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Coping with the Crisis at Local Level

POLICY LESSONS FROM THE OECD PROGRAMME ON LOCAL ECONOMIC AND EMPLOYMENT DEVELOPMENT (LEED)

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OECD

LEED Programme

Local Economic and Employment Development
Développement économique et création d'emplois au niveau local

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Introductory remarks

The OECD Programme on Local Economic and Employment Development (LEED) has advised government and communities since 1982 on how to adapt to global trends and tackle complex problems in a fast-changing world. It combines expertise from America, Australasia and Europe into pragmatic task forces that provide rapid responses and targeted advice on specific issues. It draws on a comparative analysis of experience from some 50 countries around the world in fostering economic growth, employment and inclusion.

Much of LEED's accumulated expertise and research experience was born out of economic crises. In the light of this, at the 53rd Session of the LEED Directing Committee held in Paris on 27-28th November 2008, delegates requested that LEED should review its experience of some 27 years' policy research with a view to provide guidance on how countries could best handle the consequences of the global recession.

This document aims to identify, based on LEED's experience, a series of policy lessons as to how best to counteract the worst effects of recession within local economies and to pinpoint a range of measures that history shows to have been most effective in dealing with economic crisis. The main focus of the analysis contained in this note is on local labour markets and the need to create more and better jobs – the essence of LEED work. In the current context, the severe difficulties in local economies caused by the global recession are most directly manifested in a loss of jobs and a consequent rise in unemployment, which are at the root of wider adverse economic and social trends. Employment losses reduce welfare in many ways, impacting on mental and physical health, social welfare and crime, and the long-term development of human capital. If it is possible to apply measures to strengthen those labour markets and to mitigate the worst effects of recession, it is axiomatic that such wider adverse impacts can, at least, be eased and may have their duration shortened, to the benefit of the local communities they serve and thus of national economies.

It should be noted that measures aimed at supporting local economies and mitigating the effects of the recession at local levels cannot prevent rising unemployment. Any recession will reduce demand for labour. While macro-economic policy interventions may limit the depth and/or duration of recession, demand for labour is likely to take some time to recover and unemployment levels will not fall until there are clear signs of a broader economic recovery. This report is not, therefore, purporting to offer suggestions as to how local unemployment can be prevented from rising. Its intention is to illustrate measures that can be taken to mitigate recession's effects and to encourage as rapid a recovery in employment as possible once national and international economic activity accelerates once more.

Context

Origin of the crisis

It is not the purpose of this document to examine the causes of the current economic crisis. Suffice to say that its origins lie in global imbalances, a global liquidity boom fuelling asset-price inflation, excessive lending in the US domestic real estate market, and disproportionate risk-taking. The realisation that lending exceeded the capacity of borrowers to service their debts created an unprecedented level of "toxic debt", resulting in a collapse of international liquidity and a loss of confidence in the global financial system.

The financial crisis has triggered significant problems in the real economy, leading to rising unemployment through widespread business retrenchment and company closures. Job losses are occurring across a wide spectrum of economic activity; indeed, in this current recession it is hard to identify any one sector that will be immune. Local economies can expect to experience a wide range of economic and employment stresses in the medium term, some of which are already in evidence. These stresses include rising unemployment; a lack of working capital and debt finance; reductions in property values, both residential (affecting the ability of small businesses to offer suitable collateral for loan finance), and in the commercial property sector; plant closures, making it more difficult for redundant workers to find alternative employment; an across-the-board reduction in consumer demand, affecting the retail trade, consumer goods markets, discretionary expenditure (*e.g.* on travel and leisure pursuits), property-related services and manufacturing industries and; a greater pressure on welfare payments, employment advice, training and re-training services.

A wide-ranging impact on the economy and society

This crisis is relatively specific, both in its scale and its breadth. In order to harness appropriate lessons it will be essential to differentiate between the current crisis and previous recessions.

When LEED was founded in 1982 (as the OECD's Local Employment Initiatives Programme), the industrialised world was going through a period of structural adjustment, the key feature of which was the reduction in size, and often the full closure, of many traditional industries such as coal, steel and heavy engineering. This process began in the middle of the 1970s (initiated at the time of the oil price hike of 1973-74), led by the need to restructure (which usually meant reduce the size of) some of the core industries of the developed world in the face of rising international competition. Such major changes were driven by international changes in comparative advantage as well as by cyclical downturns in demand.

In many cases, plant closures took place in local economies that were substantially or wholly dependent on these long-established industries – localities with a single or one dominant employer. The impact on employment levels tended to be very focused on workers in heavy industry. Unemployment increases typically involved workers who possessed only "large employers' skills" – usually industrial skills with very limited transferability to other sectors. Also, workers in these industries typically had no knowledge of, nor skills in, entrepreneurial activities. At the same time and partly as a consequence of the decline in heavy industries, the services sector was at the beginning of a period of rapid growth, offering a variety of opportunities in the "new economy". This gave rise to the conditions for underlying economic growth based on the expansion of the tertiary sector, and offered the prospect of rising employment opportunities to redundant industrial-sector workers. This process accompanied the industrial restructuring which continued in the 1990s and the early 2000s.

By comparison, insofar as can be judged in early 2009 and given that the full effects of the current recession have yet to appear, the predominant causes of rising unemployment during the current downturn appear to be cyclical rather than structural. The structural unemployment that characterised the 1980s (and the beginning of the 1990s in several countries) has now been overtaken by a profound cyclical downturn, with much wide-ranging impacts on the economy. While structural unemployment tends to reflect difficulties experienced by certain sectors, and a mismatch between workers looking for jobs and the vacancies available, in a cyclical downturn, all sectors are affected by a changing financial environment and declining demand, even if certain industries are more sensitive to cyclical change than others (OECD, 2009b)[1]. Thus the current recession is much more widely focused and threatens the livelihoods of more people across many more sectors of the economy.

In the financial sector that triggered the crisis, for example, job losses are occurring and are likely to continue among young, often highly-educated and highly-skilled (and hitherto highly-paid) employees. The slump in the domestic housing markets of many countries is threatening employment in a number of property-related service industries, such as the construction sector, property repair and maintenance, real estate agents, suppliers of appliances and furniture to the housing sector, and even lawyers whose transaction fees from the buying and selling of houses are being directly affected.

The retail trade in many countries is particularly vulnerable to economic downturns and to a reduction in consumer demand that reduces drastically the volume of retail activity. As a result, retail companies, chains and small businesses are under direct threat and are already seeing job losses. Other sectors sensitive to consumer demand reductions include the automotive industries where most of the global car manufacturers are under severe financial pressure through a fall in new vehicle sales, in part at least driven by difficulties in obtaining consumer credit for the purchase of private vehicles. In turn, this is having a negative impact on component and raw material suppliers, including the steel industry itself, to these very large companies (it was recently estimated that 10% of all jobs in France are directly or indirectly dependent on the French automotive industry). In contrast, agriculture and utilities such as electricity (where consumer demand is more stable) are far less affected. Nor is the public sector immune to job losses. In the face of rapidly rising public sector deficits and falling public revenues both from national taxation and from local taxes and transaction fees, job losses are starting to appear in the public service as a result of rising pressures to reduce recurrent expenditure.

The evolving global economic context also makes the crisis different from those experienced in previous years. The advanced state of globalisation has already been made apparent by the reach of the current crisis to all parts of the world. At the same time globalisation has led many countries to relax labour laws, leading to more flexible labour markets. In recent years many governments have made their labour market regulations more flexible meaning that more people are employed through short-term and part time contracts. This has led to "dual labour markets" in many OECD countries, with people on more flexible contracts being at particular risk in the current crisis. Indeed the increasing proportion of these workers may have led to an accelerated impact of the crisis on employment in some countries (OECD, 2009b). At the same time, people on temporary or part time contracts are less likely to be eligible for unemployment funds and employment assistance, meaning that a greater reliance on social welfare may be more visible this time around.

Birth of local responses

The classical policy response to industrial restructuring in the 1970s and 1980s was at a macro-economic level, usually focused on attempts to regenerate local labour markets by means of regional development policy and investment promotion. The underlying assumption was that financial incentives

1 Construction is the most cyclical industry followed by durable manufacturing and business services (OECD, 2009b).

regime coupled with promotional activities offered the potential to attract investment from "outside" the affected area – whether "outside" was defined as from other regions of the country itself or indeed from abroad in the form of foreign direct investment.

However, in several countries, individuals also began to appreciate that the search for external sources of salvation ran the risk of overlooking the potential and capacities of the affected regions themselves to generate new forms of economic activity from within their own communities. In many cases, major companies involved in downsizing and in dealing with the consequences of laying off workers in local communities began to explore the potential for encouraging local action and promoting entrepreneurialism as a counter-measure to the unemployment rises that they themselves had created.

In the United Kingdom, for example, the then nationalised steel industry, British Steel, had created a subsidiary company as early as 1975, entitled British Steel (Industry) Ltd. This company, was created expressly in order to assist with the creation of dynamic local economies, based on the development of self-employment and the promotion of the small- and medium-enterprise (SME) sector (at the time, nationalised industries in the UK had a statutory obligation to maintain employment). The reason for this approach was that British Steel itself was in the process of closing entirely a large number of its steel production plants. Most were located in areas where the steel industry had been one of the mainstays of local economies, and in some cases was the only employer of significance.

The interventions of companies such as British Steel led to the creation of specific agencies in local economies that targeted the SME sector and sought to provide assistance, advice, information and counselling to small business owner-managers. These became known as Local Enterprise Agencies. The same broad trends were adopted in France (by the creation of "*Boutiques de Gestion*" aimed at encouraging and supporting SMEs), in Germany in the coal and steel centres such as the Ruhr Valley, and in the United States where major downsizing in key industries such as the Detroit automotive industry created serious problems of local unemployment.

The LEED Programme quickly appreciated the importance of these initiatives and became a major source of the dissemination of information on international best practice. National governments took steps to create a policy environment better suited to the support and encouragement of the SME sector. Non-profit organisations, charities, chambers of commerce and industry, local churches and local interest groups found that they too had a role to play in the encouragement of local enterprise, including the promotion of social enterprises as a means of counteracting severe local unemployment and the attendant social problems that joblessness created.

Perhaps the most important development at this time related to the engagement in this process of other actors in the private sector whose leaders began to appreciate that their companies had a direct interest in the health of local economies. Companies such as banks, major retail groups, professionals such as lawyers and accounting firms and other major private sector players in a given locality saw that their own commercial interests could best be served by supporting local SME and self-employment programmes. Healthy local economies came to be seen as crucial for their own businesses' success.

Local government authorities that had often had a direct responsibility for the promotion of economic wellbeing in their regions – or at least had a responsibility for local implementation of national policies – took an even more direct interest in supporting such local initiatives. Partnerships involving other actors – trade unions, civil society organisations – were established to formalise local agreements. They were seen as an effective way of mobilising resources and achieving the biggest possible impact in trying to provide an answer to crisis situations such as factory closures and the problems of disadvantaged areas.

To summarise, it is no exaggeration to say that a “movement” emerged whereby, at the local level a broad spread of actors moved to create an environment of self-help in dealing with the stresses caused in their locality by a rise in unemployment. All this took place against a background of crisis; there was an urgency about the action required which attracted the interest of national political leaders and the news media. This led to the adoption of a high profile for these initiatives and to the generation of a good deal of momentum to provide the financial and operational support required to create agencies at a local level whose defined objective was to create jobs through the promotion of enterprise.

Public authorities soon adopted these initiatives, mainstreaming partnerships in policy frameworks. In Canada, the Community Future Development Programme was set up back in 1986 to help local communities achieve lasting economic independence thanks to partnerships. It was based on the lessons learnt from the pilot projects introduced with effect from 1979 (Nanaimo, British Columbia and Gainsborough, Nova Scotia) which spread rapidly throughout Canada. In Europe, early government support to partnerships was provided in Ireland in 1991. A test of 12 pilot partnerships set up to provide response to long-term unemployment having proved convincing, financial support (backed up by European Union aid) was extended to 38 areas in 1994. "Territorial pacts" agreed in southern Italy as of 1993 (*e.g.* in Caltanissetta, Sicily) were backed by legislation in 1996 and supported throughout the Mezziogiorno. These models inspired measures for local employment development by the European Union.

This “movement” did not mean that traditional regenerative initiatives such as the promotion of inward investment and the development of infrastructure – such as the provision of industrial and commercial buildings for occupation by new businesses – were abandoned. Such traditional approaches to economic regeneration ran in parallel to these local employment initiatives, the latter adding an important extra, endogenous, dimension to counter-cyclical policies and actions. Nonetheless, at the core of local action lay the closure or downsizing of major industrial plants, longer-term reconversion issues, and their employment and social impacts. The requirement to provide new employment opportunities was in general focused on redundant industrial sector workers, and people excluded from the labour market.

Updating local approaches to today’s context

What does the specificity of the current crisis mean for local approaches to be successful in tackling its negative impacts? Is the local response still valid and how?

Given that so many sectors are affected in the crisis today, the concept of focusing remedial action primarily on the re-skilling and/or re-employment of redundant workers, especially those from so-called sunset industries, into a growing service sector is now less appropriate. It is worth noting that the major structural adjustment issues of the 1980s and the process of retraining redundant workers was helped by the steady expansion of the tertiary sector. Rapid growth in employment in services helped to mitigate the effects of job losses in industry, even if the re-training process was not in all cases either rapid or straightforward. In 2009, there is anecdotal evidence that the services sector is also suffering from the global downturn although few statistics are as yet available. The fear now is that growth in services may cease. If the tertiary sector is affected at least as badly as the other main sectors of the economy, this will (a) make it much harder to use the services sector as an important source of new jobs for redundant workers and (b) place further stresses on the public sector both as a source of jobs in its own right and also on the social safety nets that unemployment and related benefits will be called upon to provide.

What is also obvious today is that in recent years prosperous OECD economies based on strong job growth and full employment in fact disguised an inherent problem in the large scale creation of relatively low-value added and weakly productive jobs. While keeping people in employment these jobs had a number of adverse effects – firstly they provided relatively low paid employment, creating a large section of society that could be classed as the "working poor". At the same time, the easy availability of employment discouraged people from investing in their own long-term education and training, causing youth to leave education and training early, and take up employment. This "work first" attitude also penetrated public institutions, with the public employment service often quickly matching clients to available jobs, for example, as opposed to helping them invest in their human resources and skills and move towards more sustainable long-term careers.

LEED raised the alarm about this type of low quality employment and the danger of "low skilled equilibrium" before the current crisis, and continues to stress that any route out of the crisis will depend on investing in *good quality* jobs. Countries need to look at raising the *demand* for skills and good quality human resources through increasing productivity amongst local firms, in addition to investing in supply. Companies need to ensure that at all levels in their workforce they are maximising the value brought by human capital, through allowing people to use their generic skills to the full (analysing, problem solving, communicating). At the same time, the current crisis shows more than ever the value to be obtained from local people remaining in education, engaging in life-long learning and investing in skills upgrading. Not only is the current crisis encouraging people to return to education and training in large numbers (through worklessness), but it is also raising the likelihood that in the long term more and more jobs will require high level skills, as low skilled jobs are shed in the current restructuring process.

So two of LEED's principle messages remain true: firstly that investment in skills upgrading is crucial to future long-term prosperity, and secondly that local stakeholders need to be investing their attention into both the supply *and the demand side* of local labour markets through improving work organisation and human resources management, spreading innovation and promoting technological transfer.

At the same time, *job creation* – a theme central to the LEED programme since its inception – will be an important route out of the current crisis, particularly in relation to stimulating entrepreneurship. The new green economy will also provide both a useful and necessary opportunity for public investment in jobs at the local level, with new jobs being created as the public sector invests now in green jobs which ultimately will be provided by the market as new green sectors strengthen and mature.

It is important to recognise that any local response to the current crisis needs to be taken with a long-term approach in mind. Investing in the productivity of the local economy is one way to ensure longer term prosperity while also helping companies to weather the current crisis. Equally, while localities risk high unemployment in the short term, in the longer term, the ageing population means that workers will be back in demand. Given the context of the ageing population, it is vital for the future resurgence and growth of local economies that people are not encouraged to leave the labour market in the current crisis through early retirement. At the same time, while local job employment agencies may find it best to use their limited resources to help the "easiest to reach" in order to get people back into employment, they cannot afford to neglect harder to reach groups who are likely to lose skills and motivation through longer term unemployment as a result of the current crisis. Localities will not only set themselves up with longer term problems for the future, but also risk losing valuable human resources who will be needed in the future as economies grow again at the same time as populations decrease. Local stakeholders therefore need to think hard about mechanisms for ensuring social inclusion and continued economic participation for all parts of society even in economically challenging times.

Finally, what is clear is that returning local economies to prosperity will require *an integrated approach* at the local level, involving a wide breadth of different actors from the economic development, labour market and social policy fields, and from the public, private and civil society sectors. Again LEED has long provided valuable lessons on good local governance, most recently stressing that partnership working needs to be combined with strong flexibility in public management to succeed. In order to tackle the crisis localities will need join together to tackle the specifically local problems and opportunities that emerge in the context of a national – and indeed global – crisis.

Thus there are two key pillars in the optimal local response to the crisis as emerging from the LEED work over the past 27 years: one that concerns the drivers of growth and prosperity at the local level; and one that regards the local governance arrangements, which are conducive to effective responses locally by pulling together in a coherent way the various inputs required. These two are intrinsically related at the local level, but respectively deserve a dedicated analysis.

A key level for determining outcomes and what the future will look like

The work of LEED since 1982 to the present day has played a major part in establishing and gaining acceptance for the notion that local action, local policy flexibility and new forms of local governance in economic development are both desirable and essential as one element in meeting the challenges of economic crisis. While local action alone is not capable of solving acute local employment difficulties, it is clear that the resolution of such difficulties is harder in the absence of a local approach. A local community that lacks effective local action in times of crisis is a community impoverished in terms of its capacity to help itself escape from crisis conditions.

The local level is one of proximity to problems and stakeholders and thus one in which appropriate solutions can be sought. It is there that adjustments to the supply of and demand for jobs and skills can be made and particular types of incentives can be stimulated. This encompasses not only the design of policy measures, but also the mobilisation of policy agencies and users/beneficiaries as well. The local level is both the sphere of corporate competitiveness and the place in which unsatisfied economic needs and potential sources of jobs can be identified more easily. It is at this level that many job-producing projects (*e.g.* self-employment, new businesses, investment, assistance with new product design, support for neighbourhood services, etc.), training schemes and social outreach programmes are formulated, selected, launched and sustained. The local level is also a place for the mobilisation and intervention of actors from the public sector (local authorities) as well as the private sector (trade unions and employers, businesses, voluntary associations and community groups), co-operating within partnership arrangements.

Just as local initiative and entrepreneurial spirit are required locally, national policies also need to be made more adaptable to local priorities. For example, there is very great and growing diversity of patterns of employment and unemployment between regional or local labour markets and it is important that this be taken into account in supplying employment services and implementing programmes, so as to enhance their effectiveness and help make local markets more flexible, more fluid and more active. The central point is that government policy cannot reasonably be expected to be effective on the principle of "one size fits all", particularly when targeted responses are required quickly to tackle local problems and issues. To be effective, policy and action programmes must be co-ordinated and designed in part locally in a way that reflects and meets local needs.

The rest of this document will analyse the two dimensions of local action to respond to the global economic crisis. First it will introduce and discuss the drivers of growth and prosperity that need to be activated locally; and then the local governance arrangements that are required to stimulate effective responses and to make policies better adapted. The document will conclude with a summary of strategic orientations for government policy and local action to support the local economy.

Rebuilding local economies

What can local actors do to alleviate the worst effects of recession at the local level and help tackle high unemployment and the attendant social problems that this brings?

LEED work has established that four main drivers will be essential for returning local economies to growth:

- **Human capital**. Localities with a pool of skilled labour will be both less harmed by the current crisis and quicker to return to growth. Human resources in a wider sense have a direct impact on the capacity of business to react to changes in the economic environment and to respond to new opportunities.

- **Entrepreneurship**. The fostering of a local entrepreneurial culture and the support of entrepreneurial activity has been shown to aid the process of growth and re-growth. Building a knowledge base and supporting local innovation systems can help harness new innovation and benefit local employment.

- **Local economic investment**. Investment strategies based on local assets allow responding efficiently and rapidly to changing economic circumstances whilst pursuing long-term goals to deliver growth and prosperity. Such sustainable local development is dependent upon creating the appropriate framework conditions and the availability of responsive delivery mechanisms.

- **Social economy**. Nurturing the social economy is conducive to a locally-cohesive society, where issues of exclusion are effectively tackled. Social cohesion raises the attractiveness of a given area as a location for successful businesses and contributes to the achievement of sustainable local economic growth.

Each of these factors will be important in both the short term and the longer term. While short-term measures will inevitably be prioritised in the context of the current crisis it is important to maintain a close eye on the broader global trends which will be crucial to rebuilding local economies for the longer term.

Human capital

Successful economies are those that have the capacity to quickly adapt to external trends and shocks. The need to increase adaptability is one reason why governments have introduced more flexible labour market regulations in recent years – removing perceived barriers to change by workforces and the labour market as a whole. However, as Simmonds has argued (OECD, 2009a) adaptability needs to be considered at a number of different levels. National governments set the legal framework for employers and trade unions but adaptability has to happen at the level of local communities. Employers and other stakeholders have to be empowered and incentivised to innovate and introduce change. In the future, the extent of adaptability in a local economy is likely to be a measure of success – the more adaptable a local economy the more likely it is to recover and grow.

How do governments encourage local economies to be more adaptable? There are a number ways in which this can be done, but the skill levels and employability of the workforce has to be a key driver. While companies and workforces are initially having to adjust to changing markets and new credit environments in the longer term it will be those that incorporate new production processes and new ideas which are most likely to succeed within the knowledge economy. Successful companies are those that manage these adjustments quickly and effectively.

Human resources in a wider sense have a direct impact on the capacity of business to react to changes in the economic environment and to respond to new opportunities. To seize possibilities of enhanced economic development, localities and regions must compete to attract, retain and stimulate the creation of businesses, drawing on local assets and resources, thereby driving national prosperity. Labour market policy and vocational training can make a central contribution to this process, as the local labour pool is now one of a region's most important assets – in terms of ideas, innovations, talents, skills, specialisations, culture, methods and approaches to work (OECD, 2005a).

The application of active labour market policy and of training needs to be well co-ordinated, and carried out in consort with other local actors – notably those concerned with economic development. Local employment agencies need to be proactive within a new framework for workforce development, which allow for flexible action and incorporates a long-term perspective, using better local intelligence and statistical data. Successful local labour market programmes geared to raising skill and competence levels must have as their objective the long-term sustainability of the local economy and workforce, not merely act to provide a short-term expedient at times of crisis (OECD, 2008a).

Building skills

The issues of skills, education and training lie at the heart of the response to challenges in all labour markets. During times of recession those with firm-specific skills are more likely to retain employment, and firms employing large numbers of skilled people are more likely to undertake "labour hoarding" as the costs of turnover are significantly higher for this group (OECD, 2009b).

At the same time, skilled people will be central to allowing localities to remain prepared for broader global trends. OECD estimates that by 2010 almost half of the net additional jobs created by the European Union will require people with tertiary education. Tertiary education is clearly shown to result in better employment levels. In OECD countries, 84% of those with a tertiary level qualification are in work, compared to only 56% of those without upper secondary level qualifications. In addition, tertiary-level qualification holders earn more money. In the United States for example, median weekly earnings of college-educated people are 73% higher than those whose qualifications extend no further than school level. It is not only technical skills that count. Generic skills – defined as those who have the ability to analyse, create and innovate – are key to the modern knowledge-based economy. In modern societies in the advanced economies, the most productive jobs are those that are most knowledge-intensive.

The local focus of active labour market policies must be on matching local skills to local demands, tackling problems of low productivity, and seeking to raise skills levels to achieve a "high-skills/ high-productivity equilibrium". It should be recognised that globalisation has produced an increase in the mobility of job opportunities. To fail to upgrade the skills of local workforces is to risk settling local communities into a low-skills/low-productivity equilibrium, reducing the attractiveness of a given locality as a location for sustainable, high quality jobs. Where local skills are unavailable, productive units will migrate to somewhere where those skills can be found, including to other countries. Conversely, the creation of a "skills cluster" locally can help to retain productive units and to make the locality generally more attractive to potential investors (2009d).

The case for better education and training is therefore clear, but of itself, education and training initiatives may not be sufficient.

Demand side approaches to skills and employment

In addition to considering supply-side responses, attention must also be paid to the demand for skills at the local level, in order to avoid the creation of skills surpluses and raise the incentive to out-migration. This argues for more than simply an effective local training programme. The temptation to react merely to short-term problems born of crisis should be resisted. Investment in human resources should always take a longer-term view with the objective of creating local skills banks that reinforce a locality's capacity to attract and retain high quality jobs. Second, to achieve effective up-skilling of a local workforce demands that a partnership approach should be adopted in which all local actors – public employment and training services, private companies and businesses and social actors at the level of the local economy are all involved in the design and implementation of skills investment programmes. Third, attention must be paid to the underlying economic structure of a given locality as a means of ensuring that the investment in skills is relevant to local needs. Fourth, it should be assumed that training, re-training and skills upgrading should be seen in the context of life-long learning (OECD, 2006a). This is an ongoing process in reflection of the constantly changing demands of the local economy and the fact that it is now expected that individuals will have to adapt and modify their skills and abilities perhaps several times during their working lives to met the changing needs of the labour market.

A strong focus on the demand of skills should complete this strategic approach. Local agencies need to work with employers to ensure they fully use the talents and skills available locally, so that investment in education and training yields both productivity and higher living standards, while retaining talent. Where public agencies work with local enterprises on productivity improvements by means of raising workforce capacities, it has been shown that higher quality jobs can be created and sustained. Thus a partnerships approach is important, involving local actors as appropriate. These can include a wide spectrum of local economic and social interests, such as large enterprises, schools, trade unions and business representatives, city development boards, organisations to support entrepreneurship, local skills bodies and colleges, primary health organisations, career counselling agencies, temporary work agencies, and non-government organisations. This new approach also requires some degree of flexibility in the management of labour market policy and vocational training, and a boost in the strategic and analytical capacities for the respective network of local public services.

Taking advantage of the challenge of greening the economy

In taking this integrated approach to both the demand and supply of skills, a focus on the requirements of a greener economy is particularly important in the context of the crisis. Today, green industries are growing contributors to wealth on a global scale, and the economic opportunities offered by the green sector can be simply illustrated by the projections for its growth. The core of this economy, the environmental goods and services sector, was estimated to be worth USD 548 bn globally in 2004 and it is projected to increase to USD 600 bn by 2010 and just under USD 800 bn by 2015 (Selwyn J. and Leverett B., 2006). However, the employment records of these sectors in different economies vary from one country to another. To take just one example, Germany has managed to generate half a million jobs in its renewable energy sector alone, while the United Kingdom languishes on 7 000. The green economy as a whole employs 1.5 million people in Germany, compared to 400 000 in the UK (TUC, 2009). This uneven distribution reflects that there is a real potential to further develop the green economy, while contributing to mitigate climate change and complying with the greener demands of international environmental regulations (OECD, 2009g).

At the local level, the expansion of greener activities has proven to be a lever of job creation and economic growth in the long-term. The example of the Silicon Valley in the United States is illustrative. The region accounts for 31% of all clean tech investment in the United States and 55% in California.

Despite the financial and economic crisis affecting the country, the Silicon Valley has witnessed 23% growth since 2005. Job growth since 2005 has been strongest in green building (424%), transportation (140%), and advanced materials (54%). Moreover, venture capital investment in the Silicon Valley totalled nearly USD 1.9 billion in 2008, an increase of 94% over 2007 (Joint Venture Silicon Valley Network, 2009). With the appropriate incentives and strategy, the local level can generate economic activity while contributing to mitigate climate change. However, there remains an evident need for more urgent action by governments to rapidly develop strategic skills strategies to support transition to a green economy.

To seize the opportunity to green the existing jobs or create new green jobs, local skill gaps and deficiencies must be indentified in current and future green economic sectors, and used as a basis for developing broad strategic skills and labour market orientations locally. While the green economy will continue to expand, the business sector may suffer from labour shortage of qualified employees, ranging from low-skill, entry level positions (*e.g.* machinists) with more vocational profiles, to high-skill higher-paid jobs (*e.g.* engineers). Enterprises may need to transform their business activity to meet the greener demands, leading to adjustments in the profile of their employees and providers, therefore widening the gap between the demand and the offer of skills, products and services in the market.

In this context it will be important to introduce career ladder programmes so that green jobs offer the possibility of professional advancement within and outside the enterprise. Local employment offices and training institutions can also work with business to introduce skills upgrading and re-skilling process of the workforce to their own benefit, while keeping productivity levels up in the greener economy and expanding to new economic activities. Local offices need to understand the stake, define a strategy and develop customised programmes and initiatives to prepare the workforce and the economic actors to these emerging challenges. These tailored initiatives require a flexible approach and strategic capacities at the level.

Promoting re-integration into the labour market

A central role for public employment services in a time of crisis will be redirecting people into new jobs. The broad reach of the crisis means that agencies currently have to advise a particularly wide group of clients, from the low to high skilled, meaning that a more flexible approach to the implementation of programmes is particularly valuable locally.

Not all individuals will require the same degree of assistance in order to re-enter the labour market, and evidence shows that disadvantaged groups may be particularly susceptible to long-term unemployment in the context of economic crisis (OECD, 2009b). While the public employment service may choose to use limited resources to help the "easier to reach" regain employment in the shorter term, there is also an argument for more targeted approaches for certain groups to prevent longer term poverty issues.

In recent years, for example, integrating immigrants into local labour markets has gained particular attention through both the barriers this group faces, and their potential to contribute significantly to local labour markets. While less mobile immigrants will be particularly vulnerable to longer term unemployment in this crisis, for example, they may prove central to the recovery of some localities given that they bring new innovations from abroad, are often prepare to work long hours to deliver services in difficult times and have higher entrepreneurial start-up rates. However with rising discrimination reported in many countries (*e.g.* the United Kingdom and Italy), managing immigration as part of a coherent local skills strategy will be very important, so that local people do not see immigration as a threat but part of a balanced local approach. OECD's recent work on the subject (OECD, 2006b) shows that immigrants offer both skilled and unskilled services within local labour markets. However, there are special needs to ensure that immigrants are not just accepted as short-term expedients but are directly integrated into their new context, through in particular, accessing flexible education, skills recognition and retraining systems.

Box 1. Recommended actions: Labour market policy and training

A number of policy and action areas are needed for both national and local actors to enhance the effectiveness of skills improvement and to ensure that local skills strategies contribute to local growth in the long-term. These include:

A. At the national level

- Encouraging localities and regions to develop integrated skills strategies, seeking to match demand and supply while taking a balanced approach to issues of attraction/retention, skills upgrading and integration of the disadvantaged into the workforce development system.
- Providing flexibility at the local level in the management of employment and skills policies.
- Assisting localities in maximising the skills brought through immigration, but with caution, so that importing labour is designed to strengthen the skills base rather than simply to plug short-term gaps in labour supply.
- Ensuring the availability of information and data, so that the local intelligence base is capable of identifying needs, gaps and future opportunities for the local economy.

B. At the local level

- Developing a balanced approach which seeks to match skills provision with the demand in a long-term perspective compatible with the challenges raised for the local economy by a global economy.
- Paying close attention to problems of low skilled equilibrium, in particular working with local SMEs to ensure that the demand-side of the labour market is not neglected in favour of purely supply-side actions.
- Achieving “joined up” delivery, involving all relevant local actors and training/education institutions to achieve an integrated approach to local human resource development.
- Ensuring that skill needs are signaled more effectively, tailoring initiatives to local needs.
- Nurturing a sustainable and sustained demand for good quality labour and hence ensuring the longer term attractiveness of the locality itself through supporting constant improvements in production processes and investment in new technologies.

Source: OECD, 2006ab, 2008a, 2009a

Entrepreneurship

Entrepreneurship has often been seen as a key route to job creation at the local level, especially in periods of restructuring and downturn. LEED research has shown that those localities where entrepreneurship has failed to flourish, or where self-employment, start-ups and community businesses have had a low profile, have found it more difficult to create additional employment. Local action in support of enterprise and jobs makes a valuable contribution to local economies. While such an emphasis may not, of itself, be capable of fully replacing jobs lost through recession, a local economy failing to give suitable attention to the enterprise sector is missing out on new economic opportunities.

Throughout the development of the LEED Programme there has been an emphasis on small- and medium-sized enterprises (SMEs). As many large-scale, traditional industries have diminished in their importance as a result of structural changes; the SME sector has gained in prominence, first in terms of its scope for job creation and innovation, and second as a target for deliberate policy measures at both national and local levels. SMEs have been especially successful in the emergence of new service industries and many high technology industries, notably in technologically advanced applications such as medical sciences, food technologies and, of course, information and communication technologies. The limitations of SMEs have also been exposed, in terms of their difficulties in accessing financing, appropriate premises, trained labour and other resources required for their development. It is central to LEED's work that the appropriate policies and actions to support and develop SMEs is a prerequisite for successful local economic development. Localities similarly need to have in place a number of essential building blocks for the success of their local business communities. This ranges from good quality business premises to strong financing mechanisms. This is even more important in the context of the crisis when new and small firms are expected to provide an important source of job creation.

Business incubators

During the restructuring crises of the 1970s and 1980s it was found that a lack of suitable premises could inhibit the rate of new business creation. This is an area in where market failure on the part of the real estate business is not uncommon. Even if suitable small space was available on the open market, a typical rental agreement from a private developer tied the tenant in for an extended period of time, thereby making the exit costs unsustainably high for new businesses whose lifespan and prospects were usually impossible to predict. Entrepreneurs often had insufficient capital to commit to a rental period for a new enterprise of, say, three to five years under property rental agreements that often contained substantial financial penalties for the early termination of leases.

Early initiatives in support of SME start-ups were quick to see this gap in the market, and often came up with an alternative solution that was commonly known as a "managed workshop" or "business incubator". The essence of such buildings was that, even though some were seen as fully commercial real estate developments in their own right, they were also geared to new, often uncertain start-ups by means of offering a short-term "licence to occupy" with perhaps no more than one month's notice to quit without any financial penalty. They also often offered within the building some common services (*e.g.* meeting rooms and secretarial support) that could be made available on request for payment of a modest fee. Small businesses did not therefore have to maintain a range of common facilities and services that they could not use efficiently themselves, and also were more comfortable in committing themselves to tenancy agreements where their risk exposure was far lower than with more traditional types of building.

It is worth adding that many of these managed workshop/business incubator centres, initially at least, were often provided by the conversion of otherwise redundant industrial or commercial buildings. While this feature obviously reflected the nature of the "closure crisis" of the 1980s, the approach may still be valid today as new closures, forced upon companies and local communities by the severe nature of the cyclical downturn, take place.

Do business incubators work? In 1999, a study of business incubators was carried out, with the benefit of some 15 years' experience of this type of real estate (OECD, 1999a). At that time in the countries studied for this report, there were some 50 business incubators in Australia, 200 in both France and Germany, 100 in the United Kingdom and 550 in the United States.

Experience showed that it was necessary to provide good quality buildings for such centres to succeed. This in practice meant either high-standard conversions of old buildings or new, custom-built facilities. In particular, where the intention was to attract or develop technologically advanced businesses, such as those linked to university research capabilities, it went without saying that the standards of the buildings in which such businesses located had to match both their physical requirements (*e.g.* air filtration systems, air conditioning), and their image.

Operational experience reveals that, while there is no one model for business incubators, a number of features are common, such as the provision of workspace, often on preferential and flexible terms, for a specific industry or type of firm, and the access to a pool of utilities, services, and equipment. There is a policy of entry and of exit. In addition publicly-funded incubators offer various forms of business planning and managerial advice, access to business networks, and legal services (OECD 1999a). A service characteristic of private sector run incubators, but increasingly also in publicly run structures, is offering incubatees contacts and access to venture capitalists and "business angels".

It is essential that good managers are found, not just in order to select suitable tenants but also to ensure the development and maintenance of supportive and useful contacts among the local business community. Rentals in incubators need to be at market rates, for two reasons. First, if a business was truly viable financially it should be able to meet the market rate for rentals, and second, if the incubator were to offer subsidised rentals, it would offer unfair competition to the commercial rental market and might simply divert existing businesses into the incubator. Another important operating feature of successful incubators is the establishment of close relations between incubators and universities and other higher education establishments, partly to encourage the commercialisation of academic research but also because it has been found that geographical proximity to prestigious universities could both aid recruitment in companies, and confer status and credibility, especially on technologically advanced companies, located in incubators. It has also been found that flexibility was required in the provision of common services and facilities within business incubators, in order to ensure both that the SMEs located therein had access to the facilities they needed and, conversely, to avoid the expensive provision of under-utilised services.

Business incubators do succeed in terms of measures such as business survival rates. In the United States survival rates of about 80% of businesses in incubators were higher than national averages, in Australia first year failure rates were 8% within incubators compared with 32% nationally, while in the United Kingdom a formal review concluded that business incubators improve survival rates, as well as facilitating technology transfer and innovation and generating jobs and local economic development. In addition to the direct achievements in terms of enterprise and job creation, a review of experience in Italy sums up some of the indirect gains to be had (1997a). Business incubators are adding value far beyond their actual worth in changing attitudes towards entrepreneurship, building alliances among local leaders to develop coherent policies for economic growth, fostering a better climate for small business. While business incubators cannot in themselves solve local unemployment problems any more than other local initiatives can, they represent another weapon in the arsenal of those who seek to alleviate the worst effects of recession on local communities.

Stimulating innovation

Entrepreneurship is a key determinant of innovation. Innovation stems from a three phase process: knowledge generation, the sharing and diffusion of knowledge among potential users, and the application of new knowledge to the development of the product. This will normally result in a new commercial activity or the renovation of an existing one, leading to increased economic development.

The various phases in the process are governed by different factors. Knowledge generation depends on the research capacities of teaching establishments and firms’ R&D activities, as well as on the quality of the human resources involved in the process. Diffusion and, to a certain extent, application depend on the effectiveness of relations between the worlds of teaching, research, business and training.

A key lesson learned from innovation activities over the past decades has been that the most important tools for fostering innovation are to be found at the microeconomic and local levels. Of course, the national climate for innovation plays a role: stable macroeconomic conditions, effective skills development policies and a framework favourable to business development are all essential. However, it is at the local level that firms learn most from other firms, take advantage of external economies, internalise the risks associated with product development and forge supply chain links (OECD, 2004ab).

For localities, fostering innovation boils down to: i) building a knowledge base, *i.e.* encouraging research activities and attracting enterprises with advanced technology as well as talented researchers and students; and ii) facilitating co-operation and co-ordination between research production, distribution and exploitation activities.

Financing SMEs

The provision of finance to SMEs remains one of the most difficult issues to resolve, whether this is seen in terms of equity or loan finance. In the current recession, triggered by a global banking crisis, the issue is more difficult than ever. LEED research has dealt extensively with the subject.

Equity finance

Already in 1990, a report focused on equity finance, examining practice in the United States (OECD, 1990a). It found that American mechanisms for funding economic development, especially that pertaining to the financing of employment-generating new businesses, appear more efficient than those in Europe. American bankers are disinclined to take risks in financing new entrepreneurs. The American capital market and the regulatory systems governing banks militate against such risk-taking. But family and friends, other investors, both public and private, and risk-taking venture capital firms take up risks that the banks do not. They finance new entrepreneurs and contribute to economic development.

In circumstances such as prevail in the crisis, banks in most OECD countries are forcibly even more risk-averse than usual. Approaches to support to equity finance are therefore relevant.

The emergence of venture capital companies – financial undertakings whose business is to develop businesses via professional equity investment – has played an important role in the financing of SMEs in the United States, as it has to varying degrees in other countries. It is normal practice that venture capitalists expect a potential recipient of their funds, as a minimum, to have completed the business planning, executive management recruitment and market analysis before the venture capital company will give serious consideration to making an investment. Thus venture capitalists may not always be the best source of risk finance for SMEs, especially for those just starting up. On the other hand, in the United States and to a lesser degree in other OECD countries, many household names, national and international companies would not exist but for the involvement of venture capitalists.

The experience from the United States also highlights the importance of a publicly-funded approach to local economic development, quoting as an example the Michigan Strategic Fund. This is a public fund whose initial capital was voted by the state legislature. It identified three general principles governing its financial intervention (in Michigan-based companies only) which were:

- That it sought to intervene where private capital does not, for example in ethnic minority businesses or in depressed areas in the form of seed money for start-ups and in the acceptance of "middle risk".

- That it used public money to leverage private investment, seeking leverage ratios that are usually substantially higher than for other public sector investment initiatives (up to 40:1 ratios in some cases).

- That it is managed only by highly competent and highly professional people, is quick to use the skills of top quality consultants in its operations and employs, at full private sector rates, private sector financial specialists at the operational level.

In its early operations, the Michigan Strategic Fund identified two crucial funding gaps affecting SMEs and start-up companies – the provision of seed/pre-venture capital for new businesses, an area where private capital tended not to be available – and the "middle risk" area which it defined as that funding lying between equity venture funding and bank debt financing. The Michigan Strategic Fund also promotes the establishment of financial institutions expressly targeted at local needs within the state. These are known as BIDCOs (Business and Industrial Development Corporations). BIDCOs are described as being similar to private investment companies, intended to respond to the "middle risk" market.

The state-funded Michigan Strategic Fund is an example of a public sector, locally-focused development vehicle that intervenes where the market has failed, but also has as its central objective the leveraging of private finance to the point where it can withdraw its interests and leave it to the market to continue the work.

The third source of equity finance for SMEs and start-ups in the United States is the informal private capital market, otherwise known as "business angels". In the American context, LEED work records that an estimated 80% of the USD 45 billion being invested annually in equity capital in businesses came from family, friends and associates. It stresses the importance of tax incentives in eliciting this level of financial commitments from private investors, especially the existence of private limited partnerships which unite investors and entrepreneurs while sheltering certain profits from tax liability. In the United States there were at the time an estimated 250 000 private investors who together supplied twice as much risk capital to the market as was put in by professional venture capital firms.

At a local level, the identification of wealthy individuals and the two-way process of making private investors aware of new local business investment opportunities, as well as making local entrepreneurs aware of the possibilities of such investment from local "business angels", is one potentially important role for the local delivery agencies discussed above. In the current recession where incentives to formal saving are declining rapidly in the face of drastic reductions in savings rates, the need for alternative outlets for those with money to invest is arguably more acute than it has been for many years.

Debt finance

The second potential source of finance for new and small businesses is debt financing from banks and other sources. This is difficult to achieve at the best of times, usually on three grounds:

- Banks typically do not favour, and in some cases are discouraged by their regulatory environment from undertaking investments with as high a degree of risk as usually surrounds the typical small business.

- Small businesses in any case often cannot provide the collateral needed to underpin such loans.

- Even if these first two constraints can be overcome, many banks simply find the administrative costs of arranging small-scale financing too high when set against their likely financial returns.

In the area of small businesses and the self-employed, loan finance is often required on a micro-credit basis, dealing with small amounts of money only, either because the scale of the operation requiring funding is also small, or because such funding is often required at the start-up stage of enterprise development. In both cases it is common for such cases to fall below the radar of commercial bank lending, for reasons such as a lack of trading history, inadequate collateral or indeed simply that the scale of lending required is too small to attract the interest of lending institutions.

In addition to these long-held difficulties, the very nature of the current crisis militates against the chances of any small business obtaining debt financing, however strong its balance sheet and cash flow. This brings us to a consideration of whether and how governments might intervene to oil the wheels of an otherwise corroded and mainly static credit vehicle. One approach to this is the provision mainly by national governments of credit guarantees to institutions lending to risky SMEs.

Micro-finance

Another approach more suited to local action is the issue of micro-finance. LEED research makes it clear that micro-finance is a specialised part of the financial services industry requiring innovative techniques and a focus on how best to reduce the transaction costs associated with the advancing of small-scale loans (OECD, 2003a). While some micro-finance schemes are aimed at the self-employed and at micro-enterprises seeking to create and sustain market-based employment, other schemes specialise in targeting social programmes such as those affecting ethnic minorities and socially disadvantaged groups. Some schemes fund enterprise creation, others provide working capital to small enterprises. While lending rates are usually at market rates or even in some cases at a premium, it is more usual to be able to obtain unsecured finance than would be the case with bank lenders.

In the United States, studies have shown that beneficiaries of micro-finance programmes have seen their dependence on public assistance diminish and their incomes, enterprise profitability and equity growth improve. The costs of job creation via such schemes have been shown to be relatively low (as little as EUR 5 000 per job created in some cases), while default rates are frequently stated to be lower for micro-finance initiatives than for normal commercial bank lending to small firms.

However, micro-finance schemes are complex, often take some time to become established and require a good deal of specialised expertise, often based on trial and error, in order to operate successfully and sustainably. The provision of effective and sustainable micro-finance schemes is neither easy nor can their success be taken as a given. The more specialised and targeted the scheme (for example, schemes based on specific categories of potential borrowers such as a geographically-defined group of socially disadvantaged individuals) the more difficult it seems to be to achieve business volumes sufficient to ensure the scheme's sustainability. The inference is that it is not advisable to be too restrictive in the definition of the schemes' aims and objectives, nor of their target groups.

Self-employment

Most OECD governments have established schemes to assist the unemployed to enter self-employment, often in the 1980s and the 1990s, and LEED has followed the results of these programmes closely. A broad conclusion from research on this subject is that self-employment support can raise incomes and provide a cost-effective alternative to paying unemployment insurance, but only for a small subsection of the unemployed. This generally includes the more motivated and persons with work experience and accumulated human and financial assets. Reductions in the duration of unemployment for those already unemployed can be an important result.

Programme costs are often low, especially when financial assistance replaces payments of unemployment insurance. While net job creation is generally small, the net cost per job created can also be low by comparison with other labour market policies. Schemes are less helpful for those who have experienced longer periods without work. Though these programmes incur significant deadweight – a significant number of participants would have created a self-employment activity even in the absence of the programme – some additional positive outcomes are worth taking into account, such as enhanced employability and other social benefits (*e.g.* reduced criminal and drug abuse, increased psychological wellbeing, post-programme asset accumulation) (OECD, 2003a).

Training for entrepreneurs

The provision of training services for entrepreneurs is an important determinant of the quality of entrepreneurship. In the 1980s, a "hands-on" approach to training in the skills required to run small businesses and/or to manage a life of self-employment was typically provided, not by educational or training institutions, but by local delivery agencies concerned with SME and start-up support. Since then, the question has been raised as to whether and how might schools and other educational institutions introduce into their normal educational curriculum the concepts of self-employment and entrepreneurship as a means of gaining a livelihood.

More recently, there has been a move at the other end of the educational spectrum – at university level – to offer entrepreneurship training as a specific subject and/or as part of a range of academic courses, as well as the concept of how best to transfer knowledge of best practice and new technologies to enterprises (OECD, 2008b).

Box 2. Recommended actions: Entrepreneurship

Strategy

- Improve the entrepreneurial image of a place and make it attractive for businesses to start-up, settle and grow.
- Promote entrepreneurial attitudes and increase public awareness of entrepreneurial opportunities, involving key local policy actors and using a variety of media.
- Get clarity about the sources, motivations and barriers to new entrepreneurship and business growth, and make explicit the strategic objectives of enterprise support.
- Stimulate take up of training as a means of enhancing survival, growth and job creation, and facilitate access for managers and staff.
- Expect limited short-term employment creation from entrepreneurship promotion, in particular from the creation of micro-enterprises, and undertake measures that enhance local employment impacts by fostering enterprise growth.
- Stimulate the creation and utilisation of local science industry linkages for increased entrepreneurial activity rates, innovation and technology transfer.
- Establish a local business support system with clear entry points and effective referral that makes optimal use of existing business support organisations and synergies between public and private actors. Plan for a transition from public to private financing of the local business support infrastructure.

Policy design and delivery framework

- Conduct regular fit-for-purpose checks in order to make local regulations current and minimise their burden on enterprise.
- Seek to ensure the availability of high quality business advisory services and business premises offering affordable and flexible rents.
- Ensure a strong marketing component in assistance programmes and consider restricting the terms of business support, to help counter displacement effects.
- Ensure flexibility in the delivery of self-employment and micro-enterprise support programmes, so that budgets and capacities can be expanded during economic downturns.
- Systematically evaluate policies and programmes against carefully selected monitoring and performance targets, and ensure that findings are fed into the policy cycle.
- Implement broad campaigns to introduce the networking concept to businesses and examine where the public sector can play a catalytic role in establishing private-sector networks and in formalising them.
- Expect to provide some financial support in feasibility work, start-up activity and the costs of quality network brokerage.

Source: OECD, 2009f

Local economic investment

Local economic development is not like orthodox public services, where a defined service is delivered to a relatively well-known customer/population base within a defined geographic area. Economic development operates both within governmental spheres and within markets, where factors well outside the control of local and other sub-national governments impact upon the outcome. Economic development processes happen within a wider geographical space than local government, and in some cases at a larger scale than regional (or even national) governments, which implies that substantial inter-government co-operation is required. Equally, the time frame in which economic development outcomes appear are more akin to business cycles (12-15 years) than to the electoral cycles (3-4 years) of governments. Given these factors, it is highly desirable that economic development is orchestrated as:

- A partnership activity between public, private, and institutional sectors, with substantial vertical and horizontal collaboration on the public sector side.
- A long-term effort that will also produce important milestones within short time spans.
- Activity that is stakeholder and investor facing and utilises appropriate organisational vehicles to deliver this (such as development agencies/corporations).

Over the past 10-20 years, sub-national efforts to promote economic well-being have been growing in most of the developed world. Not all of the developments tend toward the same direction but there are now few absolutely fundamental differences in the underlying philosophy. As an overall framework, it is clear that local economic development now takes, as a starting point, dynamic macro-economic change. This has meant that it has become quite adept at being a crisis response mechanism. Indeed the beginnings of active economic development promotion in many developed countries can be traced back to much wider processes of de-industrialisation, massive technological change, or continental economic integration. It is recognised that the larger drivers of change have recently tended to have highly divergent sub-national impacts. Recent economic history has given a particular emphasis to the internationalisation of the economy and its relationship with a new global trade regime and trading blocks, the evolution of new generation Information Communication Technologies (ICTs), widespread public sector reform and decentralisation and large scale (mainly pro-urban) demographic shifts.

This said, local economic development has taken place within a constant cycle of decline and growth. Some localities have not recovered from the industrial restructuring which began in the 1970s, whilst some have seen remarkable growth and recovery. The work of LEED has identified that local economies must constantly reinvent themselves through structural and microeconomic adjustments and thus policies should enable each locality to respond quickly and effectively to the enhanced mobility of capital, management, professionals and skilled labour and technology innovation. If a local response is either inadequate or too slow to take full advantage of endogenous resources and competencies in the face of such new challenges, it will be by-passed, leaving declining sectors, communities and cities behind. Intergenerational unemployment, poverty and low educational attainment have become the norm in many OECD countries whether localities have become prosperous or not. Ensuring that such phenomena are not exacerbated during this crisis will be a formidable challenge for local development. Reshaping a local economy is a long-term process, which demands decisive leadership and effective tools.

Investment strategies for recovery and their financial tools

Successful local development involves achieving a high investment/high return equilibrium, just as much as it does for the most successful businesses. Success in the open knowledge driven global economy requires places to be truly distinctive, appealing and productive. Just as firms must innovate and invest to succeed, localities have to adjust, reinvent, and differentiate themselves. They have to change the old patterns of land and resource use, and connect assets with opportunities in new ways and over new spaces. They must modernise infrastructure and build up human capital. This can have positive impacts on entrepreneurship, innovation, skills, and other factors of growth. But this involves adjustment costs, in the form of investment to re-engineer the locality for the new economic functions and flows that it must facilitate.

Economic development requires investment, but it does yield returns. However many localities do not have the surplus cash, or the financial powers and leverage required, to make the investment, and capture the value it can produce. Localities find themselves within a vast range of frameworks that do not give them control over their own investment. They become stuck in a low investment/low return equilibrium. Periodically, an opportunity arises to make new investment and share risks and costs with other public and private entities. These opportunities do not come often and must be seized with purpose. Hosting a global event, winning a major investment, or attracting new population can be the trigger for increased financial resources. It is not surprising that many localities spend considerable effort trying to make these kinds of changes happen.

Despite differences in financing tools between localities, two basic forms of innovation are emerging.

i) There is a continued push by commercial intermediaries and investment institutions to create non-governmental approaches which define and develop new localised investment markets where there is confidence that good returns might be made.

ii) Within government at various tiers, there are efforts to innovate with public finance in ways which will make it more flexible and sensitive to commercial thresholds, and thus leverage private investment more effectively.

Financing local development is not simply a question of finding the public money required to invest in a local productive base, or wider economic development opportunities. How local development is financed plays a key part in defining what the goals of local development may be, and the extent to which the outcomes will be sustainable in both financial and economic terms. There are different kinds of local economic development that involve different means of financing. Financing local development involves both public and private finance, including philanthropic financing, and the mix of these varies very broadly over the OECD countries.

Local development has turned a corner in recent years and has gradually moved into the main stream of thinking about how countries, regions, counties and localities can become more productive, create more wealth and jobs, foster new and growing firms, build human capital, and improve incomes at the local level. Constraints on private capital and public spending reductions envisaged through diminishing tax bases and costly bailout packages will mean that financial tools and investment strategies become more important over the short and medium term. Funding the broad range of local development interventions that create sustainable local economies will require more innovation and more understanding of what works and what does not.

The need to establish a more sustainable and effective approach to finance and investment is essential during periods of growth, but in downturns it becomes vital. Effective financial tools and sound investment strategies can be the "glue" which holds local economies together (OECD, 2006c). Ten "principles" for sustainable local development financing enable the appropriate framework conditions to be established and define clear roles and responsibilities for all stakeholders (Box 3).

Box 3. Recommended actions: Local economic development finance and investment

i) Smart finance for smart cities and regions, promoting the fiscal relationships with higher tiers of government right.

ii) Promote active private sector leadership in local development finance and investment.

iii) Metropolitan finance for metropolitan amenities, sharing costs and benefits between cities and their neighbours.

iv) Capturing and sharing the benefits of growth locally.

v) Flexibility in public funding to enable private co-investment in local development.

vi) A new approach to the management of public assets locally to achieve financial leverage.

vii) Fostering financial innovation in public and private sectors locally.

viii) Long-term market building in local economies by the private sector.

ix) Focus on the quality of the local financial propositions not on the supply of finance.

x) Build capable specialist intermediaries at local and wider levels.

Source: OECD, 2006c

Social economy

Several countries, including the United States and the United Kingdom are currently also adopting measures to foster the development of the social economy in the context of the crisis.

Social economy organisations have the capacity not only to support people who have been disadvantaged by the economic downturn, but also to create jobs and to provide local services at a time when public sector resources may be dwindling. The social economy may contribute to helping governments to reduce the social tensions generated by the crisis. Social economy organisations also frequently harbour social innovation and new ideas which may help provide new forms of more equitable growth in the future.

The social economy includes the co-operatives, associations, mutual organisations, social enterprises which exist in the "space" that exists between the state and the market. These organisations are engaged in non-profit activities for the production of goods or services targeted at their members or for their benefit. Social economy organisations are active in a wide variety of sectors, ranging from the more traditional ones, such as care and health to the manufacturing ones, to housing, finance, renewable energies, utilities, tourism, culture, and so on.

LEED research has shown that social economy organisations can spread a different way of doing business, build trust through participation, and encourage wider community involvement. They are differentiated from traditional private and public organisations by the fact that:

- Their mission consists in improving the situation of their members.
- They have tight links with the territory where they operate, mobilising unexploited resources (including human resources from excluded people).
- Their assets cannot be redistributed to the members – they stay in the community even if the organisation dissolves.
- They are independent from government and as such have the capacity to produce innovative solutions.
- They are generally a-cyclical (*i.e.* do not lay off people during downturns).

They can also play an important role in:

- Defining new goods and services related to the specific needs of the local territory.
- Generating integration and creating jobs.
- Improving the atmosphere and the attractiveness of the territory.
- Consolidating partnership and empowering local actors.
- Emphasising "the long run" and therefore consolidating sustainable projects (OECD, 1998).

LEED work emphasises in particular the significant role that social economy organisations can play in fostering social inclusion. These organisations frequently work with target groups (*e.g.* people with social or physical handicaps, long-term unemployed, low skilled people, ex-offenders, minority ethnic groups) who are particularly likely to be forced into economic inactivity during a crisis, providing an efficient delivery vehicle for public policy targeting these groups (OECD, 2009c).

As the recognition of the value of social enterprises has grown, training courses in how to establish and manage social economy organisations have emerged. Countries such as Belgium, Italy, the UK and the United States have launched training programmes for potential managers of social enterprises, for example. These are typically coupled with a period of secondment to an existing social enterprise in order to gain operational experience.

Developing the non-profit sector is not without its own risks and critics. Care has to be taken to avoid such enterprises offering unfair competition (*e.g.* via hidden subsidies) to the commercial sector and raising the risk of duplication and distortion. In this context trade unions have raised concerns about their role. In some cases also, it has become apparent that the public sector's procurement rules can disqualify not-for-profit enterprises from bidding for supply contracts, in some cases inadvertently. The sector generally is relatively poorly documented and it can be very hard to obtain statistical details on its impact due to definitional difficulties. Some critics have also voiced concerns that the non-profit sector often has little interaction with the private sector.

Nonetheless, it is undeniable that social enterprises have established themselves as a permanent feature of the local economic landscape of the advanced economies, which create jobs that are often more sustainable than those created by for-profit businesses. The precise design of programmes to enhance social enterprise start-up and their relevance for a given local economy can only be decided at a local level. However local public agencies can assist through providing start-up funding and ongoing support with development and expansion. Recent LEED research suggests that greater attention needs to be paid to evaluation and monitoring systems in order to create a defensible analysis of their impact and benefits. In addition, for the social economy to be able to fulfil its potential it needs a legal and administrative environment which recognises its role and actively sets out to support its development and growth. The crisis response in Slovakia, for example, includes an attempt to make public procurement more open and appropriate to social enterprises, for example.

It worth recognising the central role that innovation plays in the development of the social economy. Social innovation – new strategies, ideas and organisational forms – is about satisfying new needs not provided by the market, or creating new opportunities for people to participate in a production process through labour market insertion programmes. Stimulating social innovation will help to nurture the social economy and enhance its impacts on local employment.

Building capacity in the community

In order for some communities to respond effectively to the current crisis, capacity building may be required. Capacity building is a process where stakeholders from the public sector, private sector and civil society act as a catalyst, facilitator or knowledge broker for local communities. The ultimate goal of a capacity building initiative is the development of local leadership and increased local engagement and control over programme management, policy development and service delivery. The effective, real, empowerment of communities supports the development of networks and partnerships, which will both increase the sharing of ideas and innovations locally, and enhance the sustainability of decisions that influence local quality of life, in social, economic and environmental spheres. Evidence shows that communities with strong social capital are particularly likely to innovate and grow, and this may be particularly true during difficult economic times.

Governments have the capacity to both enhance and impede community capacity building through the way in which they manage and implement policies and programmes. Government – whether at local, regional or national levels – can support capacity building by creating the necessary political space and providing resources at the local level. This political space implies recognition of the capacity already inherent in communities and the encouragement of the development of new capacity in a way which embeds power over the development of communities within those communities themselves. A real commitment to capacity building means taking risks and accepting innovation, in addition to managing the potential conflicts and disagreements which may emerge along the way.

Asset building is another way of building capacities, through helping to break the cycle of intergenerational poverty and promoting economic and social development. Encouraging local ownership of shared assets can improve self-reliance in terms of financial security, while building confidence and aspirations. Building peoples' assets is one policy pathway to increase capabilities and reduce the trade-off between economic growth and social development, and it may be particularly valuable to prevent long-term exclusion as a result of the current crisis.

Box 4. Recommended actions: Social economy

- An appropriate legal framework for social economy organisations is critical. It needs to provide guidance in operating and governing social economy organisations, from establishment to dissolution.

- When designing contracts with social economy organisations, the public sector should take into account the contribution of the social economy to various policy objectives, such as building social capital within communities or improving social cohesion by direct contact with target groups.

- Policies to support social economy organisations are helpful during start-up and after. They include the development of mechanisms for financial sustainability, such as measures allowing these organisations to broaden their revenue sources, fiscal exemptions (*e.g.* granting aid through tax reductions), or social security deductions for employed disadvantaged workers.

- Social economy actors should contribute to public policy decision making processes. They have knowledge and experience which can be helpful in the development of more effective policies and programmes.

Source: OECD, 2007c

Governing in a crisis

Lessons from LEED experience tell us that effective local governance is an essential part of responding to economic crisis. The reasons identified include the following:

- There are several drivers of growth and prosperity for which no single public authority is responsible.

- Drivers cannot solely be fuelled at a national level, since some have an important local dimension and hence actions need to be taken at a local level.

- The public sector cannot support drivers of growth on its own; roles must be played by business and civil society (OECD, 2005a).

It is essential for a holistic approach to be taken to tackling the crisis at the local level, and it follows that civil society and the various involved local actors have to be empowered to take such action. This often implies some delegation of power from the centre to sub-national levels, not always easy to achieve in most economies where the state still plays the central role in policy formulation and in its funding. Yet, as LEED work has shown, decentralisation is not a guarantee of effective action at the local level.

Local action raises complex governance issues. In most countries, local authorities have some role in the local application of labour market policies, and a keen interest in the social and economic wellbeing of their communities. At this level, a large number of agencies and bodies also exist including local offices of national ministries, non-governmental organisations, trade unions, private companies, colleges, universities. These agencies need to come together to deliver coherent strategies in times of crisis.

Over the years, LEED has identified a number of mechanisms which can improve the ability of local governance *to act as a driver* for economic growth. It classifies these as:

i) Building effective local strategies.

ii) Partnerships, platforms and alliances.

iii) Ensuring flexibility in the management of policy.

All three will enable localities to better respond to the current crisis. Each of these areas is discussed in more detail below. This section will also analyse the role of local development agencies to support integrated approaches to local economic development; and address another important dimension of local governance: the evaluation process.

Building effective strategies

Economic development strategies

In almost all government systems, there is a responsibility at the local level on local government authorities to undertake an economic planning function based on a clear understanding of the strengths and weaknesses, opportunities and threats of the local area. This inventorial function is an essential starting point for the development of any counter-cyclical or crisis-management action plan. To stand a reasonable chance of success in developing a local action plan to deal with the consequences of recession, local government and other local policy actors must have a clear idea of (a) the structure of its local economy, (b) the skills and resource base available, and (c) the range of existing sources of assistance and development that is available, whether that comes from international organisations such as the European Union, national governments, regional governments, development agencies, or private actors.

There is an abundant literature on how to design and implement effective economic development strategies at the local level, and LEED has made helpful contributions in this domain (see for example OECD, 2008c). A finding that appears particularly relevant in the context of the crisis is the need to prioritise actions which build on particular comparatives advantages of a local economy within the global context, and in particular relatively strong local economic sectors. In its research at the local level, LEED has frequently identified that localities develop long "wish lists" of actions which fail to give adequate leadership and mean that it is difficult to raise the critical mass of resources required to well respond to any one local issue (OECD, 2009e). Stronger strategies are more likely to bring local stakeholders together to support particular sectors or clusters of industry, for example, or particular types of production (*e.g.* rapid response manufacturing) or particular local assets (*e.g.* tourism). The concept of sectors and clusters is becoming increasingly pertinent to employment and skills strategies for example. Building human resources to support local commercial or industrial clusters and tailor workforce development, education and training programmes to the current and future needs of local economies can be particularly beneficial for example.

Skills development strategies

Given that human resources and skills play a special role in the knowledge economy, in several areas local stakeholders have given this issue priority and designed strategies devoted to skills development. It has been realised that a more diverse range of policy actions and initiatives for skills development is needed over and above the traditional process of vocational training and education. The strategic planning process around local skills strategies is normally based on three key issues, covered fully or only partially by the strategies designed (2009d):

- The attraction and retention of talent in local communities.
- Targeting those disadvantaged groups within local communities who may be marginalised within the local economy, and integrating them into workforce development activities.
- Raising the skills of the existing workforce, sometimes focusing on the low-qualified.

LEED research has shown that cities and localities across countries have taken a variety of actions to address these three requirements. Attracting talent may involve investing in local quality of life, architecture, cultural development, diversity, forging alliances with local universities and training institutions in order to match local demand and supply issues within labour markets, and to create new opportunities by actively marketing localities to attract new labour, sectors and clusters, and offering incentives to returning emigrants.

Integrating disadvantaged groups has included the creation of outreach centres and similar initiatives to motivate and involve locally-marginalised segments of the labour force, promoting alternative forms of learning and training through work experience and other schemes, taking direct action to improve retention levels during training programmes and apprenticeships, improving the linkages between training and career development and developing basic training schemes for those at the bottom of the skills ladder. Improving the skills of those in work by means of more customised training, developing better career paths, involving employers in the management of training centres and the delivery of training courses (including those within employers' premises), promoting business partnerships based on the sharing of innovation, establishing specific centres of excellence, assisting with careers planning for start-up companies and the dissemination of information on technology transfer and management training in the different forms of work organisation.

Box 8 below provides a good example of a strategic approach to skills development which has been developed in Michigan in the United States.

Box 5. Balancing local skill strategies

Michigan provides a good example of how the new priorities for labour market polices can be addressed in practice. In 2004, the Governor of Michigan embarked on a state-wide project to improve the efficiency of local workforce development and educational systems in meeting businesses' needs. For many years, Michigan has invested in an extensive and renowned post-secondary educational system, and in partnership with the federal government it has developed a comprehensive workforce system. However, there has been increasing concern that these two systems are not collaborating sufficiently to meet the needs of Michigan's business community. Recognising that local labour markets have their own specific needs and that local entities best understand them, the state turned to local stakeholders to form partnerships to identify skills needs, develop the strategies to address the needs, and carry out proposed activities. With the financial assistance of (a charitable foundation based in Michigan), the state offered one-year start-up grants totalling over USD 1 million for the initial development of 13 "regional skills alliances" across the state. Nine of these skills alliances were convened by workforce boards; the other four were convened by a labour organisation, two post-secondary training programmes, and a community-based organisation. The overall goal was to provide employers with a highly skilled labour force but also to provide local citizens, particularly lower income individuals, with jobs that offer good wages and promising opportunities for career advancement.

The regional skills alliances, set up at a sub-regional level, were asked to focus on a very limited number of industry sectors, which contributed to sharpening economic development strategies. In each sector they connected the human resources-related decisions with a view to invest both in the supply and the demand for skills. As an example, the health care sector faces labour shortages in North West Michigan. Taking an integrated approach to employment and skills development has allowed the region to fill skill gaps while also paying attention to improving the career opportunities available within healthcare through formalising career ladders, and working with local colleges on courses to upskill current employees as they pass through the system.

Source: OECD, 2009d

Integrated skills development strategies are particularly important with regard to climate change. In order to meet the demands of the greener economy, local offices need to understand the stake, define an integrated human resource development strategy and develop customised programmes and initiatives accordingly to prepare the workforce and the economic actors to these emerging challenges. This may mean adapted upskilling and retraining programmes and assistance with the introduction of career ladder programmes.

Partnerships, platforms and alliances

Delivering effective and comprehensive local strategies requires that all relevant members and organisations within the community get involved. Experience shows the importance of partnerships in such action. Local economic crisis is a powerful motivator for communities to act in a co-operative fashion.

Partnerships are now part of the governance framework in the majority of OECD countries. They bring together public, private and voluntary sector actors representing the State, employers, workers and civil society and are for the most part backed by central or regional government. Although there is no universal model for partnerships, a number of principal tasks are shared by them all: 1) pursuing a general objective such as stimulating economic development or promoting social inclusion; 2) endeavouring to achieve that objective mainly by increasing the degree of co-ordination between policies and programmes via the different services and levels of government, and by adapting them to the local context; 3) when the outcome of improved co-ordination is insufficient, setting up new projects and services; and 4) working at local level to involve local actors, and especially civil society, in identifying priorities and in project development, and to harness local resources and skills (OECD, 2001a).

Local partnerships can embrace a wide variety of actors, also across different tiers of government. Government offices, local authorities, chamber of commerce and industry, major local employers, trade unions, and local social groups such as charities, churches, co-operatives and other social representatives can all involve themselves in local action groups. Subsets of this range of stakeholders may join to address relatively focused issues. In the context of climate change, partnerships between labour market institutions and business are useful to identify skill 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. To foster innovation locally, there is a need for co-operation between the activities of production, distribution and utilisation of research. Local innovation system partnerships often comprise local firms and research/higher education institutions, and sometimes training service providers. Regional skills partnerships as those established on Michigan (Box 5) typically bring together public services responsible for labour market policy and education, and business.

The Study on Local Partnerships carried out by LEED reviewed the experience of OECD countries in the creation and operation of local partnerships (OECD, 2001a, 2004b). Partnerships typically benefit local populations by helping local communities to express their needs and concerns. Second, they benefit local public services, by helping to target such services more effectively using greater and better quality information provided by the other stakeholders (and sometimes the target groups directly). And third they enable local authorities, non-profit organisations, employer organisations, trade unions to be more needs-oriented in their delivery of services. In short, partnerships by their very existence widen the involvement of all local actors in seeking to improve local economies. This improvement in local governance is especially important in times of economic crisis, when help is needed in areas such as the stimulation of local labour markets, the promotion of SMEs and self-employment, the support of social activities and the promotion of all types of local co-operation aimed at mitigating the effects of rising unemployment. Partnerships can provide the right conditions for combining programmes and local initiatives, generating better outcomes.

Partnerships, however, can generate difficulties in policy implementation. OECD (2004b), for example, has found that although partnerships and projects fill policy gaps and bring benefits to the local community, new services may be more efficiently delivered by public institutions. Discussing the role of new services developed by partnerships in particular, the report highlights that delivery of services in parallel with the public sector reduces the scope for the latter to learn new techniques of working and improving its methods. The impact on governance is greatest when the partnership helps the partners, including the public services, to do a better job. As such, partnerships may be most effective when they focus not on the delivery of new services, but on becoming “agents of change”. In order to support such mainstream developments it is imperative that local stakeholders establish processes for mutual learning, and for the transfer of good practice from other local areas and regions, and that lessons are transferred to the national offices of public services, ministries and partner institutions.

The study made clear that the establishment of area-based partnerships is not a sufficient condition for policy co-ordination. Problems include constraints in the accountability framework that limit inter-organisational commitment and strict performance management requirements that encourage individual agencies and organisations to take a narrow approach to policy implementation as seen above. To be in a position to have an impact on local governance – and to influence policy co-ordination, adaptation to local needs and participation of business and civil society in the shaping of measures – partnerships need to be accompanied by mechanisms to foster the convergence of policy goals at the national level, increase flexibility in the policy management framework and strengthen the accountability of partnerships in three ways: between the members, between the representatives and their organisations and to the public (OECD, 2001a, 2004b).

Partnerships, if carefully managed, can therefore provide a boost to local governance locally, conducive to better outcomes. There are four key strategies that enhance the effectiveness of the partnership approach:

- *Make policy goals consistent at central levels* – in effect, striking a careful balance between the activities of local partnerships and the activities public services at local level, in order to avoid duplication of effort. In particular, *"partners should agree on the role to be given to partnerships in policy implementation and improving governance"*.

- *Adapt the strategic framework for the partnership to the needs of the partners* – a call for each partner to be clear about their specific roles, ensuring again that clarity and transparency are needed in defining the roles of each partner and also requiring that *"services should normally be delivered by individual partners rather than by the partnership itself"*.

- *Strengthen the accountability of partnerships* – thereby ensuring that the partnership has clear policies on the issues that the partnership should be dealing with, and that the functions of strategic planning, project appraisal using public funds and technical assistance should be separated.

- *Provide flexibility in the management of public programmes* – suggesting that partnerships should be involved in the targeting of public programmes related to common goals, while the responsibility for implementation should remain with public services.

Flexibility in policy management

In response to this, recent LEED research has emphasised the importance of flexibility in the management of policy so that all agencies, including the local offices of national ministries, have the opportunity to adapt policy to locally agreed objectives. This will be even more important given the need to develop more immediate and targeted responses to local problems in the context of the current crisis. Flexibility has also been identified as a determining factor of success for the initiatives to move localities towards innovation, high-skills/high-productivity equilibrium, and a useful precondition for adapting the local labour market to the requirements of greening the economy.

Achieving flexibility of policy design and implementation does not necessarily require central governments to decentralise their operations, but it does require that regional, sub-regional and local actors are granted a degree of autonomy of action. This may focus on a number of different but related issues – the design of programmes, budget allocations, the decisions on eligibility criteria for programmes that are available, performance measurement, collaboration with other local actors and outsourcing. There are various ways to inject flexibility in the management of policy while national policy goals continue to be met and accountability requirements are satisfied.

Studies have shown that the ability to act locally and flexibly across OECD member states is very varied. In some cases, a relatively high degree of local flexibility has been successfully built into national policies, in other countries this process has hardly started.

But does flexibility in application of labour market policy actually work? OECD research has shown that flexibility in the issues listed is directly correlated with the successful application of more active labour market policies. Flexibility at sub-regional level in the delivery of polices is related in a positive and statistically significant way to employment rates. A LEED report presents statistical analysis of the relationship between flexibility of labour market policy and local employment levels (OECD, 2009a). This study calculates a flexibility index for 25 OECD countries that were included in the survey exercise, focusing particularly on the sub-regional level defined as areas with populations ranging from 150 000 to 800 000 inhabitants. It finds that sub-regional flexibility is correlated positively to employment rates. An increase of 1 point in the flexibility index (for an index that ranges from 0 to 5.0) is related to an increase in employment rates of 1.64 percentage points.

Box 6. The high level conference on employment policy in Venice, April 2008

Among the principal recommendations of this conference were four important requirements: "injecting flexibility in the management of labour market policy, fostering partnerships, supporting local intelligence and building capacities" at the local level. These resulted in the adoption of a formal Action Statement. The Venice Action Statement of April 2008 sought to recognise the issues and propose solutions. The main points of the Action Statement are:

- Despite progress made in many OECD countries towards the decentralisation of labour market policy, there is still some way to go before local labour market agencies have the capacity to make a significant contribution to broader local strategic goals.
- The achievement of local objectives requires a level of co-operation between different policy areas such as employment, vocational training and economic development; only in such circumstances can local actors work together to tailor actions in the labour market to local needs.
- Clear and effective operational partnerships between central, regional and local government are required in order to achieve the degree of accountability at a local level that national political interests require.
- Managing the needs of local labour markets requires detailed knowledge of local economies, which in turn demands reliable data on the local economy itself coupled with a professional assessment of local needs, especially in the area of skills availability set against broader labour marker demand characteristics.

National, regional and local authorities in OECD states should work towards the following objectives:

- The injection of flexibility into the management of local labour market policy.
- The establishment of an overarching framework which embeds local flexibility.
- Building strategic capacity at the local level.
- Building a reliable local data and intelligence base.
- Improving governance mechanisms.
- Improving the administrative processes that govern local action.

Source: OECD, 2009a

The implementation of a flexible approach requires, in most countries, some radical changes in the way that public employment services conduct themselves, not just in terms of re-designing national programmes to suit local circumstances, but also in broadening their actions beyond the traditional job placement services.

While the case for locally-tailored labour market policy is clear therefore, it is also clear that putting such an approach fully into action presents some serious challenges for governments and that much remains to be done in most OECD countries to achieve this goal.

Development agencies

Development agencies are crucial to the delivery of economic development, and particularly so in periods of economic recession and restructuring. The first development agencies were established in Europe after the Second World War as a response to the area-based crises caused by war damage, industrial decline and dereliction. They were initially seen as a short-term response to an emergency. In France, Germany, and Belgium development agencies were set up with the intention of redeveloping damaged and derelict sites and triggering a process of economic re-stimulation. Even today, closures of major local facilities (such as a defence base, a major factory, or a port) can trigger the establishment of a new development agency.

An important starting point is the recognition that development companies have become an increasingly popular organisational vehicle for shaping and pursuing development strategies at the sub-national level. However, there is no common understanding, or rigid formula, of what a development agency is. Agencies vary in size, scale, and function and have arisen from different starting points. Several waves of development agencies are identifiable:

- In Europe after World War II to aid post war re-construction.
- In North America in the 1960s and 1970s to address the impact of de-industrialisation in the "rust belt".
- In East Asia in the 1980s and 1990s to help plan and manage rapid urbanisation and industrialisation.
- In the current era in Latin America, South Asia, Africa and Eastern Europe to promote economic development in the newly integrating economies.

There has also been a continued process of re-inventing development agencies in places where they already existed, changing their focus of intervention and altering which tools are applied, or disbanding the old generation of development agencies and creating new ones. The shift to city and regional growth policies in many countries of the OECD, rather than the pursuit of "old style" regional policies seeking to address only the challenges of lagging regions, has given rise to a recent expansion in the number of development agencies.

In Europe many development agencies were established as vehicles to regenerate huge tracts of "brownfield" land, create jobs and stimulate economic investment. Establishing vehicles of this nature created greater synergy between the different aspects of local economic development and land-use planning. LEED played an integral role in this evolution, its recommendation to create a development agency in North Milan following a study in 1996 led to the creation of one of the most successful agencies in Europe being created (OECD, 1997b). Laganside Corporation (LEED, 2006c) was established as part of the UK government's response to industrial restructuring in the 1980s but had the added complexity of becoming operational and mandated to stimulate investment during an era of political violence. The agency was outstandingly successful as it played a neutral role and set the city on an economic growth trajectory that was complimented by a successful peace agreement. Nevertheless, before winding up in 2007 the agency was operational through the recessions of the 1990s and it is this factor which many development agencies have in common and which make them an important partner to local economic recovery.

Development agencies have a fundamental role to play in the current economic crisis and many are rising to the challenge (for example, Barcelona Activa, London Development Agency, New York Development Corporation) by adapting policies and programmes to protect jobs and boost local economies. Furthermore, many cities and regions have been successfully regenerated (physically and economically) as a result of development agency intervention.

LEED has identified four different elements of development agency activity:

- **Economic roles**: where development agencies seek to build markets within their territories by acting within them. These roles including the development agency acting in a risk and cost sharing manner using entrepreneurial approaches. Such roles involve intermediating with investment, assets, infrastructure, land, property, finance, planning, and marketing/promotion. Business is frequently the partner and/or client of this activity, and although it is accountable to governments, the agency has to mirror the "business-like" behaviour, processes, and time-scales of commercial players if it to be successful. This is a case of overcoming policy and investment failures.

- **Leadership roles**: where the development agencies play a key role on fostering a long-term plan and vision for the territory, galvanising the instincts of multiple leaders, setting out a new future around which resource mobilisation can coalesce. The development agency is often here an "independent" forum in which distinctive interests can be brought together, and aligned, to shape a long-term purpose beyond the specific limitations of electoral cycles and partisan policies. This is a case of addressing leadership failures.

- **Governance and co-ordination roles**: where the development agency helps to facilitate practical co-ordination towards the pursuit of the development strategy, helping to overcome the limitations of fragmented multiple jurisdictions and responsibilities in the public sector, and providing a means for practical engagement with the private and civic sectors. In this role the development agency is the chief practical mechanism for co-ordinated multi-lateral action. This is case of addressing co-ordination failures.

- **Implementation roles**: where the development agency can assemble dedicated and capable teams to focus solely on pursuing the development strategy. This will involve complex project management and finance skills, business/investor facing services, and the ability to design and use new tools quickly. The distinctive dimension of this role is often in how development agencies can attract and develop expert and specialist staff that are suited to pursuing public goals in a commercially sensitive manner, and are capable of implementing co-operation between public and private sectors in ways which work for both cultures.

Each of these roles becomes more pertinent during times of economic crisis. Development agencies have an historic and proven track record in terms of crisis response and should be supported and strengthened where necessary by national governments to continue to play an effective role during this global economic downturn.

Measuring the impact: monitoring and evaluation

It is widely accepted that the principles of local action and the stimulation of entrepreneurship is an important part of any counter-cyclical programme. But how can their effectiveness be determined? Do such actions alleviate unemployment problems, represent a sensible and justifiable use of public money and can they be shown to be indispensable to any action programme in the face of economic crisis?

LEED has published two detailed analyses of evaluation procedures to address these questions (OECD, 2004, 2007). Some key points emerge:

- Evaluations are necessary in order to ensure that public funds are effectively used.

- Conventionally, evaluations seek to measure the effects of individual policies and programmes against explicitly stated objectives.

- Generally there is little *ex post* evaluation carried out of local development policies and programmes; these are often done on a point-of-time basis rather than over time, the latter requiring time series data at a local level that is often not available.

- There is a tendency to measure the costs of programmes rather than their achievements.

- The number of jobs created is the most common measure used, but it is often very difficult to produce an accurate measure of net additional jobs.

- Programmes targeted at enterprise support may not always have job creation as their central theme, focusing instead on issues such as the adoption of advanced management techniques, improved inventory management, improved cash flow, increased productivity, lower waste, or the entering of overseas markets; indeed, where productivity gains are achieved this may create a demand for job shedding where demand for the enterprise's services or products is static.

- There is often little quantitative evidence available on the effects of local development initiatives.

- The net effects of business support schemes are frequently difficult to identify, in areas such as, for example, the impact of business incubators or micro-credit schemes on local economies and employment levels.

- More generally, there is often little data available on the impact of local schemes and partnerships, and whether local action actually proves more effective than national policies and programmes.

There is often a lack of commitment to, and resources for, *ex post* evaluations because other more pressing priorities arise. That is not to say that there have not been many detailed efforts made to evaluate the effectiveness of local programmes and actions, but rather that the results have been patchy across countries and that the data available to carry out thorough evaluations frequently do not exist.

Nonetheless, effective monitoring and evaluation of policies and programmes remains a priority, despite the methodological complexities that these actions present. Performance indicators are many and varied. Loan repayment/default rates might apply to credit schemes, for example, just as the measurement of net additional employment creation remains a central measure of the effectiveness and value-for-money elements in local programmes and initiatives. It is also important that a clear link is maintained between the evaluation of policies and programmes and their design phase and the possibility to amend them if needed. It is axiomatic also that policy environments are not static; policy flexibility needs to be maintained in order to ensure that policies are relevant to current circumstances. In the crisis with its attendant and largely uncharted characteristics and complexities, this is more important than ever.

Returning to sustainable economic growth: Think of the long-term while focusing on the present

We are currently living in an era of change and uncertainty. Macro-economic responses by governments are vitally important. But action is also needed at the level of local communities to tackle job losses and return economies to prosperity. This short review of LEED’s work has touched on many important measures and approaches that have been shown to achieve useful results in local economies facing crisis. The most important are summarised in this section.

Local economic development planning needs to address both short-term needs and long-term potential. Many of the actions needed now to combat recession (*e.g.* temporary short-time working) may be effective in helping businesses to ride the crisis but they need to remain short-term (OECD, 2009b). At the same time, localities need to be laying the foundations for returning to more sustainable economic development. The crisis has raised awareness of both the vulnerability of modern economies to downturns, and a rising inequality in our labour markets. OECD countries need to seize this opportunity for lasting change, and not go back to "business as usual". There are four key areas where national and local governments can invest now, for a more sustainable economic future:

- Good quality jobs as a way back to prosperity.
- Streamlined and better targeted policies.
- Building an entrepreneurial culture.
- Getting finance flowing again.

Good quality jobs as a way back to prosperity

Ensuring that education and training is adequate to meet the needs of a changing market place is vital, but it is also necessary to work with local employers to ensure that they fully *utilise* the skills available locally. As global markets shrink and credit becomes harder to access, companies will need to become more innovative to survive, through developing advanced production processes and adopting new technologies. The better utilisation of their human capital will be crucial to this process. In this context:

- Ensuring that education and training systems better adapt to employer demand is important, but not enough. Governments need to work with enterprises to ensure they fully exploit the talent and skills available locally, through raising productivity and modernising management practices and work organisation. By helping enterprise to improve productivity, governments will create better quality jobs, raise incomes and living standards at the same time as growing more competitive economies. This is particularly important in rural regions, so if they are to stop losing young talented people to better jobs elsewhere.

- In order to produce sustainable employment, governments also need to encourage and incentivise the adoption of green working processes and the development of green jobs. Today, green industries are growing contributors to wealth on a global scale, and the economic opportunities offered by the green sector are likely to continue to grow at the local level. The example of the

Silicon Valley in the United States is very illustrative – the region accounts for 31% of all clean tech investment in the United States and has witnessed 23% growth since 2005 despite the crisis. Adopting green technologies will be a key contribution to ensuring long-term employment growth while also contributing to local productivity.

Governments and their local partners in employment and training fields should co-ordinate their action and provide the right incentives for business to join them in strategies to move localities towards high-skills/high-productivity equilibrium. They should facilitate this process with adapted upskilling and retraining programmes, assistance to career ladder programmes and expertise on sectors and clusters in the local economy.

Streamline and better target policies

Government intervenes in a myriad of ways at the local level, but rarely are these interventions coordinated effectively. Policy silos and fragmented short-term policy interventions are luxuries that our economies can no longer afford. Carefully balanced strategies must be crafted – and implemented – so that agencies use their limited resources to meet shared economic priorities at the local level.

Recent LEED research has made clear that local actors can only align policies and services locally if they have enough *flexibility* to influence the delivery of these policies and services. The achievement of local flexibility does not necessarily mean that governments need to decentralise – indeed flexibility at the local agency level is sometimes higher in centralised systems. Allocating more flexibility requires that local actors take more responsibility, and to do this capacity needs to be built and alternative forms of accountability created (particularly horizontal forms of accountability which allow local actors to be mutually responsible for each other's actions).

In order to create the joined up local governance that will help local economies emerge from the crisis it is necessary that:

- Synergies between services and programmes are capitalised upon. Attempts to boost jobs should be part of long-term economic development strategies, which in turn need to be based on responsive education policies and comprehensive local labour market data.

- Public policy is frequently delivered as if "one size fits all". However, the current crisis is impacting on communities in diverse ways, affecting large and small firms, the high and low skilled. Flexibility is needed so that local agencies can work together to respond to local conditions, seize local opportunities and build on local strengths.

- Entrepreneurial local leaders are often the drivers behind successful local community development. Capacities need to be built, and trust placed in those that are not afraid to take a certain amount of risk to succeed. The right incentives must be in place.

In parallel to these initiatives, governments should create the conditions and provide the resources that are required to monitor and evaluate the impact of local policies and programmes. Too often, the evaluation process is regarded as an after-thought or indeed is overlooked altogether. It is vital for the rational allocation of public resources to create a much improved flow of reliable data that allows an accurate assessment of results, and hence permits the re-design of policy where necessary to improve its effectiveness on the ground.

Build an entrepreneurial culture

Enterprise creation moves human and financial resources from less efficient and declining activities to sectors that markets will value more highly. It has, therefore, as much to do with increasing productivity and incomes as with employment creation. It is vital now for government to provide the right conditions for entrepreneurship to flourish.

- Entrepreneurship is sensitive to a whole set of factors. Among the most determinant are local human resources. Governments need to identify and nurture those that have the skills and talents to innovate and develop new businesses.

- Social enterprise offers new hope to more disadvantaged members of the community, while improving local services and contributing to wealth creation in a growing number of economic sectors. Legal and administrative frameworks are needed to unleash the capacity of this catalyst for inclusive economic activity.

A more entrepreneurial society leads to innovation, both economic and social. The nurturing of an entrepreneurial culture at local level is key to the flexible development of local productive capacities. Governments need to play their part in encouraging local SME support mechanisms, incentivising the private sector via the tax system to support local SME programmes. The encouragement of community business and the non-profit sector has also been shown to have the capacity to create sustainable and viable jobs as well as contribute to social cohesion and inclusion. These businesses can underpin the process of local economic diversification and the creation of greater employment possibilities. Governments need to make specific provision for the advancement of the non-profit sector and to ensure that it is not regarded as a second-best solution.

Support services to the local business community, in short, should be embedded in policy planning and programme design. They should be seen as policy constants, always available to the local small business community but able to be boosted in terms of resources and commitment at times of greatest need.

Get finance flowing again

Access to finance is critical for the development of local communities. During an economic crisis there is a need to inject capital locally to re-launch the economy, while better harnessing the contributions made by the non-profit sector to service delivery. Maintaining access to finance for SMEs will also be critical in order to maintain innovation and growth in the context of the current economic slowdown. In particular:

- New, innovative and alternative mechanisms to finance urban regeneration, local development and entrepreneurship must be sought, and combined with other sources. Instruments such as public procurement can be better exploited as a means for achieving local strategic priorities such as an increase in the use of green technologies.

- Local capacities in financial management for economic development must be reinforced, so that broadly-based strategies can find the means of their realisation.

- With well-targeted support, non-profit organisations can contribute to a thriving local environment by leveraging the efficiency and reach of public services. Fostering this sector will require the development of an alternative finance, such as venture philanthropy, patient or long-term capital and social finance.

A vital area for action is the creation of innovative financing structures – arguably more important now than ever given the underlying financial crisis that lies behind the current recession. Financing mechanisms should not be restricted just to the SME sector, but should include innovative approaches to the financing of local economic development plans and programmes.

Annex – Source documents

Source documents used for the compilation of this report have been drawn from the published research base of the LEED Programme (and its predecessor, ILE) and are listed below for reference.

ILE/LEED Notebooks

No 1, 1984 Initiatives for Employment Creation in Finland

No 2, 1984 Employment Creation in the USA

No 3, 1985 The Role of Local Government Authorities in Economic and Employment Development

No 4, 1985 A Challenge to Public Employment Agencies

No 5, 1986 Employment Creation in Local Labour Markets – Four Case Studies

No 7, 1987 Local Job Creation in the United States

No 8, 1987 Universities and Local Economic Development

No 9, 1987 Municipal Economic Policy and Job Creation in Sweden

No 10, 1989 Self Employment Schemes for the Unemployed

No 11, 1989 Large Companies and Local Employment Development

No 12, 1990 Local Job Creation in a Macro-Economic Context

No 13, 1990 Local and Regional Employment Initiatives in Japan

No 14, 1991 The Internationalisation of Small Firms

No 15, 1992 Local Initiatives and Decentralisation in Latin America

No 16, 1992 National Programmes in Support of Local Initiatives

No 17, 1993 Rural Economic Development Trends and Strategies in the United States

No 18, 1993 Regional Characteristics Affecting Small Business Formation

No 19, 1994 Private Sector Involvement in the Delivery of Social Welfare Services

No 20, 1995 Local Economies and Globalisation

No 21, 1995 Local Development Policy in Vitoria-Gasteiz (Spain) and Proposal for New Directions

No 22, 1996 The "School Workshop and Apprenticeship Centres" Programme and Development Promotion Units (Spain)

No 23, 1996 Territorial Development and Human Capital in the Knowledge Economy: Towards a Policy Framework

No 24, 1997 Industrial Restructuring and Local Development – The Case of Sesto San Giovanni (1997b)

No 25, 1997 Italy's National Hatchery – The Experience of SPI (1997a)

No 27, 1999 Best Practices in Local Development

No 29, 2001 Putting the Young in Business: Policy Challenges for Youth Entrepreneurship

Innovation and Employment (An OECD/Commission of the European Communities Newsletter)

1991

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- New Roles for Central Governments in Local Development: Devolution and Evaluation
- Heritage: Catalyst for Local Development

1993

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- From Megalopolis to City: New Roles for Urban Policies
- From Global to Local: A New Perspective on Adjustment and Reform
- North American Assistance to SMEs in Central and Eastern Europe and the Newly Independent States

1994

- New Directions in Labour Market Policy: A Territorial Approach in the Nordic Countries
- Spain: The Challenge of Local Development and Job Creation

1995

- The Environment and Job Creation at the Local Level
- Austria: Local Development as a National Strategy

1997

- Youth Entrepreneurship: A Tailor-Made Answer to Unemployment
- Cities for Employment: An International Challenge

Main relevant OECD/LEED publications by year

1984

- Community Business Ventures and Job Creation

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- Creating Jobs at the Local Level

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- The Role of Large Firms in Local Job Creation

1987

- New Roles for Cities and Towns

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- Mechanisms for Job Creation – Lessons from the United States (1990a)
- Implementing Change – Entrepreneurship and Local Initiative

1992

- Business and Jobs in the Rural World
- Territorial Development and Structural Change – A New Perspective on Adjustment and Reform

1993

- Partnerships – The Key to Job Creation – Experiences from OECD Countries

1994

- Cities for the 21st Century

1995

- Local Responses to Industrial Restructuring in Austria

1996

- Ireland: Local Partnerships and Social Innovation
- The Implementation of an Entrepreneurship Development Strategy in Canada: The Case of the Atlantic Region
- Networks of Enterprises and Local Development
- Reconciling Economy and Society – Towards a Plural Economy
- Integrating Distressed Urban Areas

1997

- The Role of Trade Unions in Local Development

1998

- Local Management – For More Effective Employment Policies
- Fostering Entrepreneurship

1999

- Social Enterprises
- Decentralising Employment Policy – New Trends and Challenges
- Business Incubation – International Case Studies (1999a)
- The Local Dimension of Welfare-to-Work – An International Survey

2001

- Local Partnerships for Better Governance (2001a)
- Pisa – Local Development Strategies: A Model Case Study
- Devolution and Globalisation
- Corporate Social Responsibility

2003

- Entrepreneurship and Local Economic Development – Programme and Policy Recommendations (2003a)
- Managing Plant Closures
- Private Finance and Economic Development – City and Regional Investment
- The Non-Profit Sector in a Changing Economy
- Managing Decentralisation – A New Role for Labour Market Policy

2004

- New Forms of Governance for Economic Development (2004a)
- Global Knowledge Flows and Economic Development (2004b)
- Evaluating Local Economic and Employment Development – How to Assess What Works Among Programmes and Policies (2004b)
- Entrepreneurship – A Catalyst for Urban Regeneration

2005

- Local Governance and the Drivers of Growth (2005a)
- Business Clusters – Promoting Enterprise in Central and Eastern Europe
- Culture and Local Development

2006

- Skills Upgrading – New Policy Perspectives (2006a)
- From Immigration to Integration – Local Solutions to a Global Challenge (2006b)
- Reshaping a Local Economy through a Development Agency – The Case of Laganside Corporation, Belfast (2006c)

2007

- Baltic Partnerships – Integration, Growth and Local Governance in the Baltic Sea Region (2007a)
- OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes (2007b)
- The Social Economy – Building Inclusive Economies (2007c)
- Investment Strategies and Financial Tools for Local Development
- Promoting Entrepreneurship in South East Europe – Policies and Tools
- Local Innovations and Growth in Central and Eastern Europe

2008

- More than Just Jobs – Workforce Development in a Skills-based Economy (2008a)
- Entrepreneurship and Higher Education (2008b)
- Making Local Strategies Work – Building the Evidence Base (2008c)

2009 and forthcoming

- Flexible Policy for Better Results – Local Action to Boost Jobs (2009a)
- The Changing Boundaries of Social Enterprises (2009c)
- Designing Local Skills Strategies (2009d)
- Breaking Out of Silos: Joining Up Policy Locally (2009e)
- Local Strategies for Entrepreneurship and Small Business Development (2009f)

Other documents utilised for this report

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OECD (2009b), "The Labour Market Impact if the Economic Downturn: What Are the Implications for Employment and Social Policy", DELSA/ELSA/WP5(2009)1.

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Selwyn J. and B. Leverett (2006), *Emerging Markets in the Environmental Industries Sector*, UK CEED.

TUC (2009), *Unlocking Green Enterprise: A Low-Carbon Strategy for the UK Economy*, Pamphlet 5, UK.