

LOCAL ECONOMIC DEVELOPMENT IN EASTERN EUROPE; WHAT IS POSSIBLE, and WHEN?

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The organizers have asked me to start with a definition of terms:

What I think is local economic development? LED is the process, policies and programs by which communities enhance the quality of life of their residents, by creating new community and business wealth. This is accomplished by improving the competitive position regarding such critical factors as human resources, information and technology, capital, physical infrastructure and local resources. It is the result of the collective efforts of the public , private and community sectors.

STRATEGIC PLANNING IS AN INTEGRAL PART OF LED PROCESS but it is not an end in itself.

Strategic planning is a systematic process by which communities can envision their future and create the appropriate steps to achieve that future. It is a way to identify and develop consensus on critical issues, goals, priorities, and strategies.

As far as I can see, **COMMUNITY BASED LED** is no different from local economic development that properly

involves all parties and develops a consensus. I do not think one can eliminate one group such as local government, from the process and call this local economic development.

At USAID, there are few local economic development projects as such. Because of the way USAID is organized, different sectoral bureaus do different pieces of economic development. Only as part of Local Government or Urban Development projects do we find LED treated in an integrated fashion, and when this happens, the emphasis is on the role of local government. It is a problem to get other sectors to take an integrated approach to the problem.

I will speak about 3 LED projects in Eastern Europe that use a strategic planning approach, but are very different from each other. They are different because the underlying conditions are different in each city, and as a result, the objectives of the projects are different and the approach is different.

They provide interesting contrasts in “ what works, when, and why “. For each project I will briefly mention

- the objectives
- the approach
- make an attempt to assess the results, although we don't know the “end of the pipe” results in some cases.

Then I will summarize some “lessons learned”.

The first project is in Slovakia; this is a “classic” local economic development approach, focused on business development and employment generation through improvement of the underlying conditions that would contribute to generating economic growth.

Objectives:

- To increase business investment and create employment.
- kickstart strategic planning as the basis for local economic development plans and projects that can be financed through various resources, both local and the large EU regional funds now available.
- Set in motion a sustainable process by using local consultants, and by anchoring the process in the local government,

What Approach was used?

This is not a pilot for USAID: this is third country in northern tier countries where USAID has used this approach to LED and where the conditions were similar--- (the others are Czech Republic and in Poland)

- limited assistance to 4 cities
- Cities chosen through competition based on factors for successful achievement of the objectives of the project. These factors include political leadership, an unemployment rate that is not too high or too low; that have a population over 20,000 population; not too far from transportation links ; appeared to have a history of using resources wisely; had more than one major employer;

- City government is the leader and manager of the local economic development process, but the strategic development committee must include all relevant stakeholders and sectors.
- The project goes through a 6 month, classic 5- step strategic planning process that includes
 - 1.formation of a strategic planning committee representing all sectors, 2. A city analysis 3. Swot analysis 4. Development of goals and objectives, 5. Prioritization and dev.of a strategic plan and detailed implementation plan including funding sources and tie in to the city budget and capital investment plan.
- After this is passed by the city council there is a further 6 months of targeted assistance in implementation of key aspects of the plan.
- The Technical assistance is limited to a few days per month for each step, working with the steering committee and working committees. We are using an experienced local consultant group, who, though paid by USAID acts as consultants to the city.
- There are no grants, no loans, no project finance. This is a project that is based on transfer of a skill and technique. The purpose is to better package what is already in Slovakia----local finance, the government, SME funds, EU funds available, from private investment , public private partnerships. We determined that TA should be sufficient to leverage the rest.

Results: Czech Republic and Slovakia

- In Slovakia, 2 of 4 cities have approved strategic development and implementation plans as of this month,

- Similar project in Czech Republic led to: increased investment in the 5 cities assisted: all kinds of projects designed by cities and financed by EU regional financing, direct foreign investment; well targeted capital investments by cities and increase in jobs.
- Formation of Economic development departments in most cities, that now coordinate and implement the plans.
- An unanticipated result was the formation of a group of consultants to do this kind of work with cities. These consultants have done similar LED/SP work on a fee paying basis for at least 8 other Czech cities at a cost of approximately \$25,000 to the city.

What are the Conditions that necessitate, or facilitate this kind of short targeted approach?

- Competent local governments
- The city has a decent financial capacity, management capacity, and sufficient competence to manage and use own revenues or tap outside funds- private and public and international EU--- for projects.
- A regulatory framework exists that gives local governments sufficient legal authority (enabling legal and regulatory environment is not a minefield of obstacles)
- good local leadership
- sectors of the community that are not at loggerheads and willing to work together, especially business and local government
- potential for mobilization of local financial resources

- Potential for private investment, and for donor funds. (EU) on a co-finance basis.
- Expertise exists on a commercial basis---didn't have to train anyone. The process can be short and sweet.

The second project is in Romania and it is different. LED is but one component in a large, on-going USAID project for local government reform, that has provided TA and training to a number of cities on municipal management and municipal credit for 7 years.

Objectives

The LED component reflects the objectives of the Local Government project,...these are multiple, and not only targeted to economic development. They include:

- Assisting cities to manage newly decentralized authority and responsibility—in this case land use planning, financing of infrastructure, new revenue raising authorities
- citizen participation in decision making
- improved financial management and planning, including performance budgeting, capital investment planning
- financing infrastructure investments for which they are now responsible

All of these objectives can be subsumed under capacity building....and LED was envisioned as a focus activity that would build capacity.

Approach:

- TA for capacity building in three selected cities, all medium sized provincial centers with diverse economic base, and reasonably good finances and the potential for greatly increasing their own financial resources .
- focus on sub- themes of the LG project---citizen participation, links to financial planning and revenue raising, and to urban land use planning
- Strategic planning process that resulted in identification of a few key projects, rather than an elaborate plan.
- Using the projects that were identified as the focus for the capacity building.
- Implemented by a US contractor for local government project, using a mix of Expatriate consultants, Romanian specialists such as planners, and some EE consultants.However, there is no one local institution that is the repository for experience in LED.
- local Gov. is the focus and anchor
- No linkage to grants or lending.

Results:

- Work in progress; industrial park in Oradea, potential public private partnership in Pitesti. Stress has been on capacity building across a range of areas, and implementation of projects, so the results are not clear yet, and maybe not all of the projects will get done.
- Big changes in management, especially financial management.
- Major change in attitude towards community participation
- What about scaling up? This project took a long time, and a lot of money. While there was information sharing

with other cities through seminars, it is not clear that this could be sufficient to stimulate replication of such a process, without technical assistance. Personally think a different approach is needed in order to scale up because so much capacity building has been necessary.

What are the Conditions that necessitate this approach?

What you expect?

- the city does not have the management capacity to do LED on its own, and needs a lot of assistance for better urban management;
- where the roles and authorities of cities are new, and where the staff does not currently have the capacity or understanding to successfully carry out the newly mandated functions that are prerequisites to LED
- These conditions require assistance beyond strategic planning, and right through to implementation
- Reasonably good financial situation so that the city can use the skills and newly developed capacity to generate income, make investments, implement plan.
- Reasonably good economic potential (2 of three cities were on borders).
- Obviously the intangible factors are important. dynamic leadership; good relationship with private sector

The third project I want to mention is in Bulgaria and it is quite different from the other two.

The US department of labor developed the project. Its original objective was to mitigate the effects of economic restructuring.

- -assist enterprises and businesses to be more productive
- -provide funds for industrial transition
- -help displaced workers in labor deployment
- -Assist in local business growth, and job creation strategies.

However, in the two years since inception, the project objectives have altered, and now it is oriented more towards small community development projects using local resources, and away from helping restructured business and enterprises directly, or retraining workers. These aspects of the original project were given over to national agencies. This project focuses on a self-help approach outside of local government. While the objective is to improve the local economy in the short term, the main objective is changing mentality especially regarding dependence on government.

What is the Approach?

- The project focuses on small, rural towns with high unemployment and high percentage of minority ethnic groups, and to some extent towns that are/were mono-industry dependent.
- The locus of the project is NOT local government. It is on partnerships outside local government. The perspective is that people do not trust local government, local Gov. does not involve the people or represent their interests, and partnerships outside government are more effective than government.

- project works through local volunteers, who form a cross-sectoral working group. While the local government is involved in the working group as a partner, as is the local labor office, they do not have control.
- This group gets guidance over a period of 6 months to develop their economic profile, and a list of potential ideas to solve the problems they have identified. One idea is selected as a project. The next year is spent on a business plan, an implementation plan, getting a partner for the project. The project is developed with a partner that is an existing entity, generally an NGO, occasionally a private business.
- A grant of 20,000 is available for this project, which goes to the NGO or main partner, never to the municipality. If the project requires more money the partners have to find supplementary funds. The stress is on multiple partners contributing something, including local government.
- The assistance is provided by US contractor project staff, exceptionally by Bulgarian consultants.
- Heavy emphasis on partnerships between the ad hoc group of volunteers, and other partners.

Results

- Work in 35 towns that have defined 90 small projects of all sorts, many rural or agricultural in nature.
- Partnerships for funding for all but the first project per community.

- Of 35 cities, 9 started a community center/ agro center/ business center, all with partners of some sort. These offer very small scale, basic services and assistance.
- The emphasis is not on centers, as they are unsustainable
- 20 new startup businesses have been created, and
- over 2000 jobs created or saved, through job retraining,

What are the conditions for this kind of project? What are the parameters for success?

- Small towns, with high unemployment where people can volunteer their time.
- Very limited resources for mobilization, requiring ingenuity, and outside funds
- Limited local government capacity and limited authority requiring a step by step approach because the community, including the local government has not got sufficient competence, authority or resources.

I think there is a legitimate question that can be raised here, whether this kind of intervention can rightfully be called local economic development. I see the following problems with this approach:

- only very small projects can be implemented given the low level of capacity, the small amount of grant funds available; therefore, the impact on the local economy will be small, and perhaps very temporal.
- Projects that are within the rightful jurisdiction local government—infrastructure of any consequence, for example, public works, etc. ---will not be possible;

- there is no way to build upon what is learned through the first small project and move to a larger scale.
- the capacity building effort may be lost, since NGOs are not stable, and there is no vehicle for continuity and sustainability.
- by going around local government, you are letting them off the hook , they don't take their responsibilities
- Since there are grants involved, there is the “moral hazard” issue at least initially. This might be a “grants driven effort”.
- This project is due to be absorbed by the WB social investment fund in 2004.

WHAT CAN WE LEARN FROM THESE PROJECTS ABOUT LED? WHAT ARE THE IMPORTANT ISSUES? WHAT WORKS, AND IN WHAT SITUATIONS?

WHAT ARE THE ISSUES?

- Does LED need to be structured around local government? If not, then what?
 - If the goal is self-help small projects, one-off, then no, the local government certainly does not need to be the central organization. And if the focus is on things that are outside the LG's competence, such as SME assistance, the business sector, retraining, then again, no.
 - If the goal is attraction of outside resources of any size, including government funds and lending, development of a sustainable process, and real impact

on the local economy, then yes, the local government must be intimately involved. If the goal is to develop a sustainable effort, then yes. Why, because the capacity is there, the structure for sustainability is there, and as Greg has pointed out, local government plays an important role. Maybe the organization could take the form of a local economic development corporation (a public corporation) not the city, but it needs to be stable and public to get public money and mobilize tax resources needed for investment.

Does effective community participation, “community driven development” and community control mean going around and outside local government? NO. LED when done correctly is participatory and inclusive. If a city is not willing to work this way, then just forget them!

- Should there be grants? In order to accomplish something, you need money. From some source. This is not necessarily a grant. If cities have authority and revenue resources they can do lots of things without grants. For cities that do not have resources , probably matching grants are the best way to avoid donor dependence or the moral hazard problem.

WHAT ARE THE LESSONS LEARNED?

- Strategic planning is a necessary first step for LED. The processes that are involved in strategic planning for local economic development are important for changing

mentality, but this does not necessarily lead to LED. In many situations the assistance cannot stop there. There is not enough capacity to follow through to implementation.

- Capacity building is very important and needs to be structured carefully.
- We must match the objectives and structure of a LED project to the potential and capacity of the city: if the city small, no resources, lacks competence and skills, no infrastructure or support businesses, etc. then the first objective should be skills development, capacity development. Don't expect any thing else, don't pour money in, don't give them a loan because they cannot manage it. Focus on the critical first step, which is capacity building
- If the city has proven that they are competent with resources of own and able to muster other resources, then a small amount of organizational help is probably all that is needed and the goal can be much more ambitious and the focus can be on projects and activities.
- Be prepared for a long time horizon. Also be prepared to have to train and develop local expertise if there isn't much around.
- Finally unless you have unlimited amounts of money and time, and don't care about results, pick your city carefully; this makes all the difference in the world!

WHAT DOES THIS MEAN FOR THE WORLD BANK?

- Economic development planning, and strategic planning should ---not only ideally, but for practical reasons—

should be a necessary first step before any urban lending projects take place. The reason is that most cities have never thought about the strategic choices and priorities for investments, and never thought about the impact of investments on economic development.

- Urban investment loans should be congruent with the the strategic plan of the city(if the EU regional funds can require an economic development plan, so can the WB) and should not take place in the absence of a strategic development and CIP.