

# Jakša Puljiz

## Economic Development

### *Local actors and economic development*

The context for local economic development in central and eastern Europe has been substantially changed over the last 15 years. Since the beginning of the transition process, central governments have considerably reduced their responsibility for the local development. Local units have found themselves in a very precarious position. The long tradition of relying on central government, the priority given to employment promotion through the development of big industries, the lack of civil society organizations, the mistrust in "planning" and development plans are just some examples of the conditions in which local units entered into the new system at the beginning of the nineties. A new development process with a much greater emphasis on the regional and local actors is now under way. Some communities have relatively quickly took advantage of the new opportunities with considerable success, but for some communities the heavy burden of the past is disappearing very slowly, resulting in the increasing regional and local disparities. Experience shows that the sooner the local actors realize that the new opportunities and forms of development have to be considered and supported, the sooner and the better development outcomes will be achieved.

But how powerful local actors really are in influencing local economic development? The answer may depend on the circumstances, specific for each local unit. There are examples where local actors were the key factor, directly "responsible" for the local development success. On the other hand, local development patterns are sometimes strongly influenced by the factors which are not controlled by the local actors, like the location of their local units or the vicinity of big local industrial facilities providing employment for the majority of their local labour force. Nevertheless, this does not mean that local actors are not able to respond to such challenges. On the contrary, to every local unit a range of options is available concerning the maximisation of the positive effects of external factors or the minimisation of their negative effects. The difference between local units lies in the actual range and the possible impact of these opportunities and in a local unit's success in exploiting them.

To conclude: local actors do matter and they can significantly contribute to the local development success. In the following paragraphs, some concrete advice and examples are given. Particular emphasis is put on the role of local government as the key local actor.

### ***Who is/can be local actor?***

#### **Local government: municipality or town administration**

Local authorities are central for local economic development. Local governments address a wide range of economic development needs. Besides providing physical and other infrastructure they may also facilitate business development, make their local units attractive to businesses, streamline financing for businesses and real estate, provide tax incentives to support business expansion, education and training, etc. Local governments also control a wide variety of regulatory steps for businesses such as registration, licencing, permits, etc. Moreover, they can identify and provide the leadership necessary to organize and build coalitions and partnerships.

#### **Community based organizations**

Organized civil societies are often identified as important forces of local democratisation and empowerment. Participation of citizens and citizens' organizations in public policy debates, or in delivering public services and contributing to the management of public goods, is a critical factor in making development policy and action responsive to the needs of locals. Such organizations include unions, community groups, professional guilds, political parties, informal networks, youth organizations, etc.

#### **Local businesses and their associations**

Clearly local businesses represent the main axis of local economic development. Therefore, the attitudes of local businesses have to be notified and taken into account. Whether the businesses are organized formally or informally, they can represent a valuable partner in the preparation and implementation of the local development strategy.

### ***Supporting businesses: central for local development strategy***

Supporting business development is a major component of local economic development. Increased activity of local businesses may have extremely positive effects on a population's living standard, mostly by contributing to an increase in local employment and personal incomes. It is also likely that an increase in local fiscal resources will

follow, which can be then used for new investments into the infrastructure and other development projects.

### **What can local governments do to support local businesses?**

Support for local businesses can take various forms, ranging from advice to providing necessary resources for their growth (financial resources or land sites, for example). Some of the possible actions include:

- **Maintaining regular contacts with local businesses**  
For example, through meetings with corporate representatives, local administrations can get a much better insight into the problems and needs of local firms. They can also get a better picture of how businesses are performing, which local business leaders have the highest growth potential, etc. Also, these contacts can be used for dissemination of information on various initiatives which may have impact on local businesses, such as some new central government initiatives for business promotion, new environmental regulations, new local physical plan, etc.
- **Provision and improvement of construction sites and business premises**  
Since local authorities are often the owners of commercial land and buildings, they can use these to encourage business investment and growth. Sometimes the investments into the physical infrastructure are a good way to increase the value and attractiveness of the land and the premises (see the case of Dugopolje). The option of partnership with the private sector should always be considered, as financing these investments can be taxing. In some cases, there can be unused premises which require some renovation, e.g. disused industrial facilities, warehouses, etc. A programme for refitting such buildings would increase the value of the site and attract new investors or encourage the existing ones to expand. The price or the rent of the land and premises are also a powerful tool for encouraging new businesses or for attracting businesses from other locations.
- **Helping businesses in obtaining permits and licences**  
The amount of permits and licences that businesses need to obtain, and the time it takes to obtain them can be a decisive factor in attracting businesses. This process may be very expensive and time consuming so local authorities should seek ways to make it as smooth as possible to attract investment. For example, by taking part in the process of obtaining permits (as in the case of Dugopolje) or by

reducing the complexity of procedures under their authority or by co-financing the costs of obtaining necessary permits and licences.

- **Advice and support on financial issues**  
Relaxing access to capital is considered as a valuable support for the businesses. Establishing permanent financial support (a bank or a fund) is a good way, but not an easy one, due to its complexity and costs. Another type of support could be establishing a small loan or grant programmes for investments. These programmes can be very successful if the selection criteria are fair and in line with local development goals. Sometimes these kinds of programmes already exist at the regional or national level, so local administrations should provide info for the businesses on these schemes.
- **Technical assistance**  
A local entrepreneurship centre or agency is usually tasked with this and provides a variety of specialized training programmes e.g. in marketing or quality standards. In case such an institution is not available locally, the local administration can be a mediator for such external institutions and provide necessary contacts with the local businesses.
- **Attracting external investments**  
Investments into hard and soft infrastructure are usually good ways to increase the attractiveness of the location and attract investments. Also, various incentives, such as local tax reliefs can contribute. Programmes for attracting investment (perhaps in co-operation with an agency or other organization with the relevant experience) can provide a wider framework for the actions taken by local actors, thus increasing the local understanding of investment needs and what the community can offer investors.
- **Supporting formal and informal business networks**  
Business networks can improve the relationships between the existing businesses and can also generate ideas for new businesses. Local governments can support the establishment of local networks (for example, by providing their premises) or encourage local businesses to join other, already existing networks.
- **Raising entrepreneurship awareness**  
Local authorities can contribute to the promotion of entrepreneurship culture by taking some practical and relatively inexpensive steps, e.g. creating public award schemes for successful entrepreneurship. There may be awards for specific subcategories such as the most successful businesses run by young or female entrepreneurs or for

the export-oriented businesses. Also, business idea competitions can create interest and develop skills at the same time among younger populations. Local authorities can also raise awareness by publicizing local success stories in the media and by promoting sponsorship and other relations between businesses and local educational institutions.

### **Investments in hard infrastructure**

Investments in hard infrastructure involve investments in improving physical infrastructure. Such investments make local units more attractive for businesses, they raise the value of the land and improve the overall life quality. Some types of investments are:

- developing, improving and expanding business zones and premises
- building or improving main roads
- improving railway transport of passengers and goods
- developing, improving and expanding local ports
- improving local sewage disposal system
- improving telecommunication systems
- improving power and water supply systems
- environmental projects.

These investments involve significant costs and usually include national or regional actors. Local actors should prioritize them according to the local needs and seek ways to “bring” investment into their local units as soon as possible. Active support might include various preparatory actions, like the elaboration of necessary planning documents, obtaining required permits and licences, or initial construction work which can be financed by local units.

- **Launch local media campaigns in support of local businesses**  
Actions which promote buying locally produced goods are usually a good way to support local businesses. Increasing familiarity with and awareness of local products boosts the consumption of local products (of course, if their price is competitive and the product

quality at a par to the quality of similar imported products) and consequently generates local employment.

### **Investments in soft infrastructure**

Investments into soft infrastructure are aimed at improving the environment for businesses. Possible types of investments include:

- Skill training

In order to reduce the mismatch between the employers' needs and the available skills of the workforce, various forms of skill training should be undertaken. A municipality could, for example, participate in co-financing of such programmes. If possible, such programmes should be linked to educational programmes in schools.

- Support business-oriented education

For example, by introducing various programmes into local education system aimed at improving the entrepreneurship culture.

- Provide business advisory services
- Provide an easier access to finance

This does not necessarily involve funding itself, but it could also include the provision of information about available financial schemes

- Support the development of business organizations

Business organizations are today a widespread form of institutional support to businesses. They promote co-operation between businesses, but also between businesses and other actors, including local authorities.

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## ***Putting economic development process in a wider local development framework***

### **Adopting local development strategy**

Good practice shows that local economic development process should be put into a wider and to a point formalized framework. Why? First, in order to get a better insight and control over it. Second, to provide an opportunity for a larger group of actors to take part in the development planning and the decision-making process. Also, it should be noted that, although economic development is crucial for the overall community welfare, it is still only one of the components of the overall local development. Other components include social issues (such as disadvantaged groups, minorities, etc.), environmental issues, demographic issues, etc. Linking economic development process to a programming document like the local development strategy is usually a good way to put all the relevant issues under one hat and to seek the best way how to maximize local well-being taking into account all the relevant development aspects. However, the elaboration and especially the implementation of local development strategies is not an easy task. Most local units in central and eastern Europe have only recently started dabbling in strategy elaboration and implementation process in line with a modern, participatory approach. This approach puts an emphasis on the collective efforts of the public (governmental), the private (business) and the non-governmental (NGOs, trade unions, etc) sectors. Therefore, some advice for successful strategy elaboration and implementation could come in handy:

- an integrated approach including economic, as well as social and environmental issues leads to development success in the long run
- include all relevant stakeholders in the strategy development process; develop a sense of local ownership of the strategy. Inclusion of key stakeholders can be secured by their participation in

the body responsible for the organization and monitoring of the strategy elaboration (e.g. development council) and/or by their involvement in various working groups

- recognize leaders in the local community who can bring commitment, credibility and ability to unite stakeholders
- strong political will has to be demonstrated by the local government to designate and implement the strategy
- initiate a range of projects - short, medium and long-term - in order to secure stakeholders confidence (with quick wins) and build partnerships
- for each project, a concept regarding involvement of relevant stakeholders has to be prepared including the agenda, the time schedule, the expected costs, etc.
- the implementation process should also become a capacity building process for all the involved parties (including the implementation teams)
- the political, financial and technical support from other levels of government can be very encouraging
- the participation raises the expectations of stakeholders and the general public about the pace of improvements of their (economic) living conditions. However, the development process is inevitably slow and unrealistic expectations can quickly turn into frustrations, even if the programme has been firmly based on a widespread consensus. Therefore, an information campaign about the rationale for the strategy and its overall impact could be a useful way to avoid this danger.

### **Securing financial means to implement development strategy**

Financing the projects envisioned by the strategy is often a very daunting task. The most common problems are the situations when local budget is not synchronized with the priorities set in the strategy, or the local possibilities to finance priorities have been overestimated, or the reliance on external funding has been too optimistic. Linking the strategy priorities with the local budget is a precondition for a sustainable development process. Once the strategy has been elaborated and adopted by the local unit, the implementation should start as soon as possible. This is important because the immediate and visible benefits represent the best way to increase local participation and commitment in the strategy elaboration and the implementation process. This means that the financial means have to be secured from

the local budget, as this is usually the main source of funding, from the first year of the strategy elaboration. In the case of the medium-term and long-term projects, the financial frameworks have to be outlined in yearly actions and included in the annual budgets.

## ***Partnership with external actors***

### **Develop co-operation with other authorities at local, regional, national and international level**

Co-operation with external actors can be very fruitful for local economic development (LED), but it can also take much time and effort without the expected benefits for local communities. Sometimes external support can be a key factor which will trigger off local development, especially in the case of smaller units. For example, the investments in physical infrastructure which go beyond the financial power of a local unit and therefore require support from the regional or more often, the national level. On the other hand, there have been many instances, especially when some international organizations were involved, where the outcomes were only temporary and the overall results compared with the invested resources were meaningless. Most often this was the case when the local actors lacking capacity were approached by some international organization insufficiently aware of the local circumstances.

*The most general advice is: Try to have a clear vision about the possible role of external actors in the LED process. Which are the areas where you think they could contribute most? Of course, the answer to this must be based on an analysis of local strengths, weaknesses, opportunities and risks.*

### **Develop a strategy on the role of external actors in LED.**

#### **Advice for the co-operation with other local units**

- try to learn from each other
- identify the more successful local administrations and try to find out the reasons of their success
- identify joint projects which can produce synergy effects, with benefits for each involved unit. For example, waste disposal problems can sometimes be more efficiently solved in co-operation of several neighbouring municipalities.
- develop formal and/or informal ways of mutual co-operation, whether through regular meetings or by joining and actively participating in the existing networks (for example, in Croatia, such a

network exists in the form of the Association of towns and municipalities)

### **Advice for the co-operation with regional and national governments**

In order to successfully designate and implement the local development strategy, the co-operation of the local actors with regional and national authorities can be very beneficial:

- seek ways to effectively include representatives of regional and national authorities in the local development process. This can be achieved, for example, through involvement of regional and national actors in the elaboration and implementation of the local development strategy
- regularly monitor and participate in government initiatives aimed to support local economic development, for example, by applying for various financial support schemes (see the case of Mórahalom).

### **Develop co-operation with national or international non-governmental organizations**

External factors can play a significant role in supporting local development, especially in the case of smaller local units, which might have less possibilities (capacities but also opportunities) to enhance their economic well-being.

Non-governmental organizations most often do not have financial means to substantially support a particular municipality's needs, but they can be very supportive in a number of other areas, such as the promotion of entrepreneurship culture, the development of local business support organizations and institutions, the organization of training schemes, etc. Non-governmental organizations can also be very helpful in supporting the development of local civic society, whether through funding or by offering technical support (or by combining these two forms). The development of local civic society is another important aspect which enhances local economic development and thus local authorities and other local actors should promote co-operation with external organizations which can facilitate this process.

## ***Best practice examples***

### **From losers to winners: case of Dugopolje**

Municipality of Dugopolje (about 3,100 inhabitants) is situated 20 km north from Split (190,000 inhabitants), a southern regional center of Croatia. The municipality of Dugopolje was established only in 1997 after several previously unsuccessful attempts of secession from the neighboring municipality of Klis. In 1997 Dugopolje was a typical Dalmatian (the region in Croatia where it is situated) municipality in the hinterland, characterized by a very weak local economy and a high unemployment and the migration of younger people to Split or other urban areas. In short, a declining area whose major advantage - its favorable geographic position (the vicinity of the regional centre and the main road Zagreb-Split) - was still unexploited. In 1997 there were only a couple of crafts operating in Dugopolje. Today there are around 90 firms or outlets in the Dugopolje business zone.

### **What happened in Dugopolje?**

In 1997 the newly elected president of the municipality realized that the major advantages of Dugopolje, its vicinity to Split and a large mass of available land owned by the municipality, can be at best utilized by offering land sites for businesses at very favorable conditions. At that time, Split lacked a business zone (unfortunately, it still does) and the land prices were much higher than in Dugopolje. The local administration immediately began the preparatory work on the establishment of a business zone in Dugopolje. Mr Zlatko Žavrnja, head of the municipality, arranged a meeting with the local entrepreneurs to check their opinion on the business zone. Their positive reactions confirmed that the plan was sane, so the municipality continued with its realization.

The main task was to acquire all the required permits for the necessary investments into the physical infrastructure, but also the permits for the sites in the business zone which would enable the businesses to immediately begin investing into the premises. The local administration then decided to concentrate the funds on financing the elaboration of the planning documents as this was the precondition for acquiring the permits. The planning documents were elaborated not only for the business zone but for the entire municipality. This first phase, based on the elaboration of the planning documents took a lot of

time, more than one year, but later when the first investments into sites came through, this proved to be worthwhile. After the completion of the planning phase, the next step was to let the businesses in on co-financing the physical infrastructure of the business zone (power supply, water supply, roads, etc.) and in return offer them a very low price of the land and local tax incentives. The response of the firms was very positive, and all the offered sites were sold. The spiral of local economic development was initiated. Each year more and more sites were sold, and also each year the investments into the infrastructure of the business zone expanded in scope and quality. Due to the influx of new businesses, the local unemployment figure was significantly reduced. At the same time, the municipal budget revenues soared, much faster than the expenses for the investments into the business zone. These new, available resources were invested into the construction sites for private houses, the modernization of the school and the kindergarten, the local cultural and sport organizations, etc. Today, the municipality of Dugopolje has an extremely well-equipped kindergarten and elementary school, and very soon the construction of a sport gym is to be completed. Also, the municipality is financing foreign languages courses for the pupils, rewarding the best pupils with free trips, granting scholarships to the best pupils and students, and doing everything it takes to raise the quality of the educational system and the overall quality of life in Dugopolje.

### **Why success in Dugopolje?**

The answer to this question is even more interesting, since the neighbouring municipality of Dicmo established its business zone a couple of years before Dugopolje, but with much less success than Dugopolje. It seems that the businesses opted for the Dugopolje business zone when they realized that their investments there can much sooner become operational than in the case of Dicmo, where the local administration was too slow in the planning stage and in providing the permits. The main advantage of the Dugopolje business zone are the permits for constructing the facilities, which are ready and waiting for every potential investor. In other business zones, the sites would be sold to the investors who would then themselves have to acquire the necessary permits for the construction of their premises. This process can be very frustrating for the entrepreneurs due to the bureaucratic nature of the government and other bodies responsible for issuing permits. It takes a lot of time, and of course, money. The cheap land was

the additional reason which attracted the attention of investors. businesses. Still, that was no particular advantage of Dugopolje, as other municipalities offered similar conditions.

The turning-point were those first businesses in Dugopolje and their very positive experience. The partnership between the local administration and the entrepreneurs was not a usual occurrence in Croatia. The development of partnership with the businesses was given priority by the local administration not only before but also after the completion of the business zone, e.g. by including the businesses into various sponsorship schemes for the local organizations or events. Very soon the news about the highly efficient Dugopolje administration and their business zone spread and more enterprises wanted to invest in the zone. Of course, one must not forget the influence of other factors such as the convenient geographical position of Dugopolje and very good road connections with Split. They can be thought of as opportunities which the local administration cleverly and systematically exploited.

#### **What about the local administration and its role?**

Obviously, the local administration has played a major role in all this. The biggest "culprit" is the president of the municipality, Zlatko Žavrnja, who organized the local administration in 1997 and who has been behind every major move ever since. Mr Žavrnja belongs to the rare group of highly educated municipality leaders with some experience in local economic development issues (he previously worked in the administration of the nearby city of Solin). He knew how much time entrepreneurs lose in obtaining permits. His idea was to offer the sites for businesses together with all the necessary permits and licences, to minimize the time necessary for the realization of an investment into the business zone. Since the beginning, Mr Žavrnja has enjoyed strong political support for his work and the support increased as the results of his work became more and more visible. He had free hands in selecting his associates and he relied on young, educated people. At the beginning there were only 3 employees in the local administration and today there are 6 employees which is still very modest having in mind that the local budget has increased tenfold since 1997. The cost of the local government employees today amounts to about 4% of the local budget which is far less than in other Croatian municipalities of similar size. Last, but not the least, Mr Žavrnja was reelected in 2001.

## **The case of Mórahalom**

Mórahalom, a settlement of 5,800 inhabitants in South-Eastern Hungary, 20 km from Szeged, the capital of Csongrád County, became a city in 1989. At that time, the soft and hard infrastructure of the settlement lacked many objects: there was no school, no police, no medical services were available, not to mention telecommunication facilities. Today, however, the city has an elementary school (developed in 1996 in a new building with up-to-date information technology) and a music school, a wide range of medical services, a cultural centre, it is 100% supplied with public utilities, 70% of the roads have solid road surface. Mórahalom has become a centre of the Homokhát microregion with e-services and a lively agricultural area.

In 1993, one year before the issue was brought to the Hungarian Parliament, the Mórahalom Municipality established a local economic development department in order to ensure a better coordination of information and input of material supply for the local population, most of which depends on agricultural production, since the co-operation of the individual growers was lost after the agricultural cooperative had been privatised. Additionally, at this time the bigger ventures, mostly seated in Szeged, had gone bankrupt and only small local enterprises were operating in Mórahalom, and so the local government realized the need to open new prospects for employment and occupation for the inhabitants.

In 1994, the Hungarian Parliament passed a decree on local tax incomes, including, among others, the local business tax, and set the admissible amount at 0,8 percent. At that time, Mórahalom was not able to make use of this opportunity, since there were no major enterprises that could have paid a considerable amount of taxes to the local government. Consequently, the department decided to support the firms that would soon recover the municipality's outlay. Thus, the municipality started to apply for all relevant types of funding, and at the same time, it started to support the local NGOs, mainly local foundations. The sources that were gained were not considerable, but nonetheless, two new occupational centres for the disabled were soon opened, and since the municipal institutions could also apply, other developments, such as a club for the elderly was opened. The local infrastructure was developed, roads and bicycle paths were built, the public lighting was

renewed, and the rubbish-shoot was put in order. The municipality formed enterprises to better carry out its duties and established the co-operation with the surrounding municipalities. In mid-nineties, the municipality bought the former military barracks and, as an infrastructural investment, made its own enterprise construct a gas pipe to this outskirt. Nowadays there are flats, an occupational centre, and the club for the elderly in the building of the renovated old school. This investment induced more investments, since the enterprise had to develop its machine stock. The enterprise, originally established with 1 million forints and 8 people, currently has a 45-million-forint capital and employs 60-70 people.

One of the biggest investments in the settlement was the foundation of the Agro-Industrial Park in 1997. The cost of 146 million forints was 50% sponsored by central government funds and 30 million forints were provided by the county. The park is fully supplied with public utilities, has a so-called 'incubator' house and an 'incubator' hall, offering low rent for the enterprises. The most prominent enterprise of Mórahalom, Mórakert, also has its seat in the industrial park, renting offices in the incubator house. Additionally, Mórakert has built its own plant for vegetable and fruit buy-up and packaging on a rented plot in the industrial park. This company is the 'successor' of the local municipality economic development department. After 1994, the local entrepreneurs found out that their own foundation would enable them to deal more successfully with the issues of purchasing. However, after one year this arrangement turned out to be insufficient; therefore, they established a co-operative, Mórakert. The co-operative's tasks are arranging the buy-up, the handling of the products (weighing and packaging), the storage, and finally, the distribution. All members pay an entrance fee and further investment fees. The municipality was one of the 52 founding members of Mórakert; today, it is one of its 258 members. In wintertime, the company organizes training for the members about the treatment of different vegetables and fruits, economic issues, and monitoring. The companies in the industrial park receive tax allowances and all administrative issues are arranged by the municipality. At present, there are 12 enterprises in the park, three of which work closely together - Mórakert, Herena, which produces the packaging materials for Mórakert, and Móraprizma, which also prepares products for Mórakert. The firms employ a total of 200 people.

The second pillar of the local economic development is the thermal spa with medicinal waters, that attracts people from the nearby county capital. For the development of the spa, the municipality won a PHARE subsidy as well. This year, the construction of a thermal hotel was completed, the municipality was the investor.

The municipality is one of the most important actors of the local economic development. The mayor, who was recently re-elected for the third time with a landslide - 80% of the votes - is the driving force of the municipality. Since most employees of Mórahalom work in the municipally run institutions and, besides, the municipality employs a number of people with university degrees in economics, the human capital of the local government is the best in the municipality. Furthermore, the municipality is the biggest stock owner among the economic actors of Mórahalom.

Taking into account the output of the local economic development drive in Mórahalom, a 1/34 of the local tax on the average has been earmarked for the funding of projects in the past several years. The tax income of one million forints in 1994 has grown to 30 million forints; nevertheless, for further developments, such as establishing secondary education, health service development and sport investments, new sources must be found. Due to the change of central government, Mórahalom has faced some setbacks regarding the reception of higher funds from the central budget, but its central role in the region cannot be denied, as it is the standard-bearer, with its development strategy and implementation success.