Better policies for better lives

LOCAL AND REGIONAL STRATEGIES TO RELAUNCH ECONOMIC AND EMPLOYMENT DEVELOPMENT

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Conference background paper
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BACKGROUND

OECD data shows that financial conditions are returning to normal in many countries. World trade is picking up and encouraging signs are coming from the markets. The global coordination, and the scale and intensity of measures put in place as a response to the crises have been extraordinary. According to the latest OECD Economic Outlook (OECD 2011a), which will be published on the 30 June 2011, the global recovery is firmly under way, but is taking place at different speeds across countries and regions. World GDP is projected to increase by 4.2% this year and by 4.6% in 2012. Across OECD countries, GDP is projected to rise by 2.3% this year and by 2.8% in 2012, in line with the previous forecasts of November 2010. The recovery is becoming self-sustained, with trade and investment gradually replacing fiscal and monetary stimulus as the principal drivers of economic growth. Confidence is increasing, which could add further optimism to private sector activity. However, important challenges remain and OECD economists agree on the fact that the global crisis may not be over yet.

History has taught that high unemployment is one of the most critical legacies of the crisis. Today’s unemployment, especially in advanced economies, remains very high and is coming down only at a modest pace. Countries are faced with the need to improve labour market policies in order to enhance job creation and prevent cyclical unemployment becoming entrenched. Unemployment also needs to be tackled to prevent major social risks. Governments can lower taxes on labour, expand and improve training schemes to ensure a better skills supply and demand match, target measures at the disadvantaged - especially young people, immigrants and women. SMEs and entrepreneurs make an important contribution to job creation, economic growth and societal cohesion, acting as a major engine for development and contributing to the transition to a greener economy. Indeed, governments recognize that the sustainable use of natural resources and efficiencies in the use of energy, combined with environmental protection, can improve the economy.

The objective of the Local and Regional Strategies to Relaunch Economic and Employment Development conference is to provide ground for high level policy makers, economists and representatives of international institutions to discuss the future of global economic and financial development, and to debate the crucial role played by regions and localities in the recovery. The conference also aims to provide a means to exchange good practices in selected policy areas.

STRUCTURE OF THE CONFERENCE

The conference will consist of two sessions. The morning session will discuss general trends and challenges for economic and employment development. The afternoon session will focus on the role of regions and localities and their responses to the global challenges.

Each session will be composed by (i) keynote presentations by authoritative speakers and (ii) policy makers’ round table discussions based on key messages and practical experiences.

The conference will end with a summary of findings and policy-related conclusions. In particular, the conference will address the following key questions:

**KEY QUESTIONS**

1. How can employment strategies and policies be made more effective? What can be done to avoid high unemployment rates becoming the norm, particularly for those most at risk such as youth and the disadvantaged?

2. How can SMEs and entrepreneurship further contribute to job creation and growth?

3. What is the role for local and regional intervention in supporting job creation, entrepreneurship and SMEs development, stimulating innovation and encouraging a greener growth?
A. THE ROLE OF EMPLOYMENT STRATEGIES AND POLICIES

Key questions

1. Enhancing the contribution of labour market policy to the creation of more and better quality jobs is a priority for all governments - national, regional and local. What are the innovative policies out there to better match skills supply to demand, to improve training provision, to address skills gaps and also to improve skills utilisation by firms?

2. Which factors are leading to exclusion from the labour market? Which measures and strategies at national and local level can support youth school-to-work transition, labour market integration, retention and progression as well as youth entrepreneurship?

The top challenge facing many countries is dealing with widespread employment, currently affecting more than 44 million people in the OECD area. Unemployment in the OECD is 8.2% and is higher in the Euro area at 9.9% (March 2011). For the first time since the start of the crisis in 2007, unemployment rates have been showing a decline in most OECD countries, however there are still 13.6 million more people unemployed than in March 2008. There is also the risk of growing underemployment and structural unemployment, as more people enter the long-term unemployment bracket, resulting in what can be lasting “scarring effects” which affect future employment prospects, income levels and even health and happiness (OECD, 2011a).

Unemployment has been uneven across countries, sectors and workforce groups. Youth and workers on temporary contracts have been particularly hard hit, often one and the same group, while migrant workers and those in cyclical industries such as construction are also more likely to be out of work. This comes at a time of rapidly deteriorating public finances; OECD countries have lost over 2% of their potential output due to higher unemployment and lower participation rates.

In the context of limited public finances, there is an onus on governments to ensure that the recovery is “job rich”. Countries need to improve labour market policies which enhance job creation and prevent cyclical unemployment from becoming entrenched. There is no single solution but there are a number of potential directions to take. Many governments are focusing on active labour market strategies and training programmes, making sure there are sufficient numbers in place, that they meet local skills demands, and actually match the unemployed to jobs. Many are targeted at specific hard-to-reach groups, ensuring the most disadvantaged are involved, and up-skilling programmes may be tailored to the needs of local growth sectors. Lower taxes on labour and intensifying efforts to deal with medium-term challenges can also be implemented.

Rising youth unemployment, in particular, is a worrying trend. Even in the good times young people are more likely to be out of work than adults, but they have been much harder hit by the economic crisis. In what has been described as “the painful human face of the crisis” (Angel Gurría, The Times, February 2011), youth unemployment has hit 19% in the OECD area (OECD, 2011b). The contributing factors are many, but one obstacle is the difficult transition from education to work, particularly when it comes to finding stable sustainable employment with progression opportunities (OECD 2009a).

While many issues are to be addressed at national level (and the OECD Jobs for Youth project¹ has been assessing OECD Members’ performance in this field since 2006), providing jobs for youth is very much a local issue that requires place-specific, cross-sector responses as part of wider local development strategies. It is important for local authorities, employment agencies, industry groups, training and education providers to work together to ensure that young people have accurate careers guidance on

¹ The OECD launched in 2006 a review on Jobs for Youth in 16 countries: Australia, Belgium, Canada, Denmark, France, Greece, Japan, Korea, the Netherlands, New Zealand, Norway, Poland, the Slovak Republic, Spain, the United Kingdom and the United States. Each country report was presented at a national seminar and includes reform proposals.
opportunities in the local economy, as well as being the opportunity to gain work experience in local firms through job placements, apprenticeships and internships etc. Career ladders can also be put in place to support employment progression, and local actors can work with employers to bring about better skills utilisation and career development paths. Further, for some young people starting up their own business (including non-profit) can be a viable alternative to dependent labour. Success requires investment in entrepreneurship skills, creation of entrepreneurial attitudes as well as start-up and early-stage business development support.

**Other issue to consider**

_Better aligning policies:_ At a time of budget deficits, policy silos and fragmented short-term policy interventions become luxuries that our economies can no longer afford. Producing better policy alignment between actors responsible for employment, economic development and skills at the local level, as well as working in partnership with private and other non-state stakeholders, will be important for both achieving better job outcomes, and also maintaining or reducing current levels of public expenditure.

_Building quality jobs and career progression:_ It is important that tomorrow’s workforce is equipped with high-level generic skills, so that individuals can transfer between sectors, and innovate in response to changing markets. This requires strong investment in flexible systems of “life-long learning” so that people can build their skills throughout their lives (see Annex III: The Skills Strategy). However in many localities both the public and private sectors are operating at a low level of productivity, offering poor quality jobs to local people while keeping the local economy uncompetitive. Employment agencies can also play an important role in helping firms to better utilise their workforce, and to provide career progression for lower-skilled workers.

_Targeting policies to new employment areas:_ Anticipating future areas of growth should be a key focus for local employment and skill strategies. Facilitating the transition to a greener economy is one way to contribute to sustainable job creation. At the same time jobs in other industries (especially those that are high carbon-producing) will be lost, and effective transition routes will need to be planned between old and new style jobs, with a strong focus on skills upgrading. In the context of demographic change, the opportunities emerging in the ‘silver’ labour market also need to be explored.

_Reducing inequality and disadvantages in the labour market:_ Certain groups are affected more than others by the economic downturn, and many have been facing long-term obstacles that have preceded the crisis. Local strategies are needed to get the young into stable jobs, and support their progression and support the inclusion of multi-generational disadvantaged groups (particularly ethnic minorities and aboriginal groups).
Box 1. Learning from the crisis: putting in place jobs that last

The recent economic downturn has been a shock to the global employment system, producing a strong policy response from OECD governments, including increased funding for active labour market policy and fiscal stimulus for job creation in the public sector. While these interventions have proved effective in helping businesses and workers to ride the crisis, their impact is expected to be of limited duration. In parallel, countries need to be laying the foundations for a more sustainable economic future. Actions are required at both the national and local levels to support a structural adjustment conducive to more and better jobs.

Drawing on over three decades of research, the LEED Programme has identified a series of principles which should underpin government and community action post-downturn. These include:

- creating an adaptable skilled labour force;
- better utilising skills in the local economy;
- supporting employment progression and skills upgrading;
- gearing education and training to emerging sectors, and;
- putting in place good local governance.

The downturn has highlighted the vulnerability of workers who are no longer essential to production processes due to either low skills or "old skills". In the future, communities will need to build a more skilled workforce which is less expendable, more adaptable to change and better able to transfer within and between economic sectors. This will require investing in generic skills and life-long learning through broad-based strategies that support the attraction, integration and upgrading of talent (see Annex III: The Skills Strategy).

However, it is not enough to just invest in the supply of skills. Employers also need to address the organisation of their workplaces so as to better harness the skills of their workers, and create more sustainable employment opportunities. The economic downturn has raised awareness of both the vulnerability of modern economies, and a rising inequality in our labour markets.

Before the crisis, many governments were aiming towards full employment. What has become obvious today is that while strong job growth helped economies to prosper, this disguised an inherent problem in the creation of relatively unproductive jobs. Such jobs kept people in employment, at least temporarily; however, they also provided relatively low salaries, creating a section of society that could be classed as the "working poor". During the recovery, a new approach to employment and skills will be necessary which has much closer ties to the longer-term economic development of local communities and the competitiveness of national economies.

Those communities that are bouncing back the quickest after the downturn are those that specialize in certain economic sectors but are flexible enough to take advantage of new and emerging global market opportunities as they develop. "Flexible specialisation" will be key. Spotting key priorities for future development is not easy when there are a plethora of local actors working on different strategies and in different partnerships at the local level. As governments reduce spending in order to pay off their deficits it will be important to make public policy more efficient, through reducing duplication and better aligning activities locally.

B. THE CONTRIBUTION OF SMES AND ENTREPRENEURSHIP TO JOB CREATION AND GROWTH

Key questions

1. Sustaining SMEs and entrepreneurship development is a priority for all governments. What have they done to develop favourable framework conditions and a healthy business environment in order to support job generation by innovative SMEs and entrepreneurs, and what will be done in the future? What are the instruments available to regions and localities to make places more competitive?

2. Access to financing for SMEs is likely to remain an issue even when recovery is widely established. Looking beyond the recent crisis, what support might be appropriate after emergency measures are withdrawn?

3. How can policy encourage the start-up and growth of innovative new and small firms, attract knowledge-intensive inward investment, generate and exploit science and technology in the research sector and build the innovation skills of individuals and entrepreneurs?

The vital contribution of SMEs and entrepreneurship to job creation and social cohesion is widely recognised by all governments. Entrepreneurship plays a key role in relation to economic development, including local development, and entrepreneurs are key agents of change in market economies. SMEs are a major source of the productivity growth and can significantly contribute to the transition to a greener and sustainable economy. Due to the crisis, many SMEs have been damaged financially. They are facing liquidity problems and under-utilised production capacity. Access to capital remains one of the most significant challenges for the creation, survival and growth of SMEs. Some anti-crisis measures, including loan guarantees, direct official loans and export facilitation have transferred risk from markets to the public sector. This should be temporary; banks and SMEs themselves should bear a larger share of the risk in funding arrangements that remain in place on a permanent basis.

But access to finance is not the only critical aspect for SMEs. Indeed, human resources are crucial to developing a dynamic and innovative SME sector (see Annex I: The Innovation Strategy). Education and training can promote an entrepreneurial culture at all levels of the education system and reduce barriers to the entrepreneurial activity of women and disadvantaged groups (OECD 2010c). Success in enterprise creation is underpinned by a comprehensive set of skills and competencies among entrepreneurs, including strategic skills, small business management skills and entrepreneurial traits. These can be instilled by appropriate policies in university and vocational education and in continuing professional development. Entrepreneurship training is a rapidly developing policy field with strong potential for learning from other areas, but it is important to focus on the real needs of entrepreneurs, which extend well beyond traditional business planning and accounting skills2.

Policies supporting the development of entrepreneurship and SMEs have an impact both at global and local level. The effect of creating an entrepreneurial environment is local in the sense that new firms are formed in specific locations. But the outcomes are also evident at national and global level: new firms make new products and services in these markets and often source technologies and other resources from across a country and sometimes globally. OECD studies show that the ability of regions to create new firms in their territories is an attractive option for sustainable economic development because it uses local resources and talent to make it happen, thereby energising local economic activity.

In order to generate local economic growth, policy needs to strengthen the innovation capabilities of firms, research and training organisations and individuals, both directly and indirectly through supporting the wider environment in which they operate. The need for locally designed interventions is underlined

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2 Conceptual framework of the OECD LEED project “Boosting local entrepreneurship and enterprise creation”, 2010.
by evidence that innovation performance varies strongly between cities and regions within OECD Member countries and within the OECD area as a whole. Evidence shows that innovation processes occur as much at regional and local as at national scales. It is therefore important to develop strategies that identify and tackle the market, government and systemic failures affecting innovation performance at local level, especially in the areas of research and development, human capital, SME innovation absorption capacity and knowledge spillovers.

Regions and localities have the possibility to influence and support entrepreneurship and SME development and to stimulate innovation through appropriate policies focusing on making a place attractive for living and working, facilitating or increasing knowledge flows in the region through human capital development, R&D, innovation and new business creation, and generating policies that enable better forms of sustainable job creation (OECD 2011c).

### Other issues to consider

**Social entrepreneurship:** The contribution of social entrepreneurship to economic development and social well-being, as well as its capacity to address social challenges in an innovative way is increasingly acknowledged. Improving enabling frameworks and overcoming obstacles is a priority for the further development of the sector. In addition to sharing many of the conditions affecting mainstream businesses, social enterprises and other social entrepreneurial entities (non profit co-operatives, private sector activities) have a number of particular needs in areas including skills provision, support structures, legal frameworks, finance, access to markets and governance/targeting.

**Business support frameworks:** The right business support infrastructure endowment, including the presence of incubators, hubs, and science parks, and a diversified set of business development services are important for effective public entrepreneurship support. However, business support is often unnecessarily fragmented, leading to lack of visibility and difficulties in reaching enterprises, and a lack of co-ordination and synergies. This can be addressed with appropriate policy structures, which should encourage rather than crowd out private markets for business support.

**Innovation for economic growth and social advancement:** Innovation is recognised as central for economic development. But it needs to create employment and improve welfare across the entire spectrum of society. Enabling the technological upgrading of domestic industries, fostering capacity-building and training of firms and the workforce, seizing the opportunities raised by globalisation, encouraging the diffusion of ICT and adopting resilient governance schemes are among the policy priorities needed to take advantage of innovation to attain socio-economic goals. However, innovation needs to be measurable. Sound measurement of innovation helps policy makers to evaluate the effectiveness of their policies and spending, and to assess the contribution of innovation to social advancement and economic growth in a context where the policy mix is evolving.

**Knowledge networks:** In an economy increasingly characterised by open innovation methods, the performance of new firm start ups and SMEs is often boosted by market and technological ideas provided by other companies and organisations in their wider networks and supply chains. Clusters and social capital are important facilitators of SME innovation and competitiveness in this respect. There is often a major networking gap, however, between knowledge sources in universities and research organisations and industry exploitation in new spin-off enterprises and SMEs. Access to knowledge is also critical for social enterprises, which may want to tap into business management knowledge from mainstream businesses and the context-specific knowledge that other social entrepreneurs can provide on markets, processes, collaboration partners and so on.

**Entrepreneurship and SME workforce skills:** Success in enterprise creation is underpinned by a comprehensive set of skills and competencies among entrepreneurs, including strategic skills, small business management skills and entrepreneurial traits. These can be instilled by appropriate policies in university and vocational education and in continuing professional development. Entrepreneurship training is a rapidly developing policy field with strong potential for learning from other areas, but it is
important to focus on the real needs of entrepreneurs, which extend well beyond traditional business planning and accounting skills. Skills upgrading is also crucial for existing SMEs, where workers have more limited access to training than those in large firms, which reduces enterprise productivity, innovation and competitiveness. Skills development is even more important in social enterprises, where social goals are twinned with profit goals and where people are not always familiar with business management principles. In addition to local training policies a range of other economic development measures can assist in upgrading workforce skills.

**Box 2. SMEs and entrepreneurship: Bologna +10**

In November 2010 high level policymakers, representatives from financial institutions and entrepreneurs from OECD and several non-OECD countries met at the OECD in Paris to design a roadmap to ensure that SMEs and entrepreneurial activity make their fullest contribution to the job creation needed now to help governments recover from the crisis and to secure sustainable growth over the longer term. Over the last decade, the so called OECD Bologna Process has promoted global dialogue and co-operation and has reinforced the SME policy agenda in a number of areas.

New firms and innovative SMEs are playing an increasing role as drivers of growth and job creation in the economy, but they face major challenges in responding to globalisation and the shift to new forms of innovation. Firm creation and SMEs have also been adversely affected by the global financial and economic crisis which has been associated with substantial closures and staff reductions, but at the same time hold the prospect of driving a return to pre-crisis employment and output levels.

**How do SMEs and entrepreneurs contribute to job creation and growth?**

- SMEs represent the majority of all businesses and employment. Across the OECD area they account for approximately 99% of all enterprises and two-thirds of employment;
- New firms play an important role in job creation. Between 1 and 6% of employment was generated by new firm creation across a range of countries. In the U.S. from 1977-2005 nearly all net job creation occurred in firms less than five years old. High growth enterprises play an even stronger role in job creation.
- SMEs lost fewer jobs than large firms in past recessions. In the current crisis employment in SMEs has continued to hold up better than employment in larger enterprises in several countries. However, evidence from the U.S. suggests that this pattern of job creation and destruction may have changed in the latest recession, in the U.S. at least.

During last year’s Bologna +10 high level meeting, a number of political priorities emerged aimed at enhancing the contribution of SMEs and entrepreneurship to job creation and growth. These included:

- Mobilise human resources fully and improve entrepreneurship training;
- Promote female and youth entrepreneurship through specific programmes;
- Improve intellectual asset management through advisory services to SMEs and improve the intellectual property rights system;
- Simplify the regulatory environment for SMEs;
- Raise awareness of the transition towards a sustainable economy and ensure a stable policy framework for green growth.

To fulfil the potential of SMEs and entrepreneurs for job creation and long-run growth, governments must ensure a business environment that stimulates entrepreneurship and does not impose undue burdens on innovative SMEs and an appropriate set of structural policies addressing market, system and government failures. Governments must address problems that have been exacerbated by the crisis and put into place a policy framework that is more conducive to innovation-led growth in the future.

C. THE ROLE OF INTEGRATED LOCAL AND REGIONAL POLICIES FOR SOCIO-ECONOMIC DEVELOPMENT AND GROWTH

Key questions

1. Why is a regional and local approach to development and growth needed?

2. What is the contribution of regional and local development to national and international economic growth?

3. What is the role of effective regional and local regional leadership in delivering re-investment and sustainable economic and employment development following the crisis? What are the framework conditions and instruments for intervention to achieve successful local economic development?

4. What should regions and localities do to enhance the impact of local development systems (networks of public, business and non-governmental partners which work within a defined area to create better conditions for economic growth, social cohesion and employment generation)?

The challenges confronting the development of places and communities are affected by globalization processes, a rapid expansion of the knowledge economy and technology, profound demographic changes and rising demand to counteract and mitigate the impact of climate change. While these challenges are in many ways global their effects are felt most at the local level. Huge disparities between regions and localities exist, which is mirrored in the different ways in which they were hit by the economic crisis and their different recovery processes. This is determined by a number of factors such as differences in the human capital base, economic history and industrial structure, the size of the locality, research and development capabilities, business formation, and the capacity of institutions to facilitate a productive, entrepreneurial and green economy (see Annex II: The Green Growth Strategy).

The purpose of local development is to build the capacity of a defined area to improve its economic future and the quality of life for inhabitants. Local development makes an important contribution to national economic performance and has become more critical with increased global competition, population mobility, technological advances, and consequential spatial differences and imbalances. Effective local development can reduce disparities between poor and rich places, add to the stock of locally generated jobs and firms, increase overall private sector investment, improve information flows, and increase the coherence and confidence with which local economic strategy is pursued. This can also give rise to better assessment of local economic assets and distinctive advantages, and lead to more robust strategy assessment.

The local approach to development consolidates several complex factors into an approach that takes into account the local context (i.e. human capital, industrial composition and population social distribution) and national approaches and policies at the same time. The success of local development depends on a set of framework conditions, institutional capacities, intelligence, leadership interventions and development instruments which come together in the design and delivery of local development strategies. National government efforts can go some way towards assisting local development by ensuring its actions are aligned so as to be more effective, more targeted and more customized to the unique challenges faced at the local level.

In July 2009, in the response to the banking and financial crisis of 2007/2008 the OECD LEED Programme published “Recession, Recovery and Reinvestment: the Role of Local Economic Leadership.” Focussed on the role of local action in tackling the crisis, a total of 41 cities participated in this survey-based review project which addressed local economic development actions that had been taken to respond to the unfolding economic crisis. What emerged most powerfully from this brief review was that local economic leaders:
Had taken a wide range of steps to protect and support their local economies.

Had been innovative in using resources and assets to support local economies through new services, investment and flexibilities.

Had seen the crisis, not just as a threat but as an opportunity to refine long term strategies, forge new alliances and reconsider where local development can best make a contribution.

From this examination of local practice and intervention emerged the “Barcelona Principles” – a set of ten principles written by consensus with involvement of city leaders and survey respondents, and formally endorsed by the 35 member countries of the OECD LEED Directing Committee (see Annex IV).

The purpose of the July 2009 OECD LEED “Barcelona Principles” paper was to provide rapid intelligence on responses crafted by local leaders from around the world to prevent, mitigate and capitalise on the impacts of the economic crises in cities. A review of this work carried out in 2010 validated the Principles further as many localities had used them to coalesce local leadership around economic recovery. Both reports highlighted the need to focus on growth and equity mindful that people lie at the heart of the crisis and the recovery.

Other issues to consider

Local Development Strategies: The importance of building a common agenda and vision for the future is stressed for several reasons. Firstly, the context in which most local development strategies are produced is not promising. Usually a crisis or threat of some kind is present. This means that frequently these are times when the more mobile portion of local populations tend to move away and find a more attractive location with better life-chances. At the same time, many choices are faced in how to calibrate a different future and these choices must be subject to some agreement and ownership if they are to be pursued with any conviction. So strategy is about building common purpose between the people and organisations who want to make local development happen.

Local Development Systems: The Local Development System is a term used to describe the working relationships between a network of public, business and non-governmental sector partners within a given functional economic area that can create better conditions for local economic growth and employment generation. Local development is a multi-disciplinary and integrated practice. Its success depends on a wide range of expertise, experience and capacities. Because no single organisation can effectively fulfil these requirements in-house, collaboration between separate entities across a system for local development is necessary and has become a common feature in many cities across the world. This system-based approach is preferred because it allows for: a) the delegation of development activities across a number of bodies according to their capacities and expertise, b) the injection of new insight and perspective into the local development process, and c) organisations to specialise and deliver thematic local development targets more effectively. The key challenge is to create a Local Development System that is seamless, well co-ordinated and sufficiently well-resourced to deliver effectively.

Local Development Leadership: Successful local development processes have important leaders too. Often there are key individuals, such as a mayor or an identified champion. But more commonly such individuals are joined by teams of people who ally themselves with the designated leaders to broaden the team and the pool of leadership resources. This is very important. Local development relies significantly on the ability to generate greater confidence in long-term possibilities despite poor current conditions. These ‘leaps of faith’ are usually essential to get through cynicism, scepticism and other barriers. Vision-building is a key leadership task, but so too is relationship-building. Under-performing local economies often lead to fractured societies and entrenched hostilities. Using the relationship-building to overcome these problems is essential to unlock regeneration potential.
Trentino’s technology cluster "Habitech" was founded as a result of a new way of thinking about development processes that arose in the mid-2000s. This was alongside a renewed determination to enhance innovative sectors (sustainable construction, distributed energy production and energy efficiency in particular) in harmony with the province’s traditional industries (tourism and timber). The technology cluster was created in an attempt to leverage local assets, tapping into a new global development trend - the green economy. It comprises some 40 companies and develops relationships along three axes: LEED-Green Building Council, services to individual members and integrated projects.

The cluster facilitates interaction and manages its network of enterprises by coordinating the various parties - architects, engineering companies, general contractors, equipment suppliers and universities. Without the cluster and without leading local companies, such alliances would be difficult: Habitech develops a common language. It oversees relationships between companies and creates a collaborative environment. The Trentino technology cluster invests in the codification of a language shared by all parties, which is essential for the transfer of knowledge: this is the LEED standard, the Green Building rating system. The mechanism of organizational learning that drives Habitech is commitment combined with a model of knowledge codification and certification. This constitutes not only a guarantee of respect for the internal business processes, but also a model of sustainable construction.

The cluster sponsors a variety of innovation strategies:

- System activities that are of value for all members, including for example knowledge building, good practices and projects linked to building certification;
- Projects based on tourism and sustainable mobility like the Primiero Oil Free Zone, information workshops throughout the province focusing on the production of biogas generated by animal waste, biogas for remote heating and production of hydrogen;
- Construction of sectoral macro-projects, such as the project it presented under "Industry 2015" (government bill on competitiveness and industrial policy);
- Development of institutional relations to promote policies of sustainability that can enhance quality production within the cluster's firms;
- Coordination of projects based on funding provided under Law 6 / 99.

The experience of the Habitech technology cluster highlights the potential for catalyzing processes aimed at consolidating local knowledge networks, and facilitating further development by overseeing processes in a strategic way. It also underlines the need to control the life cycle of network processes and to find participants' elements of interest at each stage (creation, development and maturity of the network).

ANNEX I. THE OECD INNOVATION STRATEGY

A growing number of countries are faced with stagnating or declining populations, and therefore labour inputs, and investments in physical capital face diminishing returns. These economic problems coincide with increasing political need to make progress against a number of social challenges, many of which are global in nature (such as climate change) or require global action (global health, food security and the growing scarcity of clean water).

Innovation in goods, services, processes and practices can help accelerate the recovery and put countries back on a path to sustainable and greener growth.

In 2007, Ministers of all OECD Countries acknowledged the need for a cross-government policy to harness innovation as a major driver of productivity that can strengthen economic growth and development. Stronger innovation, combined with new international partnerships, can also help address pressing global issues such as climate change, health, food security and poverty.

The Innovation Strategy is built around five priorities for government action, which together can underpin a strategic approach to promoting innovation:

- Empowering people to innovate.
- Unleashing innovation in firms.
- Creating and applying knowledge.
- Applying innovation to address global and social challenges.
- Improving the governance of policies for innovation.

These priorities are backed by a set of policy principles for innovation, which are discussed in more detail in the box below. The priority assigned to each of these principles depends on the nature and state of the system of innovation in each country, as “one size does not fit all”. However, because of the interactions within the innovation system, attention must be given to all policy areas to improve its operation.

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<th>Box 4. Policy principles for innovation</th>
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<tbody>
<tr>
<td>1. Empowering people to innovate</td>
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<tr>
<td>● Education and training systems should equip people with the foundations to learn and develop the broad range of skills needed for innovation in all of its forms, and with the flexibility to upgrade skills and adapt to changing market conditions. To foster an innovative workplace, ensure that employment policies facilitate efficient organisational change.</td>
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<tr>
<td>● Enable consumers to be active participants in the innovation process.</td>
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<td>● Foster an entrepreneurial culture by instilling the skills and attitudes needed for creative enterprise.</td>
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<tr>
<td>2. Unleashing innovations</td>
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<td>● Ensure that framework conditions are sound and supportive of competition, conducive to innovation and are mutually reinforcing.</td>
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<td>● Mobilise private funding for innovation, by fostering well-functioning financial markets and easing access to finance for new firms, in particular for early stages of innovation. Encourage the diffusion of best practices in the reporting of intangible investments and develop market-friendly approaches to support</td>
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</table>
innovation.

- Foster open markets, a competitive and dynamic business sector and a culture of healthy risktaking and creative activity. Foster innovation in small and medium-sized firms, in particular new and young ones.

3. Creating and applying knowledge

- Provide sufficient investment in an effective public research system and improve the governance of research institutions. Ensure coherence between multi-level sources of funding for R&D.

- Ensure that a modern and reliable knowledge infrastructure that supports innovation is in place, accompanied by the regulatory frameworks which support open access to networks and competition in the market. Create a suitable policy and regulatory environment that allows for the responsible development of technologies and their convergence.

- Facilitate efficient knowledge flows and foster the development of networks and markets which enable the creation, circulation and diffusion of knowledge, along with an effective system of intellectual property rights.

- Foster innovation in the public sector at all levels of government to enhance the delivery of public services, improve efficiency, coverage and equity, and create positive externalities in the rest of the economy.

4. Applying innovation to address global and social challenges

- Improve international scientific and technological co-operation and technology transfer, including through the development of international mechanisms to finance innovation and share costs.

- Provide a predictable policy regime which provides flexibility and incentives to address global challenges through innovation in developed and developing countries, and encourages invention and the adoption of cost-effective technologies.

- To spur innovation as a tool for development, strengthen the foundations for innovation in low-income countries, including affordable access to modern technologies. Foster entrepreneurship throughout the economy, and enable entrepreneurs to experiment, invest and expand creative economic activities, particularly around agriculture.

5. Improving the governance and measurement of policies for innovation

- Ensure policy coherence by treating innovation as a central component of government policy, with strong leadership at the highest political levels. Enable regional and local actors to foster innovation, while ensuring co-ordination across regions and with national efforts. Foster evidence-based decision making and policy accountability by recognising measurement as central to the innovation agenda.

ANNEX II. THE OECD GREEN GROWTH STRATEGY

The global economic crisis has underlined the urge to look at our economic growth model through new lenses and to take a much more critical approach to our consumption and production practices. The opportunity to re-think our global model of growth within the challenge of moving towards a cleaner, low-carbon economy is mobilising intelligence and innovative thinking worldwide to identify policies, measures, and strategies for future green growth. Beyond the volatile elements of these movements, the "Green Growth Paradigm" is a catalyst of solid efforts made by both science and technology actors and community and environmental groups long working to establish environmental issues as a mainstream dialectic in policy environments.

The OECD suggests that governments must look to the green economy to find new sources of growth and jobs. They should put in place policies that tap into the innovation, investment and entrepreneurship driving the shift towards a greener economy. At the 2009 OECD Ministerial Council Meeting, Ministers of 34 countries adopted the Declaration on Green Growth where they committed to ensure close co-ordination of green growth measures with labour market and human capital formation policies. In the Declaration, Ministers endorsed a mandate for the OECD to develop a Green Growth Strategy to support these efforts (see Box 5).

Labour markets at local levels may find themselves under particular pressure to undertake the adjustments required to meet the new challenges of the transition to a greener economy. In local economies and among the dense networks of enterprises that underpin such economies, there is real concern that climate change mitigation and adaptation in labour markets will simply mean a reduction in the demand for labour as some jobs will disappear and others may be replaced by technology. This concern grows as new jobs will be created and some job profiles will be transformed, leading to a "green skills" gap that might be difficult to fill.

The OECD argues that the local level can provide a key contribution to the strategies for human capital development as these must be integrated and matched to the economic reality on the ground. Hence, labour market institutions at the local level should be able to make decisions and provide strategic orientations in the implementation of public programmes and services, as they have a better knowledge of local business practices, local economic conditions, and industry developments. In partnership with other local stakeholders, labour market institutions could identify skills gaps and deficiencies in current and future green economic sectors, and use this as a basis for developing broad strategic skills and labour market orientations locally.
Green growth: Fuelling economic and employment development

“Green growth means fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies. To do this it must catalyse investment and innovation which will underpin sustained growth and give rise to new economic opportunities.”

The Green Growth Strategy

Growing concerns about the environmental sustainability of past economic growth patterns and increased awareness of a potential future climate crisis have made it clear that the environment and the economy can no longer be considered in isolation. Without a global shift to a low-carbon, resource-efficient economy, the world is on track for increasing greenhouse gas emissions by 70% by 2050, and temperature increases of 4-6 °C by the end of the century. To feed the expected world population in 2050, food production will need to be increased by 70% (FAO, 2009) putting additional pressure on already over-used natural resources. A further 1 billion people are expected to live in severe water-stressed areas by 2030, raising a challenge in terms of the policies and financing needed to ensure access to clean water.

These concerns point to the need for a substantial transformation of consumption behaviour, industry structures and technologies. The costs of inaction on these challenges to the economy, to human health and welfare and to the environment would be extremely high. The greatest environmental impacts will be felt by developing countries, which are less equipped to manage and adapt. However, the economic and social costs of policy inaction or delaying action in these areas are significant and are already affecting economies — including in OECD countries — directly (e.g. through public health service costs) as well as indirectly (e.g. through reduced labour productivity) (OECD, 2008a).

At the same time, the financial and economic crisis has created room for a change in public policies. Many countries have adopted explicit climate change targets and considerable sums have been allocated to climate policy objectives as part of the stimulus package adopted by countries around the world in response to the financial crisis. Green funds in the European Union countries accounted for up to 8.5% of stimulus funds (HSBC Global Research, 2009).

ANNEX III. THE OECD SKILLS STRATEGY

The OECD is preparing a Skills Strategy with the aim of fostering a cross-government, peer-learning approach towards improving the supply of, anticipating the demand for, and optimising the use of skills in the workforce to promote economic growth and social inclusion.

A context of high unemployment following the crisis and increased global competition, ensuring an adequate supply of skills, maximising their use and optimising further development of skills in the workforce is key to boosting employment and economic growth, and to promoting social inclusion. Skills are thus high on the agenda, nationally and internationally. Public spending on education and training already represents around 13% of total public expenditure in OECD countries. While the need for fiscal consolidation in the wake of the crisis is putting pressure on all elements of public expenditure, including education and training, this is precisely the time when investment in skills is most necessary to boost economic growth and facilitate the (re)integration of individuals into the labour market. Governments must ensure that expenditures on skills formation are efficient and effective and appropriately shared between public and private sectors.

Many countries have developed skills strategies to address some or all of these issues from their national perspectives; but their success in implementing those strategies varies widely. To facilitate a cross government approach and peer-learning on effective skills policies, and to address the global dimensions of the supply and demand for skills, the OECD is preparing a global Skills Strategy. This Skills Strategy seeks to help both OECD countries and non-member countries to improve: (1) responsiveness – ensuring that education/training providers can adapt to changing demand; (2) quality and efficiency in learning provision – ensuring that the right skills are acquired at the right time, right place and in the most effective mode; (3) flexibility in provision – allowing people to study/train what they want, when they want and how they want; (4) transferability of skills – ensuring that skills gained at school are documented in a commonly accepted and understandable form and skills acquired over the course of the working life are recognised and certified; (5) ease of access – e.g. by reducing barriers to entry, such as institutional rigidities, up-front fees and age restrictions, and by providing a variety of entry and re-entry pathways; and (6) low costs of re-entry – e.g. by granting credits for components of learning, and offering modular instruction, credit accumulation and credit-transfer systems.

Box 6. The OECD Skills Strategy action plan

Gathering and analysing data
Over the next two years, the OECD's Programme for International Student Assessment (PISA), Programme for the International Assessment of Adult Competencies (PIAAC) and Assessment of Higher Education Learning Outcomes (AHELO) will compile and analyse data that measures skills. Using this and other evidence, the OECD will investigate such issues as the value of occupation-specific versus basic and generic skills, the extent and impact of a mismatch between available skills and those needed in the labour market, and the need to improve skills among the unemployed.

Developing good-practice guidelines
The OECD, in co-operation with member and partner countries and the social partners, will also identify and develop a set of good practices for financing skills-development programmes and formulating sound, inclusive and effective skills policies. All of this will feed into a comprehensive Skills Strategy to guide countries in developing better skills policies for better lives.

Towards an OECD Skills Strategy
The paper Towards an OECD Skills Strategy outlines the issues and the way forward. The OECD Skills Strategy is scheduled to be launched in early 2013.

ANNEX IV. THE BARCELONA PRINCIPLES FOR RECOVERY AND REINVESTMENT FOLLOWING THE CRISIS (JULY 2009)

Informed by evidence collected from 41 cities worldwide, the “Barcelona Principles” were conceived in March 2009 at an OECD LEED meeting in Barcelona with local economic development leaders, the OECD LEED Programme and the Barcelona City Government.

These Barcelona Principles represented:

- A coherent aggregation of the initial approaches to the crisis at the local level by local leaders worldwide;
- A framework to support local leaders in cities which had not yet formulated an initial response to the crisis; and
- A framework to support local leaders make decisions and take action to underpin successful recovery and reinvestment in local economies over the longer-term.

In May 2009, the Barcelona Principles for Local Recovery and Reinvestment were officially endorsed by the 35 member countries of the OECD LEED Directing Committee. The Barcelona Principles are included in the table below.

<table>
<thead>
<tr>
<th>Box 7. The Barcelona Principles for Local Recovery and Reinvestment</th>
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<tbody>
<tr>
<td>1. &quot;Provide pro-active and collaborative leadership at the local level&quot;</td>
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<td>2. &quot;Make the case for investment&quot;</td>
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<td>3. &quot;Purposeful short-term action is needed.&quot;</td>
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<td>4. &quot;Build robust long-term economic strategies&quot;</td>
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<td>5. &quot;Investment attraction and readiness is essential&quot;</td>
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<td>6. &quot;Relationships matter and need increased attention&quot;</td>
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<tr>
<td>7. &quot;Effective public works and major investments are key&quot;</td>
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<td>8. &quot;Stay close to the people&quot;</td>
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<tr>
<td>9. &quot;Stay open to the world&quot;</td>
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<tr>
<td>10. &quot;Build national-local alliances.&quot;</td>
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REFERENCES


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