

The Role of Local Government in Local Economic Development

A step-by-step approach developed by VNG International



VNG International's 6 Steps to Local Economic Development



Step 1 Getting organised

Ensure commitment of the stakeholders and the involvement of the public. Set up an Economic Development Planning Commission together.



Step 2 Strategic planning

Analyse the present situation. Establish where you want to go, how you will get there and how you will measure progress. Jointly define the Mission Statement.



Step 3 Information gathering

Make baseline surveys, business surveys and community profiles. Establish your local authority's competitive advantages.



4

Step 4 Establish an administrative organisation

Set up an Office of Economic Development in your municipality. Explore funding opportunities for LED. Match public and private requirements.



Step 5 LED Service levels

Ensure LED services such as Business Information Centres and Business Development Programmes. Go for One-stop shopping.



6

Step 6 Targeted and specialised services

Establish Public Private Partnerships. Set up Business Improvement Districts, Business Parks and Cost sharing programmes. Attract foreign direct investment. Provide financial assistance to small businesses.

Colophon

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Introduction

Throughout the world, the relationships between central and local government are changing. This has a direct impact on many facets of life at the local level. There is a general tendency towards decentralisation, with greater local autonomy over a wide range of issues. There is also a shift in focus from national to regional policy determination. Decentralisation has become a 'hot issue', involving local determination of economic choices, an emphasis on identifying and exploiting competitive advantages, and making local choices with regard to tax policy, job development and quality of life issues. In short, much of the responsibility for economic development has now shifted to the local level.

Despite the common thread and similar definitions that characterise the concept of Local Economic Development (LED), there are nonetheless differences of approach and emphasis depending on the part of the world in which it is to be applied. This VNG International publication has been written for its consultants in all countries, whereby these differences are noted where deemed appropriate. One thing that is certain is that there are many ways to implement LED: not necessarily better or worse ways – but *different* ways. This publication, like the VNG International approach itself, attempts to capitalise on this diversity. This publication does not pretend to have all the answers. It does, however, offer a basic approach with some variations drawn from experience worldwide.



1 What is Local Economic Development?

There are almost as many definitions of LED as there are people engaged in the process. The common factor is that LED represents the effort expended by a community to improve economic conditions and hence the quality of life. An informal definition of LED is presented below and suggested by Gerry Delany a VNG International LED consultant in South Africa. An alternative is the

AN INFORMAL DEFINITION OF LED:



one applied by the World Bank: 'LED is about building up the economic capacity of a local area to improve its economic future and to improve 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.'¹ The choice of definition will depend on circumstances, but as illustrated by these two examples, we are actually talking about exactly the same thing.

In defining LED it is important to understand that it is only a part of the overall growth and development effort of a community. To be truly effective, it must be regarded as an integral part of a larger process. Spatial planning, financing arrangements and the development and maintenance of urban infrastructure will also be critical to the success of LED efforts.

Components of LED

LED comprises four main components.

- 1 Attracting new investment** is perhaps the most prominent component of LED in many people's perception. This comprises 'attraction of outside investment' and 'internal development', both of which are primarily concerned with job creation.
- 2 Retaining existing jobs** is possibly the most important component of LED. In many cases, ensuring continuity of employment will prove far more successful in enhancing the economy than large-scale investment strategies.
- 3** Although some contend that **tax base enhancement** is more an outcome than a component of LED, in those parts of the world in which local government plays a significant role in developing the local economy it is crucial to the affordability of local involvement.
- 4** The overriding reason for having LED at all is to **improve the quality of life** for the people. Whether in terms of creating jobs, improving aesthetics or providing housing, the real purpose is to enable the entire community to enjoy the benefits of the prosperity that growth and development provide.

It should be noted that not all aspects of LED will be applicable to every community. However, all communities are concerned with their local economy and ways to improve it. Each one should seek out those ways that are likely to be of greatest benefit. Moreover, communities should not regard LED as purely belonging to the private domain. Lobbying central government for more funding might be as valid a LED tool as attracting new private business.

¹ Swinburn et al, *Local Economic Development: A Primer* (Washington DC : Bertelsmann Stiftung, Gutesloh, The World Bank, 2006)



2 Seeking competitive advantage

A successful LED programme is based on basic principles, one being that a community must identify and exploit its Competitive Advantages. A main driving force behind decentralisation is the fact that every city, area or community is unique. It has its own advantages and disadvantages. It possesses certain assets that others do not. In other words, it has competitive advantages. LED capitalises on these advantages. If none are found, concentrating on the marketable advantages will be the next best course of action. Competitive advantages are not to be confused with simple strengths and weaknesses (which all communities have), they are those characteristics of an area and its community which can be exploited for that community's benefit.

TYPES OF LOCAL ADVANTAGES:

Common advantages:

Strong assets (strengths). Important to have but not a distinguishing feature. Examples might include:

- A highly educated workforce
- An abundance of attractive parks and green spaces
- Good accessibility

Marketable advantages:

Advantages worth building upon. Quite valuable even if others have similar advantages. Examples might include:

- A university with a research facility, relevant to local demand
- Access to a major resort and the facilities to support demand for visitor accommodation
- Intersecting north-south/east-west traffic routes or rail links

Unique advantages (competitive advantages):

Advantages that enable a community to do something that other competing local communities cannot. Examples might include:

- A specialised industrial cluster with a specific educational demand
- A world class tourist attraction and facilities to support incoming tourism
- A major port



3 Who is involved?

The key is to ensure that the community as a whole is adequately represented in the LED development process. Omitting any segment of the community from the process will not only work against the immediate interests of that segment, but

may also cause social problems within the larger community in the longer term. It is therefore preferable to assemble the broadest, most representative group possible. Where the local government is a key player, the participants are likely to be appointed by the local mayor. In other areas, such as some African countries, responsibility may be shared by several local leaders, whereupon the appointment process will be somewhat different. Regardless of the difference in approach, the broader the group is, the better the results are likely to be. A good rule of thumb is to include any person or group which has influence over any segment of the community. A list of potential participants is given in the text box.

TYPES OF REPRESENTATIVES WHO MIGHT BE INCLUDED IN A LED DEVELOPMENT PROCESS:

- Elected and senior appointed public officials
- Representatives of regional or central government
- Directors of large industries and businesses
- SME owners and managers
- Entrepreneurs
- Bank managers
- Directors of major public utilities
- The director of the local Chamber of Commerce and other business associations
- Representatives of local schools and universities
- Newspaper and other media representatives
- Local representatives of central government offices
- NGO representatives
- Representatives of local churches
- Representatives of labour unions

4 Leading the process

The importance of leadership, and the commitment of local leaders to an LED strategy, deserves special comment. VNG International's experience suggests that this is an aspect which may well call for different approaches depending on the geographic region concerned. The Eastern European programmes, much like Western Europe, have a marked focus on the role of the municipality, mayor and council in the process of LED.

This is partly due to historical precedent and local government structures which have been in place for many centuries. The fact that a different economic system dominated the region for many years does not alter the fact that the mayor and municipal council are longstanding fixtures of the community structure. They are expected to provide leadership and to solve problems, even more so in the light of the trend towards government decentralisation seen since the 1990s.

In some parts of the world, however, this is not the case. In South Africa, where many of today's municipalities have been established since 2002 and where local officials are new to local government, the traditions and expectations that are found in Europe are not such a dominant factor. Surinam does not have municipalities at all. Here, local government is structured through districts. In these and similar cases, different leaders and process organisers will emerge.

Regardless of what leadership model exists in a local community, it should be remembered that the basic function of the leaders is to work within the existing system in order to create the conditions for LED. Given the proper setting, private entrepreneurs usually find and exploit the opportunities to the best advantage. As one participant in a local economic development training programme in Bulgaria once exclaimed in the middle of a workshop, 'Oh, I get it – our job is to build the pond... the frogs will come by themselves!'

LED Leadership in South Africa

It is too soon to talk about a 'South African model' for LED as there is still much debate on the best way to tackle the high levels of unemployment and to develop a more equitable society in the country. Before the advent of democracy in 1994, municipalities were centred on cities and towns leaving the surrounding countryside to be administered by a variety of regional, tribal and 'homeland' institutions. Within their borders, municipalities played little role in economic development beyond the provision of infrastructure and services and, of course, planning and regulation.

Locally driven economic development, where it took place at all, was led by the private sector, NGOs, academic institutions, trade unions, international agencies and even religious institutions. Municipalities generally lacked the capacity, interest and, more importantly, the credibility to make any significant contribution.

Post-apartheid changes have been dramatic. The number of municipalities has been reduced by three quarters. At the same time, they have been expanded to include the surrounding rural areas, which in most cases include substantial populations of poor and seriously disadvantaged people. They have also been given a constitutional mandate to 'promote socio-economic development'. Democratically elected local councillors are determined to see this take place and to correct the inequities of the past.

Other actors stepped back from the leadership role in LED or withdrew altogether from what was increasingly seen as a matter for government. However, neither the old officials nor the growing number of newcomers replacing them had much experience or understanding of LED. Moreover they faced a positive avalanche of changes in legislation, policy, institutions, boundaries, priorities and

responsibilities affecting every aspect of local government. It is therefore hardly surprising that the LED initiatives which emerged were often disappointing.

Recognising that there is a problem is one thing; agreeing what to do about it is another. However, if there is one point on which all are agreed, it is that some form of local partnership for planning, priority setting and overseeing LED initiatives is required. Various options have been tried. LED Forums, consultative bodies set up for this purpose in many areas, have not been a great success. Too big and too focused on the role of government, they tended to attract only those participants who had the time to attend or who wanted something done (rather than do something themselves). Somewhat more success has been achieved by partnerships involved in specific developments, in which it is easier to recognise the contribution made by different role-players. The challenge is now to create partnerships in which local stakeholders can play a part as genuine partners and are motivated to do so.



5 The municipality's role in Local Economic Development ²

Some traditional notions of a capitalistic economy would argue that local government has little, if any, role in economic development or in a market-based system. However the exact opposite is true. The government needs private business in order to exist, while the private sector simply could not function without the public sector. The government is actually the vehicle through which business opportunities are made possible. Unfortunately, the same government often creates barriers which hinder or completely block further development.

What difference does it make? This question is often asked with regard to the relationship between local business and the local government. In today's circumstances, the answer is that it makes all the difference in the world. Business has become global and the entrepreneur wishing to establish a new business has an almost unlimited choice of location. Existing businesses can also decide whether to stay where they are or move elsewhere. As a result, communities are not only competing with their neighbours or with other cities in the same country. They are competing against the whole world. An entrepreneur is interested only in what gives him the best overall return on his investment, whereupon it falls to local authorities to create conditions that will be attractive to investors. This can only be achieved through cooperation between the business community and local government. Each has a role to play, and each role is critical to success. In this 'Toolkit', we focus on the role of local government. It is important to remember that this role is itself extremely diverse, since 'best return on investment' refers to more than the profit margin alone.

² Budds, *Seizing Opportunities and Overcoming Barriers* (Sofia : Urban International Associates, 2000)

Part of the role of the local government is to be aware of the opportunities that already exist in the community, or how it can create new opportunities to enhance business prospects. At the same time, it must be aware of aspects that can be detrimental to business and try to eliminate them.

Economic Development in the context of the modern municipality has two purposes.

- 1 To seek out potential investors and convince investors them to bring capital to a city or region, thereby creating employment. These investors may come from within or outside the area.
- 2 To enhance the local environment aesthetically, competitively and economically, to ensure that current businesses stay and new businesses find the quality of life attractive.

Three roles of the municipality

There are three basic roles that define the responsibilities of virtually all municipalities. These roles are consistent with their traditional responsibilities, but also have a special significance in terms of economic development. They are the essence of what a local authority actually does, or should do. They are:

A Service provider. This role is the most traditional. It is the role in which municipal administrations feel most confident. It includes routine operational functions such as garbage collection and disposal, various administrative tasks, cleaning and maintaining public areas (streets and parks), maintaining state and municipal property. It also includes responsibility for capital investment with regard to the provision, upgrading and maintenance of services, although in most cases this responsibility has traditionally been shared with central government.

B Regulator. The second major role is that of regulator, which has increased in importance with the establishment of more private enterprises. Where various interests exist, it takes a single entity with overriding jurisdiction to regulate the actions of others to ensure the common good. This is a highly important function in terms of economic development and one that is most appropriate to the local authority.

C Catalyst. The role of 'catalyst' is the main proactive responsibility. It entails moving the community forward and creating the appropriate environment for economic development. The unique position that the municipal government has in the community allows it to create conducive circumstances. A municipality can provide or restrict opportunities. Restriction is not always a negative factor: it can sometimes be beneficial to the community. Problems arise when the restriction is unintended.



6 VNG International's step-by-step approach

The step-by-step approach suggested by VNG International ensures that the basics are in place before any uncharted waters and the myriad possible development options are explored. The approach puts a basic working unit in place within the community, safeguards thorough planning and ensures that an effective service system is in place. The municipality or region will then have the necessary working infrastructure to allow it to undertake LED activities. Once these basics are in place, an Office for Economic Development (OED) can branch out in any number of directions according to local circumstances. As noted above, the principle that every city is unique is an important one. However, although every Local Economic Development entity must focus on its competitive advantage, a sound basic programme is necessary to ensure success. That is why we espouse the step-by-step approach.

What is the step-by-step approach? This consists of six primary steps or phases, and provides a logical progression from the situation in which there is no organised structure for LED, then introducing some preliminary activities, and culminating in a more advanced programme. Moreover, it is flexible enough to begin implementation at any point of the process if a community has already begun work on implementing a programme. The approach is based on six basic steps, each of which has several components and functions. The following chapters examine each step in detail and provide further information about materials available from VNG International to help implement and accomplish them. The basic steps are:

- 1 Getting organised
- 2 Strategic planning
- 3 Information gathering
- 4 Setting up the administrative organisation
- 5 Developing the level and content of services
- 6 Moving on to targeted and specialised (advanced) services.

The step-by-step approach is a logical progression from an assumption of no involvement in LED to a proactive, more advanced programme of activities and services.

STEP 1: Getting organised

Being organised, having the necessary commitment, and ensuring that the public knows what is happening are all necessary if the Local Economic Development programme is to get off to a good start. In some cases, the people, commitment and knowledge will already be there. In others, they will not. Where a project is linked to the local government the connections will be reasonably obvious and the ability to engage the necessary persons will fall within the mayor's authority and influence. In regions in which participants are appointed on a more ad hoc basis, the process is slightly more complicated. Here, it is essential to identify the main stakeholders, those who view themselves as having ownership of the process and are willing to engage in an Economic Development Planning Commission. Failing to engage the right people can result in a long and expensive process that produces nothing more than a neatly-typed report sitting on someone's desk.

Commitment

Commitment is important at several levels. It is necessary to ensure the actual usage of the outcomes, to guarantee the support of the public, and to sustain the process. It is also necessary to ensure an open and positive process. We have already stressed the importance of the municipality's role, but those of the general public, the management team and hired consultants are equally critical.

LED PARTICIPANTS

This section introduces several participants in the LED Process. It is important to understand the difference between them.

- **The management team:** The core group actively engaged in the management of the LED process.
- **The Economic Development Planning Commission (EDPC):** Usually a volunteer group drawn from the community which provides the input for a strategic plan and reviews its implementation.
- **The Office of Economic Development:** The location established by the local government to be the centre of Local Economic Development activity.
See Step 4, 'Setting up the administrative organisation'.

The public

Citizens of a municipality, district or region are united by the fact that they share a common home. However, there are typically many diverse groups with different family structures, interests, networks, workplaces and professions. It is this diversity that makes their participation in the process so important. Not only do the participants in the process reflect the wider community, but they help to ensure that all citizens are kept informed and feel involved in the process. For this reason, the media can be thought of as part of the public, and hence critical to the success of the LED efforts.

The management team

As noted above, the form of the management team will vary according to the approach adopted. However, the long-term success of the LED process will depend on the implementation of the EDPC plan and the achievement of its goals and objectives. In most cases, the management team will bear prime responsibility for the implementation, but must also react to new possibilities and must advise the commission of changes and opportunities.

External consultants

As this Toolkit is intended for LED consultants, it is hardly necessary to highlight their importance in the process. Nevertheless, there are things that the responsible consultant will be expected to do.

THE ROLE OF THE CONSULTANT

A Local Economic Development consultant is expected to:

- Assist in identifying the proper mix of people to be appointed to the Economic Development Planning Commission, based on their talents and the groups they represent
- Conduct an orientation session at the beginning of the process
- Assist in organising the commission and in appointing sub-committees
- Assist in developing the information database, analysing the needed to identify critical issues, and defining goals, objectives and milestones
- Organise and attend commission and sub-committee meetings
- Review and edit all commission and sub-committee reports, and assist in writing the final version of the Strategic Plan
- Identify opportunities for positive media exposure and help to plan the public meetings to encourage maximum attendance and community awareness of what the strategic planning process is about
- Provide support to the members of the commission from beginning to end of this very challenging process

Why consultants are used in this process

Municipalities, agencies and commissions committed to LED may find it extremely useful to bring in external consultants to facilitate the process. There are several reasons for at least considering doing so.

Many cities have no economic development professionals on their own staff, available to guide the process. Even where there are staff, the process can benefit from the involvement of a professional who is not a member of the community and is therefore completely objective in his perceptions of that community. Consultants in this field should have two distinct but complementary skills: knowledge of economic development plus experience in facilitating group processes such as consensus building and decision-making. The consultant is a facilitator, which can be defined as 'one who makes easier, or less difficult; helps forward an action or a process.' The consultant is the facilitator who helps to lead the commission into creating the shared vision that is the mark of a successful plan.³

Timing

In 'getting organised', one of the most crucial issues is that of timing. Organisers and process leaders should have a sound and realistic vision of where they want to be in six months, one year, two years, etc. The various activities can then be undertaken in a rational and logical way. There are many issues that must be considered before the programme gets underway, such as how much time the participants can afford and the available local budget greatly influence the time variables. Various options exist: a strategic planning process can be completed within a few days if the participants want to lock themselves away in a small room for that time, but usually it takes place over several months in order to accommodate the busy schedules of the participants and allow time for reflection, review and follow-up between sessions. Organisers and leaders will find the process far easier if the basic time parameters are set out in advance and adhered to as closely as possible.

Setting up the Economic Development Planning Commission

The final task of STEP 1 'Getting Organised' is to establish an Economic Development Planning Commission. Since strategic planning is central to the overall economic development process, this is an important task. The EDPC is the community's sounding board and provides leadership. It presents the local authority with the broad perspective and input of the entire community. Although it may eventually be called upon to undertake any number of activities, the function of the commission in the next steps of the programme can be broken down into four basic components:

³ Berman, *Winning Czech Cities* (Prague: The Berman Group, 1998)

- 1 Community assessment and analysis**
- 2 Plan creation, establishment of goals, timetables, and action plans**
- 3 The management process (implementation)**
- 4 Post-plan activities (monitoring and evaluation)**

The selection of representatives to be involved will vary from community to community, but the list offered in Chapter 1 ('Who is involved?') provides a good guideline for ensuring that 'right' type of person is engaged in the process. Each commission should also appoint a chairperson. This can be any member of the commission, but must be someone with the time, interest and understanding to lead a diverse group of volunteers.

STEP 2:

Strategic planning

Good planning is the key to the municipality's success in its various roles. A municipality **cannot** be effective in development matters unless there is an adequate, thorough and ongoing planning process. It is important to remember that there is no single group or person who is responsible for planning. It is a concept that must permeate the entire community. The need for planning and the various ways it can be undertaken are referred to frequently in the following discussion.

As with virtually every aspect of the programme, there are numerous ways of approaching the planning process. However, in any version of strategic planning for LED, there are some basic elements that are essential to success. The process most commonly used by VNG International is based on traditional approaches to strategic planning but takes into consideration some special characteristics which help to make the VNG International approach so successful. Please refer also to a separate VNG International Toolkit for Strategic Planning in a Local Government Association which provides good references to the do's and don't in strategic planning.



What is strategic planning?

Strategic planning is the process of establishing a course or direction for the participating organisation. It differs substantially from other types of planning in that it focuses on direction rather than control, and on long term objectives rather than short term actions. A well conceived strategic planning process can be useful in many ways.

- It helps to clarify future direction
- It helps to establish priorities
- It assists in developing strategies to implement priorities
- It assists in dealing effectively with rapidly changing circumstances
- It improves internal management and organizational performance
- It builds external partnerships and improves coordination
- It strengthens the relationships with clients and customers

ESSENTIAL STRATEGIC PLANNING QUESTIONS**THAT THE PROCESS MUST ANSWER:**

- 1 Where are we now?
- 2 Where do we want to be in the future?
- 3 How will we get there?
- 4 How do we measure our progress?

Most importantly, if properly designed and managed the strategic planning process can improve the quality of decision-making, leading to better public policy choices. There is no single way to undertake the process, nor or even a 'best' way, since every organisation is different and must adapt the process to its own needs. However, there are some generally accepted methods that are used in the process, and which can be specifically adapted to the needs of local governments and (semi-) governmental organisations.

What are the elements of the LED strategic planning process?

The strategic planning process has seven basic components:

- 1 Planning to plan
- 2 Structuring the commission
- 3 Establishing the base line
- 4 Formulating the mission statement
- 5 Community assessment and analysis (strategic navigation)
- 6 Determination of goals, timetables, and action plans
- 7 Packaging, approval, dissemination and implementation of the plan

The Mission Statement

'When you don't know where you are going, any road will take you there'. Strategic planning is the process of *determining* where we are going. The mission statement sets the general direction the strategic plan will take. The mission statement is, in a sense, the written expression of the collective vision of what the city wants to become. At the same time, it must be comprehensive enough to cover all the factors that affect the orderly, progressive and manageable growth and development of the community. It should also take into consideration those issues which affect the quality of life for all citizens.

SAMPLE MISSION STATEMENT

MISSION STATEMENT, CITY OF OUR TOWN

The mission of the City of Our Town Economic Development Planning Committee is to empower our citizens to economic change. By so doing, we will strengthen Our Town's competitive position and make our community a better place to live, work and visit.

To accomplish this mission, we will establish new directions, meet challenges and provide opportunities which will:

- 1 Retain existing jobs and encourage new job creation investment
- 2 Create an environment which encourages commercial redevelopment and revitalisation
- 3 Maintain Our Town's existing tourism and hospitality industry, and enhance the community's competitive position as a tourist destination
- 4 Seek the resources to upgrade the infrastructure of the community to meet current and future requirements in terms of business, commerce, the residential function and quality of life
- 5 Ensure the provision of efficient and effective municipal services to meet the needs of the customers, i.e. the city's residents and businesses

Adopted Jan 1, 200X
City of Our Town
Economic Development Planning Commission

Questions which can help in formulating a concise, descriptive and meaningful mission statement include:

- What business should we be in?
- Why do we exist?
- What is unique or distinctive about our community?
- Who are the principle customers, clients or users?
- What are our principle products or services?
- What is different about our service delivery compared to five years ago?
One year ago?
- What is likely to be different three to five years from now? ⁴

Due care should be devoted to the wording, since the Mission Statement is usually the *first product* of the commission. Like most first impressions, it is vital to the public's perception of the commission's activities.

⁴ Morrissey (et al), *The Executive Guide to Strategic Planning* (San Francisco: Jossey-Bass, 1987)

Initial analysis

All cities have various positive attributes that work in their favour, as well as some negative aspects which detract from the city. An honest appraisal, capitalizing on the positives and seeking ways to mitigate the negatives is the first step in creating a viable economic development plan. The first major function of the Economic Development Planning Commission should therefore be to conduct an analysis of the community in order to establish the *status quo*. Such analyses usually concentrate on four major aspects:

- 1 Community assets and resources:** Those features of the community that can be used for economic development purposes, including man-made and natural resources, infrastructure, etc.
- 2 Community capabilities:** The skills and qualifications of the community, including education levels, availability of labour, and education potential
- 3 Business Climate:** Those issues directly related to the development, maintenance, growth and sustainability of business in the community
- 4 Quality of Life:** The conditions in which the community lives: what makes the city attractive and what is needed to sustain a good quality of life

One of the most common ways to conduct this initial analysis by using the S.W.O.T method. The commission will then be able to develop the most important themes in each of the categories thus begin the process of developing the plan for the community.

Themes and critical issues

The SWOT analysis, in addition to the additional information gained during the information gathering phase (see Step 3), will enable the commission to arrive at a set of themes that can then be further elaborated and developed. These themes should be one or two word statements describing the element to be considered (e.g. Education, Local Infrastructure). From the themes are derived the 'critical issues'. These are the specific issues within each theme and are in the form of a statement of the problems to be addressed.

Theme:

Education

Possible Critical Issues:

The quality of teachers is not up to state standards
The physical condition of school buildings cannot support quality education

Each theme can have any number of issues, depending on the type of issue and the level of the problems which exist. Once all the critical issues are determined, a further analysis should be undertaken to identify the most important, eliminate duplications, prioritise, and select those for action. These will be known as the 'Strategic Issues'.

Goals, objectives and milestones

Goals

The *Strategic Issues* are the statement of the problems for the community to work on. The *Goals* are actually no more than a transformation of the Strategic Issues from a statement of the problem to a statement of the solution. Goals set the direction for accomplishing the vision and mission statement. They can be long term, medium term or short term in nature.

Objectives

While *goals* are aspirations, *objectives* are targets. In many ways *objectives* are the core of the *Strategic Plan* because they form the specific accomplishments which lead to the realisation of the goals. Objectives should identify the result to be achieved and a measurable indicator if possible. The objectives provide a way to quantify the goal and establish a target to aim for.⁵ They should be specific but attainable, should focus on results and, through the milestone, provide a time limitation. Any goal can have just one objective but is more likely to have a number.

A GOOD LED PROPOSAL

- Improves local competitive advantage
- Makes it easier to do business locally
- Removes obstacles to new business
- Enhances or makes better use of local resources
- Improves information sharing
- Creates new opportunities or markets
- Benefits many, not just a few
- Does NOT create unfair advantages

Milestones

While objectives are the targets, *milestones* are the steps in the process. Sometimes called strategies or projects, each objective should have a series of milestones with three critical features:

- The 'action item' to be accomplished
- A timeframe for completion
- A designated individual or organisation responsible for implementation.

⁵ Berman, *Winning Czech Cities* (Prague: The Berman Group, 1998)

Monitoring and Performance Measurement

The job of the Economic Development Planning commission does not end with the creation of a plan. The process of monitoring, updating and extending the plan is a continuous one. Since the circumstances at the time of the plan's creation will change, so too must the activities intended to meet the goals and objectives. There are several aspects that the commission must consider as part of its task.

1 Monitoring the plan

The monitoring of the plan is perhaps the commission's main post-plan activity. The goals and objectives process, as described above, prescribes a system for allocating responsibility and establishing timelines. These are good management techniques, but are only valuable if there is an entity which enforces the deadlines. There must be a regular reporting system and periodic updates by those answerable to the commission. The community's representatives can then ensure that 'their' plan is implemented and that progress towards their goals is maintained. There are two critical aspects to monitoring (performance and process) for which the commission should establish a procedure. Critical questions that the monitoring process should answer. They are:

Monitoring performance

- Are we moving towards our vision?
- Are we carrying out our mission?
- Are we behaving in a way that is consistent with our values?
- Are we meeting the expectations of the stakeholders?

Monitoring the process

- What has really changed as a result of the process?
- Is our organisation better now than it was before we started the process?
- Have the stakeholders become part of our team and, if so, how can this be sustained?
- Overall, has it been worth the time, expense and effort?
- Would we do it again and, if so, what would we change?
- Have the organisation's management processes been integrated within the process?
- How often and when will the organisation revisit the various steps in the process?

Ideally the commission should set up a regular schedule for considering these questions and to make sure that the programme remains on course. Now, the commission will have in effect created the strategic plan. It will then be necessary to establish a monitoring system, package the components and publish the plan. But the process does not stop here.

As long as competition exists among cities, regions, and countries for the development and growth of business opportunity there will be work for the commission. Finding the direction and keeping focused are the initial elements. From there the possibilities are limitless.

Steering the Economic Development Commission of a community is like steering a ship at sea. In establishing a course from 'here' to 'there', one must first determine where 'here' actually is. Then you can chart a direction to 'there'. Once under way, progress can be measured by marking locations with reference to the earth, but there is nevertheless a horizon on which you should stay focused. Be mindful of mishaps along the way, and do not regard course changes as failure but rather as simple manoeuvrings in the vast ocean of opportunities. Information and its dissemination can be seen as the wind in the ship's sails. The Economic Development Commission represents the entire community and is the ship's crew. As Samuel Bowditch the famous American navigator said. 'It is never wise to set sail unless the entire crew knows where you are going.'⁶

⁶ Bowditch, *The New American Practical Navigator* (Newburyport: Cushing and Appleton, 1802)

STEP 3: Information gathering

Information is clearly the most important ingredient in the LED process. Whether it is information needed by the commission to make their planning decisions, information about what is already going on in a community, or information that will provide the needed background for new investors, it is the primary element of the entire process. High quality, accurate information will greatly simplify and enhance the process of growth and development. There are many ways, both formal and informal, to gather information. Local Economic Development requires some specific types of information, and specific methods have been devised to obtain it. This section examines the most common.

- **Community group discussions (informal)**

Community group discussions can take many forms and are useful in identifying public attitudes and concerns. One drawback is that if they are not carefully implemented, only one segment of the community might be heard. However, properly structured they can be of great benefit. There are also some more formal variations on the group discussion such as the 'World Café' method which has proven very effective in areas with no formal entity involved in the process.⁷

- **Public hearings (formal variation)**

Public hearings serve two purposes: to disseminate information or to solicit input from the public. This is a more formal variation of the community group discussions, and is usually preceded by formal announcements or advertisements to inform the public about when and where the hearing is to be held and topics are to be discussed.

- **Government records research (informal)**

Records research is treated here as informal since it has no definitive structure. Information available through national ministries or government statistics offices can often be useful if the LED leaders are willing and able to find it. Different countries have different laws, but some information is available almost everywhere.

⁷ Used effectively in the South African context. See the Gjima project in the annex.

- **Baseline data surveys (formal)**

The baseline data survey provides a quick overview of the community's environment and setting. It contains much information that is often readily available in the community but is not often collated. It is particularly useful in establishing where the organization currently is and the starting point for the journey ahead. Normally a baseline data survey covers five main issues:

- *The natural environment*: raw information on such matters as climate, geographic location, access to bodies of water, etc.
- *The man-made environment*: includes all local infrastructure including roads, bridges and utilities.
- *The commercial environment*: examines the current business community with data on the number and types of businesses, employment by sector, trends in business, availability of markets, etc.
- *Governmental and administration*: information about public sector investment in the community and the government's responsibilities further to preparing for development, e.g. education funding, investments in infrastructure and timetables for improvements.
- *Human Resources*: information should include demographic issues such as population figures, age, education levels, availability of labour, etc.

A complete checklist of conditions for a baseline survey is provided at the end of this chapter.

TIPS FOR INFORMATION GATHERING

- 1 Relevant information is often more readily available than it seems. Be sure to look systematically at your own organisation and then involve others such as the local offices of the central government and regional agencies.
- 2 Libraries, historical societies, universities and many other non-government organisations often have useful information or resources.
- 3 Some central government information agencies may not appear useful resources, but are nonetheless. For example, an agency which may not be the initial generator of information may require that information and therefore have access to it in a way not previously considered.
- 4 Be sure to appoint someone to be in charge of information gathering who has the time to do so and understands the importance of these activities. It can be very time-consuming process which involves a lot of detailed work, but it is essential to various subsequent processes.

- **Business surveys (formal)**

There are a variety of business surveys that can, and in some cases *should*, be conducted to enhance the knowledge of the decision makers. Some deal with the form and extent of current business activity, some with the potential of the market. However, one that is a regular part of the VNG International step-by-step approach to LED, is the 'business attitude survey'.

The business attitude survey elicits the opinions of business leaders about the 'business climate' of a community. It is best undertaken in the form of face-to-face interviews with members of the Planning Commission, as this encourages direct involvement with business leaders (some of whom will already be on the commission anyway).

Such a survey should provide specific information about what kinds of business exist in the area, their needs, which of those needs are currently being met and which are not. It can also touch on service fees, taxes and the other costs of doing business. It should also seek feedback about local services, their quality and quantity.

- **Community profiles (formal)**

A 'community profile' is a document designed to provide a comprehensive statistical and descriptive portrait of a community. It serves two main functions:

- 1 To provide local officials with information on which to base their decisions affecting economic development. It will set out current strengths and weaknesses, thus providing the information necessary to determine how best to allocate local resources for the maximum return on investment. This is highly important.
- 2 As an informational document or marketing tool to attractive new businesses. *Information is the life blood of business development.* One of the most critical functions of local government when developing its business climate is to provide information to potential investors A properly prepared community profile provides all the information that an investor would need to determine whether or not to establish a business within a community.

It is essential to begin developing the community profile at the outset of the programme, since the information it contains will be required during the strategic decision-making process. The community profile will usually include seven main sections:

- Introduction and overview (history of community, general information)
- Labour and other population factors
- Business costs
- Infrastructure and housing
- Demographics
- Financial incentives
- Quality of life

CHECKLIST OF LOCAL ECONOMIC CONDITIONS FOR CONSIDERATION IN BASELINE ANALYSIS⁸

Employment

- Unemployment
- Number of firms by industry and size
- Wages
- Area average income
- Output by industry
- New business start-ups
- Business services (lawyers computer, copiers etc.)

Demographics

- Population size and growth
- Population distribution by age, sex, race, income, education levels
- Population characteristics by geographical Sub-areas

Labour force characteristics

- Participation rate
- Occupations
- Wages
- Skills
- Educational attainment
- Location (local or commuters)
- Productivity
- Availability
- Personal taxes

Physical condition

- Land use, zoning and location
- Land values and cost
- Building condition/construction activity
- Vacancy and absorption rates conditions/quality
- Parking Facilities
- Condition of air, rail, waterways and highways
- Condition of public utility system

Business climate

- Community attitudes
- Labour relations
- Business taxes
- Workers compensation and unemployment insurance
- Business regulations

- Level and quality of municipal services
- Workforce Training Prog.
- Access to capital
- Transportation access
- Community image

Quality of life

- Housing availability
- Public services: type, level quality, etc.
- Universities, colleges and vocational schools
- Crime rate
- Cultural and recreational amenities

Knowledge based resources

- National institutions
- Science and research parks
- Environmental
- Industry indicators
- Colleges and universities

⁸ Training Course, *Introduction to Economic Development* (Washington DC: National Council for Urban Economic Development, 1997)

STEP 4: Establishing the administrative organisation



4.1 The concept of the Office of Economic Development (OED)

Economic Development Offices can be created to carry out a wide range of activities depending on the wishes of the local administration, organisers or business association to which they are attached, or the input of the Economic Development Planning Commission. Regardless of the specific requirements of the individual community, there are three basic tasks that virtually any Office of Economic Development will perform:

- 1 To provide staff assistance to the Economic Development Planning Commission
- 2 To provide the administrative and management support necessary to fulfil the functions and carry out the economic development policies of the organisers (community, region, *oblast*, district, municipality, etc.)
- 3 To bridge the gap between the municipal government and the business community

Staffing the commission

The first role of the OED is to provide staff to assist the Economic Development Planning Commission. By the very nature of the commission, whose members are volunteers with other jobs and demands on their time, there is a need for a permanent in-house staff to provide logistical, administrative and executive support. The actual responsibilities of the staff and their exact relationship with the commission will vary, depending on both the personalities and the concept of the commission. There are, however, three basic functions performed by the staff serving any commission:

- 1 Developing information: following Step 3, the supply of information is critical not only to the initiation of the process but its long-term efficiency.
- 2 Executing the Action Plan. Although a local action plan may assign responsibilities to a wide variety of people, overall coordination and providing much of the input, effort and support usually falls to the OED.
- 3 Reporting on progress. The OED will usually also be responsible for the administration of the monitoring and review processes, ensuring that accurate and timely reports can be made to the commission or monitoring body.

Performing the management functions

The management of an OED is much like that of any other department or agency. The successful manager must be thoroughly familiar with the scope of work, the budget and financial resources, and with the human resources requirements of the office.

Organisation and structure are very important and a number of issues must be addressed at the earliest stages of establishing a new organisation within the municipality. What is the purpose of the organisation? Where will it fit into the current structure? How many people will it take to operate the department? How much will it cost? How much can we afford? These are just a few of the many questions to be answered. The conclusions will vary from case to case and there is no one 'correct' answer, only the one that works for the individual city.

The one constant that should apply to all cities is that OED must be a *mission-driven* organisation. If careful planning and thought are put into development, using the mission as the basis rather than the bureaucratic imperatives, the likelihood of creating an efficient and effective organisation is greatly enhanced.

Structure of the organisation

Size and form may differ, but appropriate solutions can be found by addressing the basic principles. Having agreed such an organisation is necessary, the very first questions that must be asked is what administrative form will the organisation take and what will be its relationship with the local authority? There are three general models.

1 Municipal department

As a department of local government, the organisation would be directly answerable to the mayor and would be treated in much the same way as any other department. The Head of Department would report to the mayor and would administer a staff of municipal employees to carry out the function of the department. The primary advantage of this structure is that the municipal administration retains complete control. The main disadvantage is that certain restrictions (e.g. in salary levels and allocation of resources) apply because it is part of a political entity.

2 Semi-autonomous agency

As a semi-autonomous agency, the organisation enjoys rather more freedom to act independently but is typically still under the general control of the municipality. The organization 'belongs' to the municipality and its director would normally be appointed by the mayor and council. In many cases, an appointed commission oversees the activities of the agency. The primary advantage of this structure is that the director enjoys greater freedom to pursue opportunities than if he would if tied to the municipal political structure. The main disadvantage is that there may not be full day-to-day contact with other municipal departments.

3 Autonomous organisation with municipal support

This structure is applied when municipalities see an advantage to having a OED but do not wish to be a direct part of it. This structure may also be adopted if the driving force behind the creation of the organisation is some entity other than the municipality itself. It typically involves the municipality as a equal partner with other organisations such as the Chamber of Commerce or a group of regional authorities. The disadvantage is that it may not be possible to exert full influence over the approach adopted to LED.

It is clear that the main difference between these models is the degree of local government control. Each model has been successful in different situations and the municipality must consider its own internal situation when deciding which will be best for its community. There is no magic formula for making this decision. However, addressing several issues will help identify the appropriate course of action.

If an Local Development Corporation or other loan fund is involved, the municipality may wish to adopt one of the two options with less direct supervision. In any event, the funding agency itself should be at least semi-independent and free from political pressure. This can be accomplished by having an independent loan committee which is responsible for all financial decisions on lending.

A number of optional activities are listed in the foregoing section. The choice of such activities will also influence the municipality's choice of administrative structure.

Internal structure and organisation

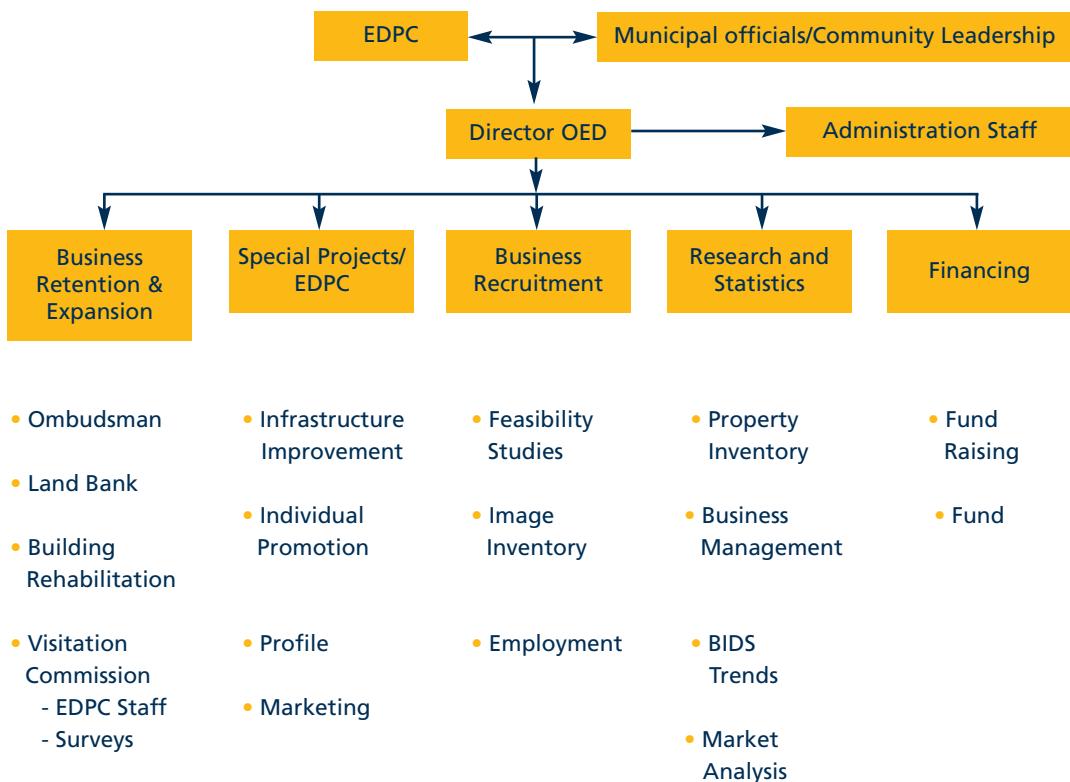
Once the choice of OED structure has been made, it is necessary to determine the form of its internal organization. Again, this will depend on the direction, goals and objectives set by the commission. The size of the municipality and budget availability (affordability) will inform the choice, as will current and desired commercial mix of the community and the vision with regard to where the municipality wishes to go. The questions that must be answered include:

- What emphasis will be put on retention versus acquisition of business? Is there a need for separate divisions or should both functions be handled by one division?
- Is a separate public information function required or can it be combined with current municipal public relations?
- What are the environmental concerns of the region and are they significant enough to require staff in the OED?
- What services will be provided on a fee-charging basis and should separate staff be added to conduct these functions? At what cost? Should the services be subsidised or wholly self-supporting?

The internal structure of the organisation will depend entirely on the intent and desires of local officials. There is no one way to organise, but the various options be

considered in detail before determining the structure. As with all organizations, it is far easier to influence the shape and format before the operation begins than it will ever be at a later date. Once the organisation is operational, additions and modifications tend to involve incremental expansion of the organisation, which reduces overall efficiency. Thorough analysis at the outset, together with a structure which allows for practical, rational and necessary expansion, will help to maintain long-term efficiency and effectiveness.

SAMPLE ORGANISATION CHART OF AN OED, BY FUNCTIONAL AREAS



Note: The above chart shows all possible functions of an LED office. Not all may be required, while in some cases two or more departments can be run by the same staff.

Budget and financial considerations

A third major consideration in the structuring of an OED is the cost factor. Not only will the organisation cost money to run, but in the agency's pursuit of its mission, funds will be required to further the cause of economic development through capital investment. The OED will therefore face two major budgeting and financing considerations.

From the standpoint of the operating budget, (if the OED is funded by the local government), personnel costs are likely to be the critical issue, although fixed costs for office space, equipment, communications etc. will also be a consideration. Staffing levels must be decided according to the mission statement. The emphasis placed on the respective aspects of the organisation, such as public relations, business recruitment, business retention and customer service, will largely determine the number of personnel needed, the amount of time they are needed for, and the skills they must possess. All such factors will contribute to the cost of meeting the objectives.

From the perspective of revenue, the organisational structure will depend largely on the source of the funding. In the first model, in which the OED is a municipal department, virtually all revenue for the department comes from the municipal budget, whereas in the other models funds may come from other sources in varying proportions.

The issue of capital improvement funds is of a very different order. In terms of the Capital Improvement Plan (CIP) the role of the OED is more advisory than operational. Most of the CIP funds that the OED would allocate would not be for its own direct expenditure but that of other city departments, or further to the outsourcing of activities intended to improve the economic development of the community.

This role is sometimes much more difficult to fulfill, whereby all CIP matters should involve the EDPC and senior municipal administrators to ensure that sufficient support for capital expenditure is generated. If this is not the case, certain desirable projects may be 'sidelined' indefinitely.

Other structural and financial questions may arise, but the key to addressing them successfully is to remember that the issues must be thoroughly thought out before implementation. The decisions with regard to the direction to take must be mission driven and there must be flexibility to adapt according to the needs of the organisation.

When considering the effect of direct expenditure on economic development, it is important to focus on the fact that much of what the municipality does on a very routine basis is actually economic development activity.

Basic services are critical to economic development. Few investors are going to be interested in an a city that cannot provide basic services regularly and effectively.

These basic services may not actually attract investors, but failure to provide them will readily deter investors. Maintaining a high quality of service is essential. Finding the funding for such services is therefore imperative. Little else will affect a potential investor as much as the initial impression he gets when visiting a community. At the time of such a visit, the effectiveness (or lack thereof), of the basic city services is one of the most transparent impressions that will be given. The importance of providing these services cannot be overstated.

SAMPLE JOB DESCRIPTION FOR A DIRECTOR OF THE OFFICE OF ECONOMIC DEVELOPMENT

CITY OF ANYWHERE JOB DESCRIPTION

Position: Director of Economic Development

Department: Economic Development

Statement of Duties:

The Director of Economic Development directs the activities of the city economic development effort and acts as the principal assistant to the Economic Development Planning Commission.

Distinguishing features of position:

The director is responsible for the preparation of all documents, records and correspondence relating to economic development. Performs a variety of complex administrative, technical and professional tasks in the preparation and implementation of economic development plans, programmes and services. The Economic Development director is under the general supervision of the Executive Board's Vice President for the Economy and exercises a great deal of discretion regarding the planning and performance of work.

Work Requirements:

To plan, direct and participate in the administration of the economic development programme, and specifically:

- To work with and provide staffing for the Economic Development Commission (EDPC) in formulating the Economic Development plan of the municipality
- To liaise with department heads to ensure due coordination departments in the economic development sphere, such as the capital plan, budgeting, public works, etc.
- To maintain a register of land and buildings which are available or could be made available for development purposes
- To assist the EDPC in designating which areas of the city are to be recommended for use as industrial, commercial, mixed usage and residential purposes
- To advise potential investors on relevant rules, laws and regulations
- To establish working relationships with institutions such as banks, universities, etc.

- To monitor quality of life issues such as the availability of housing, schools, recreation and cultural amenities
- To assist in negotiations between potential joint venture partners
- Other relevant duties as required

Knowledge, skills and abilities:

The Director of Economic Development must possess:

- Extensive knowledge of economic development techniques and procedures
- Extensive knowledge of municipal and state legislation regarding development activities
- Extensive knowledge of the organization and functions of municipal government
- The ability to deal courteously with the public
- The ability to use a computer for relevant functions
- The ability to read, understand and analyse business plans
- An understanding of funding mechanisms and real estate transactions
- Creativity and innovative drive

Experience and qualifications:

- At least four years experience in management and/or economic development/business promotion
- Degree in business or public administration

 **4.2 Funding Sources for Local Economic Development Programmes**

Although funding sources differ from country to country, the following is a list of some of the most common.

Government assistance

LED efforts are funded through a variety of mechanisms. The two most prominent are the local government itself and the central government. Although there are major differences from country to country, most systems have some combination of those two sources to provide the basic funding for the programme.

Private Sources

In some areas there is also local business support. Chambers of Commerce often play a critical role in Economic Development activities and find funding through their membership, predominantly local businesses.

Beyond governmental and local business support, there are a variety of other sources, which may be of significance depending on the laws of the individual country.

Bonds, local self taxation and other forms of borrowing

Where allowed, the issuance of municipal bonds is probably the most widely used

form of funding to help build the infrastructure needed for the local economy. Even if it is not permitted today, this form of financing will most probably become available at some point in the future. The basic principle is that the municipality or local government agency is allowed (sometimes following a referendum) to raise money by selling bonds. The income is then paid back over an extended period of time from taxes or fee revenues collected during that period. There are many benefits to this arrangement. Since most infrastructure has a long life expectancy, the users of the facility pay for it over the course of its life. In most places where such bonds are successful, the interest paid to bond purchasers is free of tax, and hence the interest rate offered by the issuing municipality can be lower, which saves all taxpayers money too.

A related type of financing is known as *self taxation*. Here, the municipality holds a referendum in which it asks the electorate to agree to a self taxation for a period of time, such as five years. The proceeds of such a tax are used only for the specific improvements or investments stipulated in the referendum. This is a method that can often be used to finance major infrastructure improvements. It is not quite as advantageous as the bond method because it does not allow for as long a payback term (so some users derive the benefits without actually paying) and it does provide the municipality the benefit of a lump sum 'up front'. However, it is a valuable tool that can be used where the law allows.

Traditional borrowing from banks is still the most common way to obtain credit in many countries in which legislation allows municipalities to borrow directly and at rates that are affordable. In some countries, banks offer preferential rates for such borrowing while others treat the municipal customer as any other.

Special taxing districts

In some cases, municipalities set up special districts (or 'Tax Increment Financing Districts') within their own borders in which a tax is levied that is not put in the general fund of the municipality but is reserved for a special project within the taxing district itself. This is normally only done in large cities and for very large projects. More often than not, the funds raised will cover the public improvements needed to support a major private investment project (e.g. the water and drainage system needed to support a major housing development).

Impact fees

Another form of revenue for development is known as the 'impact fee'. It is typically used to offset the cost or 'impact' of private development. The term derives from the concept that extensions of utility systems have an impact on the system as a whole. It takes into consideration the costs to the utility operators for extending a utility into a new area. Since this is generally a one-off fee, it is difficult to calculate into it the ongoing costs of maintaining such a system. However, the rate of the fee can be adjusted to account for the difficulty of extending the system in one direction versus another direction. The municipality therefore retains some control over the direction and extent of the development in its area.

User fees

Although normally thought of as a funding mechanism for operating expenses, user fees should not be totally disregarded as a source of funding for economic development. Perhaps the most common form of user fee is the toll road, where revenues are used to maintain and upgrade the road system. There are others, however, especially where user fees are used to support quality of life improvements which are vital to attracting and retaining good industry. Any user fee assessed for these purposes should be considered as part of the economic development package.

Dedicated taxes

Dedicated taxes are another way for a municipality to raise revenue to support of an economic development effort in the community. Taxes such as accommodations taxes and food and beverage taxes are commonly used to support public efforts toward upgrading the tourism business. A hotel tax of 2% or 3% could be put into advertising for the local tourism trade, thus creating more customers for hotels.

Government grants and international donors.

Central governments and foreign donors are further potential sources of revenue for major economic development projects. When considering applying for such funds, it is important to remember that they come with a price tag. The donors, like any other investor, have an agenda that they wish to see accomplished. The funds will only be available if the agenda of the donor matches the desires of the local community. This is not necessarily a bad thing, but once again there must be careful planning and a thorough understanding of the goals and objectives of the donor, ensuring that they match the local intentions.

Sources of revenue come in many forms. As we shall see in later chapters, there are also many indirect ways in which to reduce the cost of development to investors rather than to having to raise extra revenue.



4.3 Bridging the gap between public and private sector requirements

The third function of the Office of Economic Development is to bridge the gap between the demands of the municipality and those of the private sector. There are many approaches, but the overriding aim is to form public-private partnerships at all levels. Such partnerships are the basis on which successful communities prosper. They may be simply a communion of ideas, or be more formal including public financial involvement in business endeavours. The OED will be responsible for negotiating many of the deals for business expansion and retention, thus being highly visible and important to the municipality.

Regardless of the approach adopted, the Director of the OED is in a crucial position to act as the main intermediary in developing relations between business and the local government. In view of the differences between public and private sector

interests, this is a very important function of the OED, and specifically of its director.

For the reasons given above the selection of the Director of the OED is a most important decision on the part of the mayor and or delegated selection body (See the sample suggested job description for that position in the previous section). In addition to the job description there are several key points that are critical to those undertaking the responsibilities and for those in the community working with them.⁹

A positive relationship between the director and city leaders

First and foremost in importance is the relationship between the Director of OED and the mayor and/or other senior officials of the administration and organisers in the community. Critical decisions require thorough consultation between them and success will depend on the director having (and knowing that he has) the support of the community as he enters deliberations on their behalf.

A willingness to get the facts that make good ideas into persuasive arguments

When representing the OED, the Director should assume responsibility for acquiring all the necessary information. It is not a good practice to expect the private sector to do its own homework, since you never know exactly from which perspective the answers will come. If a project is significant enough to pursue, the OED must invest time and effort in obtaining all the information necessary to support the ideas. If this requires external expertise, then it is generally well worth the cost and effort. More often than not, the success or failure of negotiations with the business community will depend on the reliability and thoroughness of the information used in the discussions.

Being honest and following through on promises

Private sector representatives are often wary of involvement with the public sector, either because of bad past experiences or because of another business they know that had a bad experience. Avoiding costly bureaucratic delays, delivering what is promised when it is promised, and being particularly attuned to the accuracy and reliability of the information that is used are the best ways to develop the confidence of the business community.

Implementing established policy

Successful management of the programme will depend on the ability to implement policy effectively. It is important that the direction of economic growth is established well in advance of the need to negotiate it with the business sector. In determining what action to take, directors should always ask if the proposed action is consistent with the action plan. If not, it should be referred back to the Economic Development Planning Commission (or the Leadership Team, depending on the organisational structure of the office) before further effort is expended on the project.

⁹ These characteristics are paraphrased from SHAPING THE LOCAL ECONOMY, Manager as a Broker, by Cheryl A. Farr and Lawrence Rose, ICMA, Washington DC, 1984, pp 174-176

Using a team effort for negotiating

Negotiating business deals for the municipality is always a diverse and complex process. One important ingredient is the involvement of many members of the 'Community Team', and in particular the elected officials of the city assembly. Including these the process will lend credibility to the deal and allow them to exert due influence to convince the sceptics or persuade them to adopt a different perspective.

Retention of existing businesses

It is generally far easier and less expensive to keep firms that are already in the community than to attract new ones. A critical feature of the OED, and one that deserves a lot of time, is efforts to retain existing business and industry. Very few firms choose to relocate each year. Ensuring that those are already located in the area have the means to stay in business is extremely worthwhile.

Develop the art of negotiating

Directors and staff of OEDs can function effectively as brokers of public authority and property only if they work in an harmonious environment. They must develop an intuition not only for when to abandon fruitless negotiations, but also when to step out of the limelight. Regardless of the efforts made by the director and his staff, the mayor and council assume the political risks. A crisis situation can only detract from the ability to produce constructive deals in the future.

Anticipating potential pitfalls

There are many interests to contend with in Public Private Partnerships. They include those of the client, the staff, the executive board, the city assembly, the media, legal counsel, the public and the common good. Not all parties will share the same view of a prospective business deal. Directors need to be imaginative in identifying not only the strengths of potential negotiating stands, but must recognise potential stumbling blocks. Very few arrangements can be made without someone raising an objections or some unforeseen obstacle arising. Anticipation of these events and pre-planning for dealing with them will improve the potential for successful completion of the deal.

Understanding that quality projects require time

One of the main reasons for establishing an OED is that projects are very time-consuming. It would be impossible for the municipal executive or other city officials to devote all the time required to bring about quality projects while performing all their other duties effectively. It is therefore highly beneficial to have a director with authority to act, and to support him with staff of appropriate quality and quantity. Even so, successful negotiations will still demand considerable time and cooperation on the part of the executive and assembly, whereby a thorough understanding of the allocation of time and resources is essential.

STEP 5: LED Service levels: What can be done?

Thus far, we have concentrated on the 'how to' of Local Economic Development. The following two chapters will focus on 'what can be done' at the local level. A large component of the LED is service provision. Here services refer to programmes or processes to retain the current businesses, local expansion and development of local business, and the attraction of outside investment.

The process can be further divided into two general categories, the basic programmes, which are covered in this chapter, and the advanced or optional programmes which are the subject of the next chapter.

Basic programmes are those that are essential to the very existence of a LED Programme. Though they are considered essential it does not mean that every programme in every locality will be identical, since the degree to which something is essential depends on local perception, needs and desires. To a great extent however, the items listed here are those most regarded as necessary to success.

Repository of information (Business Information Centres)

The OED should first and foremost be the repository of all significant information regarding the business and business opportunities of the city. Since this information changes over time, the office must continually research and update the databases to ensure that the information available is appropriate, accurate and timely.

The following are examples of the kind of Background Information that would be developed and retained by the Office of Economic Development for general use by the public, inclusion in a community profile or other uses:

- Labour force statistics
- Occupational employment statistics
- Hourly wage rates
- Tax summary
- Tax rates
- Comparative construction costs
- Transport systems
- Quick facts about port (where appropriate)
- Airport capacity and schedules
- Utilities (availability and rates)

- Population trends
- Population estimates and projections
- Annual economic indicators
- Financial incentives
- Banks and financial institutions (comparative analysis)
- Cost of living comparisons
- Climate
- Crime rate comparison
- Colleges and universities
- Education facts
- Major medical facilities
- International Companies in the Local Area

Such information can be broken into four categories.

- **Background information**

As the principle organisation involved in developing background information for the establishment of the Baseline Data and subsequent updates, the office must determine the categories of information required and keep sufficient background data on file to allow for subsequent updates and comparative analyses. This is information is also used to produce the community profile. Being the agency principally responsible for developing and maintaining the community profile, the office should obtain and maintain the basics for this document. Examples of the kind of information that might be maintained are given in the above textbox.

- **Local information**

This category includes all information required by a business considering locating in the city. All legislation, local and national, concerning business development and operation in the region should be included, as should the rules and procedures for establishing a business in the city. This information should be maintained in a way that ensures full accessibility to the public. Other information that should be maintained is a comprehensive listing of all available commercial properties, both state owned and private, including their availability and suitability for various types of business (i.e. heavy industrial, light industrial, office, retail etc.). Information about the availability of utilities (water, sewer, electric, gas, etc.) and accessibility (road, rail, etc.) should be on file for each property.

- **Regional information**

Business and industry in and around the metropolitan area is of great importance because it affects the economy of the entire region just as much as that within the city limits. The information described above should therefore be maintained for the region as a whole wherever possible.

- **International information**

Information of an international nature is also essential, since markets and industries within the far larger region area will also affect the local area. This is especially true of the neighbouring countries and the regions that form the potential market for products and services from a given area (e.g. all south-eastern Europe for the Balkans and the sub-Saharan countries of Africa in the case of South Africa).

Business Development Programmes (including training)

Many offices of Economic Development also provide services in technical assistance and training for would-be entrepreneurs and for small businesses. Local entrepreneurs tend to be people with good ideas, but having good ideas does not make one an instant manager or bookkeeper. These are acquired skills and a local business development programme can help.

Some examples of the type of assistance offered include training in accounting, bookkeeping, management practices, etc. Start-up companies will also need a good business plan and providing training in how to prepare one is a highly valuable development aid.

Business Assistance Centres

The term Business Assistance Centre can mean many things, and differs greatly from community to community based on the level of development in the area concerned. It can be as simple as providing an internet connection or copying services for local businesses, or as complex as technical assistance in developing business plans or brokering land deals. The function will often develop over time as the community grows.

A number of financial or quasi financial assistance programmes might also fall under this category: 'Land Banks' (repositories of information and, if possible, purchase options on land in the community ready for development) or 'Business Write Downs' (property publicly acquired that can be sold at a discount) and numerous others.

Some other examples of the services provided by a Business Assistance Centre include:

- **Process catalyst**

Personnel in the front office should be trained to be able to answer or find the answer to virtually any question regarding business or potential business in the city area. For issues outside of the competence of the local staff, they should know exactly where to direct those enquiring about information. In addition to being able to provide information, it is important that the office offers the advice on how to put it to use. For example, they should not only be able to provide information on what forms are necessary to start a business, but also how to complete those forms, where to send them, and what fees must be included. Wherever possible, advisors should be assigned to assist customers through the process.

- **One-stop shopping**

Any potential businessman should be able to receive all the information, forms and requirements needed to initiate the process of establishing a new business in one visit to the office. If multiple forms from separate agencies are required, the OED should retain copies of all necessary forms and issue them on request, and should be able to provide a comprehensive listing of all fees and expenses involved in business development.

The 'one-stop shopping' concept is one of the most important in the entire scope of the OED. Much of the success of the agency will be based on the public perception that can rely on full support and assistance in the process of business development. Providing information is not enough, and neither is merely sending the client to numerous different departments and agencies to acquire information and materials. A successful operation will provide not only provide services but will 'service client needs', and will do so at a single, prominent location.

Market research

In order to assist businesses of the local area the Economic Development office should also be called upon to conduct research on behalf of local businesses, helping to obtain information about the local market, additional markets for their products, and up-to-date information on new technology and state-of-the-art business operations. This service would probably be provided at a charge, and can be a combination of Internet searching, making enquiries about donor assistance, local surveys and other means of obtaining information. Such research can be as general or as specific as the client requests. The service can also be a source of revenue to help offset the costs of operating the office.

By performing appropriate research the Office of Economic Development can monitor the local economy and provide feedback to city officials and the Economic Development Planning Committee, which can then be used to make policy adjustments consistent with the best interests of the municipality in the longer term.

Retention programmes

The majority (55%) of new jobs are created by the expansion of existing businesses. This conclusion is offered by David Birch, the man who stunned policy-makers by proving that the US economy is actually driven by small firms, not big multinationals. Clearly, the exact figure will vary from country to country, with parts of Canada claiming rates as high as 80%.

Efforts to retain existing jobs and create new ones by expanding local business are not generally top of the list in an LED strategy. However, existing companies need no incentive to attract them to the community: they are already there and represent a far better investment risk than a new venture.

There are basically two ways to go about retaining existing companies. The starting point is the same in both cases: to ask business people about their needs, concerns and ideas. This can be done by a business development professional with the skills and resources to help tackle some of the problems faced by an individual business. Another, more widespread approach is to seek the same information through a locally managed business visitation programme in which trained volunteers use a structured questionnaire to interview local business representatives.

The main benefit of using local volunteers is not cost reduction (although costs are indeed lower) but that it encourages local involvement and 'ownership'. This approach tends to highlight issues common to local businesses and encourage joint action to address them. It can therefore be a very cost effective way of improving local competitiveness and mobilising local role-players for other LED initiatives.

Citizen involvement programmes

The concept of public participation is very important to all facets of local government, but perhaps nowhere does it attain the same level of importance as in economic development. Government has a way of impacting virtually every aspect of our daily lives, and when economic development is the issue, that impact reaches out into those areas normally reserved for the private sector, thus making public involvement and understanding even more important.

Note: This chapter describes services that can be provided at local level. Many can actually be performed by a number of entities. While some may fall to the Office of Economic Development (OED), in some communities they will be the responsibility of the Chamber of Commerce, local business associations or other organisations

The establishment of an Economic Development Planning Commission is itself a step in involving the public and opening the process to those outside municipal government. For several reasons, however, this is not enough. Unless local government actively solicits public opinions and concerns, it will hear only the complaints and the voices of the loudest few, not the representative majority. The basis for successful public participation in economic development, and indeed any other aspect of local government, is openness and transparency. Openness will have three clear effects.

- **Learning from new points of view**

The first, and most beneficial effect, is that public officials will learn from new points of view. No matter how willingly opposing points of view are accepted, opening the administration to more public involvement will allow an opportunity to hear many others.

- **Removing suspicions**

The second major effect is an inherent decline in suspicion when more people are involved. Creating the opportunity for public involvement will allow any citizen who is suspicious of the actions of the government to become part of the process and hence more trusting of the government.

- **Increasing public willingness to assist**

Finally, the willingness of the public to help will increase with a more active and open policy toward involvement. As people become more directly involved in activities such as local economic development programmes, the more likely they are to want to return and to do it again.

Good public relations can be of substantial benefit to a local economic development programme. Once the public is made aware and comfortable in their role, they become one of the community's biggest assets. Investors are always interested in what the community thinks of itself. Giving the public the information needed to talk about their own community positively can do nothing but help.

STEP 6:

Advanced LED – moving to targeted and specialised services

In addition to the basic services, as LED programmes grow and develop there is a need to expand the level and type of service to more sophisticated programmes which specialise in local needs, advantages and capacity.

CAUTION: Starting these advanced ideas without a strong basic programme could be a recipe for disaster! It is strongly recommended that a good grounding in the basic programmes be achieved first.

Advanced LED programmes come in many forms and the desirability of any one of them will largely be a factor of the local plan (and perhaps regional plan), development objectives and focus of the local leadership. Most involve some sort of partnership between local government, the business community and other economic entities working together for the success of the community. Some of the most common include:

Public Private Partnerships

'Public-Private Partnership' is a very broad term which describes any number of 'shared commitments between the private and public sector's designed to pursue common goals that stress the social, political and business environment in the community.'¹⁰ Such arrangements come in many forms and can be very beneficial to the economic development process.

The most familiar Public-Private Partnership in terms of economic development is the joint venture arrangement. A local government and a private entity enter into an agreement involving the creation or expansion of an entity in which both have a financial stake in, and 'ownership' of, the project. The variations in such

¹⁰ MEB Associates, *Understanding LED in the CEE/NIS Region* (Baltimore: John Hopkins University, 1988)

agreements are limitless but since some form of public funding is generally involved, special precautions must be taken to ensure openness, transparency and compliance with applicable legislation in order to avoid future problems.

Business Improvement Districts

BIDS is an acronym which stands for Business Improvement Districts. These are similar to the special taxing district, the difference being that they usually begin as an initiative of the private sector rather than government. BIDS originate in the tradition of property owners agreeing to assess themselves to fund physical improvements. The unique feature of BIDS is that they use the legal authority of public agencies to collect self-imposed taxes from all property and business owners within a defined geographic area. However, the amount the taxes and the allocation of revenue are not determined by the government but by those who actually pay. The government still provides a very crucial function by utilising its tax collection system for the benefit of business growth.

Foreign Direct Investment

Foreign Direct Investment (FDI) is a primary factor in the 'attraction' element of Local Economic Development. It consists of several factors. The prime aim is to encourage foreign investors to locate in 'our' community rather than anywhere else. This has become much more difficult given that investors now have so many options. Foreign direct investment comes in three principle forms:

- Resource Seeking: Those looking for cheap labour or necessary natural resources.
- Market Seeking: Those seeking to create a new market or gain market share in an existing one.
- Efficiency Seeking: Those that are seeking greater efficiency through access to a particular market, better economies of scale, etc..

Regardless of the reason, local governments and LED agencies seeking to improve the local economies should be on the lookout for new opportunities in FDI. The type of investment may tell the LED officials a lot about what they can expect from a new investor.

Marketing plans

Once a basic plan is in place, the strategic plan is developed and the organisation is established another plan on how to "sell" the competitive advantage is in order. Marketing plans may differ significantly depending on the nature of the competitive advantage. Such focus areas as tourism, residential attraction, heavy industry or 'soft' commercial activities, all need marketing programmes but the approach for each will be quite different.

It must be remembered that marketing is a process. For a municipality to be successful it must encourage and persuade businesses of the 'right' kind to locate,

invest in and contribute to the local community. Marketing plans have many facets unique to that type of planning and once it has been decided to draft a plan, expert help should be sought.

Regional cooperation programmes

Regional cooperation programmes are an important way to spread the cost of major investment projects. They are particularly important for big, very expensive projects that involve and impact on more than one municipality. Major road projects or construction of very large industrial plants are examples. The regional concept can bring together many local authorities and private sector resources who will work together to produce a project that is beneficial for an entire segment of the country.

Regional partnerships can include simply a group of municipalities working together or a combination of municipalities with district or regional governments with private entrepreneurs. In some countries, regional municipal associations have been formed that give mayors and other officials a forum in which to regularly discuss matters of importance and to work on potential partnerships.

Aiding business growth through indirect expenditure

- **Business Parks**

The costs of preparing a site for commercial or industrial use are often more than an entrepreneur wishes to spend on basic infrastructure. In such cases they will often simply go somewhere else causing a community to lose valuable jobs. Local authorities can help to prevent this by developing business parks, or sites designated for commerce and/or industry. Developing these sites with roads, water, drainage and other infrastructure can often be much less expensive when everything is done at the same time. The result is an incentive for firms to locate in the prepared areas. This type of partnership can be undertaken on a mass scale, where several plots of land serviced all at once, or on a plot-by-plot basis. This will depend on the needs of the community.

- **Incubators**

Business ‘incubators’ are yet another form of public-private partnership. Usually developed by the local authority, incubators give small businesses a place to start without having to bear all the high business start-up costs. ‘Incubators provide businesses with affordable space, with on-site technical assistance and management support. These facilities strive to accelerate the successful development of new ventures through low start-up costs. Incubators provide leases at below market rent levels, managerial consulting, mentor relationships, and low costs for shared general services such as meeting rooms, telephones, copiers and reception areas. All of these are services most start-up businesses would not be able to afford alone.’¹¹

¹¹ MEB Associates, *Understanding LED in the CEE/NIS Region* (Baltimore: John Hopkins University, 1988)

The development of incubators by local government can make a major contribution to the development of new small businesses in the community. Again, the extent of local government involvement can vary according to the resources of the community. Some simply provide a building while others spend a considerable amount on the actual operation of the incubator.

- **Cost sharing programmes**

Cost sharing is another technique used by local government to enhance community facilities and foster economic development. The term 'cost sharing' can be used in many contexts, but in this case it refers to the occupant sharing of the costs of infrastructural improvement. Cost sharing is often employed when important improvement is needed in a limited area of the municipality. In these cases, occupants of property owners in the area will opt to share some of the cost of a specific improvement with the municipality. The municipality then saves on overall expenditure while users gain a valuable resource.

This form of cost sharing is a less structured version of the self imposed tax concept. The main difference is one of formality. The self-imposed tax is usually municipality wide and requires a public vote. The cost sharing approach is applied on a smaller scale and involves only an agreement between the actual users and the local authority.

Financial assistance programmes

Lack of capital for investment is probably the single biggest stumbling block to economic development in all areas. Any difficulty posed by legislation can usually be overcome, but the lack of funds is far more difficult to resolve. This situation has prompted the establishment of loan funds and other mechanisms whereby local governments or others can make resources available. Some examples of loan fund techniques are:

- **Loan guarantees**

In a sense, loan guarantees are an incentive as much as a loan function. The local government assists small businesses by encouraging the private lending sector to act in a way that they otherwise would not. Rather than directly lending money, the local government simply guarantees the loan made by a bank or other lending agency. This makes the lending agency more willing to lend money because there is little or no risk. The local government benefits since there is no direct expenditure of public funds. Any collateral provided for the loan would accrue to the municipality should the loan go into default, thus giving the municipality some protection for its willingness to take the risk.

- **Micro-loan funds**

Local officials often focus solely on the acquisition of major businesses that will employ hundreds of individuals. In so doing they fail to realize that the vast majority of business development is in the small - and often very small - businesses

that have only a very few employees and minimal capital requirements. Often these capital requirements are even less than would be considered by a bank, thus leaving the potential borrower with nowhere to find credit. Micro-loan funds help to solve this problem. They are typically for very small amounts, require no collateral and are frequently geared towards getting small businesses off the ground. This type of loan can be made directly by municipalities through an approved funding mechanism. The source of funds can vary.

- **Revolving loan funds**

Revolving loan funds are a popular mechanism in situations where a municipality (or other organisation) has funding to provide initial capitalisation at a high level, but does not wish to continue to have to re-capitalise. Typically, once the initial capitalisation occurs the fund will operate on the capital and earnings from the lending of that capital. All funds repaid are then loaned out again, so that the revenues keep coming in. Successful revolving loan funds will continue to seek capital from additional sources but should continue to operate within the limits of the fund and earnings on that fund.

- **BOT (Build-Operate-Transfer) contracts**

This method of funding ‘involves a private company that finances, builds, and operates an infrastructure system for a fixed period of time during which the government has a regulatory and oversight role. At the end of the project, usually 15-25 years, the system is transferred back to the government. This project was originally designed to place the commercial risks on the private sector and to free government funds for other uses.¹² Typically it is used for large infrastructure projects that can provide an return on investment for the builder (i.e. water treatment plants, power stations, etc.).

- **Local Development Corporations (LDCs)**

LDC's are a mechanism for implementing loan programmes described above and many others. They are generally set up by a municipality as a semi- or totally autonomous agency. They could, however, be formed by a Chamber of Commerce, Business Association or NGO of community leaders. An LDC can receive funding from any number of sources and generally administers one or more types of lending programmes. It is important that LDC's are separate enough from administrative structures, such as the city government, to avoid potential conflicts of interests.

¹² Israel, Arturo (1992) Issues for Infrastructure Management in the 1990s, Washington, D.C.: The World Bank

Conclusion

This step-by-step approach does not pretend to have all the answers, nor can it present all the methods for implementing a sound LED programme. However, it does give the basics as practised by VNG International consultants and many others (several of whom are noted as contributors or cited as references in this manual).

VNG International focuses its work on municipalities (local authorities) and the associations which support those municipalities. This step-by-step approach is concerned with the municipality's role in Local Economic Development. However, the authors are fully aware that in some regions the municipality is not the main actor in local economic development. We have tried to note the differences accordingly. The bulk of the information presented here will be useful regardless of the leadership arrangements in place.

VNG International has developed a special resources section with additional information and resources for its consultants, including power-point-presentations, training materials, course materials, training-of-trainers modules, strategic plans for LED etc. This resource section is accessible for VNG consultants through the home office. A list of resources is found in Annex II.

Annex I

ACRONYMS USED

BAC	Business Assistance Centre
BIC	Business Information Centre
BID	Business Improvement District
BOT	Build-Operate-Transfer
BR&E	Business Retention and Attraction
CIP	Capital Improvement Plan
EDPC	Economic Development Planning Commission
FDI	Foreign Direct Investment
LDC	Local Development Corporation
LED	Local Economic Development
NGO	Non-Governmental Organisation
OED	Office of Economic Development
PPP	Public Private Partnership
SWOT	Strengths, Weaknesses, Opportunities and Threats

Annex II

SELECTED RESOURCES AVAILABLE AT VNG INTERNATIONAL HOME OFFICE

One Day Basic Economic Development Course with four modules (i) the municipality's role in economic development , (ii) understanding your municipality, (iii) pillars of economic development, (iv) administration of a Local Economic Development office. Developed by Jim Budds for Compass – Albania (2004).

Creating the LED Environment. A one-day course focusing on local government and project development with two modules: (i) assessing your competitive advantage and (ii) local development and retention programme. Developed by Jim Budds for Delta Project (OSI/WB), Prishtina, Kosovo (2004).

Short Course in marketing and partnership development. A one-day course focusing on marketing of the community and the development of partnerships. Developed by Jim Budds for the LOPAD programme Macedonia (2003).

Gijima Introductory Course in Local Economic Development. A three-day introductory course in LED which is accompanied by a participant's manual and trainer's manual. It offers a good introduction to the topic, particularly for those not at the core of the LED effort but whose support is required (councillors, mayors, business officials, etc.). The course has eight modules. Developed by Gerry Delany and Jim Budds for the Gijima programme, Durban, South Africa (2005).

Promoting Local Economic Development through Strategic Planning; UN-HABITAT by John Ingram. A four-day course on the uses of strategic planning for Local Economic Development, to help create a pool of LED trainers and informed practitioners from local governments, training institutes, local authority associations and selected municipalities from across East Africa. A secondary purpose was to have participants develop a set of national action plans for possible future implementation depending upon interest and resources.

Training Programme on BID's for Your Community. A three-day training programme focusing on the establishment and use of Business Improvement Districts as an LED tool in the community. Developed by Jim Budds for the MACIP programme (2003).

Strategic Navigation for Municipalities and Small Organisations. A two day workshop using the 'learn as you do' methodology. This strategic planning workshop allows participants to walk through the process based on their own circumstances and real-life case studies. This makes the process of Local Economic Development planning much easier to grasp and teaches the principles while actually making progress toward completing the local plan (VNG International, 2002).

