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Publication: Financing Local Development

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Key question

Is local development an investment or an expenditure for Governments?

The Publication

Tries to answer this question.

Comparisons of different LD Finance systems.

10 principles for Local Development Finance.

50 case studies:

Local Governments.
National Initiatives.
IFIs.
NGOs.
Private Sector.
Regional Bodies.

Conclusions on transferability and on skills and capacity building.

Highlights the importance of investment planning to Local Development Strategy.

Builds on.....LEED Work to Date

- o Private Finance and Economic Development Seminar Book from 2002, and Italian Translation.
- o Seminars at Trento Centre.
- o Chapters in LEED Reviews.
- o Development Agency Reviews.

Reflects...

- o Trend towards diversification of financial tools and greater role for banks and other players.
- o Reforms of public finance available.
- o Increased focus on building local markets.

Propositions

1. New global era requires a renewed focus on local and regional investment
2. Improved local and regional investment requires dedicated tools and public/private endeavour: development tools and agencies are essential.
3. Development Agencies are a key tool in fostering financial innovation.

Themes of the OECD LEED FDA&IS work

- Local Economic Strategies.
- Local Development Agencies.
- Financing Local Development.
- Local benefits from Global Events.

Research, Seminars, Reviews, Publications.

Link with LDS Programme of OECD LEED Trento Centre.

Cities and Regions need investment

- Transition to knowledge led economy
 - Interaction of place with economy
 - What businesses and people need
 - Agglomeration, proximity, quality of place, co-ordination success
- Economic integration
 - Continental, global,.... Competition and Collaboration
- Environmental Imperatives. Completing the clean-up and greening the city economy.
- Social inclusion. New forms of intermediation.
- Policy Innovation and delivery.
speed, authority, governance.
- Space, flows, economic units.
- Metropolitanisation, cities, and regions.

Making markets work better for local development

- o The age of permanent subsidies is past.
- o Healthy local investment markets:
 - Supply of capital
 - Demand and deal flow
 - Information and co-ordination
 - Brokerage and intermediation
- o Market failure is not a simple supply issue
- o Economic development task is to build the market.
- o Demand side is key and facilitation is essential.
- o Capturing value of local development to support investment. Land Value, Tax Base, Fees, Levies, etc.

Investing in Local Economic Development.

- o Private sector co-investment is an important quest.
- o Role of regions and localities is to be 'investable' and 'investment-ready'.
- o Reduce risks and costs, improve returns, help to build steady flow of propositions. Conditions of a growing market.
- o Economic Development Strategy as 'Investment Prospectus'.
- o Good for Localities and Regions.
- o Good for Private Sector.
- o Key roles for national and multi-national organisations.
- o Build partnership with investment sector.

Municipal Finance And Local Development.

Different traditions in OECD and EU Countries.

Some countries over 60% locally financed.

Some countries less than 10% locally financed.

This impacts of nature and scope and style of LD.

Either

Or

Build tax base and share benefit

Seek transfer payments to support local effort.

One is 'business facing'..... The other is 'donor facing'.

Investment or expenditure?

Influences incentive structure and impacts on entrepreneurial approach.

Public/Private Finance.

- Why? What is the incentive structure?
- Public Goals.
 - More Capital, rebuild regional/local investment markets, commercial discipline, attracts wider interest, more sustainable, investment rather than expenditure.
- Private Goals.
 - New business lines and markets, diversification of business, ethical or CSR priorities, predictable returns, new relationships and influence, strengthen local economies and improve performance of related investments.

Typology of 9 framework variables in Local and Regional Investment.

Regional economic contexts and investment opportunities vary.
Constitutional settlements affect local/regional finance regimes.

- Fiscal and financial authority in different places.
- Public sector debt calculations.
- Traditions of tax targeting (eg dedicated levies versus general taxation).
- Templates for public/private co-investment.
- Regulation of financial institutions.
- Use of public sector assets.
- Political culture in terms of public risk and debt.
- Public sector sensitivity to private sector disciplines.
- Cohesion imperatives.

Approaches Differ Across Countries

- o Incentives for Investment are constructed differently:
- o Tax or Grant?
- o Guarantees or Securitisation or Regulation?
- o Statutory or Voluntary?
- o Targeted incentives or general subsidies?
- o Public debt or Private debt?
- o Investment climate or deal focus?
- o Different tools and different innovations.
- o Transnational exchange is rich.
- o Learning not copying.

Financing local development: 10 principles.

- i. Smart finance for smart cities: getting the fiscal relationships with higher tiers of Government right
- ii. Promote active private sector leadership in city investment
- iii. Metropolitan finance for metropolitan amenities
- iv. Sharing the benefits of growth locally
- v. Flexibility in public funding to enable private co-investment
- vi. A new approach to public assets
- vii. Financial innovation in public and private sectors
- viii. Long term market building by the private sector
- ix. Focus on the quality of the propositions not on the supply of finance
- x. Build capable specialist intermediaries

Conclusions....

- i. More investment required than is possible in public finance cycles
- ii. Need to better link outcomes of development with financial support
- iii. Create more incentives for success but support long term approach and avoid wasteful competition.
- iv. Focus on whole market, not just supply, and build stronger propositions locally.
- v. Build specialist intermediaries (eg development agencies) that innovate financially where municipalities can't.

The 50 Case Studies.

- o Remarkable scale of innovation.
- o Financial tools created by different players.
- o Better link between policy and investment.
- o Transferability is a key issue.
- o Importance of skills and capability.
- o Ability to use exiting tools is key.
- o Potential for reviews and further work.

The key role of 'social finance'.

Important roles are played by Credit Unions, Mutual Guarantees, Social Investment Funds, and other forms of 'social development finance'.

Can these niches be grown to have a larger impact?

Or

Are they a specialist niche within a system that includes other financial tools?

Key contribution.

- o Importance of self help in development.
- o 1st rung on the ladder.
- o Different approach to risk and return.
- o Integrates skills and know how with finance.
- o Able to operate at smaller scale.
- o Flexible.
- o Best for some niches: eg micro enterprise, community development, etc.

Key benefits

- o Funding the un-fundable.
- o Skills and financial know how.
- o Asset building in the community sector.
- o Entry level entrepreneurs.
- o Expression of self reliance and self investment by communities.

Without these Local Development is impossible.

Thank You !