

THE INSTRUMENTS OF GOOD GOVERNANCE

BY

XAVIER GREFFE

TABLE OF CONTENTS

THE INSTRUMENTS OF GOOD GOVERNANCE.....	4
1. LOCAL DEVELOPMENT, PARTNERSHIP AND GOOD GOVERNANCE	7
1.1. The limitations of the market as the basis for coordination in problem territories.....	7
1.2. The limitations of public funding as the basis for coordination in problem territories	8
1.3. The need for new partnership networks or "weak ties"	8
1.4. The criteria for good governance of partnership networks.....	10
2. THE ORGANISATIONAL INSTRUMENTS OF GOOD GOVERNANCE	12
2.1. The distribution of responsibilities among different levels of government.....	12
2.1.1. Decentralisation in support of local development	12
2.1.2. Reinforcing the trend to decentralisation: reorganising public employment services ...	15
2.1.3. Decentralisation by strengthening co-operation	18
2.1.4. Between decentralisation and good governance: transparency and accountability.....	19
2.2. The institutional design of good governance	19
2.2.1. New forms of public management	20
2.2.2. Formalised area-based partnerships	22
2.2.4. Institutions for managing change	25
2.3. Instruments for consolidating good governance over time.....	27
2.3.1. Good governance through the functioning of the local partners' club.....	28
The milestones to good governance	28
2.3.2. Good governance as a result of managing the local partnership dimension	30
The legal dimension: pacts, contracts and quasi-contracts	30
Financial instruments for good governance	31
THE HUMAN RESOURCE DIMENSION	33
3. AMENDING NATIONAL PROGRAMMES TO IMPROVE LOCAL DEVELOPMENT GOVERNANCE	35
3.1. Information	35
3.2. Diagnoses.....	35
3.3 Evaluation	37
3.4. Institutional learning	39
4. MAINSTREAMING.....	41

4.1. Given their traditional centralisation, it is important to ensure the capacity and transparency of local governments	41
4.2. Given the traditional concentration of skills in the central government machinery, the resources, responsibilities and capacities available to local governments should be improved..	42
4.3. Given the top-down tradition, home-grown development levers are needed, in the form of new institutions or local development projects.....	43
4.4. Given the lack of a qualified local labour market, steps should be taken to develop one	44
4.5. In the face of local initiatives, central governments should improve their capacity to programme their regional or local investments	44
BIBLIOGRAPHY	46

THE INSTRUMENTS OF GOOD GOVERNANCE

Local development brings together stakeholders and projects for improving economic activity and employment in a given territory. It demonstrates that local conditions for development can exist side-by-side with national or even international conditions. It can apply to territories of different sizes that fit together. Whatever these aspects, a common trait of all local development successes is the building of partnerships, and the need to govern them properly. While partnerships would seem to be the wellspring of local development, it is good governance that determines their quality.

Several types of instruments can help here: a proper allocation of responsibilities between the different levels of government involved (the institutional environment for governance); a sound organisation of forums where stakeholders can interact and create synergy (institutional design); good management of project execution in its different dimensions: legal, financial, or cultural (regulation of governance).

It is in the interest of national governments, then, to facilitate the introduction and spread of such instruments, by encouraging information, evaluation and flexibility in national arrangements. Experience in OECD countries offers a wealth of illuminating experiments and lessons. We may also ask how and under what conditions the instruments of good governance can be extended to countries that have been through a particular experience such as those of Central and Eastern Europe.

Local development is the sum of economic and social actions taken to improve activity and employment in the territory by mobilising its stakeholders. It exhibits three characteristics:

- Mobilisation of local stakeholders, which may also involve players and programmes at the national level.
- Coordination of their projects and actions.
- The territory's frontiers may vary and may not always correspond strictly to official administrative borders.

As early as 1993 (OECD, 1993), the OECD had shown the potential and the limitations of local initiatives: they could help to foster development, provided they produced formal or informal agreements between different types of stakeholders, public and private, local or national. At a time when macroeconomic policies were by themselves incapable of combining economic growth and full employment, a condition for sustainable development, the creativity of territories and their stakeholders made an important contribution. In this respect, local development marshals the conditions necessary for sustainable development within a given territory. It is a strategy, one

that can be measured by the yardstick of positive reconciliation between the economy, society, and the environment.

It is important, then, to define the notion of "local development":

- It aims to show that there are viable macroeconomic conditions for large territories.
- It can be applied to territories of different sizes - region, province, municipality, etc.- whether or not they are a good fit for each other, and recognising that these local conditions for development will not necessarily be the same from one level to the next.

Local development experiments and policies are many and varied, reflecting the variety of stakeholders' and territories' concerns. They all involve the use of levers or "drivers" that constitute the substance, and which can be used to assess the relevance of the instruments.

These levers are conventionally identified in a linear way: creation of businesses and activities; the resulting creation of jobs; production of the required skills; learning and development of innovation capacities; redistribution and the forging of new social bonds, improved living standards, etc. We may substitute this linear sequence with an analysis of local development in the form of three intersecting circles:

- Circle 1, promoting a territory's responsiveness and competitiveness, as measured by its capacity to foster new activities. The creation of new activities explains a significant portion of employment creation (perhaps 20%: OECD, 2003a) and in disadvantaged areas it can also optimise the use of capital and labour; strengthen the capacity to respond to change; produce better trade-offs between inflation and unemployment; increase tax revenues and the quality of public services. The search for competitiveness for a territory leads to a reorientation of growth mechanisms. Instead of relying on exogenous growth based on public investments or on attracting industries from outside, the emphasis will be on mobilising local resources through networking: among firms, between firms and research, or between private and public players (OECD, 2001d; OECD, 2004).
- Circle 2, establishing labour markets that are efficient or that can respond to the demands of business and incorporate available human resources. In the absence of such markets, the mismatch between the supply of and demand for jobs and skills is likely to worsen, and any prospect for development will depend on importing high-cost labour. Organising such markets requires coordination of economic and social strategies, firms, training institutes, associations, etc.
- Circle 3, creating a solidarity-based economy that meets needs and consolidates capacities, without which dualism will grow and the territory will lose substance. While solidarity is the best yardstick for measuring this aspect, the creation of social capital, i.e. the capacity of local players to regroup, exchange ideas, undertake joint projects, and learn from their collective mistakes, is an essential dimension (OECD, 2003b).

These three levers of local development highlight a dual need: expanding the field of intervention and interaction of development stakeholders; and ensuring that the resulting synergies are positive. Contrary to conventional wisdom, the essence of local development lies

less in changing the scale of the levels examined than in paying greater attention to the processes of coordination.

1. LOCAL DEVELOPMENT, PARTNERSHIP AND GOOD GOVERNANCE

When it comes to creating new activities, fostering positive integration into the labour market, or establishing solidarity networks, the stakeholders must be involved. The question arises as to why the conventional mechanisms of the market and the allocation of public funds have not produced such synergies, and what should be these stakeholders' criteria for good governance.

1.1. The limitations of the market as the basis for coordination in problem territories

The market brings together players and defines them in terms of their role as agents, consumers or providers of goods, labour and capital. For depressed territories, such specialisation fails to unleash the required synergies. A few examples:

- Creating a skilled work force may require training the trainers, buying machinery, or establishing budgets with a horizon that extends far beyond the immediate need and runs the risk of incoherence: this indeed is why the "compacts" were introduced in big American cities, accords where employers and training institutes committed themselves to long-term strategies with guarantees and even funding from local government.
- Creating new enterprises based on local human resources may require coaching, counselling, and the progressive diversification of financing sources involving co-operation among various stakeholders.
- Integrating marginalised youth into the employment market may involve assistance with transportation, training, health or housing that goes well beyond the simple labour supply-demand interface.
- Offering new public services implies synergy between associations that possess know-how, local governments with financial means, enterprises, etc., and here again their scope is broader than that of the market. It calls simultaneously for economic engineering to accommodate the satisfaction of new needs; technical engineering to introduce new productive combinations; and financial engineering, where prices will gradually replace start-up grants.

Moreover, there is no guarantee in a depressed territory that the market can spontaneously provide the elements of a solution:

- in areas with high unemployment, social networks function poorly and the mechanisms for ensuring a minimal exchange of information are lacking (OECD, 2003a);

- where low property values deprive would-be borrowers of the collateral often required for investment loans; and .
- where the lack of qualified or experienced human resources prevents the emergence of a forward planning culture and entrepreneurs are unable to mobilise the potential for initiative and creativity.

1.2. The limitations of public funding as the basis for coordination in problem territories

It may be thought that public funding can create the required synergies among stakeholders, in that it generally imposes upfront coordination and involves predetermined sums. But again there are difficulties with public funding in these territories.

- Local governments find themselves short of cash at a time when central governments are placing ever greater demands on them for reasons linked to the macroeconomic situation.
- Governments at the national and the local levels alike will not always have the information and technology available to identify and satisfy new needs. Recycling the instruments of the welfare state to correct these failures may reveal an important gap.
- Public services often lacked the flexibility to take advantage of new situations, and concerted action is often limited to the traditional social partners of past periods of growth, reflecting the tripartism applied in many OECD countries.
- The great majority of public subsidies or funding mechanisms are ineffective because they are designed to compensate rather than prevent problems. Schemes to protect the unemployed, for example, represent a passive approach, whereas they could be made proactive, and indeed many successful experiments at local development have been based on such a shift.

1.3. The need for new partnership networks or "weak ties"

To escape from these crisis situations, networking through "weak ties" is essential (Granovetter, 2000). When people belong to the same category they share common objectives and they forge among themselves "strong ties", such as through professional organisations or unions. When they engage in bilateral dealings clearly circumscribed by the market, they can hope to achieve their objectives. Where such ties do not exist, or where changes to the environment are such that their interests may diverge, another type of networking is needed.

What is needed is a minimum of coordination, adaptable case-by-case, that allows people to advance their interests and to respect the objective bonds of solidarity that link them. In a climate of uncertainty and scarce resources, they must pool their capacities for planning and innovation. This minimum of "weak ties" defines the field of partnerships that are today inherent in local development. Partnership is not a magic wand that can melt down conflicting interests into a consensus. It will not always create the continuity needed to resolve complex problems. But it can give a positive content to interdependence, provided it is "strategic", i.e. focused on the future of a territory and the conditions that make different peoples' projects and ambitions compatible.

In contrast, a "cosmetic" partnership, limited to providing meeting places, cannot change the situation. It will suffer from tensions through the dilution of responsibilities; the emergence of opportunistic behaviour; risks of paralysis or loss of interest.

To understand this notion of strategic partnership, we must recall how the market is supposed to settle disputes among players with conflicting demands:

- The market resolves disputes through a double device: players are considered as agents in mutually complementary roles, so that the interest of the supplier is to benefit from the presence of a consumer, and vice versa.
- The market introduces large numbers with the result that competition among consumers results in the offer of a remunerative price to suppliers, and competition among suppliers results in the offer of an acceptable price for consumers.

Neither of these conditions is satisfied in the field of local development:

- Players there often compete instead of complementing each other, as is the case with established firms versus new enterprises.
- The players are limited in numbers, which reduces their dealings to a zero sum game.

To arrive at an accord, they will have to situate their plans and ambitions within a perspective that associates them in a positive way, and this can be done more readily with a long-term vision where the positive aspect of interdependence wins out over the negative aspect.

As the Tavistock Institute described it (Tavistock Institute, 1999), having stakeholders relate to each other through varied mechanisms allows them:

- To target their plans more effectively, since players within a given setting will be able to come up with solutions to the daily problems they face.
- To carry out projects successfully, since they will have been mobilised from the outset and their respective responsibilities are linked by the need to achieve common objectives.
- To reinforce their capacity for action, now and in the future, since each partner will benefit from the experience and involvement of the others.
- To forestall problems that might arise such as the effects of displacement. The creation of new activities can indirectly work to the detriment of other activities, for example by exerting inflationary pressure on prices for land or scarce human resources.

The strategic dimension of this partnership is especially important because it must also take into account outside players, such as central governments, that may influence local dynamics. Such players establish the regulatory framework, which may lead them to influence local development when initiatives taken at this level challenge certain national mechanisms or principles, for example the mobility of capital or labour. They provide what is generally a significant portion of local resources and they have the power to define equalisation arrangements

between richer and poorer territories. They produce many public services that help to raise living standards for local people and equip them with specific skills. They possess significant expertise that may be lacking in local governments. Finally, they often control a fair chunk of local land, and the way they manage it can facilitate or hamper the pursuit of local projects.

1.4. The criteria for good governance of partnership networks

If the purpose of networking is to establish a strategic partnership, its viability will depend on the way disorganised.

Establishing strategic partnerships among a great many players implies coordination and pooling of their skills, establishment of meeting places, integrated management of complementary or common resources. The result is governance, or the way these players define and settle their problems. Depending on the quality of this governance, the partnership will succeed or fail in promoting local development. The quality of governance will thus determine the quality of the partnership and its capacity to foster development.

Since local development requires the mobilisation of local players, it is normal to examine governance on the basis of the relations among local players, and the tools they put in place for this purpose. Enterprises, workers' organisations, local and territorial governments, public nonprofit institutions, specialised agencies are all players whose interactions will define horizontal governance. In this context, two players may fulfil the role of mediation or leadership: the local authorities, who are supposed to represent the general interest and who wield some strategic tools, starting with budgets; and specialised agencies, which are often created by these local authorities with delegated responsibility for preparing and implementing local development projects, and even in certain cases for making decisions about them. Forms of governance will differ, then, depending on the relative place occupied by these local authorities and agencies, and the stage of the project at hand.

This horizontal governance must also take into account the role of national or other players involved with local development strategies. Governance cannot be solely horizontal, and local players must co-operate with a number of national players or their local representatives. The quality of vertical governance interacts with that of horizontal governance. It is also important to strike a certain balance between these two forms of governance:

- Good horizontal or local governance without vertical governance may be powerless because it cannot mobilise the necessary resources around the players concerned.
- Good vertical governance without local governance on the other hand may be deficient because it cannot rally the necessary players around the available resources.

Are there any operational criteria for evaluating the quality of these kinds of governance? There are two ways to do this.

The first approach has to do with the desired outcome, and the OECD has pointed here to the capacity of governance to produce a situation that combines economic development, social development, and environmental development.

The second approach makes use of more operational criteria such as:

- The variety and representativeness of the associated players.
- The quality and comprehensiveness of the information gathered.
- The clarity of decision-making.
- Complementarity and noncompetition between these tools and those of the market and of administration.
- The avoidance of double-dipping and windfall effects.
- Clarification of responsibilities for project execution.
- The capacity to detect opportunistic behaviour or rent capture.
- The capacity to evaluate.
- The consolidation over time of experience and skills acquired.

2. THE ORGANISATIONAL INSTRUMENTS OF GOOD GOVERNANCE

How can good governance be achieved? Many factors contribute to this goal, directly or indirectly: the nature of people's preferences, the systems whereby they meet and interact; the usefulness of available information, etc. All these elements are linked, moreover, so that the way debate and co-operation is conducted influences the formation of people's preferences and choices.

At this stage, there would seem to be three decisive kinds of instruments:

- Players must have powers commensurate with the nature of the problems encountered. A situation where local players do not have the necessary decision-making authority will not produce good governance. The allocation of responsibilities, then, would seem to be an instrument of good governance.
- Players must have a forum for exchanging information, examining their strategies, and taking decisions. However competent they may be, players who do not have such a forum will not be able to achieve the synergies that lead to good governance. The institutional design of partnerships would seem, then, to be another instrument of good governance.
- Players must be in a position to respect their mutual commitments and to manage legal, financial and physical resources in common. The adoption of coherent strategies and projects is no guarantee that they will be implemented, and coordination instruments are needed to maintain the coherence of strategies and projects over time. Instrumental coherence would seem, then, to be a third type of instrument for good governance.

2.1. The distribution of responsibilities among different levels of government

A situation where local players do not have the necessary authority to take decisions cannot lead to good governance. This point concerns the different levels of government, central or local, and will be addressed from this angle. But it may also apply to private stakeholders, for example when centralised organisations do not allow their local members to take the decisions they might wish.

2.1.1. Decentralisation in support of local development

Local development takes place in a setting where responsibilities are distributed among different governments, central and local. The distribution will be adequate if the different levels of government can take decisions commensurate with the problems they face in their respective territories, subject of course to some limits:

- Problems are never mutually independent. Thus, efforts to create a business-friendly local environment must not degenerate into fiscal competition between local governments.
- Some levels of territory or government may be relatively better endowed than others, offering the potential for economies of scale that will benefit everyone.
- Decisions that may at first glance be favourable to one group of stakeholders may work to their disadvantage when they move to another territory: a local government that establishes very narrow vocational qualification criteria may prevent workers from adapting in the future.

The allocation of powers cannot be reduced, then, to simply divvying up the pie. It must be governed by three principles:

- Local governments must have sufficient capacity to wield information, decision-making and allocation powers that other, more remote levels of government do not have.
- Central governments are concerned with local development to the extent that they must keep markets functioning normally and see to the required redistribution of wealth.
- All governments, central and local alike, must be held accountable for the decisions they take and they must not get into debates that will confuse responsibilities or cloud the transparency of information: otherwise, efforts to promote local development will fail to inspire the confidence and commitment of local development partners.

With these notes of caution, we may cite a number of reasons behind the trend to delegate to the local level powers that were formerly held at the central level (Grefe, 2003):

- The impossibility of maintaining centralised mechanisms that are inflexible and hence costly.
- The specific features of certain territories (islands, high mountain valleys, etc.).
- The many dimensions of employment problems or the creation of new activities that require co-operation among different players close to job seekers or project sponsors. An illustration of such actions may be found in the programmes to support self-employment in Italy, Belgium and Spain, or to encourage hiring by very small enterprises in Finland, France and Ireland. These programmes provide both local and national benefits, through the learning and growth effects they produce. Such programmes are often financed with funds diverted from social protection budgets. They differ in terms of their eligibility requirements, their duration, their financing structure, and their leverage impact on access to other national or local programmes. These programmes are often criticised for failing to achieve the desired effect, and in some cases they may become nothing more than consumer microcredit programmes. Yet available studies show that the survival rate for such activities is no lower than it is for activities that are launched with no outside help (OECD, 2003a).

- The desire to make employment policies more proactive. Often, as in the United States, financial mechanisms targeted at unemployment were defined by categories of persons or groups, which implied control and decentralisation at the national level (Straits, 2003). This generated great confusion locally, with overlapping responsibilities and inadequate attention to minorities. To resolve the situation it was decided to establish a "one-stop shop" and to enlist the co-operation of the private sector, which implied decentralising these programmes¹. In Flanders, the move to create new jobs and open new markets was planned at the local level, for it seemed that only there could all the required partnerships be assembled to make such an innovation possible. It must be noted that innovation is generally worked out among the social stakeholders who will have to carry it forward, and this dialogue can only take place at the level closest to the problem addressed (OECD 2001g).
- The increasing volatility of the employment market is driving players to search for the shortest paths to information and training, and this lends great importance to the manner in which employment markets are organised locally.
- The growing gap between employment and economic activity means that programmes to return people to work rely increasingly on community-service (nonprofit) activities, and this requires a very detailed analysis of target territories and groups. For more than 10 years, the neighbourhood boards (*régies de quartier*) of France, which are managed within a municipal framework, have been seeking to develop such activities to help revive the economy over time².

Examples of such devolution are numerous, and generally take two broad forms:

- In most countries, certain responsibilities are transferred direct to local governments (France, Italy, Spain).
- In other countries, the central government retains its powers but leaves their exercise to its local officials, in a process of deconcentration (United Kingdom).

In fact, hybrid forms are frequently found, if only because of the long transition time from one system to the other. In the end, there are several reasons for maintaining responsibilities at the central level, even if they may have a direct impact on local development.

- A desire to avoid the disruptions that can be caused by excessive competition between local governments or by a degree of autonomy that pays no heed to workers' subsequent mobility.
- A desire to achieve a minimum degree of equality in the treatment of individuals regardless of where they live. This is why unemployment assistance is still paid on the basis of national principles.
- The traditions of the welfare state in the area of financing. In countries where the social partners play an important role in collecting funds and distributing benefits, centralised mechanisms are considered a guaranty for the maintenance of these systems.

The redistribution of powers often leaves some overlap or duplication, and it is rare to see systematic redistribution of entire chunks of responsibilities.

In any case, there is a broad agreement that decentralisation can in many cases foster partnerships and promote governance.

While the United States is hardly a typical case, given the specific features of its federal arrangements and the importance of its private sector, its experience deserves recognition. Two recent laws have taken decentralisation further in the production of social services and in occupational training and development (OECD, 2001d). The 1996 Personal Responsibility and Work Opportunity Reconciliation Act promoted vertical co-operation between the federal, state and municipal levels for implementing workforce development programmes (OECD, 2001d). The 1998 Workforce Investment Act encouraged state and municipal governments to contract out services to private agencies and service providers (OECD, 2001d). Nonprofit organisations now play a considerable role in coordinating public services.

While the first law stresses on-the-job skills upgrading, the second focuses more on investment in job-hunting skills and pre-employment training. Both pieces of legislation respond to the same objective: to bring training resources and choices closer to the problems they are supposed to address, a trend that has been underway for more than 30 years³. These laws in effect complete the decentralisation moves by systematising partnership possibilities at the local level. This "localisation" links training programmes with the obligations that employers and workers subscribe to. Normally, the local workforce investment board (WIB, which generally has a private sector majority) will organise a one-stop agency for accessing training programmes, under a director who is recruited by competition. These agencies perform a variety of functions, including preliminary skills evaluation, information on available services, assistance in preparing unemployment insurance applications, training programmes etc. The local WIB will also sign contracts with different service providers (private businesses, nonprofit organisations, public training institutes), which define in detail their functions, duties and responsibilities. Finally, these local boards may establish education grants, financed from their own budget and awarded to training applicants (OECD, 2001h).

This shift can also be seen today in the countries of Central and Eastern Europe. In 2001 the Czech Republic decided to make the regional level a strategic one for local development planning (OECD, 2004). These new regions can prepare plans, coordinate services to households and businesses, administer public facilities and take on major responsibility in environmental management. In carrying out their duties they can rely on the Regional Development Agencies, which are often instituted by chambers of commerce and thus involve a significant partnership dimension.

2.1.2. Reinforcing the trend to decentralisation: reorganising public employment services

All the offices and agencies that help to deliver placement services and unemployment relief and that implement measures to promote employment are traditionally classed together as "public employment services" (PES) (OECD 1996c; OECD 1997d). In light of the ILO conventions on abandoning the public monopoly in this field, there has been a dual trend towards decentralisation and privatisation of such services.

One solution might have been to reform all administrations simultaneously, but such reforms run into problems with the transfer of personnel. An alternative solution could have been to decentralise these administrations in favour of local governments, but this has been only partially attempted: some local governments were not eager to take over these functions, and the centralised administrations were still regarded as guaranteeing equal treatment for workers. Decentralisation therefore focused primarily on redeployment and rearrangements of certain powers within the public employment service.

To achieve this, four measures are used.

- Ensuring coordination among the different services. This is usually done in two ways. The services may be placed under the direction of a local official of the central government (in effect, the head of the local employment agency), but this responsibility will clearly not be devolved to a local authority, because this would be tantamount to another form of decentralisation, in this case of the central government's powers. The services are induced to integrate their strategies and actions into a local employment plan. This last solution was the one used in France, which adopted the principle of departmental employment plans prepared by the departmental labour office, and which all central administrations are expected to help implement (employment agencies, adult education agencies, national education services, health services, etc.).
- Expanding the discretionary powers of public employment services. Coordinating these services locally would make little sense if it merely shifted decision-making downward from a higher level without taking advantage of the exchange of information at the local level. Such latitude relates above all to the form of their actions, for example in the production of information and the institution of training.
- Setting up one-stop shops. Nearly all countries are reforming their public employment services on this basis (Germany, Denmark, Flanders, the Walloon region, etc). While these agencies simplify things considerably for the unemployed or for jobseekers, they also force administrations to work together, to harmonise their terminology, and to strive for economies of scale in their delivery of services. It is no surprise that many countries are determined to achieve this objective. Thus, Austria developed a plan to set up a network of one-stop shops by 2003. Germany is in the process of introducing a new local agency model. But other authorities, for example in the Walloon region, have maintained the principle of institutional diversity, for reasons having to do as much with federalism as with avoiding too narrow a concentration of services to the unemployed and to jobseekers (Förschner, 2003; Knutzen, 2003).
- The possibility of introducing regionalised service delivery, for example using allowance rates or conditions differentiated by region. This is not a new idea, and with the surge of unemployment in the 1960s some countries had the idea of diversifying eligibility conditions (through what was still a centralised decision-making process) to take account of differing regional economic circumstances. The worse those circumstances were, the more purchasing power would have to be redistributed through unemployment benefits. These policies encountered two problems: how to establish realistic criteria for differentiation, and how to avoid windfall effects. It was thus left essentially to central

governments to undertake the redistribution of purchasing power through the tax system and public spending, recognising that insurance-based compensatory schemes would be difficult to redeploy in that direction. Today the objective seems somewhat different. In addition to benefits distributed through the employment services, we find assistance mechanisms instituted by local governments as a complement or even, over time, a substitute for those benefits. It is natural, then, that public employment services are attempting to work with local governments to streamline the different systems and enhance their social and economic efficiency.

An illustration of such trends can be seen in the informal co-operation that exists in Denmark. The public employment service there has been sharply decentralised to the regional level (OECD, 2001d). This decentralisation has been accompanied by a strong dose of tripartism: there exist at the same level the regional labour market councils (RAR), managed by the regional office of the public employment service and bringing together the social partners, the counties and the corresponding central government agencies. Decentralisation of this kind allows Danish labour market policy to operate as close as possible to the constraints and opportunities facing each player. The idea is to ensure compatibility among three objectives, which could easily come into conflict: greater labour market flexibility; a generous welfare system that constitutes a strong social safety net; and an active policy of creating work opportunities so as to respond as promptly as possible to jobseekers (the so-called “golden triangle”).

The unemployment insurance reforms of the mid-1990s have placed a growing financial burden on municipalities. When the unemployed exhaust their benefits, they have nowhere to turn but the municipal social assistance programmes, which means that any restriction on unemployment benefits increases the financial liabilities of the communes. The PES have thus associated the municipalities with the RAR, which were dealing precisely with this problem. Moreover, these regional councils now manage the unemployment insurance funds. Such a dialogue was impossible at the national level, where there are 275 municipalities, but was feasible at the regional level where there are an average of 20 municipalities with roughly similar resources and burdens. Everyone gains in such a partnership. The municipalities are able to put across their viewpoint more effectively and to build a strategy in tandem with the RAR in order to respond to the social protection challenge. The public employment service benefits from the municipalities' hands-on experience with social security problems, and in particular from their familiarity with the target groups (OECD, 2001d; Handeliowitz, 2003).

Whatever form it takes, the decentralisation of public employment services is not in itself a guarantee of a new approach to employment governance. That requires not only new relationships with local government but also, and above all, a new attitude on the part of these public services.

The *Joint Declaration of European Public Employment Services (PES) on Their Role in the Labour Market* (European Commission, 2001c) of September 2001 clearly illustrates the change of attitude required⁴. It asserts that the challenges facing the labour market will include a chronic shortage of certain skills, the emergence of new forms of work, the aging of the work force, etc. The PES must serve to highlight the opportunities as well as the bottlenecks; ensure transparency in the employment market, as expert service providers; provide tailor-made counselling to potential employers and to jobseekers; and fulfil the social tasks of a constitutional state and promote equality of opportunity. It adds that the field of action must be regional, in order to be

both effective and flexible (European Commission, 2001c). Such a declaration, coming from agencies that are often criticised for being too rigid and bureaucratic in their approach to employment markets, shows that reforming the PES makes sense only if it involves a radical shift of attitude in the direction of effective decentralisation. This decentralisation implies the development of territorial engineering capacities. In France, where the local public employment service is responsible for preparing an action plan, this has taken the form of a call to produce local employment diagnoses, and an obligation to draw up an employment plan at the *département* level. This has sparked a great deal of activity, frequently beginning with fairly technical debate to identify the skills that may already be present in a given territory in order to expand the potential local development base, and this means bringing in players outside this service (European Commission, 2001b).

2.1.3. Decentralisation by strengthening co-operation

A quite different approach to decentralisation can be seen today in the strengthening of co-operation between the national and local authorities in ways that do not necessarily imply a change to the institutional framework. Such co-operation can involve shared analysis of the territory's needs, but it can also involve specific actions, in which case a contractual tool becomes essential.

Finland offers an example of the first type of co-operation. As with all countries of the European Union, and in line with the Luxemburg process, Finland has prepared a National Action Plan for Employment. But it decided that if such a plan were to make sense it would have to be based on specific regional approaches, without being reduced to a simple summation of the many local plans, which would not have the desired relevance. It decided therefore to start with three regional employment action plans, produced by three regional centres, each of which works in co-operation with the various ministers. Once the regional plans are in place, the national plan is drawn up, but most importantly, the public employment service is asked to help carry them out. Ireland and Portugal also offer approaches of this kind, where regional employment plans are supposed to serve as the basis for preparing a national action plan (European Commission, 2001b).

Austria provides another example of this decentralisation through the strengthening of partnerships between different territorial levels. In Austria, there has been no devolution of powers from the federal to other levels, and the central government is still officially in charge of economic development and of labour market organisation. On the other hand, the public employment service (*Arbeitsmarktservice*, AMS) was sharply decentralised in 1994 in such a way that its regional and district agencies could co-operate effectively with the *Länder* authorities, who also have a role to play in economic development. With the introduction of two mechanisms recommended by the European Union (the National Action Plan for Employment and the Territorial Employment Pacts), the Austrian government has been experimenting with a new way of implementing its employment policies, based on partnership at different levels (*Länder* and Districts) between the public employment service and the local authorities, and on vertical partnerships between these levels. The national level is responsible for a general analysis of the employment market and for setting objectives in close consultation with the social partners. At the regional level, the regional partnerships have the task of analysing the regional labour market specifically; coordinating PES efforts to stimulate or match labour supply and demand; and to

create supplementary jobs for the unemployed (OECD, 2001d). The regional partnerships' main contribution has been to broaden the field of traditional partners in employment policies. Whereas these were essentially confined to the social partners in Austria, they are now coming to include the local authorities, starting with the *Länder*; associations representing target groups such as women and disabled persons; NGOs such as Caritas; and even movements of the unemployed. Another positive effect has been to reinforce the capacities of the AMS and local development agencies (OECD, 2001d).

2.1.4. Between decentralisation and good governance: transparency and accountability

However useful it may be in fostering good governance, decentralisation can also result in a nontransparent system where responsibilities are diluted rather than shared, and this may make potential local development partners suspicious and uncooperative. Far from serving as a factor of rapprochement, decentralisation and the new architecture of powers and decision-making authority can evoke resistance among private partners.

Whatever the institutional solution proposed, it will succeed only if behaviour adapts as well. Central government officials who would benefit from sharp deconcentration must accept joint accountability for local situations. On the other hand, local officials must understand that in exercising their powers they will have an impact that goes beyond the local setting. This dual cultural attitude is a condition for proper functioning of the new arrangements.

At this point, we must stress transparency as a condition. The solutions adopted will never be as clear as desired, for they will always involve a degree of complexity. Issues, decisions and impacts must therefore be very clearly identified. Cronyism or corruption can destroy good governance. Quite apart from its inherent cost, such behaviour will lead people to view these reforms as a channel for the spread of corruption or rent seeking, and will undermine the dynamics of local development.

2.2. The institutional design of good governance

Good governance implies the existence of instances where partners can come together for information, discussion, coordination and decision-making.

- Such instances must not only associate players at the same level but must also serve to establish contact among players at different levels.
- They must facilitate not only contact but real synergy, opening the way to a strategic rather than a purely cosmetic partnership.

This distinction is important for defining the quality of institutional design. A strategic partnership implies changing the nature of the decision-making process so that decisions are based on a multiplicity of information systems and objective functions. It accepts that information sources are relative and that all preferences are equal. The term "strategic" has to do here not with timing (short-term versus long-term) but rather with this plurality of values and preferences. A cosmetic partnership is designed primarily to adjust decisions to the preferences of the central player. The difference between these two types of partnership has to do, to a large extent, with the manner in which the partners will be regarded and associated⁵.

These instances can take four forms:

- The first occurs when public services seek to mobilise information and organise coordination in order to enhance their effectiveness. We may consider these as attempts at a new form of public management.
- The second recognises the desirability of enlisting stakeholders to take care of needs that are not addressed by the market or by public funds. Within a given geographic space, the partners are called upon to assume certain responsibilities collectively.
- The third recognises the importance of these players and their collective organisation at new territorial levels.
- The last brings players together not only to take decisions but also to manage the new services jointly.

2.2.1. New forms of public management

One approach lies in establishing advisory partnerships, in general at the initiative of public policy makers seeking to enhance their information sources and their capacity for action. Thus, local governments establish forums for information and discussion, and sometimes coordination, in order to address the complexity of issues and increase the effectiveness of their decisions. These initiatives are often taken in response to the compartmentalisation of debate inherited from the tripartite arrangements between government, employers and workers that have long existed at different levels of public administration. Local development proponents have shown an interest in broadening this framework to include other agencies, including those of the third (community) sector.

The introduction of proactive employment policies often lies at the origin of these instrument's. Whether in Denmark, Belgium, or France, there is a growing tendency to associate, at least in the information process, players who are not traditionally part of the employment market but who are involved in training, health, housing, or social assistance services.

- In Denmark, a major series of reforms undertaken in 1994 replaced the regional structures of the public employment service with 14 employment market councils, for which the PES served as the executive arm (OECD, 2004). These agencies bring together a variety of players, public and private, thereby significantly expanding the prevailing tripartite arrangements in the public employment service. They are thus able to establish regional employment policies based on maximum information and with at least some input from those who will have to apply them. Together with a policy of making the employment security system more flexible, this association is credited with part of the success in keeping unemployment rates low (OECD, 2004).
- In 1999, the Walloon region considered the possibility of establishing local structures with no formal legal status to serve as the "nerve endings for the public employment service". In partnership with the communes and the federal social assistance centres (CPAS), the Walloon region was seeking to create a place where jobseekers could turn for information and counselling. The "Contract for the Future of Wallonia" makes clear

references to this: "The government will assemble the information and support structures, which are currently too widely dispersed, within a single centre where the public will have access to full information on trades, the conditions for practising them, the opportunities for training, available jobs, and the possibility of pursuing traditional handicraft trades". Implementation of the centre, which would bring together various partners in the employment system, is designed not only to provide services to enterprises and jobseekers but also to improve the quality of those services, through face-to-face contact between institutional partners who were accustomed to working each in their own sphere. The employment centres (*Maisons de l'emploi*) consist essentially of two bodies: a restricted local management committee and a broader local coaching committee. The management committee embraces three partners: the commune(s), the CPAS, and the FOREM (Public Development Service), the expanded coaching committee is where all interested partners come together to help guide the activities of the *Maison*, to share experiences, and to develop their activities, and to sign support agreements with the grassroots partners.

This type of instrument poses three problems:

- While its scope is limited, there may be some dispute over the kinds of stakeholders invited to participate: some may veto others. Thus, in the territorial pacts some traditional players within the tripartite system have refused to participate in working meetings with other players, on the grounds that they do not have the same degree of accountability.
- If the exercise is to succeed, local governments or representatives must participate fully and share their information. Otherwise, the other partners will have to fall back on strategic behaviour. The atmosphere will not be co-operative, and stakeholders will offer only the kind of information that will serve their own interests.
- Contacts of this kind can undermine accountability and weaken efforts at evaluation. Even if all the players come away from the consultations with their responsibilities undiminished, they may still be tempted to blame any problems on the poor quality of the information transmitted by other partners. These bodies can only be effective if they have a proper computerised information system, especially for statistics, and such systems are seldom found at the local level.

These three problems have moved some countries to reinforce the role of these bodies by making them more institutional, or by inviting them to offer a common diagnosis of the territory's future:

- In the Czech Republic, reform has involved introducing regional bodies that can undertake the preparation of diagnoses and strategies.
- In France, the regional economic and social councils have steadily raised the quality of information on the economic and social outlook for the region and for its territorial components.
- In Flanders, an effort was made in 1998 to invigorate labour market management organisations by instituting subregional employment committees and changing their

design in two ways: new stakeholders were added, and they were given greater autonomy vis-à-vis the public employment service in terms of defining problems and solutions (OECD, 2001d).

2.2.2. Formalised area-based partnerships

A second instrument, limited in size and purpose, is to recognise the partnership dimension of certain groupings of stakeholders on a specified geographic basis in order to respond to needs that are not adequately addressed by the market or by public funds. In general, these partnerships deal with problems of labour market entry or re-entry in sensitive rural and urban areas. Formal recognition of these bodies consists not so much in giving them their own statute (although this can happen) as in the possibility these players have to make selective use of certain public mechanisms. This approach, then, implies no new players or institutions, but rather new forms of coordination.

All countries today recognise the importance of such partnerships, which range from compacts to the territorial employment pacts of the European Union. In all cases, the originality of the arrangement lies less in the creation of a new player or new institution than in the mutual consolidation of relationships among existing, independent players who used to know or care little about each other.

There are two limits to this flexibility of arrangements:

- The objectives are limited, and are often tied to a specific action. Rarely will such partnerships seek to make a territory competitive over the longer term or to manage, even indirectly, the delivery of services to businesses. On the other hand, they are more likely to make joint use of a public mechanism as a catalyst for a given territory. Thus the PLIEs, which in France constitute the main tool for urban local development, present themselves as mutual undertakings among local players for deriving joint benefit from national or Community financing mechanisms. The rationale for the territorial employment pacts introduced in European Union countries was the same: a commitment associating a territory's stakeholders in an effort to define joint objectives and derive common benefits from the public mechanisms that each could activate on their own⁶.
- Because these arrangements are often temporary in nature, the second difficulty has to do with their ability to capitalise on experience and to produce social capital. They are established to address a specific challenge, and there is no sign that the solidarity so achieved will carry over to other challenges. Thus, stakeholders who have succeeded jointly in activating services to businesses may be unable to agree when it comes to identifying the beneficiaries of training programmes, as between locally-rooted enterprises and enterprises relocated from outside the territory.

The most frequently cited example is that of Ireland's arrangements under the National Programme for Economic and Social Progress 1990-1998. Faced with the problem of reintegrating large numbers of the long-term unemployed, several types of instruments had to be coordinated, and the manpower services could no longer be relied on alone. For the government, only a localised approach to needs and opportunities made sense, and so it sponsored the creation of 12 local nonprofit corporations, involving the players concerned, to carry out these

adjustments. These local partnership corporations were coordinated by national agency, Area Development Management Ltd. (OECD, 2001d). A few years later, under another programme, the Programme for Competitiveness and Work, 1994-1996, the functions of these partnership corporations were extended to other objectives, beyond the reintegration of the long-term unemployed. These partnership corporations have now multiplied (to 38) as have local interest groups with less permanent functions (33).

One of these partnerships that has advanced the furthest is the Swedish RGA (OECD, 2004), although the initiative came primarily from the central government. In 1998 the government invited the regions to negotiate Regional Growth Agreements (RGA). The idea was to rally the logical development partners, such as chambers of commerce, universities, local employment offices, employers' associations and labour unions, around the local county government to define growth strategies. This was a way of avoiding duplication of effort between local governments that might be in competition on some issues, and to enhance the prospects of a successful industrial policy by bringing private players into the debate from the outset. The approach was influenced to some extent by experience with the Territorial Employment Pacts, but the immediate emphasis was on fostering thinking about development prospects, as was done particularly at the RGA campus in Uppsala (OECD, 2004).

The establishment of regional platforms for meeting, pooling information, synergising projects and taking decisions is today a favourite approach to the good governance of local development. According to the OECD, "the tasks of these platforms are: (i) to foster co-operation among the main organisations involved in economic development (e.g. agencies, business organisations, regional authorities) and neighbouring policy fields (e.g. employment, education, tourism); (ii) to design and possibly implement a strategy for sustainable economic development; and, often (iii) to stimulate innovation through building clusters of firms and establishing links between enterprises and the research and education sectors, among others." (OECD, 2004).

These platforms offer great flexibility, in both geographical and functional terms:

- **Geographic flexibility:** regional platforms involve a regrouping of all or some of a territory's local government structures. Priority is given here to a geographic area defined in terms of economic development rather than administrative criteria (which are themselves linked to the notion of local public goods), suggesting that local development issues are broader than administrative boundaries, which have perhaps lost the economic significance they had in the past. The platform is very appropriate because it brings development stakeholders together at a level that allows them to internalise the external effects that smaller territories can have on each other.
- **Functional flexibility :** in this sense, the platforms respect the functioning of markets and of existing public funding programmes, while enriching them. While they are recognised as tools for information and co-operation, they are at the same time employed as implementation tools. Here, the platforms are given an oversight role, providing early warning, advice and evaluation. They become endogenous development advisers, in the sense that they can highlight the importance of certain assets and innovations, drawing upon their understanding of the local situation in relation to the rest of the world. They become exogenous development advisers in that they point the way to integration into the

global economy that the territory must strive for, consistent with its resources and responsibilities. Finally, they may be given the role of overseeing regional development agencies.

In the Flemish region of Belgium, it was traditionally left to the Subregional Employment and Training Committees (CSEF) to look at employment issues and define or support initiatives to improve the functioning of programmes, a task to which they were well-suited by their composition, representing employers and workers in association with other potential partners including the inter-commune development bodies. The CSEFs, instituted by a decree of December 22, 1989, had three official missions:

- To maintain a standing watch over the employment situation and trends (serving as "micro-observatories").
- To research, propose and recommend any useful employment and training policy measures for helping people join the labour market.
- To provide advice on all matters relating to employment and training submitted to them by the regional or federal minister responsible for employment and training, dealing for example with the licensing of occupational training firms or regional employment promotion programmes.

In Norway, it is these local employment committees that fulfil this role of regional platforms. Their composition reflects the tripartite arrangement at the national level, to which they add some further partners in order to take account of the required local complementarities. These committees do not adopt local development plans, which are the sole responsibility of the counties, but they help to implement them, and this is no less important. These committees become platforms, and experience shows that they are enjoying considerable success (OECD, 2004).

These platforms also have some limitations:

- They would not be needed if the agencies heading the regions, provinces or counties took their decisions on the basis of real consultations with the partners involved. This remark is pertinent, but it is often noted that these platforms can be given a more permanent institutional shape, generally in the form of regional economic councils. This response does not suffice, because there are problems that may transcend regional boundaries and call for the kind of coordination that cannot be accommodated within existing institutions. The existence of subregional employment platforms in Belgium was interesting because it was recognised that they might not fit exactly with traditional administrative borders.
- Their dimensions can change depending on the kind of problems -- specialisation or investment -- they are addressing. Yet defining a strategy for training in new technologies is not the same thing as designing a strategy for integration into the global economy, which would call for investments that might be irreversible over perhaps a decade. This brings us into the field of ad hoc organisations, which implies great caution in their degree of formalisation or recognition.

2.2.4. Institutions for managing change

Beyond consultation and decision-making arrangements, partners can establish institutional players to manage and run their local development projects. This is the case with local development agencies, which were established from the outset to support local development experiments and policies. In some cases, these agencies are created by local partners, while in other cases they are created at the initiative of local government, which accepts responsibility for them. Some operate under direct public control, while others have more autonomy and may even be transformed eventually into private enterprises. Some are established specifically to create new activities [text garbled : words missing??] resulting from rearrangement of existing structures, particularly when agencies specialised in employment and training management find their mission broadened to include services to businesses, attracting new activities, etc. Finally, depending on their level, their content and their name may change: thus in Belgium, local development agencies give way to *Missions centre-ville* (“centretown missions”) as one moves from small communes to large cities and metropolitan areas.

Generally speaking, these agencies offer a number of services, including property, counselling, financial and training services:

- Property services are today seen as essential, and it is rare to find an enterprise that is not looking for public support in this area. This reflects in part the difficulty in finding suitable land within depressed territories, and in Germany, for example, 90% of businesses setting up in such territories regard this kind of assistance as indispensable (OECD 1999f). On the other hand, some local governments take advantage of this demand to negotiate commitments with new entrepreneurs in terms of employment levels or local recruitment (Grefte, 2002).
- Contrary to the generally accepted view, advisory services to businesses are available today, but they tend to be organised to meet the needs of fairly large companies. For smaller firms where there is little division of labour and where a skilled workforce is in short supply, it is difficult to fill gaps from the market. This situation may call for offering advisory services to very small enterprises or to would-be entrepreneurs, for example, through publicly funded mechanisms. For larger firms, another bottleneck may appear when they opt for certain technologies.
- Financial services are today the subject of more thorough diagnosis than they were a few years ago. The banks are showing an increasing interest in financing small businesses, especially through national programmes such as the Small Firm Guarantees Scheme in the United Kingdom or the Community Reinvestment Act in the United States. Such arrangements could at last offer solutions to the traditional handicaps that small businesses face, such as their high rate of bankruptcy, their lack of a track record, their inability to provide guarantees, high transaction costs, or lack of liquidity. On the other hand, some observers still point to obstacles when it comes to raising equity capital (OECD, 2003a).

Training services are also a central focus of partnership organisations, especially since small enterprises may be reluctant to seek training, for this would mean doing without the services of a person who may fulfil several functions at once, and whose absence could expose the business to

high risks. Conversely, training organisations are hesitant to mount customised programmes for such firms, and if they do the costs may well be prohibitive (OECD, 2000a).

In some cases, agencies will concentrate on a single type of service, where they can develop the required level of professional expertise, something that is difficult to do if they try to offer several services at once.

The Walloon region has created a particular type of development agency that offers a single strategic service, namely the production of skills. The skills centre exhibits four specific features:

- Its approach is tailored to the nature or the development plans of the local territory. The forest industry centre in Belgian Luxembourg provides a striking example: its challenge is to provide local firms with the opportunity to move beyond the initial processing of wood, where value-added is low, and to invest in secondary processing, which provides greater value-added but has hitherto been performed abroad, with the finished product exported back to Luxembourg.
- It is designed and run as a partnership. Typically, a public agency (the foremost being FOREM) will make contact with, or be contacted by, the social partners, perhaps through the sectoral funds where these partners meet to negotiate collective agreements, or in sectoral agencies (for example the one for the graphics industry, which has set up its headquarters next to the corresponding skills centre). Other partners are involved as well, such as employers' associations, scientific and technical institutes, or universities. The partnership may be organised in three ways. In one case, some partners will take over a given operation, for example monitoring developments in various trades, and will then make the information available to the centre and all other members. In the second case, the partners are bound by an agreement that establishes the role and contributions of each. In yet another case, the partners join together in an ASBL (nonprofit association), which then takes over the management of the centre.
- It must be accessible to everyone, which means that it will receive at least four types of users: jobseekers, workers (including at-risk workers) some of whom may come under the umbrella of continuous training programmes; instructors and trainers, as part of their ongoing training; and students.
- It must not limit itself to training in a strict sense, but must also undertake to track and raise awareness of new trades (together with the Walloon Employment Observatory), and to offer services relating to audits of business needs, assistance for jobseekers, support for SMEs, or the production of distance training software that can be used both in the centre and on the Web. The Cepegre Centre today produces software for training in computer graphics and web page design.

The tendency today is to make these agencies more flexible, provided they retain the required degree of professionalism. This condition can be difficult to satisfy. The agencies most often take the form of a service counter that must deal with many and varied demands. They can only cope with these demands by working in networks with a whole series of specialised agencies, for which they constitute the access portal. They will be likely to charge for their services, partly because the specialists expect to be paid, and partly to forestall excessive demands or windfall

effects on the part of applicants. This tendency is more common in the case of services to businesses than it is for services to individuals. When it comes to social assistance or helping first-time jobseekers, nonprofit agencies play the role of “benefit packagers”.

The development agencies today face further problems. Their tasks may not be very clearly defined, reflecting the lack of coordination among the ministries concerned. Thus they may find themselves pursuing social, cultural, and economic issues and providing vocational and handicrafts training all at the same time, but without any consistent plan, and this can undermine their credibility.

In the end, while the agencies may be able to respond to certain demands, they are less capable of moving beyond this reactive stage and adopting a more forward-looking stance, for example by placing ad hoc demands or activities within a strategic local development plan developed through a partnership platform.

These difficulties can be very significant at the start-up of agencies, and this was precisely the case in Slovenia (OECD, 2004). In 1999, the central government called for the creation of regional development agencies to bring some coherence to implementation of several European programmes, and it asked them furthermore to work in close co-operation with local employment offices. These agencies are tasked with developing a region, stimulating enterprise creation, developing supply capabilities, and mobilising human resources, while ensuring better environmental protection. Today they are operating in highly diverse ways, reflecting the current state of co-operation among local players (OECD, 2004).

A number of conditions must be fulfilled, then, if these agencies are to be successful. They must have a solid legal foundation and financial autonomy; they must be transparent, they must be adaptable and ready to take on new partners when the opportunity arises; and they must consider themselves as access portals to services and to service centres.

2.3. Instruments for consolidating good governance over time

Successful project implementation requires that stakeholders be permanently involved. In some cases, this involvement is direct, for the agents are committed to a common objective that requires them to pool their resources and efforts. In other cases, this involvement is less direct: stakeholders are not direct partners, but in the pursuit of their own projects they exert effects, either positive or negative, on others' projects, and this imposes a minimum degree of convergence. In problem territories, the successful completion of one project may help to improve chances for other projects. These external effects are of many kinds:

- An investment brought to fruition becomes a source of future activity for other businesses that had no relationship to the first one.
- A successful training mechanism instituted by a relocated firm can be redeployed to meet training needs of other, home-grown businesses.
- Reintegrating the long-term unemployed is a source of new markets for the territory.

- Improving one local public service can enhance productivity in other public and private services.
- Successful co-operation builds social capital in the territory, facilitating the implementation of other projects.

There are two ways of analysing how such co-operation is maintained over time.

- The first asks how the local development partners' "club" can be sustained over time, recognising that the distribution of benefits will not always be equal.
- The second starts from the condition that the resource needs (legal, financial, property and cultural) of local partners are adequately met.

2.3.1. Good governance through the functioning of the local partners' club

We might of course hope that good governance will result if all these stakeholders - firms, training institutes, public authorities, heritage protection associations - share the same values, and that this will be enough to ensure proper cohesion. They might for example be agreed on the value of perpetuating an inherited production system, because it is consistent with the desired lifestyle or with conservation of the environment. We can then turn to games theory or the "core" approach to social interactions, in which there exists a situation or a path of action the value of which no one contests.

Without falling back on this hypothesis, we can refer to the existence of a "bargaining set". Some stakeholders will want to depart from this development path, believing that they can do better for themselves by pursuing a different one. The other stakeholders will quickly bring them back to their senses by showing them that if they leave the ultimate cost will be much higher than if they stay on the initial path. Such a situation might arise, for example, in an industry that works with highly skilled labour and high-quality materials, where some firms begin to debase their quality standards in order to boost short-term profits - in the long run, this will undermine the product's cachet and make it indistinguishable from mass-produced items that are more cost-competitive. Essentially, the long-term interest demands that they renounce their short-term interest. To achieve this, a bargaining set must be introduced, i.e. an observation and discussion mechanism that will provide warning of such behaviour and, if necessary, compile proof of it. A label can be the element for crystallising the bargaining set, for it will induce producers who want to use it to embrace the arguments for maintaining the district's long-term sustainability and preventing opportunistic behaviour.

The milestones to good governance

In light of these difficulties, we may start with a more general interpretation. Partnership offers a situation where social interactions are characterised by entry and exit costs, and there is a direct relationship between its members. The rules or conventions that a partnership adopts will seek to catalyse behaviour, keep action cohesive, and satisfy the desired objectives. They will also try to prevent situations where the pursuit of private interests would be detrimental to the partnership as a whole. The partners will try to achieve a desirable equilibrium through "positive

attitudes" and they will see to it that those attitudes are fostered, disseminated, copied and maintained. If the partnership is to last, four conditions must be satisfied:

- In a repeated "game", the partners have an interest in acting on the basis of positive attitudes and in behaving in such a way as to inspire positive behaviour on the part of the others: this is the "reputation condition". The partnership is viable only between players who regard each other's reputations as good. This implies a dense information system, without which there is the probability that negative attitudes will win out over positive attitudes, inevitably causing the partnership to weaken or collapse. The *appellation d'origine contrôlée* is a means of regulating the organisation (and sanctioning) of this information, but for territories such as industrial districts that cannot organise it, other systems, such as the label, must be used.
- With repetition of the "games", participants must know that if they misbehave today they risk being punished tomorrow by losing their rights to the label: this is the "reprisals condition". The difficulty is that reprisals, even if properly organised, may be impossible to enforce. In some cases, firms may no longer behave as required because their operating conditions do not permit it. Counselling or financial support from the partners may help them do so. The history of industrial districts provides frequent examples of such mechanisms, in varying degrees of formality. It also demonstrates the importance of cultural, ethnic and religious factors in the way certain districts function. In an atmosphere where individualism reigns supreme, as is often the case in artistic circles, such arrangements are unlikely to be accepted spontaneously.
- Existing players may upset the initial equilibrium over time, as their size or their market fluctuates. Interactions will then become less random, but will take place through alliances and counter-alliances. There is nothing to guarantee that such alliances will not work against the viability of the district. Thus, we have a "proper segmentation" condition. The divisions that may appear must not interrupt the invisible exchanges and the networks of trust that were built up over time. A segmentation that is not necessarily harmful might occur in training mechanisms, where some for example want to replace specialised initial training with on-the-job training. There is disagreement, but it does not bear on objectives, merely on the means for achieving them. A harmful segmentation might emerge when some partners want to revise product quality and labelling systems to accommodate larger-scale operations, while others insist on maintaining small-scale "cottage" production methods.
- Finally, new players may appear, which will pose a problem of homogeneity for the underlying partnership, or at least for the segmentation condition. The preferences of these new players will have to be essentially compatible with those of the existing partners if the district is to survive: this is the "proximity condition". Normally the existence of charters or labels should lead to such a situation, because they establish reference points. But opportunistic behaviour cannot be excluded: the new partners may alter their behaviour once they are inside the district. It is not surprising, then, to find here some vestiges of the old trade guilds, where entry conditions are backed up by very strict rules for running the district.

2.3.2. Good governance as a result of managing the local partnership dimension

The legal dimension: pacts, contracts and quasi-contracts

The establishment of lasting relations among partners does not always require contracts such as those recognised by the market. Commitments can relate to behaviour rather than outcomes, and this produces exposure to moral risk.

The variety of partners involved makes it difficult to use conventional legal arrangements, for example when a local government has to sign a contract with the central government, or when local representatives of the central government sign contracts with local public or private partners. Hence the multiplication of legal arrangements that depart from ordinary law and are often treated as quasi-contracts, moral commitments, or joint declarations, recognising that the problems will differ according to the institutional context: in some countries, the public partner is accountable for its behaviour before the same judge as the private partner, which reduces these difficulties; in other countries, there are different types of judges, and they will assess breaches of commitment differently.

A shift in the electoral majority, at the local or national level, can destabilise commitments taken at a given time and can create a gulf between the time horizons of different partners.

Finally, the lack of precision in such legal arrangements can lead partners to act in ways that run counter to the declared objectives. In France, the national government has used planning contracts between the central authorities and local ones (regions or municipalities) to force the latter to contribute to national objectives, whereas the stated objective of the agreement was to channel State funding into local development.

What we have here are bilateral relationships rather than contracts, and respect for constraints of participation and incentives will differ from what happens in a private contract, where reciprocal obligations leave no doubt as to the parties' responsibilities. How can these difficulties be overcome?

- By differentiating the nature of the commitments, for example by defining reciprocal behaviour commitments in a side agreement, and establishing the expected outcomes in a direct contract.
- By bringing a third party into the agreement, as witness and guarantor: in compacts, the local authorities often play this role.
- By supporting these behavioural commitments with financial provisions that will enhance their probability. In a sense, this amounts to using public funds to reinforce the efforts of private partners. The territorial employment pacts introduced in European Union countries used this device: signing such pacts opened the way to specific funding to cover the costs of coordination, and facilitated pact member's access to various European Union programmes.

An example of agreements of this type, with their advantages and limitations, can be found in the United Kingdom (OECD, 2004), where the central government has signed Local Public

Service Agreements (LBSA) with local governments. Under these contracts, the local authorities undertake to improve the performance of public services and the central government undertakes to reward the results. It may also help achieve those objectives through leverage subsidies or by allowing greater flexibility in the way services are delivered. This means that the evaluation criteria for these new devices must reflect national as well as local interests. This represents a departure from the traditional hierarchical relationships, and the "contract" thereby introduces a partnership-type relationship that should produce greater trust, more effective pooling of available resources, and better vertical governance (OECD, 2004).

Financial instruments for good governance

Good governance of local partnerships depends to a great extent on the quality of the underlying financial mechanisms. There are many variables determining this quality: the first of these is that local governments must have significant resources of their own. Otherwise, they will be dependent on central governments, and the mobilisation and dynamics needed for local development will be missing. This condition relates directly to national constitutions, and it is difficult to move beyond these constraints. On the other hand, we may point to two other conditions for good financial governance of partnerships:

- Sound trade-offs in the use of available funds among possible projects.
- Proper coordination of financing from various sources over time, especially in terms of cash flow.

The use of public funds, whether local or other, implies choices about their distribution among different possible projects. The contractors for these projects may be either public or private, and public funding agencies may tend to give disbursement priority to the projects they are managing, whereas those projects may in fact be of less interest than the others.

Experience with municipal agreements in Italy points to an original and pertinent solution. Once the public funds have been allocated, there is a question of how to associate them with private funding for projects, recognising that there may be pressure from interest groups. In Italy, most municipalities have adopted the following scheme. The criteria for judging the importance of projects are set by the municipality. The allocation of funds is entrusted to a bank, which will have full independence in assessing the feasibility of projects and the amounts of public and private funding that should be earmarked for them. What is especially remarkable here is that when the municipality defines its own projects it must go through the same procedure (OECD, 2001d).

The financial management of partnership projects involves many contributions, made more or less regularly over time, and problems will naturally mount with the number of partners or the failure to integrate their respective contributions properly. Moreover, some funding is conditioned on the input of other funding, so that if one partner defaults on its obligations this can lead the other partners to hold back or even default themselves. One response to these problems is to arrange a dedicated "support fund" (*fonds de concours*), into which disbursements are made from the outset to compile the cash needed to carry out the project. A support fund of this kind will be established if one partner agrees to exceed its obligations and advance cash to keep the project moving forward. At the end of the project, contributions are audited and corrections may be made

to offset any surplus contributions that some partners may have made to the benefit of others. If this is not the case, the solutions may be much more painful. In the Walloon region of Belgium, for example, the "centretown missions" complain that appropriations from the central government or even the regional government do not always arrive on time, and so they must meet their cash needs through bank loans.

THE HUMAN RESOURCE DIMENSION

Human resources that are mobilised to implement local development projects can influence the quality of governance. We may identify three problems here:

- Good governance is facilitated by the quality of the human resources contributed by the partners, and by the ways the required information is prepared and submitted, the players are assembled, the instruments are used, and the projects are carried out. The resort to training programmes for identifying and formulating local development projects, even at the university level, provides abundant evidence of this, and the main difficulty seems to lie in coordinating what are often highly disparate initiatives, and controlling their quality.
- Differences in the status under which local and national government personnel work may interfere with the quality of governance. If their status differs too greatly (which generally happens to the benefit of central government personnel), this may lead to sharp differences of qualification among these partners and may undermine the synergies needed for vertical governance. There are frequent cases where the transfer of responsibilities has not been accompanied by the corresponding transfer of personnel, and this requires local governments to add staff, something that takes time and may be frustrated by the inability to offer attractive remuneration. Thus the imbalance of status becomes an imbalance of professional skills, and is harmful to good governance.
- The third source of difficulty lies in the fact that, in their local development strategies, local governments often resort to special employment provisions. This allows them to benefit from national financing mechanisms and to reduce the costs of the project. But it also poses some significant problems. Financial management is complicated by the plethora of regulations and payment delays. Skills formation is haphazard, since the obligation to provide training is far from generalised, and may even be impossible to assume. But the greatest difficulty is that the low classification level of some of these jobs is out of line with the nature of their mission. In the Walloon region, for example, several types of jobs were created to make the local partnerships work:
 - Jobs of the "subsidised contractual agent" type, targeted at nonprofit associations or the "centretown missions", and stemming from both federal and regional programmes. They are poorly paid in comparison with prevailing wage rates, and there has been high turnover among such persons.
 - The so-called "Royal Decree 258" jobs are better paid.

- Jobs created under the Vocational Transition Programme of the federal government, targeted at the long-term unemployed who have no secondary school diploma. Their financing is complex because it comes from three sources: a federal subsidy, a grant from the employment ministry of the Walloon region, and, depending on the nature of the institution, a grant from the Ministry of Economy of the Walloon Region. Since the federal subsidy depends on the local unemployment rate, the employer's contribution is variable and may even disappear in communes where unemployment is high, while it will rise sharply in the reverse case.
- The final broad category of subsidised employment is the "Rosetta jobs", targeted at young people under the age of 25 who have completed compulsory schooling and hold a secondary school diploma. These workers retain their unemployed status, and so they can continue to draw the corresponding benefits once their "first job" contract ends, and their wages remain modest.

3. AMENDING NATIONAL PROGRAMMES TO IMPROVE LOCAL DEVELOPMENT GOVERNANCE

The challenges of local development governance are part of a context that is broadly defined by national mechanisms and policies. Adapting these national mechanisms is thus a condition of good governance, and governments have everything to gain from such moves, since they will then benefit from information, initiatives and partnerships that will contribute to sustainable development. In light of the above discussion, it would seem that action is called for in a number of areas at the national level: information, diagnosis, evaluation, and institutional learning.

3.1. Information

Good governance of local development presupposes a sound information system that will provide relevant data and can simulate the impact of policy options. Such systems usually exist at the national level, but they are harder to find at the local level.

This difficulty was traditionally explained as follows: local data are not always relevant, for the decisions creating these data do not necessarily involve local players: an inflow of jobs will depend on decisions taken beyond the territory; an inflow of savings will depend on how the national banking system is organised.

This caveat is valid, but it should be seen as an incentive to strengthen national information mechanisms rather than a sign that things cannot be improved. There are two ways to make progress on this front:

- Produce more data disaggregated to the regional or subregional level. National accounting systems too often compile elementary data, generally from the communal level, into national aggregates without exploiting the various possible regional groupings.
- Increase the number of dynamic databases. It is less important for a given territory to know whether its unemployment rate or business creation rate differs from the national average than to know why local indicators change over time in one direction or another, and in this way to deduce the relative importance of national and local determinants. In France, for example, the System of Information on New Enterprises (SINE), would be much more serviceable if it were prepared for use at the local level.

3.2. Diagnoses

Information becomes knowledge only when it produces a sound diagnosis of a territory, its problems and its opportunities. Compiling comprehensive and significant diagnoses is a major challenge for local partners, who tend to conduct their diagnoses today in three ways.

One approach examines the kind of local activities needed to sustain the territory. These are basic activities that will meet demand for goods and services beyond the territory and will bring in revenues that will then be spent within it. A basic activity is in fact an export. But while these activities can be identified, there is no guarantee that once production capacity is in place the anticipated markets will still be there. The "basic activities" approach can lead quickly to a paradox: because the solution has to be found abroad, it is vulnerable and may disappear from one day to the next. This is not just a problem of foresight or of adapting planned activities to available local resources: the real issue is the uncertainty of future markets. Fields of basic activity can of course be defined fairly broadly, rather than focusing on a specific activity, in the expectation that market shifts will be marginal rather than radical, but this will not prevent the emergence of new competitors. One may also start with the resources needed to conduct these basic activities, resources that can then be mobilised for highly varied production, as we shall see below. These difficulties explain why many efforts at productive programming quickly turn into a search for firms willing to relocate.

Government intervention is then essential, because government can provide strategic information on the exact nature of basic activities, even if it is merely aggregated for all territories. This would seem to represent a paradox, but it is a superficial one: information provided by central governments is of a kind that can reinforce the understanding of local problems.

Rather than identifying a basic activity in which risks are concentrated and benefits are unevenly distributed, it may do more for unity to construct the diagnosis around the identification of strategic resources, particularly in terms of skills and training particularly, since these are a determining factor in a global knowledge economy. This approach faces two difficulties. First, it may very quickly degenerate into excessive enthusiasm about the impact of new technologies, which while they are a necessary condition are far from a sufficient one. On the other hand, this analysis implies technological planning based on very costly scientific and economic diagnoses. Only central governments are in a position to provide such an outlook, and this underlines the need for the State to ensure that it can provide such information to all territories.

Instead of seeking to define capacity to satisfy basic activities or to produce "competencies", a third type of diagnosis tries to see whether the territory has platforms for bringing together all the potential local development partners and creating synergy among them. The territory's principal resource becomes in effect its ability to foster communication among its own stakeholders but also with outside players. This stress on communication raises a question: is this merely a new ideology adopted because it is currently in vogue? In a market economy, it is important to stress originality in transforming specific resources into forms not found elsewhere, and this implies an ongoing intelligence operation. Mustering skills around problems, events or objectives, aggregating and communicating them, can release the energy needed to define and implement a strategy. This effort to highlight a territory's specific and original assets is impossible in a setting where members are content to communicate only among themselves. Purely internal communication risks tying up collective choices in the straitjacket of outdated traditions, issuing bafflegab pronouncements, and squelching rather than stimulating the spirit of initiative. Proceeding in this way will only stifle output, squander existing or potential markets, and exhaust energies in attempts at self-justification. On the other hand, in striving openly to reconstruct a territory's identity, better communication can counter the forces that drive activities to leave a

territory and those that impede the attraction of new activities. There may be certain regulatory provisions that hinder communication, or others that enable it. They may also be certain possible arrangements that exist elsewhere but are not known within the territory. It is again useful, then, for central governments to promote diagnostic initiatives, if only by disseminating good practices or opening up possibilities for institutional flexibility that will permit them, as in Flanders.

3.3 Evaluation

Evaluating partnership practices for local development and the quality of governance is a delicate task. While there is a unanimous clamour for evaluation, the fact is that practice generally runs in the other direction. This can be explained by reasons of two kinds:

- The risks that evaluation brings with it: funding may be stopped, some partners may be reproached, the boldest partners may be criticised for their initiatives.
- Methodological problems: the initial information may not be all that relevant; there may be several factors in the local development environment that make it difficult to identify cause-and-effect links, etc.

Evaluation can contribute to good governance in four ways

- The first spin-off of evaluation comes from measuring the ratio between the efficiency achieved and the cost. Such analyses are difficult to undertake, for at least two reasons. The first has to do with the many factors that can influence efficiency at any time: the impact of an initiative will obviously vary depending on whether the economic context is favourable. The second has to do with identifying the criteria for efficiency, an issue that has long been recognised as an obstacle, especially when the partners in the initiative are not in agreement.
- A second spin-off of evaluation lies in monitoring, by which we mean the collecting and processing of information supporting the introduction and development of a programme. Information collection must address the outcomes of local initiatives as well as their economic, social and financial effects. Monitoring represents in effect an initial evaluation. The point is not so much to identify a cause-and-effect relationship as it is to provide early warning of deviation from the initially desired course.
- A third spin-off of evaluation is learning. It was long thought that evaluation methods had to provide direct results to decision makers, who could then apply them mechanically. But policy decisions on local development are taken less on the basis of scientific results than on the basis of commitments or negotiations. The influence of scientific results is therefore not direct, and makes itself felt only to the extent that it changes players' conceptions. The issue here is not so much to produce pure knowledge as to have the capacity to inject that knowledge into the local setting and thereby change behaviour. The evaluation will thus be more useful if it embraces the players in these learning procedures. An evaluation by stakeholders or by persons directly associated is more likely to influence policy makers than one organised without this perspective.

- A final spin-off of evaluation is its mediation role. Evaluation is today treated as a social and political process that creates its own reality, and through which the evaluator becomes a mediator who supports and inspires the processes of learning and negotiation. These mediation processes are superior to the traditional approaches to dispute settlement because they generally commit their participants to resolve disputes that have hitherto existed between them. They avoid the high costs and uncertainties of resorting to legal proceedings. Evaluation is often at the centre of existing mediation processes, and it can only facilitate them. Initially, these evaluation processes will not necessarily be undertaken with this approach, and under the more conventional rules evaluation seems to be conducted by independent experts and to result in one-way communication. This will change if the evaluation attempts to enlist all stakeholders. It will then be conducted so as to produce a consensus, even if this was not the initial objective. Points of view on the criteria selected are developed jointly and different stakeholders' fields of perception are bound to converge during the process.

Having recognised these roles, we must not neglect the role of the evaluation. The following is an illustration taken from the evaluation of a number of territorial employment pacts in France, concerning Albertville, Montpellier-Hérault, Pays de Valois, and Saint Herblain.

Table 1. Net job creation through territorial employment pacts

	Net number of jobs created	change in %
Saint Herblain	395	+ 0.05 %
Albertville	400	+ 0.04 %
Pays de Valois	234	+ 0.03
Hérault-Montpellier	10042	+ 0.01

Source : OECD

An analysis of these pacts reveals different underlying approaches. Some - St. Herblain and Albertville - are organised as true partnerships. The others function in the conventional way: partnership is at best cosmetic and implies no change in conventional employment mechanisms, while governance is left essentially to the traditional players. We might conclude a priori that the partnership pacts produce better results than the "administered" ones. But we must not stop there.

We may also identify the relative shares of different instruments, by distinguishing between three types of employment creation vectors:

- Direct creation in connection with new local services (I).
- Direct creation in connection with the development of entrepreneurship and new services to business (II).
- Matching of supply and demand on the labour market through greater transparency (III).

Table 2. The wellsprings of net job creation

	Jobs	I	II	III
Saint Herblain	395 (0.05%)	138 (34.9%)	173 (43.7%)	84 (21.2%)
Hérault- Montpel.	1042 (0.015%)	179 (17.1%)	162 (15.5%)	701 (77.4%)
Albertville	400 (0.4%)	140 (35%)	120 (30%)	140 (35%)
Pays de Valois	234 5 (0.04%)	10 (4.2%)	60 (25.8%)	164 (70%)

Source : OECD

The best results come from effective use of the "active vectors" of employment policy, as opposed to the "passive vector". The "best" pacts give a relative share of 79% and 65%, respectively, to active instruments, while the less effective pacts accord them only 30% and 22.6%. The correlation between partnership and effectiveness in job creation can then be explained as follows:

- The partnership may spark dynamic complementarities necessary to create new jobs and new positions.
- The administrative approach may act primarily on reconciling existing supply and demand, without being able to change the number of jobs available.

Exercises of this kind are complicated but they are clearly useful, particularly when they are conducted both within and outside the territory in question. The role of the central government here is key: by establishing an environment favourable to evaluation, it can encourage sound evaluation practices and will benefit from the results, in terms of added value for development as well as lessons for defining or revising its own mechanisms.

3.4. Institutional learning

The demands of good governance in local development imply making some changes at the national level. While such changes may be undertaken in recognition of the need for flexibility, they must be clearly defined: the term flexibility indicates here a principle of action rather than solutions. These changes concern institutions under the control of the central government, the public policies it implements, and the dissemination of good practices. The most pertinent can be defined as follows:

- Introducing new objectives relating to local development in existing institutions rather than creating new institutions at the national level. It is better for local stakeholders to work with a small number of national partners that are flexible in their objectives and their possibilities for action than to have to deal with a great number of specialised partners.
- Giving the public sector a catalytic role: to boost local development, "traditional" players in the public sector must go beyond their oversight or subsidy-granting roles and assume the role of adviser to businesses.
- Ensuring that public assistance programmes for enterprise and job creation are defined proactively, that they can exert leverage in favour of decentralised initiatives, and that they are sensitive to shifting circumstances.
- Encouraging a "businesslike" rather than a "handout" approach to government instruments to avoid inciting displacement or windfall effects certain among local partners.

- See to it that contracts negotiated by the central government with other public authorities are equivalent to private sector contracts.
- Organise occasions for the demonstration and exchange of good practices in local development, through exhibitions, fairs, awards, labelling, etc.

4. MAINSTREAMING

Can the initiatives taken in one country to ensure good governance be transposed to other countries?

This debate is far from new, and it has generally produced recommendations to build upon principles validated by experience rather than mechanisms the outcome of which is predictable only within a particular context.

Yet the debate has been reopened today, recognising the situation of countries that have substituted a market economy for centralised allocation mechanisms and that are facing major development challenges in connection with actual or future entry into the European Union, such as the countries of Central and Eastern Europe, some of which are OECD and/or LEED programme members. If the initiatives described above are to contribute effectively to development, it would seem desirable to create a favourable environment, starting with a diagnosis of their past traditions and the difficulties they have encountered.

4.1. Given their traditional centralisation, it is important to ensure the capacity and transparency of local governments

In countries with a highly centralised tradition, regional and local levels of government should be given the means to foster local development in full transparency, without denying the need for proper controls by the central administration.

In Romania, a highly centralised country, Law 151 of 1998 created eight programming regions corresponding to the European Union's Nomenclature of Territorial Units for Statistics II (NUTS II)⁷. These regions are not new entities, but rather nonprofit agencies for establishing links between people who are preparing local development strategies and regional plans with central government representatives in charge of the national development plan. These interfaces are supposed to encourage local initiatives and to mobilise local elected officials in their support, by having the central government provide information and advice to assist local development, such as by making the productive sector competitive, attracting foreign investment, or enhancing skills levels. The value-added represented by this information can help local development, given the degree of centralisation, which is explained as much by regulatory thinking as by the lack of local resources. From time to time some of these agencies, for example Timosoara, produce studies to ensure the proper execution of development projects, for example reconstructing basic infrastructure for transportation or environmental protection⁸. Determining desired regional profiles, conducting SWOT analyses for different types of infrastructure, having stakeholders work more closely with those preparing these projects, are all important. On the other hand, the

scarcity of financial resources and the cultural attitude whereby little attention is paid to a project's prospects until its financing is secured tend to weaken the actual impact of this procedure.

The Association of Towns and Municipalities of Serbia-Montenegro has undertaken a project to improve transparency and to democratise local government procedures⁹. The basic principle is simple: to restore public confidence in local government efforts, citizens must be assured that decisions are taken legitimately and that the resources allocated to these entities are not wasted or drained off through corruption. To this end, codes of conduct and of good governance have been prepared and are now being disseminated through all local and regional administrations. These do not duplicate legislation and procedures, but they show how these should be implemented so that the public - households and businesses - will have confidence in the actions of their local elected officials. This may also lead to the amendment of local regulations to bring them into line with national regulations and with the spirit of these codes of conduct. The code was prepared by a national conference and following their circulation public meetings were held to explain it at the local level. The fact that its launch relied on international funding leaves the initiative vulnerable, and domestic resources will have to be raised if it is to be pursued further, which means that its utility must be generally recognised throughout the country.

4.2. Given the traditional concentration of skills in the central government machinery, the resources, responsibilities and capacities available to local governments should be improved

An illustration of local capacity building can be found in Macedonia. An association of local governments (ZELS) has set out to strengthen the capacities of local governments to fulfil their responsibilities and, with more specific reference to economic development, to reinforce local officials' capacities for analysis and mediation vis-à-vis various stakeholders¹⁰. The organisation has begun to assume more directly this effort of qualifying and reinforcing the skills of elected officials, but it is also looking at those of local government employees. ZELS recently undertook as well to create a number of local (essentially municipal) economic development offices: 13 municipalities are now involved in this effort. These offices will focus on five issues: structural priorities, market analysis, current or potential uses of local resources, local job creation, and improvement of living standards. The offices will have to compile information and prepare projects for eventual adoption by local governments. Their operations are currently running into difficulties specific to these countries: they are having trouble pinpointing the distribution of responsibilities and resources, and this is delaying their work. Until future legislation specifies such distribution, the offices at least have the advantage of being able to work with municipal services to create a minimum of synergy on these issues.

The lack of information is illustrated by the case of Bosnia-Herzegovina, which is recovering from a war that destroyed much of its infrastructure and many of the resources normally available to government. The principal problem in reconciling horizontal and vertical governance lies in the absolute need for a minimum statistical base on the population status of towns and rural municipalities, the level of their human resources, and the services available to them. A further challenge is that, before the war, most economic functions were in the hands of state-owned enterprises that have today disappeared. Finally, as a small country of some 5 million people, Bosnia-Herzegovina is over-governed: it has five superimposed layers of territorial administration, each with its own elected officials and civil servants, and the boundaries between them are not always understood in the field. It was decided therefore to launch an antipoverty

programme based as much on decisions at the centre as on initiatives by the local authorities¹¹. There were many issues to be addressed jointly by the national and local authorities: improving the business environment, restructuring urban and agricultural properties, co-operation between municipalities, improving the delivery of essential services, etc. The republic thus decided to ask the local authorities to provide a minimum amount of statistical information on these elements, for use in creating a real poverty reduction strategy. Implementation problems are considerable: the lack of expertise is compounded by a cultural history of isolation.

4.3. Given the top-down tradition, home-grown development levers are needed, in the form of new institutions or local development projects

Local development agencies are coming into increasing use. They allow local economic demands to be addressed in a less centralised and less political manner.

In Bulgaria, six regional development agencies have been established, under the umbrella of the Bulgarian Association of Regional Development Agencies and Business Centres (BARDA)¹². They have shown themselves very useful in creating and fostering small and medium-sized enterprises, and to this end they have been prompt to turn to foreign development agencies to undertake joint strategies. They are currently working with two other countries, where they are doing some initial market prospecting. This kind of networking is positive, but there is a major constraint in the shortage of financial means for seizing opportunities as they arise.

In Bosnia-Herzegovina, where the situation is complicated by wartime destruction, by the move from an administered to a market economy and by the uncertain distribution of responsibilities among the five levels of territorial administration, it has been decided to create regional development agencies¹³. There are now four of them, and their first task is to meet an immediate need: to distribute European Union funds efficiently. These agencies are supposed to respect certain principles: they are supposed to bring together a variety of stakeholders, and to associate them in project preparation and implementation. Yet such involvement is more formal than real, for many stakeholders do not want to accept responsibilities or take any proactive role. Moreover, there are enormous information gaps.

Chambers of commerce should in principle be ideal partners for local development, for they represent the business world without distinction as to the sector or size of enterprises, and this makes them highly representative. Unfortunately their statutes and their resources do not always allow them to play such a role.

Their means are often limited. In Hungary, there are a number of regional chambers of commerce that provide information on local activity, promote their members' business interests, and supervise training programmes. The Chamber of Commerce in the County of Nograd, for example, has been particularly innovative and has defined a tourism development strategy in coordination with a neighbouring region in Slovakia¹⁴. Yet while it seems to be representative and to have the required capacities, this chamber finds itself held back by two factors: the shortage of financial means, and the slowness of its decision-making process. In trying to play a real mediation role in the business world, it can only take decisions once there is a consensus, which means that it can only tackle issues that are sufficiently broad not to provoke real or potential conflicts among its members.

Preparing local development projects is a more systematic way of creating information on a territory's problems and envisaging strategies to rally stakeholders. But it is constrained by fears linked to the old central planning culture, and many countries fail to strike a balance between defining local strategies for pursuing projects and a planning vision that can impose ex ante coherence among sectors.

In Albania, each of the 12 regions prepares a regional development plan on the basis of co-operation among the various cities (76) and rural municipalities (309). In the region of Lezha, this plan emerged from intensive consultation between the local authorities, the central government, the chambers of commerce, and a number of associations¹⁵. During this process, training sessions were held and a SWOT-based method was implemented. This preparation of local development plans ran into the following problems:

- Lack of suitable skills and work habits in the local team.
- Ill-defined distribution of responsibilities between the central and regional levels, which made project preparation difficult, dispute-prone and likely to fail.
- Lack of funds: the operation was financed through international assistance (European Training Foundation), and no specific funding has been earmarked for its completion.

4.4. Given the lack of a qualified local labour market, steps should be taken to develop one

The project undertaken by the Kosice region of Slovakia highlights how the problem of matching the supply of and demand for skills requires appropriate partnership approaches¹⁶. The initial idea is simple enough: increasing numbers of young people are leaving school with high academic qualifications, but they are not being recruited by local enterprises, for a variety of reasons: mismatch of skills and needs, problems of remuneration, lack of information. The Bridge Project, undertaken at regional initiative, is designed to see how newly graduated students can be useful to businesses, and to give them the additional training to make them employable, if necessary. This initiative is highly pertinent, for enterprises may be unaware of the potential benefits of hiring such youth. Workshops are being held for businesses and students to assess needs and opportunities and to identify development projects under which local enterprises can take on young workers. This approach has encountered some obstacles: employers lack the necessary time, guidance and coaching activities are of too short duration, or young people may not be sufficiently motivated. Yet the placement rate for these young people is good (nearly 50%), and business needs assessments have become a normal practice.

4.5. In the face of local initiatives, central governments should improve their capacity to programme their regional or local investments

The national authorities need an effective tool for programming their regional investments.

In Latvia, the regional development ministry and local governments have created a programme to assess regional and local needs and to allocate their resources in ways that will support their initiatives and at the same time make their policies more effective¹⁷. At the present time, the tax structure is highly centralised and local governments have trouble making use of their own resources, which come essentially from local property taxes or lotteries, or sales taxes.

A 1997 law, amended in 2002, created a regional development support programme, and the central government thereupon established a methodology to define, in detail, the financing needs of the regions and the criteria for distributing funds. Funds are allocated to projects that have a direct economic impact, in several forms: investment in the capital of enterprises, interest-rate subsidies, shared financing for commercial events and trade fairs. The regions were classified according to indicators, which have been regularly revised to track the evolution of Latvian society: thus, the elementary education criterion, which had been very important in the allocation of funds, was dropped two years ago. More precise criteria, such as the value of real estate or the rate of nonfinancial investment, were retained. Finally, the weighting of these criteria is different for towns and for rural municipalities, to allow their different needs to be taken more accurately into account. The programme seems to be working well today, with one important reservation: the capacity of the central government to respect its financial commitments from one year to the next.

BIBLIOGRAPHY

- Arrow, K. (1974), *The Limits of Organisation*, W.W. Norton & Co.
- Aucoin, P. (1995), *The New Public Management: Canada in Comparative Perspective*, Institute for Research on Public Policy, Montreal.
- Barro, R. (1998), *Determinants of Economic Growth*, Cambridge MA, MIT Press.
- Becattini, G. (1989), “Riflessioni sul Distretto Industriale Come Concetto Socio-Economico”, in *Stato e Mercato*, n. 25.
- Becattini, G. and Rullani, E. (1993), “Sistema Locale e Mercato Globale”, in *Economia e Politica Industriale*, n. 80.
- Becattini, G. (1998), *Distretti industriali e Made in Italy. Le basi socioculturali del nostro sviluppo economico*, Bollati Boringhieri, Torino
- Brown, A., Buck, M., and Skinner, E. (1998), *Business Partnerships: How to Involve Employers in Welfare Reform*, Manpower Demonstration Research Corporation, New York.
- Cabinet Office (United Kingdom) (2000), *Reaching Out: the Role of Central Government at Regional and Local Level*, Stationery Office, London.
- Campbell, C. and Wilson, G. (1995), *The End of Whitehall: Death Paradigm?*, Oxford, Blackwell.
- Castells, M. (1996), *The Rise of the Network Society*, Oxford, Blackwell.
- Christmann, G. (1999), “Challenges for Managing Rapid Structural Changes in the Economy”, in *Economic and Cultural Transitions towards a Learning City: The Case of Jena*, OECD, Paris.
- Davenport, Eo (1989), “From Boston to Britain: The Development of Compact”, in *Local Work Monthly Bulletin*, April, No. 7, Centre for Local Economic Strategies, Manchester.
- Dicken, P. (1998), *Global Shift to Transforming the World Economy*, Third Edition, Paul Chapman Publishing Ltd, London.

- Eberts, R. and Erikcek, G., (2001) “The Role of Partnerships in Economic Development and Labour Markets in the United States”, in *Local Partnerships for Better Governance*, OECD, Paris.
- European Commission (1999), *Guide for Setting Up a Second Chance School*, Brussels.
- European Commission (2001a) *Governance in the European Union*, Cahiers of the Forward Studies Unit, Office for Official Publications of the European Communities, Luxembourg.
- European Commission (2001b), Evaluation of the National Action Plan for Employment, Bruxelles
- European Commission (2001c), Joint Statements of the European Public Employment Services (PES) on their Role in the Labour Market, European Commission Directorate-General for Employment and Social Affairs Unit EMPL/A.3, manuscript completed in September 2001.),
- http://europa.eu.int/comm/employment_social/publications/2001/ke4001400_en.pdf
- European Commission (2002 a), *Acting Locally for Employment*, DG Employment.
- European Commission (2002 b), *Thematic Evaluation of the Territorial Employment Pacts*, DG Employment and ECOTEC.
- Eurostat (1997), *Youth in the European Union from Education to Working Life*, No.11, Luxembourg.
- Eurostat (1998), *From School to Working Life: Facts on Youth Unemployment, in Population and Social Conditions*, No. 13, Luxembourg.
- Florida, R. (1995), “Towards the Learning Region”, in *Futures*, 27.
- Förschner, M. (2003), "Austria: Bridging economic development and labour market policy", in *Managing Decentralisation: A New Role for Labour Market Policy*, OECD (2003c), Paris.
- Fujita, M., Krugman, P. and Venables, A. (1999) *The Spatial Economy: Cities, Regions and International Trade*, Cambridge, Mass. MIT Press.
- Granovetter, M. (2000), *Le marché autrement*, Desclée de Brouwer, Paris
- Gertler, M.S. (1999) “Globalisation, Regional Economic Transition and Learning: Restructuring, Renewal and The Role of Culture”, in *Economic and Cultural Transition Towards a Learning City: The Case of Jena*, OECD, Paris.
- Giguère, S. (2002), “Enhancing Governance through Partnerships”, in T. Bovaird, E. Löffler and S. Parrado-Diez (eds): *Developing Local Governance Networks in Europe*, Nomos Publishers, Baden-Baden.

- Giguère, S. (2003), “Managing Decentralisation and New Forms of Governance”, in OECD (2003), *Managing Decentralisation. A New Role for Labour Market Policy*, OECD, Paris.
- Giguère, S. (2004), “Building New Forms of Governance for Economic and Employment Development”, in OECD (2004), *New Forms of Governance for Economic Development*, OECD, Paris.
- Goodin, Robert E. (ed.), (1996), *The Theory of Institutional Design*, Cambridge, Cambridge University Press.
- Greffe, X. (1994), *Sociétés postindustrielles et redéveloppement*, Hachette, Collection Pluriel, Paris.
- Greffe, X. (1999b) A Pilot Action on Local Partnerships in Europe: Final Recommendations, European Commission DG V, Brussels.
- Greffe, X. (2000), *Gestion publique*, Éditions Dalloz, Paris.
- Greffe, X. (2001), “Devolution of Training: A Necessity for the Knowledge Economy”, in OECD (2001h), *Devolution and Globalisation: Implications for Local Decision-Makers*, Paris.
- Greffe, X. (2002), *Le développement local*, Éditions de l'Aube, Aix en Provence.
- Greffe, X. (2003), “Decentralisation: What Difference Does it Make? A Synthesis”, in OECD (2003c), *Managing Decentralisation: A New Role for Labour market Policy*, OECD.
- Greffe, X. (2004), “Wallonia: Stimulating the Emergence of Agents of Change”, in OECD (2004), *New Forms of Governance for Economic Development*, OECD, Paris.
- Greffe, X. and Pflieger S. (2005), *Culture and Local Development*, OECD, Paris.
- Hendeliowitz, J. (2003), Denmark: Anchoring Labour Market Policies in the Regions, in OECD (2003c), *Managing Decentralisation: A New Role for Labour Market Policy*, OECD, Paris.
- Hirst, P. and Thompson, G. (1999), *Globalisation in Question. The International Economy and the Possibilities of Governance. Second Edition*, Polity Press, Cambridge.
- Jennings, B.T. Jr., Krane, D., Pattakos, A N. and Reed, BJ. (1986), *From Nation to States: The Small Cities Community Block Grant Programme*, State University of New York Press, Albany New York.
- Knutzen, P. (2003), "Norway: Developing an integrated approach in the regions", in OECD (2003c), *Managing Decentralisation: A New Role for Labour Market Policy*, OECD, Paris.
- Kooman (ed.) (1994), *Modern Governance: New Government-Society Interactions*, Sage, London.
- Laidlaw, B., and Layard, R. (1974), “Traditional versus Open University Methods: A Comparison”, in *Higher Education*, 3.

- Le Galès (1998), “Government and governance of regions: structural weaknesses and new mobilisations”, in P. Le Galès and C. Lequesne (eds), *Regions in Europe*, Routledge, London.
- Le Grand, J. and Bartlett, W. (eds.) (1993), *Quasi-Markets and Social Policy*, Macmillan, Houndsmills.
- Leicester, G. and Mackay, P. (1998), *Holistic Government: Options for a Devolved Scotland*, Scottish Council Foundation, Edinburgh.
- Lin, Nan (2001), *Social Capital: A Theory of Social Structure and Action*, Cambridge University Press.
- London Development Agency (2000), *Draft Economic Strategy*, London Development Agency, London.
- Markusen, A. (1996), “Sticky places in slippery space: A typology of industrial districts”, in *Economic Geography*, Vol. 72.
- Marshall, A. (1919), *Industry and Trade*, Macmillan, Houndsmills.
- Morgan, K. (1997), “The Learning Region: Institutions, Innovations, and Regional Renewal”, in *Regional Studies*, Vol. 31, No. 5.
- OECD (1990a), *Implementing Change: Entrepreneurship and Local Initiative*, OECD, Paris.
- OECD (1990b), *Enterprising Women*, OECD, Paris.
- OECD (1996a), *Local Partnerships and Social Innovation: Ireland*, OECD, Paris
- OECD (1997a), *Networks of Enterprises and Local Development*, OECD, Paris.
- OECD (1997b), *Managing Across Levels of Government*, OECD, Paris.
- OECD (1997c), *Globalisation and Small and Medium Enterprises (SME)*, Volume 1, Synthesis Report, OECD, Paris.
- OCDE (1997d), *The Public Employment Service – Belgium*, OECD, Paris,
- OECD (1998), *Integrating Distressed Urban Areas*, OECD, Paris.
- OECD (1999a), *Micro-financing and Local Development*, OECD, Paris.
- OECD (1999b), *Decentralising Employment Policy. New Trends and Challenges*, OECD, Paris.
- OECD (1999c), *The Local Dimension of Welfare-to-Work: An International Survey*, OECD, Paris.
- OECD (1999d), *Business Incubation: International Case Studies*, OECD, Paris.

- OECD (1999e) *Taxing Powers of State and Local Government*, OECD Tax Policy Studies No. 01, OECD, Paris.
- OECD (1999f), *Social Enterprises*, OECD, Paris
- OECD (2000a), *Good Practice in Business Incubation*, Local Economic and Employment Development (LEED) Programme, Notebook No. 28, OECD, Paris.
- OECD (2000b), *Economic Outlook*, December, No. 68, Volume 2000, Issue 2, OECD, Paris.
- OECD (2001a), *Government of the Future*, OECD, Paris.
- OECD (2001b), *Cities for Citizens: Improving Metropolitan Governance*, OECD, Paris.
- OECD (2001c), *Corporate Social Responsibility: Partners for Progress*, OECD, Paris.
- OECD (2001d), *Local Partnerships for Better Governance*, OECD, Paris.
- OECD (2001e), *Putting the Young in Business: Policy Challenges for Youth Entrepreneurship*, OECD, Paris.
- OECD (2001f), *The Well-Being of Nations: The Role of Human and Social Capital*, OECD, Paris.
- OECD (2001g), *Women Entrepreneurs in SMEs: Realising the Benefits of Globalisation and the Knowledge-based Economy*, OECD, Paris.
- OECD (2001h), *Devolution and Globalisation: Implications for local decision-makers*, OECD, Paris
- OECD (2003a), *Entrepreneurship and Local Economic Development: Programme and Policy Recommendations*, OECD, Paris.
- OECD (2003b), *The Non-profit Sector in a Changing Economy*, OECD, Paris.
- OECD (2003c), *Managing Decentralisation. A New Role for Labour Market Policy*, OECD, Paris.
- OECD (2004), *New Forms of Governance for Economic Development*, OECD, Paris.
- Osborne, D. and Gaebler, T. (1992), *Re-inventing Government. How the Entrepreneurial Spirit is Transforming the Public Sector*, Addison-Wesley, Reading, Massachusetts.
- Sabel, Ch. and O'Donnell, R. (2001), "Democratic Experimentalism: What to Do About Wicked Problems After Whitehall", in OECD (2001h), *Devolution and Globalisation: Implications for Local Decision-makers*, OCDE, Paris.
- Straits, R. (2003), "The US: Decentralisation from the Bottom Up", in: OECD (2003c), *Managing Decentralisation: A New Role for Labour market Policy*, OECD, Paris.

The Tavistock Institute (1999), *The thematic evaluation of the partnership principle*, Final synthesis report commissioned by the European Commission, London.

-
- 1 There may be other risks: employers might manipulate these mechanisms to their own advantage, rather than that of jobseekers, but experience has not shown this to be the case.
 - 2 The current reform of the RMI ("minimum integration income"), to which an RMA ("minimum activity income") will be added, is also moving in this direction: workforce entry can be achieved through neighbourhood service activity, and not only through a return to standard employment. This reform implies decentralizing operations by giving the departmental General Councils control over both the financial aspect (allocation of income) and the occupational aspect (the possibility of pursuing an activity).
 - 3 In fact, the first law on vocational training, the 1962 Federal Manpower Development Training Act (MDTA), made vocational training a federal service, targeted primarily at particularly disadvantaged persons. Managed from the centre, it failed to mobilize many of the NGOs that were especially interested in resolving these problems, and the result was to create gaps or overlapping. The Comprehensive Employment Training Act (CETA) established local coordination boards and redistributed federal funding, but the private sector had little involvement in providing training services, and this called into question the nature of vocational training provided in standard classes. The 1982 Job Training Partnership Act (JTPA) accordingly targeted vocational training programs at local employers' needs, and relied as much as possible on their own training systems.
 - 4 An earlier declaration was issued in 1998, in the same European context that returned the role of the PES essentially to reintegrating the unemployed through a social approach to their situation. Now, three years later, the PES are taking a very different approach to their activity.
 - 5 It is clear, as has been argued from the outset of this report, that the partnerships needed to improve local governance of employment must be strategic partnerships first, and secondly cosmetic partnerships. Because employment problems are multidimensional, one must first accept the equality of roles and value systems of all stakeholders, although other, more technical partnerships may in time emerge. This plurality associates economic and social considerations, employment and unemployment, activity and sustainability, etc. There is a major difficulty here. If they are not coordinated, these initiatives are likely to result in a series of cosmetic or "convenience" partnerships, and there will be little possibility of strategic partnerships. In its research on the ADL mechanism, the Free University of Brussels noted a flurry of highly divergent activities and projects. The research training conducted by SEGEFA arrived at the same conclusions, stressing the difficulty for ADLs in implementing their strategic platform, and the fact that in the end the only actions that counted were those initiated by the operational unit. And when it came to economic issues, here again the ADLs most often appeared as go-betweens rather than pioneers or prospectors. Most activities consist of support and counselling, and the strategic platform is, with rare exceptions, a records-keeping body rather than one for coordinating development projects within a territory. The operational unit of the ADLs is more incisive, but the proportion of support activities still outweighs proactive engagements. This may explain as well why the ADLs have lagged behind on environmental issues, a topic that arises as soon as territorial thinking begins to take on a strategic content. We may note, without exaggerating the point, that some inter-communal development associations take more readily to such strategic thinking, which underlines the ambiguity in trying to separate economic from employment concerns.
 - 6 It is no surprise that such partnerships have sprung up with the activation of employment policies, for to be effective those policies must rely on synergy among stakeholders who are, a priori, independent of each other but are addressing the same challenges.
 - 7 Romanian Ministry of European Integration (2003), "Drawing up 2004-2006 National Development Plan", Presentation by Alexandru Folescu and Iulina Topoleanu, Trento Seminar, 22-27 November 2004.
 - 8 Regional Development Agency of the West Region, Timisoara, Romania (2004), "Regional Large Scale Infrastructure Projects".
 - 9 Standing Committee of Towns and Municipality Beograd (2003), "National Campaign for Adoption and Implementation of the Democratic Codes of Conduct for Elected and Nominated Local Officials in Serbia", Presentation by Maria Grujic, Trento Seminar, 22-27 November 2004.
 - 10 ZELS (Association of the Units of Local Self Government of Macedonia, Skopje (2003), "Opening the Offices for Local Economic Development", presentation written by Aneta Lozanoska, Trento Seminar, 22-27 November 2004.

-
- 11 Federal Ministry of Administration and Planning (2004), "Social review and SWOT Analysis of the North-East Economic Bosnia and Herzegovina Region, Sarajevo", presentation written by Zineta Rasavac, Trento Seminar, 22-27 November 2004.
- 12 Bulgarian Association of Regional Development Agencies and Business Centres (2003), "RDA as a tool for enhancing SMEs development within the enlarged internal Market", presentation written by Milana Dacheva, Trento Seminar, 22-27 November 2004.
- 13 Regional Development Agency, Tuzla (2003), "EU RED – EU Regional Economic Development in B&H", presentation written by Mevlida Kusonic-Vlajic, Trento Seminar, 22-27 November 2004.
- 14 Chamber of Commerce of Neograd (2004), "Touristic Networking in the Neogradiensis Euroregion", presentation written by Ildiko Sandor, Trento Seminar, 22-27 November 2004.
- 15 Regional Council of Lehza (2003), presentation written by Bardhok Ndreca, Trento Seminar, 22-27 November 2004.
- 16 Regional Council of Kosice, Slovakia (2003), "Innovative Model of Employability Rising of the Unemployed graduated Young People", presentation written by Gejza Legen, Trento Seminar, 22-27 November 2004.
- 17 Ministry of Regional of Regional Development and Local Governments of Latvia, Riga (2002), "Development Program for the Specially Supported Regions", presentation written by Nina Linde, Trento Seminar, 22-27 November 2004.