Review

Local economic development instruments and strategies

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The process of the local economic development is extremely complex. The different authors aggregate concept, objectives and actors of it diversely. According to the literature, the local economic development is an intervention to the function of the economy. Its purpose is to secure the sustainable local development and raise standard of living. The intervention requires involvement of many actors, who approach the process from various sides. But the instruments, which are used by them, are very similar. In this paper, I will make a short overview of instruments and strategies of the local economic development, then I analyze shortly practice of Vienna on the grounds of its last development strategy. The strategy brings into focus thinking and acting in a European perspective and the aims are to reinforce Vienna's competitive position and to overcome the challenges.

Key words: Local economic development, instrument, strategy, intervention, economy.

INTRODUCTION

Does the intervention need the local economy? The answer is very difficult and controversial. According to the researchers, in most cases, the local actors trusting in success argue in favour of intervention. The confidence, the will to act may arise from the possible inability of government. However, it can be seen that the local level has limited room for manoeuvrer.

LOCAL ECONOMIC DEVELOPMENT INSTRUMENTS

As we examine the international and national literature, we can see that the regulatory and organizational system of the countries are quite different and diverse but in the case of the economic development tools used by local actors the situation is not the same, in fact, they are very similar. Widespread economic development tools are for example, tax exemption or tax benefits, ensuring site, development of infrastructure, promotion of Small Medium Enterprises (SMEs) or training programmes. Installation of industrial parks, industrial zones and incubator houses are frequent as well. Obviously, there are some very special instruments for economic development, but such exceptions are not usually found in Central and Eastern Europe but in countries outside Europe. For example, the U.S. government often used such lending practices; provide such guarantees, which in Central and Eastern Europe would not be feasible. Of course, in the region, there are also differences, which result in the application of a certain instrument not allowed in one country but proved to be the best practice in another.

In the subsequent part of our study, on the basis of the literature we examined, we looked at the most popular and widely used tools grouped by author's research under the topic of local economic development. The already introduced strategies defined by Blakely and Bradshaw contain the following tools:

A community-based economic development strategy's tools are for example:

1. Creation of local enterprise agencies;
2. Support of minorities and disadvantaged communities by providing loans;
3. Creation of community development bodies;
4. Marketing activities.

Business Development Strategy's assets are:

i. Incubators, establishment of enterprise zones;
ii. Establishment of industrial parks and technology parks;
iii. Supporting R and D;
iv. Advisory centers supporting business activity;
v. Promotion of new businesses, entrepreneurs;
vi. Business information centers.

Site development strategy among others includes the following:

i. Infrastructure development;
ii. Tourism development;
iii. Development of public services;
iv. Housing improvement;
v. Industrial area formation, land expropriation;
vi. Simplification of legislation;
vii. Construction of shopping centers.

Human resource development strategy uses tools such as:

i. Providing training that meets the requirement of the enterprises;
ii. Providing training for disadvantaged and long-term unemployed;
iii. Programs for part-time and intermittent employees to facilitate permanent employment;
iv. Programs for school leavers to encourage employment;
v. Education that suits sectors’ needs;
vi. Employment centers register unemployment, dealing with labour market mediation (Blakely and Bradshaw, 2002).

Linder and Peters distinguish four groups of local economic development tools, namely the tools of direct service development, exhortation, subvention and regulation.

Direct service development tools are for example:

- Improving drinking water supply;
- Improving public safety;
- Improving conditions for pedestrians;
- Road network development;
- Improving parking facilities;
- Improving sewage treatment system;
- Improving street-orderly.

The tools of regulation are the following:

- Land expropriation;
- Improving industrial zone and residential zone formation system;
- Regulation of the streetscape;
- Regulation waste management;
- Improving construction management system;
- Appointing an ombudsman to handle the occurring problems.

The tools of exhortation include:

- Supporting existing enterprises;
- Visiting potential investors;
- Attendance at conferences and events;
- Database operation;
- Publishing promotional publications.

Subventions contain among others:

- Providing tax exemption, tax credits/benefits;
- Land donation;
- In-kind services;
- Reducing the rate of profit;
- Warranty for private investors;
- Providing direct loans and loan guarantees;
- Funding tax increase (Linder and Peters, 1989).

On the basis of Alan Norton’s research, Mezei examined the local development tools and practices applied by a few European, American and Asian countries. In his opinion, the most commonly used instruments include:

- Ensuring site;
- Tax exemption, tax reduction;
- Supporting industrial park and industrial zone establishment;
- Job creation;
- Providing preferential loans;
- Encourage the establishment of new technologies;
- Giving guarantee;
- Support and facilitate R and D activities;
- Foster education, professional training (Mezei, 2002).

In his millennium write up work, McGuire made the following groups of economic development policy instruments. In 2005, Capkova studied the local economic development practices in the Central and Eastern European countries. In his study, he distinguished five different groups of incentives. The categories are the followings:

**Financial tools**

One of the ways to support existing enterprises and to attract new investment projects, as we know, is to take financial incentives. Local tax credits, local tax exemptions, credits, loans and guarantees can be mentioned as such incentives. Property taxes in Central and Eastern European countries are rarer than they are in the English-speaking countries. In our region, the most common form of supports are the benefits that appear in the local tax rates, though, this form of stimulation of economic development is restrained. Actually, if it is about this group of tools, due to the scant municipality budget their usage is limited.
Table 1. Classification of Economic Development policy Instrument

<table>
<thead>
<tr>
<th>Endogenous</th>
<th>Exhortation</th>
<th>Subsidy</th>
<th>Direct Provision</th>
</tr>
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<tbody>
<tr>
<td>Rehabilitation of buildings</td>
<td>Visit to existing business</td>
<td>Tax abatement</td>
<td>Improved water treatment/distribution system</td>
</tr>
<tr>
<td>Employee training/retraining</td>
<td>Attendance at conferences</td>
<td>Tax increment financing</td>
<td>Improved sewage collection/treatment system</td>
</tr>
<tr>
<td>Develop export markets</td>
<td>Business roundtable</td>
<td>Direct loans</td>
<td>Improved public safety services</td>
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Property-related tools

The municipal property can also be used to support local businesses, but the use of this instrument also have a limit, which lies in the amount of available property. We can mention industrial parks, industrial zone formation, reduced rental or sale as wealth-related instruments. Each tool is widely used to support newly settled enterprises. From the category of property-related tools in most Central and Eastern European countries, local municipalities often establish industrial zones, business parks and business incubators. The latter provides wide range of business services and aims to support the development and growth of small enterprises. In addition, serve as site for new businesses as well. In favour of new enterprises, the local governments also can act as a guarantor for loans, but for them it has a reasonably high risk.

Marketing

Local municipalities are forced by global competition and rapid changes in all areas of economy to use intense and increasing promotion in their target markets. These target markets include all of the residents, visitors, enterprises and export markets. The promotion, also known as “place marketing” is a widely used tool by local governments for local economic development in the vast majority of countries.

Infrastructure development

Economic development certainly includes the provision of and support for the availability of infrastructure. Accepted view is that the companies take three cost components into account when it is about location choice such as: costs of transportation, labour and energy (table 1).

As the table 2 shows, in this period, the public sector loses from its dominance and the business and civil sectors get more important role. Moreover, the availability of European Union funds appears beside domestic
resources. The top-down approach was replaced by the bottom-up strategies. The local economic development approach focuses on the local business environment, the development of innovation potential and the retraining and attraction of skilled labour forces. The organization, implementation and funding of the development is based on the public, private and community sectors partnership; a significant public role, however, still remains (Swinburn, 2007).

LOCAL ECONOMIC DEVELOPMENT STRATEGIES

The different local economic development strategies are grouped diversely. Blakely and Bradshaw identify four types of strategies on the basis of American practices:

- Community-based economic development strategy
- Business development strategy
- Site development
- Human resource development strategy.

The aim of community-based economic development strategy is to facilitate the development of local community, above all, creating workplaces, focusing on young people, permanently unemployed and special actors. The objective of business development strategy is to advocate creating and attracting new enterprises, besides retention and expansion of existing companies. The growth of workplace’s number can be defined as an advantage of this strategy. With developing locations, namely with configuration of local physical environment, local governments can affect decision of enterprises which look for location. The local business environment can be done attractive with many instruments, for example, with accentuation of the advantage of national values, offered service, or commercial and industrial factors.

The human resource development strategy’s goal is to harmonize supply and demand of labour. The instruments of realization are, for example, training, placement or observance of labour force (Blakely and Bradshaw, 2002). Sawitch and Kantor examined practices of American and European cities in 2003. They denominated four local economic development strategies:

- Community development strategy
- Growth-oriented strategy
- Concept of regionalism
- Application of national urban policy.

According to them, the aim of community development strategy is to expand development and innovation capability of local community and settlement, moreover, flexibility of the economy. The instruments of growth-oriented strategy are for example, furtherance of clustering, expanding attraction of the settlement by place marketing, accentuation of provided service or simple action by local government. The conception of regionalism support cooperation between local governments. The national urban policy supervises on the one hand the local developments, and on the other hand, forms the relationship between central and local governments (Sawitch-Kantor, 2003).

Another approach separates demand-side and supply-side local economic development strategy. On the grounds of temporality, supply-side strategies gave place using demand-side strategies. These changes happened in the Anglo-Saxon countries in practice previously in Europe. Although, according to the surveys, which are made in the middle of 2000 years, the supply-oriented strategy is applied widespread by local governments. In pursuance of this strategy, the growth of production and income are accessible, for example, by expansion of capital, labour force or economic efficiency, but it may be conceivable by combination of these and in each case, may occur such as circumstances, which limit free using

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Table 2. The third wave of the local economic development

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of this strategy by local governments. Evidently, impact of migration or investment’s growth is absolutely different on rural area or great cities.

In general, the developer’s goal with this strategy is attracting companies and investors. The method of achievement of this objective is creating favourable business environment by lowering cost of labour, capital and site. The instruments are becoming very complex in the last years. At the beginning, the most prevalent tools were, for example, tax allowances or providing cheap building site, than appeared different financing agreements or restructuring of regulation environment (Faragó, 1994b). But only attracting new enterprises and investors, creating appealing business environment are not sufficient for the success. According to Levy, most local economic development takes the focus on observance of already existing companies (Levy, 1992). But according to American and European research, using supply-side strategy could cause conformation of prisoner’s dilemma situation. Namely, because all local government’s goal is to attract investors and to acquire competitive edges, they practice method of discrete allowances. However, this way will not be the primary factor of pressuring site selection decisions, but participative condition in competition, thus, in the zero-sum game. This and other problems lead to using demand-side strategies. According to this strategy, the local governments provide supports to local businesses, promoting their success outside of settlement. Enhancing internal economical activity are emphasized and not recruitment of new investments or companies. They advocated all opportunities, which could be manifested, for example, in new products or using new technologies. In this case, instrument of local governments is establishment of incubators, developing export market, supporting job trainings or, for example, financing venture capital.

By engaging this strategy, the major goal is creating and improving demand, but the latitude of local governments is not too wide. Supporting clusters, high-tech activities or rearrangement of local resources, developing infrastructure, raising marginal productivity on behalf of changing economic structure could come into question. It is necessary to mention these problems, which put off adaptation. According to researches, the demand-side strategies are adaptable only in those settlements, which are originally successful and positioned in the evolved world economic situation. It is needful to achieve this successful position, for example, developed research institutes, skilled workers, business networks and active partnership. Because of long-term visible results, this strategy is not widespread in the case of local governments (Mezei, 2007).

**Local economic development in Vienna**

The last development strategy and plan was discussed in 2005. This strategy brings into focus thinking and acting in a European perspective. The plan is based on the following principles:

- Sustainability
- Participation
- Gender mainstreaming and
- Diversity.

The aims of the strategies are to reinforce Vienna’s competitive position and to overcome the challenges. The city accounts for 28% of total added value generated in Austria and 23% of total number of workplaces. The level of economic development is the highest in Vienna among the other Austrian regions and holds leading position in Europe; although, in the past years, the economic structural change caused decline in the secondary sector in the number of jobs and the quality of economic activity improved. The development in the last 20 years was very strong in sectors with low qualification requirement and high share of woman and in the know-how intensive sectors.

The secondary sector is changing. We can see that in the consumer goods, industry revealed downturn, but in the exporting industries, for example, automobile and vehicle manufacturing, electronics or the chemical industry, there are dynamic growths. The research and development play important role in the city. Significant amount are spent on research and development by the universities, research organizations and enterprises alike. The structure of the labour market illustrates on the one hand, a structural change, and on the other hand, economic and social problems of the economy. That is:

- The level of unemployment is higher, than in other parts of Austria.
- More than 75% are employed in the tertiary sector.
- The employment has been developing less expeditiously, than in average in Austria. All the same, the female employment experienced an increase because of rising number of part-time jobs and larger number of jobs in the tertiary sector.
- But the qualification levels of employees are higher in the city, than the country average.

There are specific structures of the enterprises in Vienna’s economy. The majority of workplaces are given by the small enterprises, which secure the 35% of all jobs in the city. The significance of the small and medium sized enterprises is very gross. The local government pays remarkable attention to maintain existence of these enterprises and support their development.

The Economic Development Scheme includes the following elements:

- The development areas of great importance
- The determination of the city’s Agricultural Structural
Development Plan and Measures, which assure the existing corporation structure.

The local government centers fill decisive economic role in Vienna and certainly the other cities. The city has important economic function and the local government at times makes an effort to retain and strengthen it. In reference to the retail trade, the government and its measure aim to improve availability, to raise the demand and to revise the quality of the streets. But the shopping centers, the specialized markets and the ascendant competition take extenuating effect on the retail trade. Vienna’s development project brings into focus to develop the city, improve and preserve its attractive position. The local government creates several master plans, urban settlement schemes, projects and presents services in connection with availability by excellent quality and high-capacity transport infrastructure (according to the information, heard at the DRC Summer University).

CONCLUSION

In this work, I made a short summary of instruments and strategies of the local economic development on the basis of literature review. Does the intervention need the local economy? The answer is very difficult, but I think, yes, and the intervention requires involvement of many actors, who approach the process from various sides. The regulatory and organizational systems of the countries are quite differentiated, but in case of the economic development tools used by local actors, the situation is not the same; they are very similar. The different local economic development strategies are grouped diversely. In general, the developer's goal with the strategy is attracting companies and investors. The method of achievement of the objective is creating favourable business environment by lowering cost of labour, capital and site. I analyzed a shortly practice of Vienna on the grounds of its last development strategy; the strategy brings into focus thinking and acting in a European perspective and the aims are to reinforce Vienna’s competitive position and to overcome the challenges.

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