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Workshop

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Development“**

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**Local Economic Promotion
- a brief guide -
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Reader

Workshop

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I. Where Does Local Economic Promotion Stand in Relation to the Work of the Local Authority?

1. Within local administration there are a series of major functions which are fundamental to the fulfilment of all local authority contracts. These areas are generally referred to as cross-sectional functions and include finance, personnel, planning and organization.
2. Elements of all the above cross-sectional functions are found in local economic promotion.

The economic promotion unit may offer financial incentives to new businesses starting up and to young businesses; it can also provide support in the area of planning to assist businesses wishing to locate to the area. It can call on staff with technical expertise to provide advice of a local nature to existing or new companies. Through the instrument of development planning the local authority can create the right conditions for investment and economic growth. The earmarking of appropriate real estate and infrastructural measures are also important planning elements of economic promotion.

In essence the prime task of local economic promotion is to abolish and avoid obstacles to economic activity, open up investment opportunities and supply help, advice and aftercare.

Since many specialist local government departments are involved in the process of ensuring the success of local economic promotion, these can be referred to as new, additional cross-sectional functions.

Cross-sectional functions in local administration

Finance Personnel Planning Organization

Local economic promotion as a new
cross-sectional function with elements
of traditional cross-sectional functions

3. Combining this new cross-sectional function with the existing, traditional definition produces a new picture of local administration in which the emphasis is not merely on a smoothly running public administration machine but on a pro-active entity comparable with a commercial business: an "entrepreneurial city" or, put more freely, an "enterprising city". The task of economic promotion here is not simply to anticipate development trends but to identify development goals, select appropriate measures for achieving these goals and exploit opportunities.

Like an entrepreneur, the city must work quickly and flexibly, finding solutions and always keeping the goal in sight.

How this can be achieved in practice by those involved in local economic promotion is the subject of this short guide.

II. What Is Local Economic Promotion?

As a cross-sectional function local economic promotion encompasses the range of local authority tasks involved in securing and developing the economic basis of the local community. It therefore falls within local structural and economic policy.

III. What Is the Aim of Local Economic Promotion?

In the case of local economic promotion, it is difficult to set out a well-defined system of goals with clear distinctions between primary aims, subsidiary aims and instruments.

In the context of a practical guide it is sufficient to state that local economic promotion acts on the principle of services provided for the public good. It creates and maintains local conditions for the business community, thereby securing and improving the economic and social well-being of the people living in the local community.

Its starting point is the promotion of the “production and working conditions” of the private sector.

Thus the fundamental aims of local economic promotion are:

1. To create new and maintain existing jobs in the private sector, not in the administration or public companies!
2. To increase revenues for the local authority through the taxable capacity of expanding private companies and the increasing purchasing power of employees.

IV. What Is the Target Group?

In general the target group for local economic promotion is the private sector with all its sub-divisions: small and medium-sized businesses as well as large companies, the producing sector, industry and the service sector. The target group can also be divided into existing local businesses which receive ongoing support and domestic and foreign businesses from outside which the local authority hopes to encourage to set up in the area. This subject will be dealt with in more detail below.

V. What Is Local Economic Promotion Able and Allowed to Do?

In view of the broad nature of the aims of local economic promotion, it seems almost impossible to achieve all aims simultaneously and to the same extent. In reality the number of aims that are actually achieved will depend on the financial resources available and the capabilities of the local authority and its staff. The scarcer the resources, the more important it is to use them intelligently!

The local authority’s first priority must be to create the appropriate infrastructure to allow the private sector to function properly. A business cannot produce and sell

without electricity, water, an efficient sewage system, and telephone and fax connections; nor can it survive without proper transport links both within the local community and beyond the region. Sites which offer appropriate facilities need to be earmarked.

Small, newly formed companies are often short of capital. In this case the local authority, possibly in conjunction with other public-sector departments, can provide assistance in the form of start-up financing. In all probability, the granting of such financing will need to be very restricted in view of the scarcity of resources. The extent and term of such start-up assistance need to be clearly defined and limited at the outset. It is not possible, feasible or desirable for an enterprise or an entrepreneur to live on subsidies; their survival must depend on their productivity and profits earned through their own efforts. The local authority is not there to worry about the business success of the company – that is essentially the job of the entrepreneur. It can only help to create the right conditions to enable the company to succeed.

Advice and aftercare for businesses are factors whose importance is often underestimated. Contact needs to be established with the business and the entrepreneur from the very beginning.

It is particularly important to develop the art of listening. Only if both sides – the local authority and business – are convinced that each is accepted by the other side as expert in their own field, is it possible to establish real partnership and cooperation. The local authority must make it clear to the entrepreneur that they are there to help solve his problems and answer his questions. Entrepreneurs are not administrative experts!

It is important to try to give the entrepreneur as much help as possible with his various needs, particularly where they relate to dealings with public departments; there may also be circumstances when it is necessary to explain to an entrepreneur that the public authorities are not in a position to help with a particular idea.

It is essential to keep in touch and continue to talk to each other. It must be remembered that the authorities with their conditions and requirements are not the only call on an entrepreneur's time; his main priority must be to manage his business successfully in the market economy.

VI. What Are the Prerequisites of Local Economic Promotion?

Before someone can be offered advice and after-care, it is necessary for the economic promotion team to identify their own position. Failing to keep promises because of a failure to take into account one's own circumstances does more harm than good and makes it difficult to establish a relationship of trust between the economic promotion team and the business.

The following questions are a useful way for economic promotion staff to determine their position:

1. What have we got?
2. What do we want?
3. What are we lacking?
4. What prospects have we got?

The first priority here is to know the hard location factors:

- labour market (quantity and quality of available manpower)
- transport links
- land (quantity and quality of land available)

- transport costs (procurement and sales market)
- general proximity to sales market
- general proximity to suppliers
- contacts in the particular branch
- local taxes

- environmental protection requirements
- local development resources
 - investment grants
 - special depreciation allowances
 - credits
 - guarantees
 - price reductions/stage payments for land purchase
 - tax deferrals
 - reduced charges for utilities
- proximity to businesses in other branches
- private production-related services (e.g. maintenance, repairs, etc.)
- private business-related services (e.g. office services, shipping, tax consultants, economic advisers)
- infrastructure
 - utilities
 - connections with supraregional transport systems
 - rail and road connections
 - production facilities ready for use

In addition it is necessary to be acquainted with the indirect soft location factors which may be of considerable importance to new companies thinking of setting up in the area. These soft factors can be divided into business-related and manpower-related categories:

1. Soft business-related location factors:

- Economic climate in the country
- Economic climate in the local authority
- Image of the local authority
- Image of the business location

2. Soft manpower-related location factors:

- Housing and quality of life
- Environmental quality

- Schooling
- Leisure facilities
- Shopping facilities
- Public authorities
- Private household services

The hard location factors are indispensable prerequisites of successful economic promotion. Businesses, however, also regard the soft factors as being just as important as some of the hard factors. In a recent survey of some 2000 businesses in the Federal Republic of Germany, the 10 location factors rated as the most important to a company included the following six hard factors:

- Traffic Links (1)
- Labour market (2)
- Land availability/cost (4)
- Local taxes (5)
- Space/office availability (8)
- Contacts with companies within the same branch (10)

the following soft manpower-related factors:

- Housing and quality of life
- Environmental quality (9)

and two soft business-related factors:

- Economic climate in the federal state (6)
- Attitude of the local administration to businesses (7)

Investigation of all these factors for a particular location produces a location profile in the form of an analysis of strengths and weaknesses taking special account to the above hard and soft factors.

VII. How Can I Organize Local Economic Promotion?

The organization of local economic promotion is a matter of internal structure. There are three possible approaches:

1. Incorporating the economic promotion office in the administration's organizational plan – traditional approach
2. Hiving off economic promotion – new approach
3. Team organization – the third option.

1. Incorporating the economic promotion office in the administration's organizational plan – traditional approach

The traditional approach to economic promotion is to incorporate it as an office or department in the administration's organizational plan so that it then operates as a cross-sectional function as described above. Preferably the office should report directly to the chief administrative officer himself; if not, it should at least be attached to a section headed by a person who, by virtue of his training, other areas of responsibility and also his personal interest, can identify with the tasks of economic promotion. The cross-sectional nature of economic promotion tasks makes this particularly vital because there may be a need to smooth out conflicts arising between different departments – planning and economic promotion for instance.

In the final analysis the efficiency of economic promotion staff is dependent on the support they receive from the administration.

2. Hiving off economic promotion – new approach

In some places economic promotion has been hived off from the administration and run as a company under private law (GmbH) under the control of the council and administration.

The basic advantage of this organizational form is that it allows specialist economic promotion staff to operate with more leeway without being tied unnecessarily by bureaucracy. The possible disadvantage is that the vital cooperation with the administration's specialist departments is not as close as it is in the traditional form of organization where economic promotion is an internal department of the administration.

Hiving off economic promotion to form a private-law company should only be considered in the case of a large town, an association of several small towns and authorities or on a regional basis.

3. Team organization – the third option

The third option combines the preceding two approaches to produce a practical alternative suitable for small and medium-sized towns and local authorities. Local economic promotion remains as an organizational unit within the administration but at the same time a team organization is set up with responsibilities over and above the day-to-day duties of local economic promotion. The team, which meets regularly, preferably under the leadership of the chief administrative officer, should include all the various sections, offices and departments responsible for and affected by economic promotion. The head of economic promotion reports to the team on the work of the unit and problems are discussed by the specialist departments involved in the presence of all; the individual departments responsible report back to the next meeting on how these problems have been resolved.

The team may include:

- the chief administrative officer as moderator
- the head of economic promotion
- the treasurer
- the head of the planning office
- the head of the civil engineering department
- the head of the real estate office
- the chief urban development officer (if appropriate)

Regular team meetings help to ensure that all those involved become better acquainted with specific technical problems beyond their own special fields, the information flow is intensified and individual departments become more aware of their own responsibilities and the need to cooperate to ensure the success of economic promotion, particularly in relation to specific projects.

VIII. How Can I Ensure that Local Economic Promotion Has an Impact Outside?

When a private company launches a new product, it devises a marketing concept oriented to that product. Expressed in simple terms, marketing is a company's systematic orientation to the market, a process that goes far beyond simple advertising.

The main questions in marketing are:

1. What are the features of my product?
2. How does it appear to the outside?
3. What target group might be interested in my product?
4. What are the target group's requirements in relation to my product?

1. What are the features of my product?

Local economic promotion can also apply these questions. The analysis of strengths and weaknesses which was described above identifies the special features of a location, revealing all the data and facts which need to be known. The analysis describes the town or local authority as a business location in terms of hard and soft location factors.

2. How does it appear to the outside?

The local authority must stand out as a location from all the other many possible choices and present an unmistakable image to the outside. Certain hard or soft factors which characterize a particular location may help in this respect. Not all locations are the same; in fact, they are much more likely to differ significantly from each other. Such differences, however, may not be obvious if the location does not have a clear image. It must present itself as a "quality product".

3. What target group might be interested in my product?

Two main types of target group can be identified. The first group, whose importance in relation to economic promotion should not be underestimated, comprises the endogenous potential: that is to say, businesses which are already operating in the area or new local businesses starting up. Supporting and assisting them helps to bolster the area's existing economic strength. It is a matter of great regret if a company located in the area expands but subsequently leaves the location because it has not been paid sufficient attention and its expansion has not been taken into account early enough in planning terms. Bear in mind that even major companies have small beginnings.

The second main group are companies relocating to the area. This group includes both domestic businesses which want to relocate for a variety of reasons and foreign companies which may be interested in setting up in the area. It must be remembered, however, that this latter group need particularly intensive care as

They may be unfamiliar with the internal structures and procedures in the country. Economic promotion staff will need to accompany and advise them in all their dealings with the authorities and institutions in the preparation and planning phase and from the initial discussion stages through to the start-up of production.

In the commercial sector the potential group of buyers for a product is carefully analysed before the product is launched on the market; similarly for any given location there will almost certainly be branches of business that are particularly well suited. For example, the target group may be the metalworking industry because there are already similar businesses in the area and there is therefore an adequate supply of suitable, properly trained workers. In the case of a local authority located near an agglomeration, the target group might be the service sector or businesses in the food industry. There are any number of similar examples.

4. What are the target group's requirements in relation to my product?

After identifying the possible target group(s), the next stage is to establish what factors the target group itself considers to be important in terms of location. The commercial sector uses market research surveys for this purpose: "How do you like our product?", "What changes do you think ought to be made?"

This stage brings the economic promotion team into contact with the companies in question and their industrial associations. The team's job is then to discuss the findings of these talks with a view to making improvements to the location.

To summarize, marketing in the above-mentioned sense can be summed up by the following three questions:

1. What is on offer?
2. How is it to be presented?
3. To whom, by whom, when and how?

IX. Who Are the Possible Cooperation Partners?

1. Cooperation between local authorities

In the section on possible forms of organization, reference was made to the possibility of cooperating on a regional basis in the field of economic promotion. This means that several neighbouring authorities join together to implement a joint economic promotion programme. The advantage of this method is that smaller authorities which are not able to set up their own economic promotion unit have the opportunity to put themselves forward as a possible location.

This form of cooperation can only function properly if all those involved act together as partners on the basis of clear agreement and avoid rivalry between each other. If several local authorities combine together to present their strengths, the quality of the location is improved for all. The possible disadvantage is that the processes of reaching agreement can take longer.

2. Public-private partnership

A second important form of cooperation is collaboration with the local business community – individual companies as well as business organizations such as the chambers of commerce and industry.

Ongoing dialogue with companies creates mutual acceptance and trust. By asking about the plans of resident companies, visiting them and making efforts to resolve the sort of problems with which the local authority can assist is a way of promoting endogenous potential (i.e. the businesses already in the area) and bringing together the private sector and public administration in a true partnership.

This public-private partnership (PPP) is equally useful and helpful to both sides. The local authority is alerted early on to the problems, developments and plans of local businesses and is able to orientate itself in good time to the wishes of the business community and possible developments. The entrepreneurs, for their part, recognize that the local administration is a reliable and competent discussion partner.

X. What Principles Have to Be Observed?

The entire economic promotion concept is based on the following six principles:

1. The Principle of Technical Expertise

Anyone talking about "his location" must have all the relevant facts and data at his fingertips or easily retrievable. Be critical of alleged "experts" who offer their services. Examine such offers carefully in terms of their content, product and financial effects.

2. The Principle of Competence in the Role of Advisor

The appropriate specialist in the local authority should be available to answer question a business might ask (e.g. civil engineering or real estate). The role of the economic promotion expert is to act as intermediary and lead the business through all the stages from the initial discussions to the realization of the project. His job is to guide the business through the various authorities and official bodies, including his own local authority.

3. The Principle of Decision-making Competence

In the same way as an entrepreneur is often required to make quick decisions of wide-ranging significance, the local authority must also be able to make quick and binding decisions. Decisions must be made quickly and promises must be kept.

4. The Principle of Seriousness

Do not promise anything you cannot deliver. Be frank if a demand or request on the part of a company cannot be met by the local authority.

5. The Principle of Flexibility

Remember that large companies plan, make decisions and act differently from a small or medium-sized business and that foreign companies need different help and care from domestic businesses. The administration must react flexibly to different requirements and questions.

6. The Principle of Partnership

Keep up a constant dialogue with the business community in order to establish a relationship based on mutual acceptance and trust ("PPP").

XI. Summary

Local economic promotion is a management function in terms of preliminary preparation, planning, coordination and execution.

The stages of organization, planning and execution can be summarized as follows:

1. Establish an independent specialized office for economic promotion within the local administration, preferably with direct links to the chief administrative officer.
2. Set up teamwork to ensure exchange of information, advice and cooperation on a cross-department basis.
3. Carry out a strengths/weaknesses analysis and identify specific goals with respect to the commercial, trade and producing sectors, with the participation, where appropriate, of reputable advisors.
4. Draw up a time and cost schedule to eliminate any shortcomings identified.
5. Work together with parties active within the business community to review findings and draw up a joint action and support strategy (PPP).
6. Devise a marketing concept.
7. View economic promotion as a partner of the business sector from initial planning to realization.