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The policies for the small-business industrial clusters: a comparative analysis, with particular reference to governance at regional and local level

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The policies for the small-business industrial clusters: a comparative analysis, with particular reference to governance at regional and local level

Aurelio Bruzzo [*]

Abstract:

In today's globalising world, the regional specialisations built up over decades are transforming rapidly. Many regions that were historically production-centres in a given sector are losing out to lower-cost locations and reorienting to higher value-added niches.

Aim of this paper is to analyse the national programmes to promote cluster-based approaches – linking firms, people and knowledge at a regional level – that are being used to meet the challenge.

The paper analyses the objectives, targeting, instruments and intergovernmental role sharing used by programmes that are being adopted in some OECD countries, included Italy.

JEL: 025; R58; L25; O14; 057; E61; H76
Keywords: Industrial Policy; Regional Development Policy; SMEs; Industrial Clusters; Comparative Studies of Countries; Policy Coordination; Government Levels

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Introduction

This paper has the twofold purpose of conducting a review of the international economic literature concerning the comparative analysis of regional development processes, and considering the relative policies for firms operating in productive districts, from which useful insights can be drawn in regard to other developing countries like Argentina.

To this end, use will be made of various official and unofficial sources, and in particular recent OECD Reports, which are not only particularly authoritative bibliographical sources but also especially relevant to the specific purposes of this paper.

However, the OECD reports extensively used here will be integrated – where possible – with a selected bibliography on the specific experiences of Italy and Argentina in regard to both regional development in general, and the spread of small and medium-sized enterprises in specific areas of these countries in particular.

Accordingly, the paper divides into three main parts:

i) an overview of the factors that appear to have driven regional development in countries at different levels of economic development. This analysis will be conducted with a predominantly methodological purpose, namely to highlight the indicators usually employed by prestigious and reliable international bodies to conduct comparisons at international level;

ii) extensive analysis of the policies recently adopted in these countries in favour of regional poles for innovative activity . On the one hand, particular reference will be made to Italy's experience, which is considered especially significant because of the numerousness and diversity of its industrial districts, as well as their long-term and also international success. On the other hand, the Argentine experience of manufacturing districts will be considered, the purpose being to highlight those of their features that tend to differ from those of Italian districts

iii) thorough analysis of the governance strategies seemingly appropriate to the development of competitive regions, with particular regard to the forms of governance that international bodies consider most valid and effective for the promotion of local development within countries not yet fully and stably developed.

The paper concludes with specific discussion of economic policy measures aimed at promoting the development of productive activities in OECD member-countries. These measures, in fact, might to some extent be adopted in Argentina as well, with particular regard to industrial policy designed to foster greater cooperation, and at the same time, more

effective competition among firms, thereby overcoming the current phase of structural crisis, which affects Argentina as it does almost all the countries of the world, developed or otherwise.

Hence, the aim of this paper is to furnish a comprehensive account of the main topic of the broader project, which – as known – focuses on the governance-based economic policy approaches recently adopted in both Italy and Argentina, the belief being that the routes taken have been fairly similar, but that currently the two countries have reached different and distant stages along the path which they should follow to achieve both stable and balanced economic development.

decentralisation that has taken place since 1999 across a range of policy domains. Regions are in charge of the promotion of applied research, innovation, and technology transfer programmes and projects (EC, 2005). Other responsibilities that used to be exclusively central government concerns are now shared responsibilities, such as pure scientific research (basic research). Most Regions have regional innovation plans which they design and then submit to the relevant central government ministries who verify the coherence of the regional strategy with respect to national R&D guidelines and policy[15].

The availability of EU Structural Funds which have promoted the national-regional co-funding mechanisms on which many of these strategies are based has been an important additional influence on this evolution. Similarly the consolidation of the governance processes within the Patti territoriali and Contratti di Areahas also been influential in broadening the scope of regional action in the field of innovation. Many programmes at the regional level have been strongly supported through the EU-funded Structural Funds[16].

Governance and support for clusters and industrial districts

As Regions have taken more control over innovation and related policies, public support for clusters has also become stronger at the regional level. Progress with decentralisation has shifted the emphasis of this legal framework provided by Law 317 and subsequent decrees from the national to the regional level, with regions now the main actors in defining their industrial districts and targeting funding to them. The Lombardy Region was among the first to act on this new legislation, developing a system that identified a number of different clusters and making the framework a key component of its support for SMEs, with particular emphasis on product and management innovation in more advanced firms and sectors. By contrast, the use of the law in other Regions has often been related to building co-operation and networking within industrial districts rather than on innovation as such. This was partly because the legislation was relatively complicated. For example, the restrictions on beneficiaries (that they should be collective rather than single firms) made projects of research and commercialisation difficult for the public authorities to support without the risk of contravening regulations.

In 1999, a new national law on industrial clusters (140/1999) following Law 317 was enacted which simplified procedures and gave more power to the Regions to develop their own strategies based on criteria that follow the national criteria but with some flexibility. For example, the Veneto Region has adopted a law to combine the different regulations and instruments relating to industrial districts. This regional law emphasises some basic criteria

[15] Examples of Regions that have successfully developed their own plans with regional funding to support clusters are Campania and Emilia Romagna. The Lombardy and Veneto Regions have also developed their own legislative framework to support industrial districts.

[16] The National Operating Programmes (Programma Operativo Nazionale – PON) include one targeted on scientific research, technological development and higher education/training (PON Ricerca, Sviluppo Tecnologico ed Alta Formazione) and another one is targeted to local entrepreneurship development (PON Sviluppo imprenditoriale locale).

(more than 80 companies in the same sector, more than 250 employees in those enterprises) but also adds more "qualitative" criteria designed to pick out regions where there is a history of joint working among enterprises and where the level of innovation is high. Funding from the regional government of up to 40% of costs for projects identified by the "industrial district committee" is provided.

Law 317 and its subsequent amendments and laws flow directly from the Ministry of Productive Activities and its long-standing approach to support SMEs in industrial districts.

2.2.3 Details on programme budget and timeframe

Law 317 is a facilitation law that allows programmes funded at both national and regional levels to target industrial districts collectively and recognises associations or consortia of firms as funding recipients. As such, this cluster support model is not a direct funding instrument. Funding allocations that use this mechanism will vary according to region and by specific use (support for networking or marketing a cluster, training and skills development, etc.). There is no timeframe linked to the law.

Funding for the Technological Districts is joint central government/regional government. The level of funding provided varies by region; however an indication of the size of the budgets and contributions is given in Table1.

Table 1. Budgets for Italian Technological Districts (2004-08)

Region	Field	Central government (MIUR) (EUR million)	Regional government (EUR Million)
Emilia Romagna	Advanced mechanics	25	25
Lazio	Aerospace	30	30
Friuli-Venezia Giulia	Molecular biomedicine	25 ca.	25 ca.
Veneto	Nanotech	26	15

Source: Ministry of Education, University and Research.

2.2.4 Targets and scope

Targets and selection criteria

Clusters/industrial districts are recognized by Law 317/1991 "Interventi per l'innovazione e lo sviluppo delle piccole imprese" (Interventions for innovation and development in small enterprises); article 36 of this Law defines a district as a "territorial area characterised by high concentration of small enterprises having a productive specialisation and where a special relationship between local population and enterprises exists".

Table 2. Criteria for Italian industrial districts

Criteria	Threshold
1. Manufacturing industrialisation (total manufacturing industry employees/total employees	30% more than the analogue national average
2. Entrepreneurial density (manufacturing local units/resident population)	Higher than the national average
3. Productive specialisation (specialised sectors employees/total employees)	30% more than the analogue national average
4. Specialisation intensity (local units employees in specialised sectors)	30% more than the manufacturing employees of the local labour system
5. Employees small enterprises in the specialised sector	50% more than the manufacturing employees of the local labour system

Source:OECD (2001b)

A subsequent decree by the Ministry of Industry, 21/04/93, specified that clusters have to be identified among the local labour systems set up by ISTAT (National Institute for Statistics) and have to be manufacturing clusters both in terms of employment and units. The criteria used for this purpose are described in Table 2.

According to ISTAT, the Italian National Statistics Agency, there are around 200 of these industrial districts that are legally codified under Law 317 of 1991 and its implementing provisions. However very few regions have established funding programmes using this law.

The main criteria adopted for the creation of new technological districts are:

the availability of a well-structured project incorporating extended foresight studies in the chosen area of interest, the definition of vision, mission and of the regulatory processes for the management, rules for the protection and distribution of intellectual property.

the coherence of the project with the strategic fields identified in the guidelines of the national S&T policy.

the participation in the district of public stakeholders (university and/or research bodies) with the necessary experience in the field of interest and a background of collaboration with industrial partners.

the presence in the proposed district of private relevant stakeholders, for industries with a long record of activity in the field, willing to establish a joint collaboration with public actors, and whose activity is mainly located in the same regional and local environment; the existence of a group of individual leaders, with proven experience in the field, belonging to the private and the public spheres.

Strategic fields include pharmaceuticals, nano-biotech products, medical/agro and advanced diagnostic tools, bio-informatics and neurological diseases[17].

[17] The full list of the productive sectors in which the current Technological Districts operate is as follows: wireless applications (Piedmont), molecular biomedicine (Friuli Venezia Giulia), biotechnologies (Lombardy), ICT (Lombardy), advanced materials (Lombardy), polymeric materials and compounds (Campania), advanced

The organisation of the Districts is quite open but, as an illustration, HI-MECH, the high-tech district of Networked Laboratories for Advanced Mechanics in Emilia-Romagna, has over 40 partners including the major regional universities and enterprises. The aim is to include both one hundred of the region's largest companies and local SMEs.

The Technological District project also has a regional dimension to its selection criteria with the government aiming to relaunch research and innovation in southern Italy by means of the Framework Programme Agreements.

Cluster selection process

For Law 317, eligible clusters were defined by law and based on a statistical mapping. Firms may or may not have been actively working together before seeking to participate in any programmes flowing from this law. For the Technological Districts, the main criteria used were those noted above, in the context of a desire to "map" and support key regional concentrations.

Number of cluster participants

The numbers of firms involved in cluster initiatives relating to Law 317 varies according to the region concerned. There are no specific regulations other than those that govern the "labelling" of a cluster that is eligible for funding.

The Technological Districts are very new and only three are currently established. The others are in preparation and, as such, the numbers of firms and Higher Education Institution (HEI) involved or invited to participate varies. The Hi-MECH initiative in Emilia Romagna, for example, involves more than 100 firms and around

700 researchers. Others have set out ambitious objectives such as creation of a specific number of new firms or leveraging of private sector funding for the innovation process[18].

Cluster institutional status, governance and linkages

The consortia of firms under Law 317 are legal entities. Technological Districts are managed by a legal entity representing the regional authorities and other public sector and private sector stakeholders.

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mechanics (Emilia Romagna), microelectronics (Sicily), nanotechnologies (Veneto), integrated smart systems (Liguria), aerospace technologies (Lazio), renewable energy and environmental technologies (Trentino), ICT and security (Toscana), food security and quality (Abruzzo), Agro-industry (Molise), Agro-industry (Puglia), High-tech (Puglia), innovative technologies for seismic risks (Basilicata), Logistics (Calabria), Cultural heritage (Calabria), bio-medical and health technologies (Sardinia), naval transportation (Sicily), sustainable bio-agro and fishery (Sicily), nano-micro technologies and special materials (Umbria).

[18] For example, Torino Wireless intends to create 50 stable new innovative firms and increase the number of researchers in the region engaged in ICT from 2 000 to 6 000, with the impact of ICT on the regional economy targeted to rise from 5% to 8-10% over the programme period (to 2008). The targets for the Campania Technological District are to create 30 new start-ups in the first seven to ten years, to attract new companies to the sector in the region (over 50 leading companies and 50 medium-sized companies in five years), to increase the number of recorded patents (100 in five years) and to speed up revenue growth of existing companies (target of 23% per year).

Administrative boundaries

There are a number of examples of industrial districts in Italy being linked to production sites in lower cost countries through co-ordinated action by entrepreneurs and the public authorities[19].

2.2.5 Instruments

The Technological Districts use a variety of instruments. Looking across the Districts, the instruments can be grouped under the following main headings:

co-ordinating joint research projects involving HEI and private firms and strengthening the R&D infrastructure (buying equipment or building new facilities);

attracting and training researchers (e.g, establishing labs, scholarships or training courses in the specialised field of the District);

supporting spin-offs and business expansion, including entrepreneurship training, help with patenting, marketing business services for SMEs.

Industrial districts supported under Law 317 and similar measures tend to emphasise network building and engagement of firms in collaborative projects. Other areas of specific interest are collective service provision (provided through intermediary organisations) and joint marketing and export promotion activities.

2.3. The specific experience of Argentina

The application of the concept of industrial district (I.D.) to the aggregations of enterprises that characterise the Latin American countries in general requires different connotations to be given to the parameters derived from the traditional definition of a district, so that it can be adapted to the realities of the individual countries concerned.[20] Latin American districts are phenomena in certain respects very different from those in Italy: in particular, one substantial differences is their lower propensity for cooperation.

It should be also noted that it seems inappropriate to refer to a single Latin American district model, given that it is extremely diversified and there are considerable differences among countries, and even within the same country, due to their vast sizes.

A recent analysis of clusters in Argentina shows that they can be divided into two types of industrial grouping which are very different from the Italian industrial districts: a) clusters of enterprises which group around natural and agricultural resources whose availability creates competitive advantages; b) small firms which tend to associate together, but not systematically.[21]

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[19] The Veneto Region has established transnational clusters with Romania and with Slovenian regions.

[20] From Brugnoli, Spairani (2006), pp. 341ff. To be noted is that the debate on clusters, understood as agglomerations of small and medium-scale enterprises mainly operating in the agro-industrial sector, is animated in Latin America, and specifically in Argentina, as indicated by the following works: Dirven (2002), Gorenstein et al. (2005), Gorenstein, Viego (2008).

[21] On the role of I.D. in the Argentine economy see Cado, Pérez Graziano (2006).

In the specific case of the province of Buenos Aires, a further significant difference from the Italian context is that by I.D. is meant a concentration of specialized firms, with similar problems, but not necessarily of small size and with formal associative relations, whereas – as well known – Italian districts are pervaded by dense networks of informal relationships. Evidently, the larger average size of the firms in the Argentinean districts also entails the need for the greater formalization of relations among them.[22]

More detailed analysis of various cases of I.D. in Argentina prompts various considerations regarding their origins, structural characteristics, and main competitive factors. It has been maintained that the development of a district often originates – as already said – from the availability of a substantial endowment of natural resources whose exploitation is also a source of considerable competitive advantage. This is the case in particular of oil and leather districts, for the latter of which cattle, which is very abundant in Argentina, is considered a raw material.

Other types of districts, however, arise from an already-existing large firm: this is particularly the case of districts operating in the textiles sector, which has no economies of scale and whose technology can be adopted even by small workshops.[23]

It therefore seems possible to state that all the districts analysed fall within the definition of a Marshallian district, although relations are often less intense; yet in all the cases considered it is evident that Argentinean I.D. do not base their competitive positions on technological factors.

Recently identified, however, has been an evolution of traditional clusters towards an agglomeration structure with innovative features and termed the 'Regional Innovation System' (R.I.S.). Conceptually, this type of system consists of an I.D. which on the one hand integrates with a composite and interactive set of 'knowledge institutions' – such as universities, research institutes, and centres of technological development — and, on the other, comprises public authorities which bring local government capacities into the system. Finally, the R.I.S. aggregates representatives of business networks, such as industrial and trade associations as well as trade unions, which enrich the district with essential relational social capital.[24]

It is consequently likely that in Argentina, too, the closer linkages among all these actors are leading the I.D. towards more balanced development.

[22] See De Lorenzis (2006).
[23] On the specific experience of textiles districts see Saldivia, López Menéndez (2006).
[24] For more detailed analysis of the R.I.S. as a policy instrument, as well as for technological governance, see Brugnoli, Spairano (2006), pp. 349-352.

PART III

3.1 Governance strategies to build competitive regions

3.1.1 The challenges for policy makers

The first challenge for territorial policymakers is to develop policies that are effective and relevant in different regional contexts. In recent years, the main focus of territorial policy has been on sustaining growth, not only on addressing relative decline but on making regions more competitive[25]. This has involved a shift away from redistribution and subsidies for lagging regions in favour of measures to increase the productivity of enterprises and encourage private investment, including an emphasis on endogenous assets.

Putting this into practice is, however, complicated because different regions have different characteristics (urban, intermediate, industrial, rural, etc.) which in turn imply specific and different policy and investment needs. As a first principle, therefore, policies to improve competitiveness need to be capable of adapting to these different needs.

Regional competitiveness policies also pose significant governance challenges. On the one hand, they depend on effective integration of sectoral policies such as R&D and education. They also demand close co-operation across levels of government and between neighbouring regions, not to mention resource-sharing. They also involve a high degree of co-ordination in planning and spatial development (zoning, network infrastructure development, etc.). As important as the choice of strategy is the framework within which the strategy is implemented.

Policies for firms focus increasingly on measures that promote innovation, but the instruments appear to favour more advanced regions. Knowledge-based strategies stand out as key elements of new regional policy, and they exemplify the move towards building on existing, endogenous assets. National and regional governments are re-orienting their policies to emphasise the role of public policy in creating or facilitating more systematic exchange and interaction among key economic actors. This orientation is driven by recognition that the system by which knowledge is created and then circulates is an important determinant of productivity in a regional context.

This OECD Report assesses three of the most common categories of policy measures that endeavour to build such inter-linkages:

i) **real estate based projects**: development of science parks, techno-poles and other industrial spaces designed to facilitate networking and technology development and transfer through "co-location";

[25] From OECD (2005).

ii) **cluster-type policies**: initiatives to support existing or nascent groupings of firms by providing collective services and other measures to build cooperation within the cluster and to enable joint initiatives to export, market, etc.;
iii) **linking research and industry**: linking knowledge producers with users in order to promote "systems" of technology and innovation diffusion and better commercialisation of innovation.

Among the three instruments discussed in this OECD Report, each has significant advantages and some disadvantages, and there is some complementarity. It is apparent that in the search for regional policies that emphasise knowledge and innovation, these approaches are appealing, individually and in combination.

However, the emphasis on innovation and knowledge has some limitations. In particular, it appears to rest on an assumption that regions have at least moderate levels of "knowledge infrastructure" and that local enterprises have some innovative capacity. The three instruments discussed in the report all appear to be best suited to more advanced regions. In order to be cost-effective and have regional impact in other types of regions, these policies need to be significantly adapted in less amenable contexts than are found in the "best practice" high-tech, high wage regions. So far, adapting innovation-led policies appears often to dilute their impact. For example, the development of ambitious technology parks in less advanced regions has generally been seen to produce very limited results – the term "cathedrals in the desert" has been used to describe them. Cluster policies appear to depend on the presence of factors that are by no means universal in intermediate and rural regions (e.g, sectoral specialisations, networking culture, etc.). A stronger participation by technical colleges in regional development is an important avenue for policymakers; however, it is dependent on the quality of the educational institution concerned and the flexibility of its mission. Other measures to embed Foreign Direct Investment (FDI) and to foster entrepreneurship have also had mixed results outside the main economic centres.

3.1.2 The enabling environment as a factor promoting business activity

The common denominator in current thinking about territorial policy – including in relation to knowledge and innovation – is an emphasis on exploiting place-specific externalities and unused potential. Policy instruments now tend to focus on providing collective goods that improve what has been termed the "enabling environment" or the "quality of place" – the attractiveness and functioning of the region as a whole. These were often formerly part of social or environmental policies, but are now increasingly framed in terms of building competitiveness.

Investment in the enabling environment emphasises physical infrastructure investment, but the constraints on infrastructure investment are growing. In particular, the costs of new infrastructure have increased dramatically, while the proportion of total investment that will

need to be allocated to maintenance is becoming more significant. As a result, policymakers are seeking more cost-effective strategies.

In theory, investment in the regional environment should aim to trigger positive externalities that already exist in the region, which in turn should produce growth effects via more intense and productive economic activity. The issue for policymakers is to identify the possible sources of externalities in regions where economic activity is, for one reason or another, constrained (for example because of remoteness, because of location in a deprived urban area, or because of the presence of political-administrative borders).

Policies for rural regions

Rural policies should emphasise the potential of ICT and of amenities in providing a base for enterprise development. Recent moves to diversify rural economies have shifted the emphasis towards concepts of rural development that include both sectoral and non-sectoral initiatives designed to maintain traditional sectors whilst supporting the emergence of new activities. The concept of competitiveness applied to rural regions is still relatively new, but it is having an important influence on policymaking. Adoption of this more positive approach to rural policy has increased interest in more market-oriented solutions to the problems of rural regions. Two domains appear particularly important:

- **communications infrastructure** produces generalisable time-savings and productivity gains for most economic sectors. There is a close link between the increased use of ICT in rural locations and growing interest among policymakers in rural enterprise creation, including how cluster policies can be adapted to be relevant for rural regions;
- **amenities** can provide the basis for a wide range of economic activities in rural regions, particularly tourism-related activities but also other industries that support SMEs and provide a focus for entrepreneurship.

Policies for urban regions

While urban regions are generally receptive to innovation-led policies, governments are still confronted with localised problems of adjustment. In general, policies to improve the competitiveness of cities emphasise their comparative advantages in terms of knowledge infrastructure and the range and variety of interactions among diverse economic actors. As noted above, innovation-led policies of the type discussed in this report are generally applicable in urban regions, and the main success stories related to these approaches tend to be found in and around metropolitan areas (though not exclusively so).

Nonetheless, governments continue to emphasise the challenges of restructuring industrial economies and the problems of maintaining economic and social vitality in particular areas of cities (whether inner city or suburbs). In such cases, policymakers have recognised that they need to address the quality of the wider urban environment in addition to direct initiatives for the enterprise sector. In this respect, greater use of the framework developed by OECD for

rural amenities would be appropriate with respect to creation of markets for collective public goods and the tools for supporting collective action and public-private partnerships to transform urban land use patterns and regenerate deprived neighbourhoods.

Cross-border regions

Cross-border regions which exemplify the links between competitiveness and governance, represent another case in which the overall strategy to improve the competitiveness of the region generally needs to address issues relating to the enabling environment as well as promoting objectives relating to firms directly. The cross-border integration issue exemplifies the governance challenges that policymakers face in implementing development strategies that are specific enough to provide relevant solutions for a given region, but that are also coherent with national objectives.

The quality of the environment and of local public goods

The emphasis on the quality of the local environment for business leads directly to the question of the quality of locally provided services and public goods. Firms, especially SMEs, are dependent on the environment in which they are located to provide them with different types of "local collective competition goods". This involves the participation of various categories of actors – public authorities at local, regional and central levels, private firms or non profit organisations, etc. – to ensure that the provision is appropriate, relevant, high quality, and so on. For example, regional innovation systems are based on relations between industry and universities, between small and large enterprises, and between sectors (training and employment, for example). At central level, budgets, like the strategies themselves, relate to different ministerial portfolios. And, in a context of decentralisation different sectors are the competence of different levels of government. The co-ordination of the various actors and sectors implied in such "systems" can be defined as mechanisms of multi-level governance, and can be seen to directly influence competitiveness.

3.1.3 Co-operation processes

New forms of governance targeting local and regional competitiveness, like most development strategies themselves, are increasingly oriented towards co-operation[26]. This is true with respect to both vertical linkages (between lower and higher levels of government) and horizontal linkages (which can be of two types: between ministries at central level or between regions or communes).

[26] For a governance-based interpretation of the causal factors responsible for the crisis that hit Argentina in the early 2000s see Haslam (2003). Some recent studies, however, have disputed the real capacity of research on the impact of a country's institutions on its development to furnish immediate and practical recommendations on reform and revision of the institutions in developing countries, such as Argentina, or in the transition countries: see Dixit (2007).

It is also true for linkages among various kinds of stakeholders – essentially public sector and private sector actors (profit or non-profit). In practice, these different forms of co-ordination can be integrated in one and the same system, as is the case for example with "micro-regions" in Mexico or the Czech Republic.

The vertical relation between the centre and regional government

The vertical relation between the centre and regional government is crucial and contracts provide one important means by which to formalise this relation, but co-ordination at the central level between ministries and departments is a pre-requisite to vertical integration of policy.

Given the complexity of multi-level governance mechanisms, the main policy question is: what organisational or institutional devices can promote the active participation of central and regional levels of government in a cooperative rather than hierarchical system? This OECD Report examines one of the principal recent innovations that tries to respond to this question: the use of contractual arrangements among levels of government. Contractual arrangements across government levels represent a compromise, helping to reconcile the tendency towards decentralization with the responsibility of the central level to maintain overall coherence and consistency. Because they are negotiated, contract systems tend to be well-adapted to joint projects of regional development, more so than "automatic" fiscal equalisation mechanisms that often characterised traditional vertical relations. They also have some risks and drawbacks. These are mainly linked to the nature of the relationship among the partners, and have led to the introduction of incentives for the different parties to participate fully and to fulfil their contractual obligations.

While some open questions remain, in general contract-based regional development should aim to:

i) ensure that local authorities are "empowered";

ii) preserve the negotiating power of the central government with respect to other actors;

iii) focus contractual arrangements on a limited number of key programmes, while leaving some room for local targeting;

iv) ensure the transparency of the process and open the contractual negotiation to public participation, at least at some stages.

Only the central government can ensure co-ordinated action among the different actors, as a pre-requisite for the implementation of territorial policies of this type. This co-ordination can be achieved by means of dedicated agencies or through more flexible institutional mechanisms.

Horizontal relations

At regional and local level, closer horizontal cooperation offers significant cost and outcome advantages. Closer co-operation among municipalities can be relevant from two

perspectives: contributing to an improvement in the cost efficiency of local public services and improving the coherence and impact of development projects by emphasizing functional rather than administrative demarcations. Overall, voluntary associations appear to stand a greater chance of success than mergers ordered from the centre. Indeed, although they offer some clear advantages, the economic arguments in favour of mergers have not been proven.

But this co-operation needs to be encouraged by the central level (rather than forced) and to be adapted to the specificity of the area. Co-operative solutions allow local authorities to preserve their identity and autonomy from an institutional point of view. Nonetheless, it is still necessary to find a workable compromise between the need for an intermediary organisation that manages joint programmes and the need to avoid over-complication of the local institutional structure. Moreover, the inter-municipal institutions often lack transparency. One solution is to make nomination of members of such inter municipal bodies more transparent.

Evaluations suggest that the elaboration of common, multi-sectoral development projects is more efficient than co-operation based on specialisation in the management and provision of one particular public service. This allows decision-making on economic development (which is by definition multi-sectoral) to be adapted to a more functional economic scale). Fiscal incentives from the central level and the adaptation of the type of inter-municipal coordination according to the characteristics of the area (metropolitan, urban/rural and remote areas) seem to encourage participation in such arrangements.

Better co-operation between border regions requires more local flexibility and giving a stronger say to local private actors. Interest in mechanisms for managing cross-border regions is the result of two distinct international trends: first, supra-national integration is reducing trade barriers between countries, and second, decentralisation is putting more power into the hands of sub-national governments. Both trends increase the feasibility and potential benefits of collaboration across the border.

The approaches taken in Europe and in North America differ markedly. Despite their ambitious declarations, cross-border governments in Europe have often failed to reach regional development objectives. The cost of coordination and common decision making often appears to outweigh expected benefits. The dense institutional and policy networks that support cross-border co-operation have not automatically resulted in the establishment of new public-private alliances to address regional and local development issues. At its most successful, collaboration has worked mainly where public agencies have been strongly involved and had a direct say in project definition and implementation.

This differs somewhat from the pattern on the North American continent where governance structures tend to be more flexible, more oriented towards a few purposes, better able to react to specific problem situations and more driven by the private sector and local governments. North America's drive for regional integration is motivated much more by direct economic concerns.

Given the problems of motivating integration efforts in many cases, according greater weight to economic integration issues and allowing local private actors a stronger say in the direction that integration should take appears to be important.

3.1.4 The partnership between the public and private sectors

The inclusion of private stakeholders, profit and non-profit, in the decision making and policy implementation processes contributes to improving the competitiveness of regions. Beyond closer collaboration between central and local governments, or between local or regional authorities, there is increasing recognition that purely public intervention has its limits, and this has opened the way for greater co-operation between the public and the private sector through public-private partnerships (PPP). The main traditional advantage that PPPs present is that they split the costs and risks of projects between the public and private sectors, tapping into the expertise and economies of scale available in the private sector that are rarely exploited for public policy. The principal risks associated with PPPs are linked to asymmetries of information and of commitment between the different parties of the agreements. These considerations have now to take into account more "inclusive" PPPs, of which the various local stakeholders of the development projects, profit and non profit, may contribute. From the perspective of public policy, some outstanding issues include:

local public authorities need guidance and, as far as is practicable, standardised processes for selecting and operating PPPs. This help does not only concern respect of competition regulations but also the steps to be followed to identify the best partner, evaluate the effectiveness of the PPP option, and diffuse information to other local jurisdictions, among other things;

local firms should be involved in PPPs devoted to local development. As users of collective services, they have views on their needs in terms of infrastructure, training, etc. And as suppliers of services, they will often be more attuned to improving outcomes than other actors that are less directly involved. Without infringing rules of competition, it would be worthwhile to provide them with the support and incentives necessary for them to participate in this way. This is particularly important with respect to SMEs. A similar logic should be applied with respect to citizen's groups and other non-profit organisations.

One of the most important challenges of the vertical and horizontal co-operation mechanisms is to enhance the competence of local actors. In order to obtain positive outcomes from these different innovations in the overall governance system, some element of capacity building needs to be emphasised[27]. The aim of these initiatives would be to increase the level of common practice and information exchange among the different actors participating in multilevel governance mechanisms.

[27] Examples include: change of civil servants, detachment of officials to private organisations, targeted training for local NGOs, and so on.

At the same time, co-operative arrangements among levels of government and between public and private actors present in themselves important capacity building tools. An important recommendation is, therefore, that this aspect (empowerment as capacity building) should be emphasized from the outset, including clear definition of objectives and of the level of performance expected from participants.

3.1.5 The evaluation of outcomes

Another challenge is improving evaluation, including that of intangible outcomes. The question of the value added of co-operative arrangements in the organisation and delivery of public goods should be addressed. Cost-benefit assessment of the outcomes from physical investment can be taken into account, but this is insufficient. The intangible nature of many of the key factors relating to competitiveness, such as networking and inter-linkages among actors, makes many performance indicators, such as share of local beneficiaries in the decisional boards, share of local and regional revenues from services offered to local firms, number of new companies advised by public or semi-public regional development agencies, etc., very unsatisfactory. These can supplement economic evaluation of the performance of techno-poles or other investments, but do not address adequately the added value of the governance approach itself. This is particularly true with respect to the capacity building aspect that is implied in multi-level governance mechanisms.

In the case of multi-level partnerships, the evaluation problem needs to be addressed from the outset and an appropriate reporting system has to be established. Without such a framework, the financial incentives and sanctions that partnership and contract mechanisms often include are difficult to implement and to justify.

In the absence of optimal solutions to the questions raised by the new objectives and instruments of regional policy, policymakers are obliged to experiment with what is practicable in the given context. In order for these experiments to be mainstreamed, where judged appropriate, it is important that the central government support a policy of encouraging and evaluating experimentation at regional level. Such a policy, based on, for example, grants for selected projects in competition, allows relevant innovations at local level to be diffused more widely.

3.2 New form of governance for local development

Local governance is in constant evolution as government, business and civil society experiment to find the optimum methods for them to address issues of common interest jointly. New forms of governance have emerged as stable models for pursuing economic development strategies at local and regional levels and solving socio-economic problems. By concentrating on endogenous development, regional strategic platforms, partnerships, open governments and other agents of change have succeeded in releasing the potential of their area thanks to better co-ordination, adaptation to local conditions and participation. This

chapter examines their impact on local prosperity and the quality of life despite the barriers that they must overcome[28].

3.2.1 Introduction

Increasing attention is being devoted to the governance of policy making. Is the level of government currently responsible for a given policy area the most appropriate one? Should other levels of government be involved? What role, if any, should civil society and business play? Which aspects of policies should be co-ordinated, which not? What type of information should be shared by government? How can the outcome of co-ordinated actions be evaluated? Are the frameworks covering public services' accountability adequate?

These and other questions are frequently asked by the actors in various policy domains. In some areas, such as economic development, there is now a consensus that action must be co-ordinated at the local level, and ideally also with related policy areas, to stimulate synergy, avoid conflicts, and make the best possible use of the information available. Improving local governance i.e., the way policies are co-ordinated, adapted to local conditions and oriented in partnership with civil society and business[29], has thus itself become a goal of government. It is now clear that improving local governance enhances the effectiveness of certain policies and takes full advantage of the resources and energy of business, civil society and the other levels of government in the pursuit of common objectives.

Less consensual are the ways to achieve this goal. Experiments in local governance have been conducted at a rapid pace in many countries over the past few years. The combined effects of local initiatives, national reforms and supranational frameworks (in the case of the European Union) have generated various models. Some of these have lasted and evolved, some not[30].

It is now possible, within the local governance framework of OECD member countries, to identify a number of new forms which are emerging as stable models aimed at specific and clear tasks[31]. Some initial findings obtained for the two main general tools for improved governance, partnership and decentralisation, are set forth immediately below, followed by a review of the main obstacles inhibiting initiatives to improve local governance. The driving forces for improved local governance in the OECD today will then be discussed. The new forms of governance will be introduced, and the main issues they raise addressed. The chapter will conclude with an assessment of the prospects for the future.

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[28] From Giguère (2004).
[29] See the definition in OECD (2001a).
[30] The LEED Programme of OECD has itself contributed to continuous experimentation in this field with its analysis of the various models that have been developed over time. LEED's achievements include a report on Irish partnerships (1996), a study on the local management of policies (1998), the OECD Study on Local Partnerships (first results published in 2001) and two major studies on decentralisation, in 1999 and 2003.
[31] They are presented in this chapter and examined in further detail in OECD (2004).

3.2.2 Partnership performance

Between 1999 and 2003, the OECD conducted an in-depth study of area-based partnerships in hich it examined the experience of 14 countries. The first results, released in 2001, revealed that the main impact of partnerships is to improve local governance. Three factors contributing to this outcome were identified. First, in all the countries surveyed, partnerships stimulate the uptake of public programmes in a way that is consistent with locally-shared priorities. Second, partnerships combine public programmes with local initiatives, and in so doing, support the development of these initiatives. Third, there are many instances in which partnerships have influenced the targeting of public programmes better to meet local needs. Partnerships may also be involved in other types of activity, but most of their impact on local governance is achieved through the impact of the three factors reviewed.

The involvement of partnerships in the delivery of services and programmes to the population appears to be comparatively weak. This comes as a surprise: most local partnerships seek to enhance their profile in this area and to deliver employment, social, training or business services, depending on their area of specialisation. Most partnerships undertake fund-raising activities towards both the public and private sectors with a view to reinforcing their capacity to develop services and projects. But the amount they obtain for such activities is in general fairly low compared to the resources of public institutions operating in the same fields[32]. From a local governance perspective this can be seen as a good thing since emphasis on service delivery by partnership-based organisations is often associated with conflicts among the partners and a distribution of tasks inconsistent with the skills and competence that the various organisations can provide. Though partnerships fill policy gaps and bring benefits to the local community, some of the new services developed by partnerships may be delivered more effectively by the public services (possibly through delegation to the private and non-profit sectors). Moreover, delivery of services in parallel with the public sector reduces the scope for the latter to learn new techniques of working and improving its methods. The impact on governance is greatest when the partnership helps the partners, including the public services, to do a better job.

In sum, partnership is a valuable tool. It can have a significant impact on local governance, as long as it is seen by the partners as a way to improve their action, not as a substitute for action. There are, however, a number of obstacles to this. Effective partnership working is impeded by:

a) a disconnection between national policy objectives and local goals. This can happen even when national ministries set the goals for partnerships and are represented in the partnerships;

b) the limited administrative flexibility of many public programmes, including those which are relevant to local economic and employment development;

[32] For example, the Irish partnerships' total programme budget corresponds to 3% of the outlays on active labour market policies delivered by the public employment service.

c) weak accountability relationships, between the various partners, between the partnership and the public, and between the representatives and their constituency; and
d) a tendency for partnership-based organisations to be process-driven as they seek to secure their continuity.

A series of recommendations has been made to overcome these obstacles. The recommendations aim to improve the policy management and accountability frameworks of the various partners, including central government, and to make them consistent with a partnership approach. This "strategy to improve governance through partnerships", has been endorsed by the LEED Directing Committee[33]. As this survey will show, the strategy applies fully to the new forms of governance now being developed.

3.2.3 Managing decentralisation

Another tool widely used to improve local governance is decentralisation. Decentralisation can take the form of either devolution to a lower level of government (e.g regional or local government) or "deconcentration" of the central government administration, i.e. transferring decision making to a lower tier within the same administrative structure. In both cases, decentralisation raises hard questions: How can decision-making power be passed on to a lower administrative tier or a sub-national entity while guaranteeing the same level of efficiency and transparency? How can more flexibility be provided while maintaining full accountability? The pressures to preserve full accountability for the use of public money often translate into few actual gains from decentralisation in terms of flexibility and capacity to meet local needs. This has led several governments to turn instead to partnerships as a safer way to improve local governance[34].

The OECD has looked at the problems associated with decentralisation and addressed in particular the critical trade-off between administrative flexibility and public accountability. Seeking to benefit from the advantages of both decentralisation and partnerships has required exploration of ways to reconcile accountability and flexibility[35].

A common thrust of some of the methods identified is the assignment of more responsibility to public service officers and regional authorities for establishing and running operational co-ordination mechanisms. One way of doing this is to require the local public service offices to review, jointly with the relevant local actors, the annual targets proposed for national programmes. The example of the Irish Community Employment Framework shows that this allows programmes to be adapted to local needs while delivering them within the public service structure, thereby fulfilling standard accountability requirements. In other experiments, governments have requested public services to set targets formulated in terms of

[33] See the brief appendix at the end of this section.
[34] Even if, as shown by the OECD Study on Local Partnerships and other reports, partnership working is not exempt from accountability problems.
[35] The most innovative were examined at the Warsaw Conference on "Decentralisation of Labour Market Policy and New Forms of Governance: Tackling the Challenge of Accountability", held in March 2003.

local priorities, in co-operation with the local authorities. An example is offered by the United Kingdom where public service agreements are reached in combination with local strategic partnerships chaired by local authorities.

These reforms do not involve transfers of power to lower levels of government but seek to ensure that local concerns are taken into account in the implementation of government programmes. While the public service remains responsible for the delivery of programmes, this ensures that the programmes are better adapted to local needs and better co-ordinated with other measures. Thus partnerships are formed, but of a different type, as government moves away from a model led by civil society and its community-based organisations to a model in which responsibility lies mainly with civil servants and local or regional authorities.

3.2.4 Local governance barriers

The analysis of decentralised policies, new public service arrangements and partnerships across sectors and between government, business and civil society, makes it possible to outline some of the main barriers hindering government initiatives to improve local governance.

These obstacles are as follows:

· Rigidity in target setting. In setting targets for the implementation of the various policies, government administrations seek to ensure that national policy goals are met. Even when public services are decentralised to a network of local or regional offices enjoying some discretionary power, leeway to adjust targets to local concerns and measures taken in other policy fields is often limited. For example, local targets for labour market policy (e.g. number of job-seekers placed or being trained) are often set at central level in a way to achieve national goals for employment and unemployment.

· The pursuit of efficiency. Performance management methods designed to maximise output results are used to give public services incentives to achieve annual targets and ensure that public resources are used in the most efficient way. For this purpose, in several policy fields, services may be outsourced to the private sector or delivered in competition with private and non-profit organisations. This promotes a relatively narrow approach to policy implementation.

· Vertical accountability. Public service officers are accountable to their internal administrative hierarchy and have no obligation to respond to requests from other policy areas or organisations at local level. In specific circumstances, decentralisation or tripartite management can broaden the set of policy objectives that are pursued locally.

· Legitimacy. Partnerships are formed in an attempt to overcome governance failures by calling on the help of civil society and business to meet local concerns better. However, the appointment of representatives of civil society and business is sometimes done on an arbitrary basis. Public sector officers, representing the state, may be reluctant to co-operate and share information with representatives of self-appointed non-government organisations (NGOs); or

managers who volunteer to represent the business community. Federations of municipal authorities may also have difficulty in organising their representation in bodies of strategic importance.

· Monitoring and evaluation: The results of co-ordinated actions must be monitored and assessed within suitable performance management frameworks which make full allowance for shared objectives, governance outcomes and multiple accountability relationships. Little progress has been made so far on the evaluation agenda. Public services are reluctant to participate in joint initiatives if no record is kept of their contribution and if partnerships produce outcomes of a type that is ill-adapted to their accountability framework.

Finding solutions to these problems is currently a high priority on government agendas. Governments acknowledge that uniting forces can aid local and regional areas to achieve a sustainable improvement in their competitiveness, social cohesion and quality of life. New forms of governance are being built to this end.

3.2.5 Three driving forces for improving local governance

The study of S. Giguère is based on a set of experiments carried out in OECD member and non member countries to improve local governance. To this end, the experience of seven countries[36] was analysed and the survey of these countries has led to the identification of three main policy goals as part of the rationale for improved local governance: i) Regional competitiveness[37]; ii) Efficient labour markets[38]; iii) Building social capacity.

To be pointed out in regard to this last aspect is that civil society makes an important contribution to the struggle against poverty and social exclusion through dedicated non-profit organisations and local initiatives. Many governments seek to confer a more powerful role on these organisations in strategic planning exercises, looking to them for inputs to both the design and the implementation of local development strategies and assigning them a central role in the promotion of local initiatives and the delivery of some services to the population. Many governments now form partnerships with the non-profit sector for the delivery of services which were traditionally delivered by public agencies, such as employment and social services.

In economies in transition and countries whose citizens have only recently come to enjoy full democratic rights, nurturing the development of an organised civil society is both a priority and a prerequisite for the development of a non-profit sector capable of assuming responsibility for the delivery of services to the population and the promotion of local initiatives. As will be shown by this survey, the simultaneous construction of a democratic society that is both representative and participatory is a difficult task.

[36] Belgium (Walloon Region), the Czech Republic, Mexico, Norway, Slovenia, Spain and Sweden.
[37] For a review see section 1.2
[38] For detailed discussion of this topic see Giguère (2004), pp. 16 and 17

3.2.7 Models emerging

The above somewhat simplified picture of the main thrusts for improving local governance omits a number of concerns that have also contributed to shape current initiatives in this area. Building the institutional capacity for implementing the financial assistance programmes of the European Union (EU) is one of them, and it proves to be particularly significant in the new Member states of the EU, including those surveyed in this OECD Report[39], as well as countries expected to join the Union at a later stage. Another factor is the need to modernise the public employment service. Several countries are currently reforming these services to improve their performance and to render their administrative structure more accountable and more responsive to local needs. This is an important aspect of the initiatives to improve governance that have been taken in the Walloon Region of Belgium. Nevertheless the three main stylised motivations identified above can be considered as the main driving forces underpinning action to improve local governance, for they are consistent with those highlighted for the first seven countries to participate in the OECD Study on Local Partnerships[40].

These initiatives have generated a number of new forms of governance. Experimentation with them started years ago, and several countries have now a long experience of the management of governance structures. Although the area is constantly evolving, adapting to changes in policies, state reforms of administrative structures and new supra-national arrangements, some models can now be considered as fundamentally stable, despite differences between countries and notwithstanding on-going modifications of their normal functioning. The present 7-country survey extends the knowledge gained from those previously reviewed and makes it possible to identify and

analyse the new forms of governance. They will be discussed under four main headings: a) regional strategic platforms; b) area-based partnerships; c) open governments; and d) agents of change.

a) Regional strategic platforms

The most robust trend in local governance today is clearly the establishment of regional strategic platforms. Many countries and regions, after experimenting for years with various institutional arrangements, have either turned to or reinforced this model to pursue more effectively the goal of regional competitiveness and co-ordinate economic development actions on the ground. 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);

[39] The Czech Republic and Slovenia.
[40] See OECD (2001a).

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.

These platforms are most often set up at the level of administrative regions. There are two main reasons for this:

a) to secure sufficient critical mass, both in terms of size and population, to be able to influence major economic development activities, such as attracting foreign direct investment and providing infrastructure to support high-technology industrial activities;

b) to gain enough legitimacy to play a role in these economic activities; this legitimacy is often underpinned by the existence of regional administrative boundaries and support from regional authorities[41].

A platform may be made responsible for implementing the economic development strategy that it contributed to design. However, unless it directly supervises a regional development agency, the platform is more likely to play an indirect role in operational matters, concentrating instead on the strategic aspects of economic development, though it may also be involved in the delivery of some specific projects. Implementing the economic development strategy is often the responsibility of a dedicated regional development agency, sometimes a separate public-private partnership[42] (PPP).

Regional platforms usually concentrate on stimulating endogenous development (fostering entrepreneurship, assisting the start-up and development of SMEs and the clustering of firms, promoting innovation and indigenous investment)[43]. They have sought with various degrees of success to involve civil society and other local actors in finding solutions to social and employment problems. Their influence on measures to attract inward investment and provide industrial infrastructure is sometimes weaker, especially if another regional body is responsible for these tasks[44].

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[41] In Norway and Sweden, platforms have been established in the regions or counties (Fylke in Norwegian, Län in Swedish), in which elected county councils share public responsibility with the central government, represented by a governor and a regional administration.

[42] There is sometimes confusion between the concepts of PPPs and of local or area-based partnerships. PPPs concern the delegation of power from the public sector to a private (or non-profit) contractor for the delivery of a service (e.g. assistance to business development, health care) or the management of infrastructures (e.g roads, bridges). Their main expected impact is on the efficiency of service delivery and programme management, not on local governance as such. Local partnerships or regional strategic platforms are completely different organisations, in that they are not ruled by contract and normally do not concern the implementation of programmes. Their vocation is rather of a strategic nature, intrinsically related to the characteristics of the geographical area concerned (e.g social, employment, environmental).

[43] On the governance structures and instruments used by the Italian regions in their industrial districts see Cresta (2008). For an analysis of the relationship between governance and learning in clusters and networks in the case of two specific countries (Italy and Costa Rica) see instead Parrilli, Sacchetti (2006).

[44] In Sweden, the main actor for economic development at regional level is the county administration, which draws support from national agencies: NUTEK to promote industrial development, VINNOVA to promote local innovation systems, and ALMI to encourage entrepreneurship and SMEs. Among them, only the county administration and ALMI are typically members of regional platforms (regional growth agreements). Other partners include the county council, the public employment service (AMS), employer associations, trade unions

The development of regional strategic platforms has raised a number of issues regarding in particular: i) evaluation; ii) optimal size; iii) breadth of approach to and scope of activities; and iv) links with labour market policy and workforce development activities[45].

b) Area-based partnerships

Area–based partnerships are a second stable form of local governance that has been developed in part to address the issue raised above concerning the weak connection between labour market authorities and local development actors. Area-based partnerships share some similar tasks with the regional strategic platforms, in particular as regards fostering co-operation and designing and implementing a strategy, but the partnerships differ from them in two main ways: they typically concentrate on addressing the socioeconomic problems of their area, rather then seeking to encompass economic development considerations; and they cover an area smaller than an administrative region, i.e. a sub-regional or local area.

This well-known approach was first tried out in distressed areas in North America in the 1980s and was then adopted as a more systematic tool to remedy policy gaps and find answers to problems of long-term unemployment, rural under-development and urban decay in Ireland and the United Kingdom in the 1990s. In the mid-1990s, the European Union saw it as a way to reduce employment and development disparities and for this purpose, to stimulate the allocation of financial resources to local projects throughout the Union. The partnership model given effect as part of this initiative (which received specific funding during a limited period – 1997-1999), the "Territorial Employment Pact", is still in place in several countries and regions of the Union.

As mentioned above, area-based partnerships rarely seek to encompass economic development strategy, except in rural areas. In most cases, economic development strategy falls within the purview of another organisation, often an economic development agency, but which may also be a member of the partnership. Efforts to achieve co-ordination often focus instead on the employment services, training institutions, social welfare organisations and local authorities, with varying success[46].

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and the local university if any. Thus the degree of influence of the platforms on economic matters depends on the relationship developed with the county administration and some influential state agencies.

[45] For their description see again Giguère (2004), pp. 20-25.

[46] The survey carried out in the OECD Report includes an excellent example of the implementation of an area-based partnership. The Territorial Employment Pact (TEP) of Vallès Occidental in the province of Barcelona in Catalonia pursues a sophisticated integrated strategy and has succeeded in obtaining a genuine commitment from the social partners and local authorities in the area. The partnership, born during the experimental phase of the European Union's TEP initiative, concentrates on the linkages between employment and economic development, supports social inclusion projects, serves as a lobby at regional level and acts as a forum in which the main actors (at the comarcalevel, which covers a group of municipalities) can address and solve local governance problems. Catalonia has a long tradition of co-operation between the regional government and the social partners, and has taken steps to extend this model to other areas of the region. There now exist 21 partnerships in total. Catalonia, together with Austria, areas of Finland, France and Greece, and the south of Italy, is among the regions in which the EU experiment has taken root. The EU initiative may also have contributed to strengthen partnerships that were set up before it was put in place, such as the area-based partnerships in Ireland. Partnerships of a similar

c) Open government

A third current tendency in local governance is to stimulate interaction between government and civil society and harmonise representative and participatory democracy. The approach is to create as extensive a direct interface as possible between government and civil society (i.e. without the filter of platform or partnership). The aim is to disseminate information as widely as possible on the views, plans and projects of local and regional governments and to receive feedback and inputs that can help to modulate intervention in the way that maximises impact and participation.

The traditional method of involving civil society is to set up consultative mechanisms, such as public hearings. Various types of consultative mechanisms have been put in place recently to secure feedback from the social partners and groups of the population on projects led by local and regional authorities and public services, and to obtain input into the process of designing strategies[47].

Similar structures are found in the Czech Republic at the local level, where municipalities are keen to show their openness and transparency, and to obtain suggestions from citizens on urban projects. As various reports show, participation is often weak in these forums as partners feel that the initiative lies mainly with the local authorities and that no strategic decision is to be made within such bodies.

For similar reasons, the members of tripartite organisations used to conduct labour market policy, such as the sub-regional employment committees in Wallonia used to have a mere consultative role. To strengthen this role, the Walloon regional government has integrated the committees within the structure of the public employment service (FOREM), to make them a regional unit of the employment service. While it is too early to assess the results of this administrative reform, it is worth noting that Denmark and Flanders have taken different avenues to attain similar goals. To revitalise their tripartite boards, reforms in these countries have introduced new partners: local and regional authorities in the case of Denmark, and representatives of civil society (and one representative from municipalities) in the case of Flanders[48].

d) Agents of change

The vitality of local initiatives is considered by many as a pre-condition for the success of local strategies and the achievement of local prosperity. The United States has long shown the

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type exist in other European countries as well as in Australia, Canada and the United States. A more extensive analysis of area-based partnerships can be found in OECD (2001a).

[47] Under the Fox administration, Mexico has sought to foster participatory development and to involve civil society in the orientation of the country's development: the federal government conducted consultations with civil society in the preparation of both the 2001-2006 National Development Plan and the Vision for the Development of Mexico in 2020-25. To support these efforts, the government has decentralised resources and encouraged local and regional governments to regenerate consultative structures that were used as early as the 1980s to plan economic development at both local and state levels (COPLADEMUN and COPLADES, respectively).

[48] See OECD (2001a).

way with its civic entrepreneurs and community leaders able to mobilise resources around projects of common interest, drawing on local assets and synergies to maximise impact on the local economy. Little involved in strategic activities (they are "policy takers", not policy makers), these agents of change have nonetheless a positive impact on the health of local governance inasmuch as they stimulate debate and innovation.

Many governments today support this approach to the promotion of economic and employment development as a complement to the work of regional development agencies, strategic platforms and area-based partnerships[49].

The nature of the actions performed by these organisations varies significantly from one area to another, as does their accountability framework, with some bodies more dependent on the local authorities than others. The issue of professional skills, addressed above for area-based partnerships, is fully relevant in the case of these small and flexible organisations, inasmuch as the success of their action depends on the capacity of a few agents recruited locally. It is thus of crucial importance to associate strict training and networking provisions with this sort of measure to ensure a minimum and comparable degree of effectiveness throughout the country as well as a degree of uniformity in the methods used. Indicators to monitor and assess the performance of the agents must also be put in place when their activities begin.

3.2.8 Conclusions

Governments are devoting increasing efforts to identify the governance forms most suitable to their institutional structure and most effective in pursuing integrated development strategies. Learning from the early experience of partnerships led by civil society, they are seeking to set up structures that are more stable and that can assume broader and heavier duties in terms of policy co-ordination and strategic planning. As a result, more responsibility is being handed over to local and regional authorities and to public service officers in managing platforms, partnerships and other framework agreements.

In this context, regional strategic platforms are emerging as the main instrument for coherent planning and organisation of the economic development activities of an area. While these platforms focus on fostering endogenous development, based on local competitive advantages, assets, skills and knowledge, their critical mass may allow them to take up a role in inward investment and industrial infrastructure activities, subject to the institutional context and the will to participate of their membership. Depending on their membership, they may be able to extend their strategic approach to solve socio-economic problems of their areas and to take a genuinely integrated approach to economic and employment development.

[49] In Belgium, the Walloon government has set up local development agencies (Agences de développement local) in a large number of small municipalities, and town-centre management units (Missions centre-ville) in municipalities of more than 30 000 inhabitants. The task of these partnership-based bodies is to identify, support and promote projects of local development and job creation. They provide technical support and help in identifying funding sources.

No strategic platform can be considered as the perfect model. As this chapter has shown (and the chapters that follow provide further detailed evidence) platforms have not yet released their potential as they encounter various problems associated with the accountability relationships, the evaluation of results and the capacity to adopt a strategic, integrated approach. They nevertheless represent a valuable and promising tool. The analysis confirms the validity of the recommendations made as part of the "strategy to improve governance through partnerships", which can be put to use to enhance the effectiveness of the platforms.

In particular, it is of crucial importance that the main partners of regional strategic platforms, including central government and its relevant agencies, realise that they cannot ask platforms to do things that they are not prepared to do themselves. Consequently, they must make sure that their policy objectives are compatible with the mission of the platforms. Partners at central level should agree on what can best be done at regional level and what they expect regional platforms to achieve on their behalf. Similarly they should state clearly what the limits of the platforms should be. They should discuss with national representatives of other partners, namely civil society, business and local authorities, what the role of each partner is in steering the platforms. They should establish representation and reporting mechanisms for each sector that are acceptable to all. Finally they should set up a common set of indicators that will fulfil each partner's needs in terms of satisfying accountability requirements.

Sufficient critical mass is necessary for the effective pursuit of an economic development strategy, although innovative and effective platforms in smaller or predominantly rural regions may have a considerable role to play in their area if they concentrate on endogenous development. Smaller partnerships have advantages with regard to addressing socio-economic problems as they usually have closer relationships with the relevant local actors, including representatives of community-based groups and employer associations. Indeed, the main strength of these area-based partnerships lies in this closeness. While these partnerships may not have the most appropriate structure for driving economic development in their area, this aspect can make them a major source of expertise for identifying opportunities for local development, and enable them to make a key contribution to the solution of difficult issues.

There may be some degree of complementarity and an optimal distribution of tasks between larger strategic platforms, at the level of regions, and smaller area-based partnerships at a more local level. Such regional/local articulation may be the way to tap the input provided by civil society while driving economic development most effectively.

Whatever arrangement is deemed best, it will have to address the lack of co-ordination between economic development activities and labour market policy, a critical governance failure which impedes local development. For this reason, the LEED Committee is launching a new activity for 2005-2007 to identify optimum ways to co-ordinate labour market policy with economic development strategies designed at the local and regional levels. Clearly, human resource and skills development is a key area to be dealt with in partnerships at local

and regional level: business needs change constantly, and local prosperity is built on knowledge and skills.

Regional governments can help in this process of co-ordination. Recent innovations suggest that they can reinvent themselves as co-ordinators for the economic and social development of their area and tailor national policies more closely to local needs. There is an opportunity for them to play a role as a regional catalyst for innovation, with potentially significant impacts on the lives of their citizens.

Similarly healthy for local governance are "agents of change" and dynamic delivery models, which help to connect policies with citizens' needs and to foster innovation locally. However, these models should not be allowed to mask any governance failures that may exist or prevent the correction of imbalances that impede local development. And agents of change should be seen as what they are, and not claim a strategic role that they are not in a position to discharge.

The supply of professional skills is common issue for all forms of governance to address. Decision-making is growingly being decentralised to the local level and the decisions to be made are becoming more complex. In an integrated economy, internationalising local SMEs and attracting global knowledge flows are now common objectives of local strategies, whose implementation calls for increasingly sophisticated expertise. Efforts to improve the development of expertise at local level to support local development constitute a wise investment.

A rich menu of new but tried and tested forms of governance is available to address economic development in optimum fashion. Some of the new forms will suit the governance framework of a given country better than others, in the light of its institutional characteristics and the needs expressed. Some may also be combined to become mutually reinforcing, for maximum impact on local prosperity and the quality of life.

Appendix: A strategy to improve governance through partnerships

1. Make policy goals consistent at central level. The creation of a network of partnerships should be accompanied by an exercise at central level to facilitate the necessary trade-offs between government departments (and social partners if needed) in order to achieve full consistency among national policy objectives in relation to the goals assigned to partnerships. Partnerships should not be accountable to one single central agency, but rather to all the partners needed to fulfill their mission. The partners should agree on the role to be given to partnerships in policy implementation and in improving governance.

2. Adapt the strategic framework for the partnership to the needs of the partners. Programming exercises should enable public service officers and local officials to achieve their own policy objectives through participation in the partnership strategy. This will encourage them to use the partnership as a tool to improve the quality of their own action locally. To foster a co-operative climate, the terms of the contribution of each partner to the implementation of the common strategy should be explicit and transparent. Services should normally be delivered by individual partners rather than by the partnership itself.

3. Strengthen the accountability of partnerships. Partners from all sectors (public services, social partners, the voluntary sector) should have a clear policy on the issues addressed by the partnerships. They should, accordingly, define mandates and reporting mechanisms for their delegates. Partners should agree on appropriate representation mechanisms for each sector, and on a clear distribution of responsibility when a partnership is involved in the implementation of a public programme. They should seek to separate the functions of strategic planning, project appraisal and technical assistance. These measures will ensure efficient co-ordination and secure partners' commitment.

4. Provide flexibility in the management of public programmes. The needs of local public service offices for more flexibility in the management of programmes should be so addressed as to ensure that their participation in the definition of a local joint strategy can be consistently followed up by involvement in its implementation. Partnerships should be involved in the targeting of public programmes related to common goals, while the responsibility for delivery should remain with public services.

Source OECD (2001a)

Conclusion: economic policy recommendations for the OECD countries

Contrary to popular belief, the globalised knowledge economy relies more and more on the local dimension. In order to boost economic development and respond efficiently to ever keener international competition, OECD member countries need to pursue entrepreneurship and innovation policies that reflect their own distinctive local characteristics. Throughout the OECD area, innovation is increasingly concentrated within clusters of enterprises and research/training institutions that work on complementary activities. Indeed, it has been demonstrated that clusters are an important source of innovation and competitiveness driven at the local level. Clusters create an environment conducive to productivity gains, which are a factor of growth, and so form a structure that helps enterprises meet the challenges of international competition. This local dimension of innovation and entrepreneurship nonetheless poses challenges to policy makers because clusters require policies and support schemes that are tailored to local needs.

A recent OECD Report sets out policy recommendations for cluster development based on the in-depth analysis of seven internationally reputed clusters in the OECD area[50]. What is the appropriate level and type of public intervention for cluster development? The report addresses these and other issues based on the analysis of the seven cluster studies. Following this analysis, the review puts forward a set of policy recommendations that are geared to the context of clusters[51].

Policy recommendations

The analysis of the reviewed clusters provides a basis for a set of recommendations on the emergence and development of clusters and entrepreneurship elsewhere. These recommendations are listed below.

Encouraging entrepreneurship

For clusters to survive in the long-term, it is crucial to actively foster entrepreneurship in order to promote the creation and growth of start-ups that can contribute to the cluster's development as suppliers, partners or clients. The enterprise fabric of clusters needs to be supplied and renewed with highly innovative enterprises issued from the universities, research centres or other large companies. This can be achieved by:

Supporting spin-outs and small firm collaborations by encouraging spin-outs and collaborations among large enterprises, research institutions and SMEs, especially through relations with suppliers and subcontractors.

[50] Namely Grenoble in France, Vienna in Austria, Waterloo in Canada, Dunedin in New Zealand, Medicon Valley in Scandinavia, Oxfordshire in the United Kingdom, and Madison, Wisconsin, in the United States

[51] From OECD (2009c). A specific solution for some parts of Argentina, for the purposes of productive restructuring – particularly in manufacturing – and consisting of a change in attitudes towards cooperation among citizens, firms and institutions in the country, has been suggested by Sudgen, Wilson (2002).

Leading a transition to the entrepreneurial university by promoting entrepreneurship at all levels of education and in all fields, emphasising issues related to the capacity to create and market innovations.

Supporting the launch and growth of start-ups by promoting a culture of entrepreneurship in the clusters, implementing specific programmes to finance enterprising projects, and fostering the emergence of skills pools to support and work with these new enterprises.

Stimulating innovation and collaboration

It is crucial to consolidate dialogue between universities, industry and laboratories to provide better chances of collaboration and therefore enhance innovation. Also, the promotion of firm networks can contribute to the creation of a climate of trust between the members of the cluster and strengthening supply chains. Innovation and collaboration can be stimulated by:

Fostering industry – research collaboration by promoting the development and transfer of technologies within clusters through technology transfer centres, neutral agencies or networks serving as brokers, and encouraging mobility among professionals between industry and the academic world.

Encouraging enterprise networks by introducing SMEs into formal networks or by providing regular platforms for social meetings to generate a "cafeteria" effect.

Stimulating spin-offs by creating policies to increase the ownership by "creators" in the university of intellectual property rights over the results of research.

Better marketing of products by the establishment of marketing centres for products resulting from academic research located in universities.

Co-ordinating public polices and local initiatives

Co-ordination at all levels of government is essential to ensure the relevance of policy design, the integration of policies into an overall strategy and the achievement of efficiency in policy delivery. From the creation to the development of clusters, partnerships have a major role to play as facilitators of policy coordination. The co-ordination of public policies and regional initiatives can be supported by:

strengthening public-public and public-private partnerships by bringing together key enterprises, local and national government authorities, university institutions and the business community to work together on the definition of common initiatives.

encouraging evolution in cluster activities by identifying activities in complementary knowledge sectors to the existing base of the cluster and providing new infrastructure, new networks and the development of new enterprise formation.

Ensuring quality human capital

Clusters ought to attract human capital in order to attract, retain and embed financial capital (private investors, foreign direct investment, etc.) and produce innovation. The best place to live has become the best place to invest and work. It is therefore crucial to maintain a high quality of life in order to guarantee the availability of highly skilled talents in clusters. This can be achieved by:

- updating education and training to meet the requirements of the cluster: by establishing a continual dialogue between industry and universities so as better to understand those needs, and by creating trend databases and forecasts of skills needs to avoid skills shortages.
- ensuring availability of talent locally: by attracting talents from abroad to come to work in the cluster through the implementation of programmes which target foreigners or expatriates.
- ensuring the appeal of the area and a good quality of life: by tackling problems affecting the quality of life in a region, such as road traffic, high housing prices, scarcity of international schools, poor quality public services, etc.

Facilitating access to financing

Clusters face global competition and any delays in access to finance can be critical to the development of the cluster and its position in the global market. As most of the innovations in high-tech sectors require important amounts of funds with long periods of incubation, private investors often lack incentives to invest in a cluster. It is therefore necessary to facilitate a rapid access to public funds and to encourage private investment. This can be achieved by:

- encouraging private investment: through a technology transfer bureau, or with specific tax incentives for funds placed in an innovation project in the cluster.
- facilitating access to public funding: by reducing bureaucratic procedures and by creating and publicising a "one stop shop" for SMEs.
- creating forums to seek financing: by organising recurrent well-known events which serve as platforms for investors and entrepreneurs to meet.

Reducing congestion and social divisions

Clusters need to operate transparently and have an inclusive approach to the community in order to avoid social divisions. Many tensions can emerge in the region from the establishment of a cluster, which should be dealt with as soon as they are perceived in order to remove barriers to the development of the cluster. This can be achieved by:

- tackling congestion and social inequalities resulting from the emergence of the cluster: by offering training programmes on the new skills required in the cluster to the unemployed and by investing in housing, infrastructure and public transport following a strategic plan.
- creating mechanisms to inform about the activities of the cluster: by issuing periodical newsletters addressed not only to the scientific community but also to the population and other enterprises not directly involved in the core activities. This could facilitate the

identification of new business opportunities in the community (induced activities) and give a positive image of the cluster.

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