪ Local religious institutions.</li> <li>▪ Other non-governmental organizations, e.g., groups representing: <ul style="list-style-type: none"> <li>– minorities,</li> <li>– disabled and other disadvantaged populations</li> <li>– environmental issues</li> <li>– cultural, arts and historical interests</li> </ul> </li> </ul>

**Figure 13: Possible partners in LED**

Source: The World Bank, 2006

### **The municipality**

The success of local leaders in creating, retaining and attracting economic opportunities is also determined by the definition of success. Economic developers and decision-makers have to face the reality that they can not control their environments. Communities are also affected by larger trends (such as globalisation) and the fortunes of present-day can rise and fall with the global tendencies and processes.

Municipalities are key agents for local economic development. Municipalities, in many places, are responsible for providing different services and implementing regulations (e.g., zoning regulations) that address a wide range of local economic development needs. In addition to providing physical and other infrastructure, they may facilitate business development, retention and attraction by marketing local products, may offer incentives to support business expansion, providing education and training, supporting small business development, and improving infrastructure maintenance. Municipalities manage a wide variety of regulatory procedures for businesses such as registration, licensing and permitting also. Moreover, municipalities can identify and provide the leadership necessary to organize and build coalitions and partnerships to exchange information among local and regional actors interested in LED. Promoting meetings and seminars, and networking with interested individuals, groups and organizations, are important for knowledge creation and dissemination, and can serve to identify new opportunities for economic growth. LED

strategies at the municipal level are likely to benefit from increased support (financial and political) by working with higher tiers of government as well as across horizontal tiers of government.

### **The industrial actors**

As the private sector and local community are significant beneficiaries of an LED program, it is essential to involve them in the LED strategic planning process. Economy consists of multinational companies (MNCs), small- and medium-sized companies (SMEs), local customers and employees, the individual entrepreneurs, universities and R&D centres, and public bodies, NGOs. We can differentiate three sectors as traded (1), non-traded (2) and resource-dependent. As traded sector, we refer to MNCs, SMEs, and companies producing mainly for markets outside the Region (regional multipliers forming supply networks in the Region). As non-traded sector, we refer to mainly service companies supplying the local/regional market needs, mainly local SMEs. Finally, as resource-dependent sector, we refer to activities organised and dependent on the local values and characteristics, esp. tourism and higher education.

### **Education actors**

Higher education, particularly advanced training in scientific fields, has been linked to impressive advances in economic development, a good example is the role of MIT (Massachusetts Institute of Technology) in local and national economic development in the US. Research institutes, secondary education, international kindergardens can also play significant role in the LED planning and implementation process.

### **Clusters and value chains**

An agglomeration of high-tech development often begins with one pioneer technology firm that creates a center of activity. As predicted by agglomeration theory, industries tend to cluster in the desired area and vast high-tech corridors can occur. High-tech clustering process involves the universities, business incubators, industrial, research and technology parks and the economic actors. Michel E. Porter from Harvard University notes that clusters are geographic concentrations of inter-connected companies. Porter –ez innen törölhető

“Clusters are geographic concentrations of interconnected companies and institutions in a particular field.” (Porter, 1998/b). Clusters consist of multi-directional linkages involving suppliers, distributors, and companies producing complementary and or related products and services. Institutions such as government, universities, and research institutes, etc. also play an important role. Clusters affect competition is three ways: they increase the productivity of the firms, the innovation capacity of firms, and they stimulate new business formation that

supports innovation. Cluster participants are interdependent, so the poor performance of one or some cluster members can undermine the success of others and vica versa.

**The bridge organisations**

Clusters affect competition is three ways: they increase the productivity of the firms, the innovation capacity of firms, and they stimulate new bsiness formation that supports innovation. Cluster participants are interdependent, so the poor performance of one or some cluster members can undermine the success of others and vica versa.

**Step 2: Assessment of the Local Economy**

Each community has a unique set of local attributes that can advance or hinder local economic development. These include its economic structure, its human resource capacity to carry out economic development, and how conducive the local government investment climate is to economic and business activity. The aim of the local economy assessment is to identify the community's strengths and weaknesses including its human resource capacity, local government's 'friendliness' to all types of business activities from corporate to informal, and the opportunities and threats facing the local economy. The goal of the assessment is to create an economic profile of the community that highlights the basis of its comparative and competitive advantage in relation to neighboring communities and other regional, national or international competitors. The SWOT analysis (Table 3.) is an excellent method for assessing local economies.

*Table 3: The basic table for SWOT analysis*

<b>Internal factors</b>	<b>Strengths</b> (local assets) Competitive wage rates, skilled workforce, educational and research institutions, strong transportation network, safe locality, productive existing firms, successful clusters, proximity to raw materials	<b>Weaknesses</b> (obstacles to growth) Worsening poverty, complex regulatory procedures, inadequate infrastructure, limited access to credit, crime, health issues affecting the workforce (e.g., HIV/AIDS)etc.

<b>External factors</b>	<b>Opportunities</b> Technological change, new international trade arrangements, or macroeconomic/political developments expanding markets.	<b>Threats</b> Demographic changes, globalization effects on local key sectors, political and economic risks.
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*Source: Making Local Economic Development Strategies: A Trainer’s Manual*

### **Step 3:        Developing the LED Strategy**

As part of the LED strategy, a shared economic vision for the community and LED goals, objectives, programs, projects and action plans will be developed. This process ensures that all major stakeholder groups are given the opportunity to define what is to be achieved, how it is to be achieved, who will be responsible and the timeframes associated with the implementation of the LED strategy (Table 4.). Most importantly, the LED strategy and action plans must be finely assessed against the staff resource capacity to carry them out, as well as the budgetary constraints. Ultimately, the strategy's action plans should be incorporated into the work and budgetary program of the local authority, and appropriate elements taken on by other stakeholders (business associations, utilities, educational institutions, etc.). The aim is to leverage strengths, overcome weaknesses, exploit opportunities and deal with threats.

*Table 4: The timeframe of LED strategies*

Vision	Describes an agreed stakeholders’ consensus on the preferred economic future of the community.
Goals	Identify up to 6 key priority areas of action to meet the vision and specify the desired outcomes of the local economic planning process.
Objectives	Set the performance standards and targets for development. They are time bound and measurable.
Programs	To achieve goals and objectives, programs define and group together similar projects that collectively achieve particular objectives.
Projects and Action Plans	Provide a detailed project description and implement specific program components. They must be prioritized, costed, time bound and measurable.

*Source: Making Local Economic Development Strategies: A Trainer’s Manual*

#### Step 4: Implementing the LED Strategy

Strategy implementation is driven by the LED action plans. Ongoing monitoring is provided through the formal structures identified and created in step one, and evaluation of specific project outcomes ensures that the strategy continues to lead to the achievement of the LED vision, goals and objectives. In undertaking strategy implementation, it is important to identify and establish the appropriate institutions to carry out the plans (Table 5.).

Table 5: LED strategy implementation is guided by three key documents

LED Strategy	5-10 year timeframe, overall plan, main goals, agenda and challenges.
Implementation Plan	Individual project action plans, budgetary, HR, other inputs and institutional and procedural implications. Mediator between the projects. A financial matrix is also attached with external funding sources.
Individual Project Action Plans	Specific for each project, a hierarchy of tasks, parties, scheduling, HR and financial needs, impacts, outcomes, performance indicators.

*Source:* Making Local Economic Development Strategies: A Trainer's Manual

#### Step 5: Reviewing the LED Strategy

Good monitoring and evaluation techniques help to quantify outcomes, justify expenditures, determine enhancements and adjustments, and develop good practices. This information also feeds into the review of the complete LED strategy. The LED strategy should be reviewed at least annually to ensure that it remains relevant. It may be that conditions have changed or that the initial assessment was incorrect to the local conditions. The LED strategy should evolve continuously to respond to the ever changing competitive environment.

Although an LED strategy is usually written for a 5 to 10 year period, the strategy should be quickly reviewed each year in case it needs to be adjusted in response to dynamic local conditions. It is not set in stone, but a dynamic instrument that should be changed as local conditions change. The review should use established monitoring and evaluation indicators of the local economy and of the resources available for the strategy effort.

The review needs to cover not just inputs, outputs, outcomes (and where possible impact), but the implementation processes themselves including levels of participation. Alongside the review of the entire strategy, systems should be in place to monitor the progress of every project. All these systems **will give decision-makers the tools they need** to adjust the strategy in response to dynamic local conditions.

## Chapter 5: LED in practice – Case Studies

### Practical examples

One of the greatest problems for local areas is that the people responsible for development cannot think about new ways or do not possess enough information about their opportunities and the possible threats.

The lack of information limits the possibilities of local decision-makers, therefore it halts development. Besides academic training there are other possible ways; for example, to learn from others' fails and successes.

The authors chose case studies related to local energy supply issues, social inclusion, traditions, ecological and labour-market challenges.

### CASE STUDY 1: CROSSWATERS ECOLODGE, CHINA

China is often criticized by environmentalist that, despite producing robust GDP growth in every year, its larger cities are very much polluted. However, there are signs showing that besides economic reforms (started now more than four decades ago) China took steps towards environmental sustainability as well.

One of those signs is the establishment of the Crosswaters Ecolodge, a project implemented by the Longmen Mt. Nankun Zhongheng Ecotourism Development Co. Ltd., a company. The lodge is located 80 miles away from the city of Guangzhou, which was **the first ecolodge in China**. The ecolodge is located in a forest reserve. This ecolodge is the first project in a 10-year ecotourism development plan in Nankun Mountain reserve. During the planning stage, the design team of the lodge conducted extensive observations and research to ensure the buildings had minimal negative impact on the environment and surrounding communities. The project featured extensive use of bamboo, as a sustainable building material that grows rapidly, and is the main native plant in the region (Wei, 2013).

As part of the planning there were three different types of research conducted: **social, environmental, and metaphysical analysis** in the spring, summer, and winter to observe changes in temperature and natural environment. Besides that, combined input from an international team of bamboo experts, horticulturists, and ecologists from industry and academia was used to establish the most sustainable way possible during the building. The relationships between drainage, current agriculture activities, waters levels, and surrounding industries were also analysed in order to ensure natural elements are undisturbed. The metaphysical research was built on the consultation with a local “Feng Shui” master for about the “Chi” of the area (Wei, 2013).

Besides environmental sustainability, **the project took steps to become legitimated and accepted among the local community**. In order to reach that goal there were several community meetings prior to start of the project to assess project impact and seek opinion from villages. The consultation resulted in the gain of applied input from locals and traditional design elements in the landscape, for example the use of traditional construction methods taught by local Keija minority group. To ensure full support from local actors **the village leaders and council members took part in a democratic process for design approvals** (Wei, 2013).

On the economic side, **the project management hired locals** to help plan and design the project and **recruited local workers** in construction of the ecolodge. The lodge also used **local building materials** which contributed to the slight rise of local sales. Some additional effects of the project was the drawing of investments for other developments in the surrounding areas leading to more commercial opportunities and the maximized purchase of locally produced foods to supply the ecolodge (Wei, 2013).

The case study reveals the importance of projects being sustainable not only economically, but socially and environmentally as well. Probably the two most important elements of building the ecolodge is the consensus between the management team and the locals and the fact that local workforce and materials were used during the implementation. This is the essence of local economic development.

## **CASE STUDY 2: PREMIKI, SLOVENIA**

**Tourism** is an activity which is **not yet accessible to everyone**, although most of the population desires trips to exotic foreign countries, or at least other parts of their home countries.

One NGO & travel agency (called Premiki) recognised the need for a change. This organisation started **focusing on tourism products to “everyone”**. The reason behind this is that it is not only a responsible way of acting toward excluded segments of the society, but because it can be **a viable business model** due to the competitive advantage it holds (Wei, 2013).

According to Wei (2013) „by 2050, population of 65+ in Europe will be 3 times what it was in 2003 and 80+ will be 5 times greater. Also with between 600-900 million persons with disabilities of varying degree around the world, there lies a great amount of potential in the market. In Premiki’s business concept, they have embraced the concept “tourism for all” the number one priority. **The concept encompasses that regardless of physical or mental limitation should not be prevented from being able to travel to the place they desire**. In order to accomplish its mission, Premiki offers accessible travel products, certifies tourism facilities which are “disability friendly”, and provide trainings to tourism professionals on accessible tourism. **Through creating supply to meet the increasing demand, Premiki has successfully provided services in its native Slovenia and internationally**. From the

requests of customers, the organization has created a network of providers who are disabled-friendly whether it's accommodation facilities or comprehensive travel services. Premiki is also focused on sustainable tourism.”

For the successful (and credible) operation of this business model The Slovenian Association for Mental Health (ŠENT), a non-profit organization, established criteria for basic accessibility. Over the years, these criteria are known as the “Disability Friendly Certificate.” The main criteria for accessible tourism established by ŠENT are: accessibility of information, economically accessible, and psycho-social accessibility (Wei, 2013).

According to Wei (2013) the Target Disability Groups include:

- physical impairments,
- visual and hearing impairments,
- learning difficulties, mental disorders, and
- other impairments (e.g. allergies, diabetes).

There are more ongoing programmes concerning Premiki.

The first project is called „TRAVEL AGENCY FOR PERSONS WITH SPECIAL NEEDS (TURAG4ALL)”. As the leader partner with the NTZ (National Tourist Association) and Premiki for **counseling, promoting, and developing of accessible tourism**, ŠENT developed the project, TURAG4ALL. After completing the six-month TURAG4ALL training program which prepared persons with disabilities to become travel professionals, three out of the ten participants were hired by Premiki. The project was implemented between 2009 and 2011, and it served as a showcase to integrate disabled persons into the workforce and provided equal opportunities for vulnerable groups within the labor market (Wei, 2013).

The second programme is called „EUROPEAN DESTINATION OF EXCELLENCE” (EDEN), in which Premiki takes part. This programme was initiated based on the political and tourism trends of Europe. The main aim of EDEN is **to focus on promoting destinations where tourism development aims to improve social, cultural and environmental sustainability**. In 2013, the EDEN project made accessibility a focus point (Wei, 2013).

The third programme is called EVOCATE. Through this project, Premiki works with partners from Great Britain, Italy, Turkey, and Germany **to explore the possibility to make accessible tourism part of the education curriculum on different levels**. (Wei, 2013).

Compared to the first case study, this one is more about social responsibility, but similarly to the ecolodge, it provides an option for business organisations to show more caring about society by keeping profitable and competitive.

### **CASE STUDY 3: GANG-CSOPORT (GANG-group), HUNGARY**

Budapest is the capital city of Hungary with around 1.7 million inhabitants. The city has beautiful historical buildings and attractions, no wonder that every year millions of tourists

visit there. However, there are many parts of the city which are not as attractive as they could potentially be, neither for tourists, nor for the locals, due to, for example, **the lack of green space**.

The apartment houses in the inner city have paved courtyards, often to be used for car parking. Lack of green space is often a problem in these areas, and this has led to many positive initiatives for improving **residents' quality of life**. GANG was founded by a group of friends in autumn, 2006. Their goal was **to create and creatively transform gardens**, the group began its activity in the inner city of Budapest, where they **successfully renovated three gardens and court yards together with the houses' inhabitants**. After these successful initiatives, more apartment houses in the inner city turned their courtyards into green courtyards. For the improvements the group took the inhabitants' ideas into consideration, and then elaborated garden-layout plans, consulting the stakeholders and organising residents' meetings. The **gardens were created through the residents own efforts**, digging and planting during weekends. Funding was obtained for plants and soil, and the projects were supported by other non-profit organisations (Ministry of Interior, Hungary - VÁTI Hungarian Nonprofit Ltd. for Regional Development and Town Planning, 2011).

Turning residential areas greener holds many advantages. It brings the inhabitants closer to the environment, therefore it raises their feeling of comfort and it improves the urban environment as well.

#### **CASE STUDY 4: ESTABLISHMENT OF AN AUTONOMIC ENERGY SYSTEM, AUSTRIA**

One of the primary issues of the global world is energy security. Knowing that traditional fossil fuels will run out some day, and the fact that fossil and nuclear energy sources are endangering the environment, humanity needs to take steps to reform its ways of energy use. Changes can be achieved not only on global or country levels, but also on any community levels.

According to the European Urban Knowledge Network (EUKN) (2011/A), the Austrian town **Güssing is autonomous in terms of energy**. The municipality actually **generates more energy than it consumes, produced from renewable raw materials which are obtained from within a radius of only five kilometres**. The biomass gasification power plant has also established itself as a highly successful model in economic terms.

The project is an example for the fact that not only the richest settlements and micro-regions can afford renewable energy investments. The home region region of Güssing, Burgenland is the poorest one in Austria, and Güssing area is the poorest in that region. „Güssing, a major town in south Burgenland, a district comprising around 27,000 inhabitants, is the first community in the European Union to produce its whole energy demand – electricity, heating and cooling, fuels – out of renewable resources, all resources from within the region. In the early 1990s, a policy was proposed which called for a complete

abandonment of fossil-fuel-based energy. The objective was to supply, as a first step, the town of Güssing and subsequently the whole district with regionally available renewable energy sources. Within the process of becoming an energy autonomous city, a number of proprietary technologies and patents were developed, to be applied in different fields, such as photovoltaics and biomass. Also, extensive experience in analysis, preparation and implementation of such projects was accumulated, which can be shared with other cities and communities willing to go the same renewable way.” (EUKN, 2011/A)

„Being energy-autonomous means that a town or city does not rely on the market prices. This results in a more stable, more calculable local economy. The example of Güssing shows that applying new, eco-friendly technology does not only help protecting the environment, but triggers the development of the local economy. The facilities (biomass plants, photovoltaic modules, wood gas generator power plants, bio-fuel producer plants) that have been built provide fuel, heat, electricity to the citizens of the district – out of renewable energy sources. Due to the project in the town of Güssing 50 new companies and more than 1,000 new jobs have been established. In the district of Güssing the added value with 45% self sufficient use of renewable energies is 18 million euro per year, and 37 million euro potential added value with 100% self sufficient use of renewable energies. Besides, the district has become an eco-touristic destination with 1,600 visitors per week.” (EUKN, 2011/A)

The project was partly financed by the European Union, but the project success came from the local initiation, idea and management. The project has since become a model for other settlements as well.

## **CASE STUDY 5: LIFESTOCK OF ZAFRA, SPAIN**

Tradition is an element in community life which cannot be artificially recreated in its original form. It is part of the history and it carries on values of the past to the future. Because of this, they can potentially provide great opportunities for local development. It is especially fortunate if traditions contribute to the consumption of local products and the empowerment of the local communities.

„In the 13th century, the livestock fairs of Zafra in Estremadura, Spain and of Beja in Alentejo, Portugal were gathering points for the regions’ main economic players. The tradition has continued to this day. Zafra still has the largest livestock market of Southern Europe. As for Beja, it organises the Ovibeja fair, one of the most important agricultural events in Southern Portugal. So, why not organise an event on the other side of the border? The first fair supported by INTERREG took place in 1994. The aim was to intensify agricultural relations between the two regions and to promote the marketing of extensively farmed products. Since then, the fairs have become regular cross-border events, organised every six months in Zafra or in Beja.” (EUKN, 2007)

„The central and traditional part of each fair is the display of animals and products from Alentejo and Estremadura. All the different livestock (sheep, cattle, pigs, horses) are represented. Another part that has become increasingly important in the eyes of the professionals is the technical workshops. Common solutions and positions are defined in areas like the promotion of livestock and products of extensive farming, marketing channels, the extensive product supply potential of each region, quality labels, development of the countryside, etc. The third part concerns the promotion of quality gourmet products of the two regions. This is where hotel and restaurant owners and gourmets without frontiers come together along with the specialised press.” (EUKN, 2007)

As a result, the activities organised around these events boosted the local economy and made place for new developments and activities.

## **CASE STUDY 6: BUSINESS OPPORTUNITIES AND OPPORTUNITIES (BOSS) PROJECT, TIMOR-LESTE**

Individual micro- and small enterprises (MSEs) lack capital and connections which larger firms have, and they are also more vulnerable to economic changes. However, due to the fact that usually they are the most numerous elements of firm categories, altogether they have a great impact on employment and economic growth.

According to LED Knowledge (2014), the Timor-Leste private sector is very much under-developed and there are many challenges halting its growth. One of the main problems is the lack of co-ordination between the private and public sector actors, which is a disadvantage during the creation and implementation of development plans.

„The project strategy is based on a systemic approach to enterprise development that addresses a range of needs and challenges of Timorese MSEs. In particular, the project intends to tackle some of the main problems and constraints identified by the Timorese entrepreneurs: lack of dialogue and coordination between the public and the private sectors; lack of market access for products and services, ineffective utilization of local resources / opportunities, limited involvement of private sector in Government service delivery and weak managerial and entrepreneurial knowledge.” (LED Knowledge, 2014)

The immediate objectives of this project are:

- Increased business opportunities for micro and small enterprises in target sectors and districts;
- Nationwide access to enhanced and innovative market/need oriented business development services;
- Increased capacity to mainstream gender in all policies, programs and activities (LED Knowledge, 2014).

The project BOSS was partly funded by the Irish Aid, and it was implemented between 1 October 2010 - 30 September 2014.

## CASE STUDY 7: REVIVING OLD WEAVING TRADITIONS

There are many areas with rich traditions and cultural heritage, but they cannot utilise these elements to induce economic growth and to increase well-being on a local level. On the contrary, in the modern age when new technology can provide more comfort and quicker services than the old methods, it is highly possible that traditions become „endangered”.

That was the reason for the Sustainable Business Association (SBA), a Swiss organisation to support a project in which helps the revival of old weaving traditions.

The initiator of the project was a Moroccan weaver called Khadija Tahiri. She learned the old methods of weaving from her mother, and she has been in charge of a cooperative specialized in Middle Atlas weaving techniques during 25 years while conducting many missions and surveys related to the situation of carpet craftsmen in Morocco. She was the founder of the Anarouze association. The ksar (castle) of Aït Ben Haddou is a UNESCO World Heritage Site and attracts each year more than 150'000 tourists. This village has a great potential and many private projects are initiated to exploit it (SBA, n.d.).

**“The Anarouze association acts in a long-range perspective to provide secure jobs for women in a poor rural region, by implementing a traditional craft activity in the ksar of Aït Ben Haddou. In addition, a new generation of weavers will be train in this workshop, which will revive Berber traditional weaving techniques.”** (SBA, n.d.)

“The craft produced in the framework of this project is mainly characterized by its authenticity, the respect of traditional inspiring influence and, when possible the use of raw material (wood, cotton, silk) treated with ancient traditional methods. Dâr Nisâja will develop Middle Atlas weaving, but also other productions from Southern Morocco, where Ms Tahiri learned new techniques during her missions: carpets and hanbels from Haouz, High Atlas and Sub-Saharan areas (Chichaoua, Bou Sbaa, Glawa, Ouzguita, Siroua, etc.).” (SBA, n.d.)

“SBA contributed to the project in order to buy weaving looms, tools and raw materials; recruitment and complementary training of professional weavers; to settle a legal status for the Anarouze association. The workshop infrastructures had been already financed by private donations and by Ms Tahiri personal funds.” (SBA, n.d.)

“In April, 2007, the **construction of the workshop** was over, and the Anarouze association could **buy weaving looms and raw materials** thanks to the Solidarity Fund. Then Ms Tahiri started to recruit trainees and skilled weavers. **This was an essential phase** as the quality of the carpets relies on the weavers capacities. Most of these craftswomen live in the ancient ksar of Aït Ben Haddou or in the new village (Issouid). Before the beginning of the operational stage, a complementary training has been provided to the weavers for them to become familiar with certain methods and techniques; for instance the use of metallic weaving looms, which are necessary to weave carpets bigger than usual.” (SBA, n.d.)

“Besides the training, all the weavers from Anarouze visited “La Kasbah”, a carpet makers cooperation in Ouarzazate. This has been for most of them the first time they went out

of the ksar. This exchange enabled the weavers to share their knowledge and acquire more experience in weaving techniques and workshop management. On March 8, 2008, Anarouze inaugurated Dâr Nisâja. A hundred people have been invited, including key figures of the province, as well as cooperation and arts and crafts experts. All the inhabitants of the ksar and the neighbouring village also participated to this great celebration, which announced officially the beginning of the workshop activities. Nowadays, the Anarouze association started to produce and sell its carpets.” (SBA, n.d.)

It is very fortunate that the site has rich traditional values, because it makes any economic development activities related to tourism much easier. But in every area having similar endowments it is also required to have a sufficient management system, which can effectively co-ordinate and implement activities.

### **CASE STUDY 8: URBAN RENEWAL, CHILE**

Slow economic development halts areas in many ways and contributes to the growing migration from those areas. Valparaiso city, therefore, created a programme to support its economic reactivation for the benefit of its population, by financing activities directed towards

the restoration and preservation of the cultural heritage of the city, and

- enabling the city to make the best use its advantageous characteristics, such as its seaside location and the presence of a large number of important universities (Inter-American Development Bank, n.d.).

The project itself is a good example of **a combination of management and institutional background-establishment with the utilisation of potential resources**. The city has great endowments in terms of cultural heritage and also due to its coastline.

„The program that is presently being developed by the Chilean authorities, tentatively has three principle components:

**a. Institutional Strengthening of the Intendencia, the Executive branch of the Regional Government and the Municipality.** With the objective of **consolidating a management instrument appropriate for the execution of the program** and to ensure that the different instances of government that participate in the program will have, as needed, the capacity required for (i) development planning, (ii) financial management and (iii) public resource management, including for investment and cost recovery, and for (iv) local development projects. **A diagnostic analysis of present responsibilities and institutional capacity** of each government level will be undertaken, and a component will be designed to strengthen the each of the corresponding government levels.” (Inter-American Development Bank, n.d.)

**b. Urban Renewal and Conservation of Historic and Cultural Heritage.** So as to preserve the cultural heritage of Valparaiso and stimulate new economic, social and cultural activity in that port city, **investments will be undertaken for the restoration of common areas and public buildings.** This way it will stimulate private real estate investment in those, as well as surrounding areas specific individual civil works will be undertaken as well as more simple replicable works; additionally, for this component, **complementary mechanisms for coordinating with and stimulating private real estate investment will be defined;** (Inter-American Development Bank, n.d.).

„c. Local Development Promotion. This component will have activities for stimulating local economic activity and employment, on the basis of the comparative advantages of the city.” (Inter-American Development Bank, n.d.)

## **CASE STUDY 9: A NETWORK OF CITIES AND LOCAL GOVERNMENTS, INTERNATIONAL INITIATIVE**

Discussion, the involvement of stakeholders and democracy make up the essence of local economic development. The United Cities of Local Government initiative came to be for the very reason of supporting these principals on an international level.

„The overall objective of the project is **to support decentralization and local democracy processes** in developing countries, in order **to strengthen local development and good governance.** More specifically the objective is to have strengthened local governments and their representative organisations, with the capacity **to analyze their needs, to define priority agendas and to dialogue with States and regional institutions** in support of decentralization and the role of local governments. Time Frame of the programme was between 2010-2012.” (LED Knowledge, 2012)

„The project targets four specific regions (East Africa, West Africa, Latin America and South East Asia), in partnership with the UCLG regional sections FLACMA, ASPAC and UCLG Africa, the sub-regional associations of EALGA (East African Local Government Association) and the Local Government Associations of West Africa, the project reaches 30 Local Government Associations (LGA).” (LED Knowledge, 2012)

The UCLG international agenda includes five programmes.

„**Aid effectiveness:** The efforts pursued in the field of aid effectiveness have led to the recognition of UCLG as **the voice of local and regional authorities in the OECD Working Party on Aid Effectiveness,** and observer of the Global Partnership for Effective Development Cooperation, a forum for advice, shared accountability and shared learning and experiences for effective development cooperation. UCLG is also a member of the Advisory Board of the United Nations Development Cooperation Forum.” (UCLG, n.d.)

“**Climate change: UCLG is consistently involved in the ongoing international climate change negotiations, raising awareness of the impact of climate change on cities and their inhabitants.**” (UCLG, n.d.)

**“Habitat III:** The United Nations General Assembly has decided to convene a **Third United Nations Conference on Housing and Sustainable Urban Development (Habitat III)** in 2016. The main objective of the conference is to reinvigorate the global commitment to sustainable urban development focusing on the implementation of a “New Urban Agenda”.” (UCLG, n.d.)

**“United Nations Advocacy:** Since its creation in May 2004, UCLG has worked tirelessly towards a formal advisory role for local government within the United Nations. Why? Because the United Nations can only develop truly effective global policies by consulting those people who have the experience and know-how to implement the policies on the ground: mayors and local governments.” (UCLG, n.d.)

„**Urban Sustainability Agenda: Contributing to the post-2015 Agenda and the New Urban Agenda of Habitat III in 2016 is a strategic priority of UCLG.** To do this, we have decided to build our own Global Agenda of Local and Regional Governments that reflects the concerns, priorities and vision of sub-national governments.” UCLG, n.d.)

A knowledge network dedicated to support information exchange between the members from other countries help avoiding problems occurring to other partners and reveals ideas which were never thought about in the past.

## **CASE STUDY 10: LOCAL DEVELOPMENT UNIT, ITALY**

Working on the development of local economies/communities takes a lot of effort, dedication, knowledge and skills, and the local actors may lack one or two elements of these. Sometimes it is the best to appoint a genuinely competent team to help local development. This is the idea between the Strategic Unit on Local Development.

According to the Action Research for Co-Development (ARCO) (n.d.), this unit consists of a group of experts in social research and local development processes, who work together to foster a **pragmatic and eclectic use** of both theory and evidence within a **meso-level perspective**, in order to promote the design and implementation of **tailor-made and place-based strategies for sustainable human development at local level**.

„The group is one of the units of the research lab ARCO (Action Research for Co – Development), an action research lab of PIN S.c.r.l. of the University of Florence, created by professors of the Faculty of Economics and professionals of LAMA Development & Cooperation Agency.” (ARCO, n.d.)

„The Unit on Local Development integrates the expertise of its different members – economists, statisticians, political scientists, consultants, practitioners – and it uses innovative and advanced methodologies in order to deliver high level and **policy-oriented research studies**, as well to **provide support services to policy-makers and development actors**.” (ARCO, n.d.)

The objectives of the unit are the following:

- I. Widening and deepening the academic knowledge on local development processes based on a sustainable human development perspective, integrating the pillars of the Florence school on local development with the capability approach developed by Nobel Prize Amartya Sen.
- II. Providing technical assistance and support services to international, national and local stakeholders to implement integrated and tailored strategies for local development.
- III. Promoting innovative ideas, approaches and methodologies for the analysis of local development systems and for the design and delivery of public policies. (ARCO, n.d.)

The team's Scientific Director is **Prof. Mario Biggeri** (Department of Economics of Florence University) and its Coordinator is **Mr. Andrea Ferrannini** (expert in research on local development issues). Substantial contribution to the work of the unit is given by a team of academics and research fellows specialised in economics within the University of Florence, such as Prof. Nicolò Bellanca, Prof. Luca Bagnoli, Prof. Marco Bellandi, Prof. Mauro Lombardi (ARCO, n.d.).

„Mr. Enrico Testi, Director of ARCO and Mr. Marco Tognetti, Board Member of LAMA d.c.a. are involved as coordinators of the activities for their specific areas of expertise. The unit relies on a wide network of external experts available depending on the subject and peculiarities of each specific activity. The Unit on Local Development operates in close collaboration with the other Lab's units – Impact Evaluation, Third Sector and Social Innovation, Inclusive Development – and it has access to a large number of high level academics and professionals, both in Italy and other countries.” (ARCO, n.d.).

**The activities of the unit are manifold:**

- „Applied and operative research on local development, sustainable human development at local level, co-development, international cooperation, social innovation.
- Diagnostic studies on territorial value chains, local development opportunities and structural bottlenecks, territorial systems/networks, territorial competition issues.
- Support to the e CCCLaboration, implementation and monitoring of local development strategies, policies, projects and initiatives.
- Impact Evaluation of local development strategies, policies, projects and initiatives (with ARCO Impact Evaluation Unit).
- Training and capacity-building on local development issues (courses, workshops, summer/winter schools, etc.) for civil servants of national/local governments and institutions, NGOs' staff, entrepreneurs and students.” (ARCO, n.d.).

### **„Principles underlying our work**

Our **Action-research** approach is based on **multi-disciplinary** analysis and **cross-fertilizing** theories, with an **integrated** (top-down and bottom-up) and **place-based** perspective combined with a tailored regional benchmarking and comparative analysis.

Their research topics have to be policy-relevant and contribute to the well-being of the society.

They use a **Participatory approach** in diagnostic studies and policy design, basing results and processes on local knowledge and ownership of development strategies.” (ARCO, n.d.).

**For effective and legitimate operation, the unit has contacted various actors, such as:**

- Non-Governmental Organizations
- Local/National Governments, Institutions and Organizations
- International Cooperation Institutions, Programs and Funds
- EU Institutions
- Italian Ministries
- University Departments and Research Centres
- Foundations and Corporate Social Responsibility
- Trade Associations
- Local development agents.

The abovementioned initiative is a good example of a development unit, because it possesses many connections to other actors, it has clear messages and ideas, various activities, and deep academic background.

### **CASE STUDY 11: CAPACITY BUILDING SEMINAR, GERMANY**

**Entrepreneurship is not something which people can do without proper education or experience. The lack of these elements can lead to the bankruptcy of the enterprise, therefore it can cause a serious withdraw in the economy, not only on micro, but on macro level as well.**

„The idea of promoting entrepreneurship through education has spurred much enthusiasm in the last few decades, as it is expected to produce a wide range of outcomes including individual development; increased school engagement and performance; enhanced courage to contribute to societal development; and improved equality. Other expected outcomes include job creation, economic growth and increased societal resilience. Turning this into educational practice, is, however, posing significant challenges to teachers, school management and external partners, particularly in creating creative and open learning

environments. Lack of time, learning materials and financial resources; teachers and parents' fear of "commercialism"; rigid institutional frameworks; and difficulties in assessing learning outcomes of entrepreneurial education are some of the challenges practitioners have encountered when trying to infuse entrepreneurship into education." (OECD, 2014)

„The seminar contributed to the development of a tool that should allow schools to (1) map the perceptions of learners, teachers, parents, and partner organisations as they relate to the entrepreneurial education opportunities (courses, extra-curricular work), resources and support available to teachers (e.g. time for preparation, training, teaching material), and the "outward looking school" (e.g., partnerships for challenge-based learning, new learning environments); and (2) employ this information for organisational development efforts." (OECD, 2014)

„All participants were expected to prepare a case study about entrepreneurial education in their school (primary, secondary education, VET), which was developed during and after the seminar for publication on Entrepreneurship360." (OECD, 2014)

„The seminar was organised within the framework of the OECD LEED Forum on Partnerships and Local Development and its outcomes will feed into Entrepreneurship360, a joint initiative of the OECD LEED Programme and the European Commission (DG EAC)." (OECD, 2014/A)

## **CASE STUDY 12: SUMMER SCHOOL CONCERNING LOCAL ECONOMIC DEVELOPMENT, INTERNATIONAL**

Sometimes the importance of local development is not obvious to each and every stakeholder, or perhaps there is not enough information about the potential benefits of LED among the locals. The International Summer School for "Community and local development", organised the sixth time in 2014, aims to bring about a change in the thinking about local economic development.

„The project originally emerged from the cooperative relationship established between the OECD LEED Trento Centre for local development, the Training Centre for International Cooperation (TCIC) and EAFIT University of Medellin in collaboration with the Trentino Federation of Cooperatives and the contribution of Autonomous Province of Trento, Italy. The main scope of the Summer School is the promotion of local development, i.e. promoting the understanding and acknowledgment by both public and private actors of the analysed territories' capital factors (*“Territorial Capital”* and its conceptual dimensions) that contribute to build local development strategies. Such strategies are further considered to be the basis for any transformation process aimed at guaranteeing better lives for the local communities residing in the selected geographical territories." (OECD, 2014/B)

„**The role and the strategic capacity of local actors, together with the commitment to collaborate and coordinate actions towards the design of a "shared future"**, represent key elements of **development processes rooted in local contexts**, in which differences

should be exploited as **opportunities rather than considered as barriers**. In this way it is possible to promote strong ties between regions and communities; and to design development strategies with a multi-dimensional nature, able to integrate the different dimensions – cognitive, social, infrastructural and ecosystemic - of the "*territorial capital*". Addressing territorial capital is an effective way to face global challenges and to increase communities' ability to operate and adapt to economic, social and environmental transformations. Moreover, it is essential for local actors to have the required skills to develop the knowledge and specific skills to promote regional partnerships based on integrated public policies, and to be able to value their own human, environmental and institutional resources." (OECD, 2014/B)

„**This ability to create relevant social networks, integrating different approaches and experiences, underlies the work methodology developed during the Summer School.** The project represents the meeting point of innovative experiences in terms of community development practices performed in the context of the Trentino region in Italy, and in the most varied realities of the Latin American countries. In this way, constructive comparisons under different reading frameworks are strongly encouraged. In other words, the Summer School aims to develop a dialogue between European and Latin American actors who may guide a process of continual redefinition and adaptation of local development strategies." (OECD, 2014/B)

There are three main objectives in the project (OECD, 2014/B):

- **Sharing concepts and ideas on sustainable local development** based on comparison of local experiences from Trentino and Latin America, looking for new strategic syntheses.
- **Providing common interpretation tools and understanding the particularities of selected local experiences**, identifying and analysing the main highlights from applied projects and practices aimed at promoting local development according to existing territorial capital.
- **Promoting online and offline constructive social networks among participants** in order to efficiently exchange relevant knowledge, practical experiences and work methodologies, on local development.

„The Summer School is organised in co-operation with EAFIT University from Medellin (Colombia), for whom 40% of the 35 available places are reserved. The selection process of the other 21 available places is open to candidates from all Latin American countries ensuring a varied and balanced classroom composition." (OECD, 2014/B)

### **CASE STUDY 13: TOURISM DEVELOPMENT IN PÁPA, HUNGARY**

Any development, e.g. ones related to tourism need well-conceptualised plans. The Tourism Development Concept of Pápa is one such example.

„The goal was **to show all the touristic products or groups of products, recommended for development, which could help the city to become a new location in the country’s touristic offer.** The products were defined regarding to the makings and to the tendencies of touristic requests in 1999, and the Tourism Development Concept of the Veszprém County of 1994. The main development groups are ‘programs’, ‘cultural and heritage-keeping supplies’ and opportunities for ‘leisure time activity’. The main goals are making better circumstances for accomodation, organizing a wider range of programs and events and to amend communication. The execution of the concept is divided in three groups, short-, mid- and long term execution. The marketing strategy has its own chapter. At the end of the concept we get a short overview of opinions from professionals.” (EUKN, 2010/A)

„This document includes an overview of the **European tourism strategy**, gives main data in percent about **touristic behaviours**, and tries to find the **town’s place in the European map of tourism.** The European Travel Commission says that Europe is very much involved in the race of tourism in the second part of the nineties. This world-wide race gets a better quality, is more and more consumer-oriented and gives more value for your money.” (EUKN, 2010/A)

#### **CASE STUDY 14: AGENDA 21 FOR THE BALTIC SEA REGION, INTERNATIONAL**

There are sometimes larger regions sharing similar characteristics, which consist of members willing to co-operate for the common good. This was the principal at the creation of the Baltic Sea Region and at the formation of its “Agenda 21 for the Baltic Sea Region”.

„**The Baltic Sea Region is the first region in the world that has adopted common regional goals for sustainable development.** These goals pave the road towards the region’s sustainability and include an overall goal, goals for each of the eight Baltic 21 sectors and a goal for spatial planning. The east – west responsibility axis, sector targets and sector implementation provide the foundation for the realisation of ambitious goals. Sector goals are based on the Vision of a Sustainable Baltic Sea Region 2030.” (EUKN, 2011/B)

„The Baltic 21 Action Programme addresses the three dimensions of sustainable development – the environmental, the social and the economic aspects – and includes **goals and indicators.** It features thirty different actions, both sectoral and cross-sectoral, which are mostly of pilot and demonstration character and address the transition to sustainable development in the Baltic Sea Region. The emphasis is on regional co-operation, and the work is focused on seven economic sectors (agriculture, energy, fisheries, forests, industry, tourism and transport) as well as on spatial planning and on education.” (EUKN, 2011/B)

„The process was initiated in 1996 by the Prime Ministers of the Baltic Sea Region and involves the eleven countries from the Baltic Sea Region (the members of the Council of the

Baltic Sea States, CBSS), the European Commission and a number of **intergovernmental organisations, international financial institutions and international non-governmental networks.**” (EUKN, 2011/B)

The programme is an example for co-operation for larger and smaller regions as well.

## **CASE STUDY 15: REVIEW AND ALTERATION OF REHABILITATION PROGRAMME FOR BUDAPEST CITY**

Every good strategic programmes need evaluation and alteration once in a while reflecting to the needs of people and the changes of the external environment. One success alteration was the one concerning the Rehabilitation Programme of Budapest.

The first step of such programmes is to choose a set of **proper indicators.**

„The Urban Rehabilitation Programme is an area based intervention. A set of indicators which prove social, economical and physical deprivation in an area are used to determine the geographical limits of so-called main and critical policy action areas. However this indicator led definition gave only the geographical boundaries for interventions but do not lead to complex area based rehabilitation programmes. As the policy analysis describes it was instead more physical oriented and building-to-building based. Revision of the 1997 policy aims and means was backed by **related policy measures** introduced during these ten years, such as the Budapest Development Plan, the Housing Plan and the Commerce Plan.” (EUKN, 2010/B)

„Deficiencies of the present day programme involve short term planning, the long time public investments take big differences between renovated and buildings on waiting lists, and that instead of the increased quality of life the programmes promised, they were more technical-engineering led, and focused on the physical renovation of the building. Its potentials are that it has a secure financing mechanism, regardless of national resources and that it has heavily contributed to the physical reconstruction of the city centre.” (EUKN, 2010/B)

„Main policy questions were **whether the focus of interventions should be the person or the area**; what is the best way to achieve **social integration** in a city, and **how does integrational policies relate to the local economy.** Altogether it can be summed up, as whether it is possible at all to integrate social, economical and physical urban rehabilitation at all?

The policy support document makes clear the inevitability of choice between two differing policy aims. One is the physical rehabilitation of urban areas and urban quality of life of the city centre areas, and second is the social and economical rehabilitation of the worst off areas.

The document suggests a new mechanism for focusing resources on urban rehabilitation. Instead of the mechanical use of inflexible pre-defined indicators, it suggests a 5-6 year project plan defined rehabilitation process. In this case the spectrum of rehabilitation process will be much greater than a single building, or park, and as a consequence it will have a more visible effect. Besides it will also help civic organisations to take a more decisive part

in the process. The document also supports the use of management companies responsible for the completion of the projects both at city and at district levels.” (EUKN, 2010/B)

## **CASE STUDY 16: PROMOTING EDUCATION AND EMPLOYMENT FOR GIRLS IN RURAL AREAS, SENEGAL**

A certain **gender gap** can still be identified in every countries of the world, especially in the developing countries. However, equal opportunities regarding to jobs, healthcare and education brings many benefits not only certain social groups, but to the whole society. This is especially true in rural areas, where the well-educated workforce, men or women alike, is much needed.

The programme called “10000 Filles Project Educative” aims **to promote education and employment opportunities for 10,000 girls in rural Senegal**, enabling them to develop as self-reliant and capable women through a self-sustaining program run for the girls, by the girls (Youth Employment Inventory, n.d./A).

- The project addressed many labour-market barriers during its implementation:
- Inappropriate general education
- Inadequate technical skills
- Lack of entrepreneurial skills.

„The 10,000 GIRLS Educational Support Program, **does not replace public school education**, but offers **after school support** to girls enrolled in school, girls no longer attending school, or girls never enrolled in school. The program objectives are to assist girls in three areas: 1. Maintaining girls (10-21) in school who are presently enrolled. 2. Providing literacy and numeration training for girls (16-21) who have never been to school. 3. Developing entrepreneurial support for girls (16 - 26) who have been excluded from school.” (Youth Employment Inventory, n.d./A)

„The WHEPSA program has developed with the girls, techniques for **independent study, created a peer education network, developed teamwork for educational excellence, and a parental support systems**. The program includes:

- Monitored after school homework preparation.
- Monitored classwork review
- Individual in school follow-up
- Individual at home follow-up.
- Peer support and review
- Monthly teamwork preparation
- Bi-monthly parent support meeting.” (Youth Employment Inventory, n.d./A)

„**YOUTH ENTREPRENEURIALSHIP**: Participants in the youth entrepreneurialship program are girls 16-24 who have been excluded from school, or have never been to school and have completed classes in literacy and numeracy. Celebration Baked Goods and

Celebration Sewing Workshop is an entrepreneurial activity managed by the GIE (Economic Interest Group) Jeunes Filles Entrepreneuse de Kaolack (J-FEK). Celebration is a fully functioning pastry and baked goods food shop that serves breakfast and lunch to the local business community. Celebration specialized in catered pastries and receptions with a nation wide clientele. Celebration Sewing Workshop makes one of a kind gift items, dolls, quilts, gift baskets, place mats, tablecloths, napkins, pillows for international export.” (Youth Employment Inventory, n.d./A)

„The education program gives the girls the means to succeed by providing them with a place to study, a time to study, and books and other basic school supplies. The entrepreneurship program teaches girls a craft or trade, business basics, and provides them with a work space to create high quality products.” (Youth Employment Inventory, n.d./A)

„**Education:** The after school program is run everyday in every locality. 10,000 Girls supports dedicated and qualified teachers, who volunteer to tutor the girls in subjects such as French, Math, Geography, History, and others. The teachers assist the girls in developing techniques that will augment their ability to pass their exams. The after school program gives the girls the means to succeed by providing them with a place to study, a time to study, and books and other basic school supplies. 10,000 Girls organizes annual distributions of notebooks, pens, paper and other essentials. The Environmental Learning Center - our newest initiative: Teaching girls about environmental awareness and sustainable agriculture techniques. The Book Mobile is a crucial part of the education program. Each month, books are transported to rural villages and small towns, and checked out of this traveling library truck by local children.” (Youth Employment Inventory, n.d./A)

„**Entrepreneurship:** The entrepreneurship program teaches girls a craft or trade, business basics, and provides them with a work space to create high quality products. The activities are run in three locations: Kaolack, Kaemor & Koungeul. Products include handcrafted dolls & linens, bakery items, and an upcoming line of Bissap infused teas. The girls run the businesses and own 100% of the profits. They have chosen to donate 49% of their profits to the educational program of 10,000 Girls.” (Youth Employment Inventory, n.d./A)

## **CASE STUDY 17: EMPOWERING THE YOUTH TO BE SUCCESSFUL ON THE LABOUR-MARKET, JORDAN**

Training and educating are activities which always have benefits on people on micro- and macro levels as well. They provide opportunity to individuals **to shape their own and their communities’ future**. Therefore, knowledge and information sharing activities must always be emphasised in development programmes, because they provide the basis of any further activities.

The Jordanian initiative „Injaz Jordan” aimed to improve skills regarding to entrepreneurship and inspire younger generations to study. Injaz itself is a non-profit

organisation, established in 1996, aimed to empower young Jordanians to become productive members of their society and succeed in a global economy (Youth Employment Inventory, n.d./B).

„INJAZ brings 43 programs to public schools, universities, community colleges, and various social institutions. Programs are both curricular and extra-curricular and focus on such themes as **financial literacy, work skills, leadership, entrepreneurship, career guidance, and inspiration**. INJAZ' programs aim to develop students' sense of personal ambition and passion for achievement through a diverse spectrum of courses, inspirational activities, volunteer projects, internships, competitions, and opportunities to gain real work experience and training before leaving the education system.” (Youth Employment Inventory, n.d./B)

„INJAZ reaches out to Jordanian youth across the kingdom, aged 13 and above, empowering them with a colorful spectrum of skills and exposing them to eye-opening opportunities. Through mobilizing the private and public sectors to embrace social responsibility and volunteerism, INJAZ delivers its wide array of programs through its qualified volunteers. Mostly corporate professionals, INJAZ volunteers deliver its courses and other programs to Jordanian youth, sharing their expertise and passion along the way.” (Youth Employment Inventory, n.d./B)

„School teachers play a major role in supporting INJAZ' volunteers, facilitating INJAZ course delivery at their schools. Each volunteer interacts closely with a school teacher who ensures that the volunteer's experience is running smoothly in the classroom.” (Youth Employment Inventory, n.d./B)

„This program **prepares young people to recognize the needs of the local job market to stand up to the challenges of global competition**. INJAZ is working to create a new generation of youth qualified to meet the demands of economic growth and the private sectors' needs. The USAID funded Save the Children initiative first originated in 1999 in an attempt to bridge the gap between the output of the Jordanian educational system and the human resource needs of the private sector. To fulfill that mission, INJAZ facilitators invited volunteers from the private sector to teach students how to take responsibility in a non-traditional way and to allow young people to choose what they want to learn, in order to create an innovative generation. In other words, INJAZ **helped students develop their cultural attitudes to better come with the globalized market characteristics** increasingly defining Jordan's job market today through preparing them to take part in real life problems they will encounter in entering the labor market.” (Youth Employment Inventory, n.d./B)

„INJAZ signed an agreement with the Jordanian Ministry of Education in which the latter committed its support to introduce the INJAZ initiative into public school curricula; INJAZ also works in cooperation with the Ministry of Youth. Delivered in school classrooms every Saturday by private sector volunteers, such as bankers and businessmen, the courses mainly focus on personal and business economics, entrepreneurship, leadership and community service that are related to the students' environment. Volunteers deliver weekly courses to students based on a curriculum facilitated by other volunteers from the private and

education sectors. They do not lecture students, but encourage brainstorming, problem-solving and communication skills.” (Youth Employment Inventory, n.d./B)

„With the 14-25 year group accounting for 25 per cent of the population, INJAZ aims to foster creative thinking and critical problem-solving techniques and interpersonal communication skills. It provides Jordanian youth with the needed tools to reach the goals aspire to. INJAZ builds on Jordan's human resources, based on partnership with the private sector to help develop skills of Jordanian youth and better prepare them to enter the labor market. Working with volunteers from different sectors helps students decide on their future and choose the job that fulfils their ambitions; by preparing qualified youth, the private sector will be able to attract better quality labor, armed with skills and know-how. With the increasing impact of globalization on Jordan, there has been a growing gap between the education system in the country and the Jordanian private sector's human resource needs. INJAZ is helping to remedy this situation and better direct Jordanian youth according to the needs of the market to help increase their contribution in society.” (Youth Employment Inventory, n.d./B)

#### **CASE STUDY 18: EMERGENCY SUPPORT FOR YOUTH, TUNISIA**

Similarly to the previous project, The Emergency Support for Youth (TN-JSDF) project aimed to enhance the skills of the youth, **improving their chances to gain jobs**.

„The project was launched on 23 May 2012 in the governorates of Siliana and Kasserine over a period of 30 months. It aims to help 3,000 young people to strengthen and develop their skills in order to facilitate their integration into working life. It targets young unemployed men and women with low incomes, aged between 18 and 34 years and living in the governorates of Siliana and Kasserine. The project covers three main components, including **local initiatives by young people**, which encourages participation in community service through local non-governmental organizations, and **training courses**, practical training and vocational education, as well as to support the **leadership** in the creation of small projects. This project is funded by the Japanese Social Development Fund (JSDF) and implemented by the National Youth Observatory in partnership with Silatech and Ooredoo.” (Youth Employment Inventory, n.d./C)

The project identified the following challenges in regard to the labour-market:

- Inappropriate general education,
- Inadequate technical skills,
- Inadequate soft/life skills
- Lack of financial capital,
- Jb matching problems,
- Lack of labour-market information (Youth Employment Inventory, n.d./C).

„The project provides emergency income support and short-term employment opportunities to approximately 3,000 young people to help them meet basic needs through (1) cash-for-work, (2) training, (3) internship and self-employment. About 50 community development projects to the amount of USD 3,000-5,000 will be proposed and implemented by NGOs in the governorates of Siliana and Kasserine. Proposals should reflect the needs of the community and justify the proposed project will meet this demand. 2,000 young volunteers will be recruited by the NGOs for the implementation of these community projects, and volunteers will receive cash compensation for a period not exceeding 5 months (about USD 450 per youth).” (Youth Employment Inventory, n.d./C)

„In addition, NGOs that will implement community development projects will be eligible for the organizational management of the project to ensure capacity building and sustainability. 600 youths will participate in a course about building basic skills for a period of three months, during which they will receive a compensatory allowance to cover their expenses (each trainee will receive USD 72 per month). The course will include topics such as work ethics, presentation, communication, and conflict resolution. The best ranked 450 to 500 youth in the course examination will be placed in paid apprenticeships / in a private company for three months and the project will fund the salaries of trainees / apprentices during this period (each person will receive USD 150 per month). About 400 young candidates for self-employment participate in a training course covering topics such as financial management, human resources, and developing a business plan. The winners will be eligible for training grants to develop their micro project (about 1,000 USD) on a competitive basis. 200 -300 grants will be awarded in total.” (Youth Employment Inventory, n.d./C)

## Chapter 6: Tools and impacts of LED

Economic development is a complex and multidimensional concept. Severe economic downturns (including the latest one in 2008), a decline in manufacturing jobs and efforts to decentralise governance (to regional and local levels) have forced local leaders to make significant efforts to stabilize and enlarge local tax bases.

Classical supply-side inducements are grants (non-refundable), loans, interest subsidies and equity financing (refundable), tax incentives and non-financial assistance.

Tax incentives can include abatements (agreements not to tax for a period of time), exemptions (reductions in the property tax base), credits (direct reductions in tax liabilities), cuts in equipment and inventory taxes, lower sales taxes, and reductions in license fees.

Nonfinancial assistance can include customized training for workers, regulatory relief or customized research and development activities.

Local initiatives available for this purpose include various fiscal, tax and nonfiscal tools as summarised below (Table 6.)

*Table 6: Possible tools and impacts of LED*

<b>Financial incentives</b>	<b>Characteristics</b>	<b>Advantages/Disadvantages</b>	<b>Main application areas</b>
grants	no obligation to repay the grants	+ highly desirable type of assistance	urban renewal, SME support, community development
loans	opportunity to obtain funding at market and below-market rates	- risk of default and financial loss to taxpayers	public officials, SME development, industrial development bonds, extended amortization schedules, leveraging (loan guarantees and loan pooling)
tax-exempt bonds	issuing bonds that pay interest and that interest is not taxed	+ subsidizing the cost of state/city and local borrowing  - misuse can occur	construction of airports, docks, waste treatment plants, water supply facilities
equity and near-equity financing	gives part ownership of an enterprise to government entities	- not a typical tool with a relatively high risk  - government ownership of enterprises is not widely accepted by economists	fostering particular types of industry/commerce Ways of acquiring equity: purchase of common stock, preferred stock and convertible

			debt. Royalty agreements, warrants
<b>Tax policies</b>	<b>Characteristics</b>	<b>Advantages/Disadvantages</b>	<b>Main application areas</b>
Tax abatements	legal agreement between a government entity and a property owner for a certain period of time	+ one of the most popular incentives and the least costly to administer  + can foster economic development in depressed areas	taxes are frozen at a specified rate for a stated number of years, after reassessment residential property enterprise zones
Tax exemptions	reductions to the base upon which property is taxed (what is included in local property tax eg.)		often granted to individuals, institutions, companies, eg.: construction of new plants, special corporate/personal income tax exemptions, inventory or R&D tax exemptions
Tax increment financing (TIF)	TIF districts can be established and a redevelopment plan can be formulated	+ it divides tax revenue from an area into 2 categories: predevelopment and post-development value - it is relatively not transparent to taxpayers	purchase and preparation of land in designated areas
<b>Other tax tools</b>	<b>Characteristics</b>	<b>Advantages/Disadvantages</b>	<b>Main application areas</b>
circuit breakers	relief to low-income property holders	property taxes are tied to individual income levels	
tax credits	subtracted from a tax bill after the liability has been calculated	+ it directly reduces tax obligations, this way it is very desirable	
tax deferrals	delays the time by which the property tax has to be paid	+ helps the company in the early stages of their development	stabilisation of areas threatened with decline
tax classifications	categorization of properties	+ lowered business taxes can increase the loyalty's attractiveness to business	owner-occupied; agricultural; commercial-industrial; property used by public utilities
accelerated depreciation	a method of altering tax payments,	+ contribute to reinvestment of the tax savings in plant and equipment	enabling the companies to write down the cost of plant and equipment

			more quickly than usual
tax stabilisation	agreements to maintain current tax rates	+ limitations of the fluctuation in the amount and type of taxation	FDI support incentive in order to ensure a stable tax environment
<b>Nonfinancial assistance</b>	<b>Characteristics</b>	<b>Advantages/Disadvantages</b>	<b>Main application areas</b>
Site development	acquiring and improving contiguous parcels of land to assemble sites suitable for development		Land banks, industrial parks, smart parks,
enterprise zones	established to generate new investment and employment in declining neighborhoods	+ reduces constraints on free enterprise and minimises the costs of the first, basic investment	depressed sections of the inner city, industrial parks, empowerment zones
human resources	a principal resource of economic growth	+ long term asset, could directly lead to increased competitiveness	customized training, education, dual education (secondary and higher levels)
research capacity	specialised knowledge leads to product and process improvements	+ higher value added and innovation potential, contributes to sustainability significantly	centres of excellence, Industry Campus (cooperative research projects and infrastructure)

*Source: Own construction on the basis of Koven and Lyons, 2003 (2015)*

Wave 1: Regarding business attraction and foreign direct investment, we can differentiate two major approaches: the project-based approach and the business climate approach. The first one is rather a first wave feature, it is more traditional, it tailors a package of incentives to the deal being pursued. In the business climate-oriented model, the incentives are not tailored to a specific firm's needs but are designed to have a wider impact, for example with lower tax rates, red-tape reduction, higher quality-of-life measures. Certainly there has always been a debate between opponents and proponents of public incentives and there has been substantial academic study on the topic also. In the short term, incentives can be attractive tools but they can not mask a community's long-term deficiencies. Transportation, labor quality and markets are the most important factors in investment decisions and the best way to influence firm location is to create and sustain quality communities.

Wave 2: Regarding business retention as a typical second wave feature we can differentiate different steps in the process as follows:

11. preparation of a complete inventory of the existing businesses
12. contacting the firms to determine the current situation and their needs
13. initiation of an ongoing effort to meet the existing firms's short-term needs and maintaining a pro-business attitude.

Business retention strategies can include financial inducements, tax incentives, loans and loan guarantees with additional nonfinancial incentives. Provision of subsidized R&D assistance and access to public R&D know-how and facilities, innovation vouchers are important measures.

Wave 3: Contemporary issues in LED:

Some retention activities are paving the way towards the third wave, such as the provision of appropriate infrastructure, speculative industrial buildings, high-speed communication facilities and sufficient energy resources. In this field, the use of renewable energies has outstanding importance.

The real third-wave features are connected to quality-of-life and environmental concerns and the role of the government. Quality of life has become a major business location factor in case of both business attraction and retention. It can be significantly influenced by public interventions. Most commonly CEOs mention two main factors in this field, these are entertainment and community image and spirit.

## **Business creation**

First, we should define „entrepreneurship” and „enterprise development”. The target of an economic development strategy that features business creation is the entrepreneur, a person who is „a production innovator who perceives the opportunity to provide a new product or implement a new production method, and then organises the needed production inputs and assumes financial risk.” (Terry, 1995)

The vehicle for providing this new product or service is a business (enterprise) that the entrepreneur, singly or as part of a group, has founded. Globally, from 50 to 90 percent of new enterprises fail within their first three to five years of operation. Enterprise development tools can be grouped into two categories: (1) tools aimed at providing financing and (2) tools that offer business development assistance to entrepreneurs. Financing assistance to new enterprises can be provided for example under the umbrella of Small Business Administration Loan programs. SMEs generally need start-up capital to acquire new resources and inputs and working capital to day-to-day operation needs. Mezzanine capital can help the entrepreneur to bridge the gap in capital resources from one stage of business development to another. Venture and angel capital or crowd funding are popular tools to assist an entrepreneur with a

good business plan and to provide a substantial infusion of capital. The supply and demand side can meet each other on the so-called entrepreneurship forums (Venture Clubs).

Typical examples of business development assistance are the small-business development centers (SBDCs), the business information centers (BICs), business incubators (full service, and/or virtual) and microenterprise programs. The conceptual model of a so-called Entrepreneurial Development System (EDS) is developed by Gregg A. Lichtenstein and Thomas S. Lyons (Lichtenstein and Lyons, 2001) and organises both entrepreneurs and business development service providers to a community-wide business incubation system. Four major categories of resources are essential to entrepreneurial success as of (1) business concept; (2) physical resources; (3) core competences/skill; and (4) market. The main obstacles (9) are: availability, visibility, affordability, transaction barriers, self-awareness, accountability, emotions, capability and creativity. The diagnostic matrix is a useful tool in small business development.

According to Professor Paul Peterson at Harvard University we can differentiate redistributive and developmental governmental programs. Redistributive programs reallocate society's resources from the haves to the have-nots. They transfer resources between individuals and favour those who have gained the least. Recipients of transfers include the elderly, the disabled, the unemployed, the sick, the poor, the single parents, the socially disadvantaged people. Social security and Medicare are typical redistributive programs. Developmental programs provide the infrastructure to facilitate economic growth, for example physical and social infrastructure. According to Peterson, the national government is the least efficient producer of development policies because of its distance to real problems and needs. (Peterson, 1995)

The **Places Rated Almanach**, first published in 1981, ranks more than 350 metropolitan areas in the United States and Canada on nine preselected indicators: cost of living, transportation, jobs, education, climate, crime, health care and recreation. These categories are broken down to complex data and a weighting system is also applied.

## **The impacts of LED**

LED is determined by several factors, most importantly the not all-inclusive list of the 11 factors of the local environment as follows:

- economic base
- workforce
- physical capital
- energy availability
- financial capital
- tax structure
- culture
- geography
- climate

- topography
- research environment

Some factors are fixed or unlikely to change in the foreseeable future. Other factors may be altered by interventions in the short or the long term.

Community goals should be defined and LED is successful if it contributes to the completion of these goals and the related tasks. Local economic goals will guide the identification of both opportunities and constraints.

There have been several attempts to measure and evaluate the impact of LED activities in a specific area. It is not an easy task and a globally accepted measurement system does not exist. Several types of impacts can be differentiated and thus, measured, for example the economic impacts.

Economic impacts are effects on the level of economic activity in a given area. They may be viewed in terms of: (1) business output (or sales volume), (2) value added (or gross regional product), (3) wealth (including property values), (4) personal income (including wages), or (5) jobs. Any of these measures can be an indicator of improvement in the economic well-being of area residents, which is usually the major goal of economic development efforts (Weisbrod, 1997).

The impact of LED on quality-of-life is very diverse as quality-of-life itself is broadly defined also and displays many facets. Additional tax revenues generated by new and expanded businesses can enhance public schools and services, community development and programs, attractions. Conversely, economic growth, if not appropriately managed, can overburden the school system and the public service infrastructure.

Environmental damage can also be caused by some businesses and only a few settlements and suburbs can afford to be selective about the industries they recruit. Tourism, as one of the principal economic development strategies, is also a double-edged sword.

So, careful planning, implementation and monitoring are the keys of sustainable local economic development and a single, ultimate solution does not exist. Benchmarking exercises and the analysis of good examples are major prerequisites of future success, but activities and strategies should always be tailor-made to the local characteristics and necessities.

## **Summary**

In this last chapter we gave a thorough overview on the different tools of local economic development, including the forms of both financial, nonfinancial assistance. Although it is a very difficult task to measure the results of LED activities, we presented some potential impacts together with the most important factors determining the success of LED. We hope that we managed to give an overview of recent LED theory and practice and the

reader can also find two useful annexes at the end of the lecture notes as the glossary of the most important technical definitions and the useful links and suggested readings.

## **Questions**

How can you divide the tools of LED to subgroups?

What is your opinion about the supply- and demand-side incentives and the replacability of the different tools?

What are the basic differences between the different tools, with special respect to the most common ones?

Which tools (3 to 5) are the most efficient incentives in your opinion and why?

How would you measure the impact of the LED activities?

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## Terminology

**Externality:** An externality is an impact on someone who did not consent to the impact through participation in a voluntary exchange. Familiar negative externalities are air and water pollution.

**Natural monopolies:** Natural monopolies occur when increased production of some good or service results in continually decreasing average cost, more specifically, the greater the level of output, the lower the cost per unit. Supply of electricity can be an example of the natural monopoly. In this situation, the market may not work.

**Enterprise zones:** areas where there would be a conscious attempt in depressed areas to reduce regulation, and to reduce the stifling burden of tax. Experiments could take place in the area with the minimum of red tape and with an opportunity to provide a laboratory to test ideas before a more general application.

**Quality of life:** it is an amorphous term used to conote a bundle of amenities generally recognized as positive assets in a given community. Some argue that these amenities can vary from community to community, a single, globally accepted definition does not exist.

**Footlose firm:** This concept came into the spotlight with the murgence of high-tech businesses, because these firms are free to choose any location with a strong focus on retaining its highly educated labor force. These firms choose the most attractive location based on quality-of-life considerations.

**Additionality:** The principle that funding from a particular source is additional to that provided by national and municipal authorities. The additionality principle requires that funds awarded for a project should not be used merely to substitute/replace existing funds, but should be used for additional projects and activities.

**Brownfields:** This is a general term used for sites that have been developed in the past that may or may not be contaminated. Sustainable economic development strategies encourage the productive reuse of these sites, even though this may be more expensive than building or developing new and presently undeveloped Greenfield sites.

**Business Incubators:** An economic development tool primarily designed to help create and grow new business in a community within a specific building or location. Business incubators help emerging businesses by providing various support services such as assistance with developing business and marketing plans, building management skills, obtaining capital and access to more specialized services. They also provide flexible space to rent, shared equipment and administrative services in managed workspace.

**Business Retention Strategies:** Systematic efforts designed to keep local companies content and situated at their present locations within the area. Strategies include helping companies cope with changing economic conditions, addressing new markets and even assisting with internal company problems.

**Business Start-up Support:** Includes the full range of services available to people starting in business for the first time. Initiatives include: training, business advisory support, business networking and mentoring and financial assistance (grants, loans, and interest rate subsidies are traditional methods; a more innovative approach to financial support is to try and attract as much private sector investment as possible, rather than public sector).

**Clusters:** An industry cluster is a grouping of related industries and institutions in an area or region. The industries are inter-linked and connected in many different ways. Some industries in the cluster will be suppliers to others; some will be buyers from others; some will share labor or resources. The important thing about a cluster is that the industries within the cluster are economically linked. They both collaborate and compete, and are, to some degree, dependant upon each other. Ideally, synergies are produced by these clusters.

**Entrepreneurial Training:** Programs that provide guidance and instruction on business basics (such as accounting and marketing) so that businesses improve their chances of success.

**Export Development Services:** Export assistance programs can help businesses to diversify their customer base, expand operations and become more profitable. Export services include: assessing company capacity for exporting; market research; information services (on exporting, trade regulations, transportation, etc.); international lead generation and trade shows/exhibitions or promotional marketing trips.

**Foreign Direct Investment (FDI):** FDI is investment that is attracted from abroad. It can mean either Greenfield investment (i.e. investment in building new facilities on hitherto undeveloped sites) or portfolio investment (i.e. buying into an established business). Inward investment can take similar forms (either Greenfield or portfolio). However it may include investment from within a country as well as from abroad.

**Greenfields:** Refers to land that has hitherto not been developed. Greenfield investments imply that facilities are designed and built for investors, rather than the investor buying a facility already built

**Growth Node:** A physical location where industry and/or commercial development is deliberately directed; done either to reduce growth pressures elsewhere in the city or to redistribute growth within a city.

**Hard Infrastructure:** Hard infrastructure includes all the tangible physical assets that contribute to the economy of a city. For example, transport infrastructure (roads, railways, ports, airports), industrial and commercial buildings, water, waste disposal, energy, telecommunications etc. See also soft infrastructure below.

**High Road Techniques:** High road techniques stress the need to make more efficient use of resources and invest in processes, technological innovation and employee skills. It

views labor as an important commodity and skill enhancement as a crucial, targeted investment. It entails the mobilization and upgrading of local resources and the maximization of local strengths and advantages to balance relatively higher wage rates.

**Indicators:** Proxy measures to provide operational definitions to the multidimensional components of LED. Indicators are expected to serve the function of defining policy problems and informing policy formulation. They should provide a basis for policy discussion and planning.

**Indigenous Businesses:** Local businesses, usually those that have developed in the community. Increasingly, the term refers to all businesses in an area whether they are 'locally grown' or not.

**Informal Sector:** Not within the formal or legal sector and therefore not registered.

**Labor Market Information:** The body of data available on a particular labor market, including employment and unemployment statistics, occupational statistics, and average hours and earnings data.

**Local Economic Forum:** A coordinating mechanism set up to achieve the streamlining and improvement of local economic service delivery.

**Low Road Techniques:** Low road techniques promote an area's economic position through the lowering of production costs, especially wage rates; this is not a sustainable approach.

**Mobile Manufacturing (or service sector) Investment:** Where manufacturing (or service) companies have a wide choice of location choices. Consequently they are in very strong negotiating positions when it comes to choosing where to locate their businesses.

**One-stop Business Service Centres:** Facilities where business persons can go to obtain advice and support to help them establish and expand their business. Sometimes these centres also issue licenses and permits needed by businesses to start-up, operate or expand. These centres improve the local business environment by reducing the number of separate agencies and offices a business may need to approach for advice or to apply for various licenses and permits. They save public and private time and improve efficiency as a result.

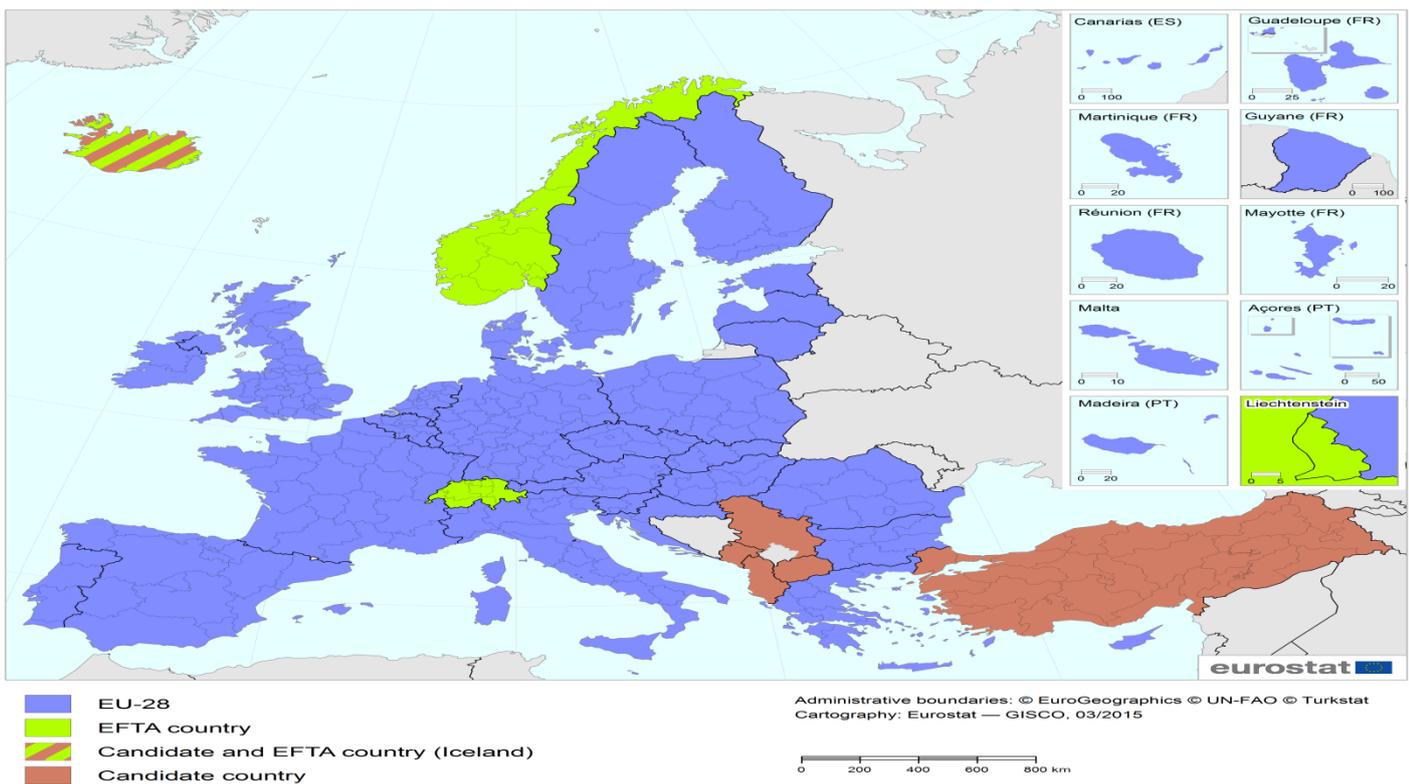
**Soft Infrastructure:** Soft infrastructure relates to the less tangible aspects of LED such as education and training provision, quality of life infrastructure such as park, leisure and library services, housing, business support, business networking and financing services etc.

**SMEs:** This is the acronym for 'small and medium sized enterprises'. There is no definitive delineation between a small and medium sized business. As a general reference, small is often from 5 to 20 employees and medium from 20 up to 200. Businesses with fewer than 5 employees are usually called micro-enterprises. This is a guide only.

**Stakeholders:** Individuals and groups who have an interest in the issues in hand. They normally represent their own interests as stakeholders.

**Supply Chains:** The products and processes that are essential to the production of a good or service. For example, to produce frozen fish, the supply chain inputs will extend from fish catching, handling, processing, and freezing to packaging, storing and distribution. These are all elements of a supply chain. Holistic LED strategies will try and capture as much as possible of the higher value end of the value chain in their area. In this case fish processing, packaging, storing and distribution will be adding value and therefore be seen at the higher end of the value chain

EU-28, EFTA and Enlargement countries



The designation of Kosovo is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.  
 Source: Eurostat

## Further reading and related sites

Redefining "Urban"

A New Way to Measure Metropolitan Areas

<http://www.oecd.org/governance/regional-policy/regionalstatisticsandindicators.htm>

<http://www.oecd.org/governance/regional-policy/urbandevelopment.htm>

Urban Audit

Republic of Korea

[Incheon Free Economic Zone Authority](#)

**Singapore**

[Singapore Economic Development Board](#)

**Vietnam**

[Vietnam Competitiveness Initiative](#)

**Slovak Republic**

City of Poprad

**Latin-American cities**

... and so on ...eg.: Understanding Your Local Economy

[www.worldbank.org/urban/led](http://www.worldbank.org/urban/led)

European Commission Directorate General of Regional Policy:

[www.europa.eu.int/comm/regional\\_policy/index\\_en.htm](http://www.europa.eu.int/comm/regional_policy/index_en.htm)

OECD Territorial Development Program: [www.oecd.org](http://www.oecd.org)

Partnership for Local Economic Development:

[www.parul-led.or.id/e\\_overview.htm](http://www.parul-led.or.id/e_overview.htm)

The Cities Alliance [www.citiesalliance.com](http://www.citiesalliance.com)

The International Labour Organisation (ILO), [www.ilo.org](http://www.ilo.org)

<http://www.census.gov/population/metro/about/>

[Green Growth Knowledge Platform](#)

[Planning and Financing Low-Carbon, Livable Cities](#)

[Sustainable Cities Blog](#)

[Strengthening Urban Resilience](#)

<http://www.ess.co.at/GAIA/Reports/indics.html>