

**ECONOMIC DEVELOPMENT
WORKBOOK**

**LOCAL GOVERNMENT
REFORM PROJECT—CROATIA**

Prepared for

USAID

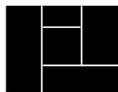


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THE LGRP ECONOMIC DEVELOPMENT WORKBOOK

The Urban Institute Local government Reform Project collaboration with two demonstration sites, the cities of Varazdin and Rijeka, included implementation of economic development planning using a community based model for strategic planning. The plans that were developed have been adopted in February of 2002 by the respective city councils and are being implemented. The LGRP is committed to providing limited technical assistance during implementation.

This workbook is the central document for disseminating the LGRP economic development planning model to other cities in Croatia. It is a practical rather than a theoretical record of what was accomplished in the demonstration sites. The workbook is organized into three sections:

- The first section is an overview of the planning process, a concise description of the nine-step planning model used by the task forces in Varazdin and Rijeka.
- The second section describes the actual planning process through a series of agendas for task force and working group meetings. Each agenda specifies the tasks to be accomplished at the meeting, suggests a time frame and lists techniques and approaches for achieving the meeting goals.
- The third section is a compendium of 20 tools – the techniques and approaches that proved effective during the process of plan development in Rijeka and Varazdin.

In combination, these three sections are designed to a guide for not only Croatian local governments interested in devising their own economic strategies but also for consultants who want to expand their capacity for assisting in local strategic planning for economic development.

THE LGPR ECONOMIC DEVELOPMENT WORKBOOK: OVERVIEW

INTRODUCTION

Democratic decentralization is increasing the economic development responsibilities of local governments in Croatia. Local government has greater responsibility for (1) the economic welfare of its citizens, (2) its own fiscal health, and (3) the management of its assets. At the same time, transformation to a market economy means that government no longer operates businesses. Instead, government promotes economic development by creating conditions that support private business operation. Experience around the world suggests that creating conditions conducive to private investment and economic growth depends on the local business environment and using local public investment in a strategic way to support economic development.

Community-based strategic planning for economic development builds a strong foundation for local government efforts to meet its new responsibilities and function effectively in the new economic environment. It does this by:

- Bringing local government, business leaders, and civic leaders together to forge and pursue a shared vision of the communities economic potential and how to achieve it
- Mobilizing both public and private resources in support of that vision
- Creating a favorable business climate that encourages local entrepreneurs to create new business and expand existing ones and is attractive to outside investors

Partnership between the public and private sectors strengthens local economic development capacity. Community-based strategic planning for economic development builds those partnerships and mobilizes community resources to achieve shared goals.

Although local economic development occurs within the framework of national economic policies and plans, the city is a center of economic activity and can influence its own economic future. The following list of typical investor concerns illustrates the importance of local policies, decisions and actions.

Local Planning and Public-Private Communication

- Is there a local economic development strategy? Does the local government cooperate with business to implement the strategy?
- Is there a Capital Investment Plan consistent with the economic development strategy?
- Has the local government followed its own plans and shown consistency in dealing with investors?
- Is the business community routinely consulted in planning public investments and making other decisions that affect doing business in the city?
- Is communication between the public and private sectors institutionalized in the form of task forces, advisory bodies to the mayor and council, participation on boards of municipal companies and in some permanent organization that oversees the local economic development strategy.

Local Taxes and Communal Fees:

- Are communal fees reasonable given the level of local services?
- Can investors predict their local tax burden with some certainty?

Local Regulatory Environment:

- Is assistance available to help investors comply with local permit and licensing requirements?
- Are regulations and requirements both reasonable and predictable?
- Is local enforcement consistent?

Local Service Provision:

- Are public services such as police and fire protection adequate?
- Are graduates of local schools good workers?
- Are municipal utilities and environmental facilities well run?
- Are local records concerning land ownership accurate?

Local Asset Management:

- Does the local government maintain the real estate and infrastructure it owns?
- Does the local government make the most effective use of the properties it owns?

This handbook is designed to help local governments use community-based strategic planning for economic development. It is organized into three sections. The first introduces the Local Government Reform Program (LGRP) model of community-based strategic planning for economic development, the second outlines the planning process, and the third presents useful tools for each step.

THE LGRP MODEL OF COMMUNITY-BASED STRATEGIC PLANNING FOR ECONOMIC DEVELOPMENT

The LGRP model described in this handbook builds upon community-based economic development planning approaches and models developed and successfully applied in the United States and elsewhere. It draws upon models developed by The Urban Institute during the Pilot Local Government Partnership Program (LGPP) in Poland and by Norton Berman Ltd. during the succeeding LGPP. The LGRP model reflects insights gained during work with the pilot cities of Rijeka and Varazdin about the unique environment of Croatia at the beginning of the 21st Century.

The process described here is called *Community-Based Strategic Planning for Economic Development*. Just what that means is most clear when each part of the name is defined. We will do that in reverse order.

What Do We Mean By *Economic Development*?

Economic development usually refers to the creation of wealth through some combination of increased employment and increased income. Local government may also seek economic development to increase tax revenues and consequently the local government capacity to provide services. Thus, local economic development is *economic change that results in improved economic standards of living for residents and helps local government to provide services to its residents*.

The following describes key characteristics of local economic development in a market-oriented economy.

- To be effective, local government's economic development function must be a continuous activity. The economic environment changes due to outside events –technological improvements, discoveries, political events – and economic development efforts must adjust. In a market economy, competition intensifies the environment of constant change.
- Local economic development activities occur within the framework of national economic policies and plans. However, the city is a center of economic activity and can influence its own economic future because it has the power to create and maintain a local environment conducive to private sector economic activity. Also, city officials have the power to work for change in national laws and policies.
- The resources that local government brings to economic development are human, institutional, business, physical, and financial. The tools that it has to enhance those resources are its service provision and regulatory responsibilities plus its information provision capabilities and management skills. Local government enhances its economic development capacity and mobilizes additional resources through partnerships with business, with NGOs, with citizens, and with other governments in its economic region.
- Economic development occurs as a result of actions and investments by the private and public sectors and in a democracy, with the concurrence of the community.
- Expectations of return to capital (profit) shape private investment decisions. Public sector economic development activity seeks to attract by creating and maintaining an environment where private business can prosper. Such an environment is called a *good business climate*. Privatization makes the business climate increasingly important.
- A second concept related to attracting investment is *locational advantage*. Locational advantage means that firms in that location are more likely to prosper. Locational advantage can stem from geographic factors such as proximity to major markets and good transportation, and also from local characteristics such as a well-trained workforce and educated populace. Local government promotes economic development by efforts to create or exploit locational advantages; for example, by investing in infrastructure improvements and education.

Economic development is not defined as attracting outside investors. Successful economic development strategies recognize that, with minor exceptions, most economic growth and job creation occurs from local business persons creating and expanding local firms--not from attracting large corporations from the outside. Primary attention should be given to creating a local business environment within which local businesspersons are supported in taking risks and reinvesting their profits in the community. Moreover, experience shows that creating such a business climate is the best approach to interesting outside firms to locate in your community. Foreign investors are attracted to communities where local businessmen with whom they speak feel positively about their local government and the city as a place to do business.

What Do We Mean By *Strategic Planning*?

Strategic planning is a tool that the public sector has borrowed from business. It is a creative process – art as well as science – by which a community envisions its future and develops the necessary procedures and operations to achieve that future. Like economic development, strategic planning is a continuous process, not an event.

Strategic planning is a tool for adjusting to a changing environment and for setting priorities, but it is not a tool for solving all problems. It differs from the traditional model of comprehensive planning in several important ways.

- Strategic planning is pro-active. Through the strategic planning process, the community seeks to shape its future - not just prepare for it.
- The comprehensive plan covers all the activities that should be done without indicating which are the most important; the strategic plan focuses on just the critical strategic issues and directs resources to the highest priority activities. Setting priorities is necessary because the resources available to local government are less than the demands made upon them.
- The comprehensive plan usually is produced by experts, but the strategic plan is developed by a Task Force representative of all the entities that will be asked to implement the plan.

If strategic planning is to be successful, its focus must be carefully articulated and agreed upon at the beginning. For example, strategic planning for economic development addresses issues that affect jobs, income, attracting investment, access to capital, utilities and transportation infrastructure, and other factors directly linked to sustainable economic growth and prosperity. Equally important, strategic planning addresses that which can be changed or influenced. It focuses resources where they will have an impact.

What Do We Mean By *Community-Based*?

Community-based refers to public participation in plan development. A Task Force comprised of community representatives produces the community-based strategic plan. The Task Force personifies the public-private-partnership required for effective local economic development. Ideally, the Task Force is co-chaired by the Mayor and by an important business leader. Its members include representatives of local government, business, educational institutions, workers organizations, and community groups such as NGOs with an interest in economic development.

Experts may serve on the Task Force and/or support its deliberations by providing information, but all Task Force members share equally in the decisions that shape the community-based strategic plan. The community-based strategic plan establishes priorities, set directions, and defines projects with initial action plans. Once the plan is adopted, experts may be needed to develop the more specific plans needed for project implementation.

Community involvement strengthens strategic planning for several reasons:

- Because the strategic plan establishes priorities, it has political as well as economic dimensions. Community involvement contributes to a transparent process.

- Community involvement promotes plan implementation. It mobilizes the resources of the community - not just government resources - to achieve the economic goals. Successful strategic planning involves the entities that will be asked to help implement the plan in plan development.
- Participation of community leaders in plan development gives the resulting plan credibility in the community. Consensus among Task Force members promotes a community consensus in support of the plan.

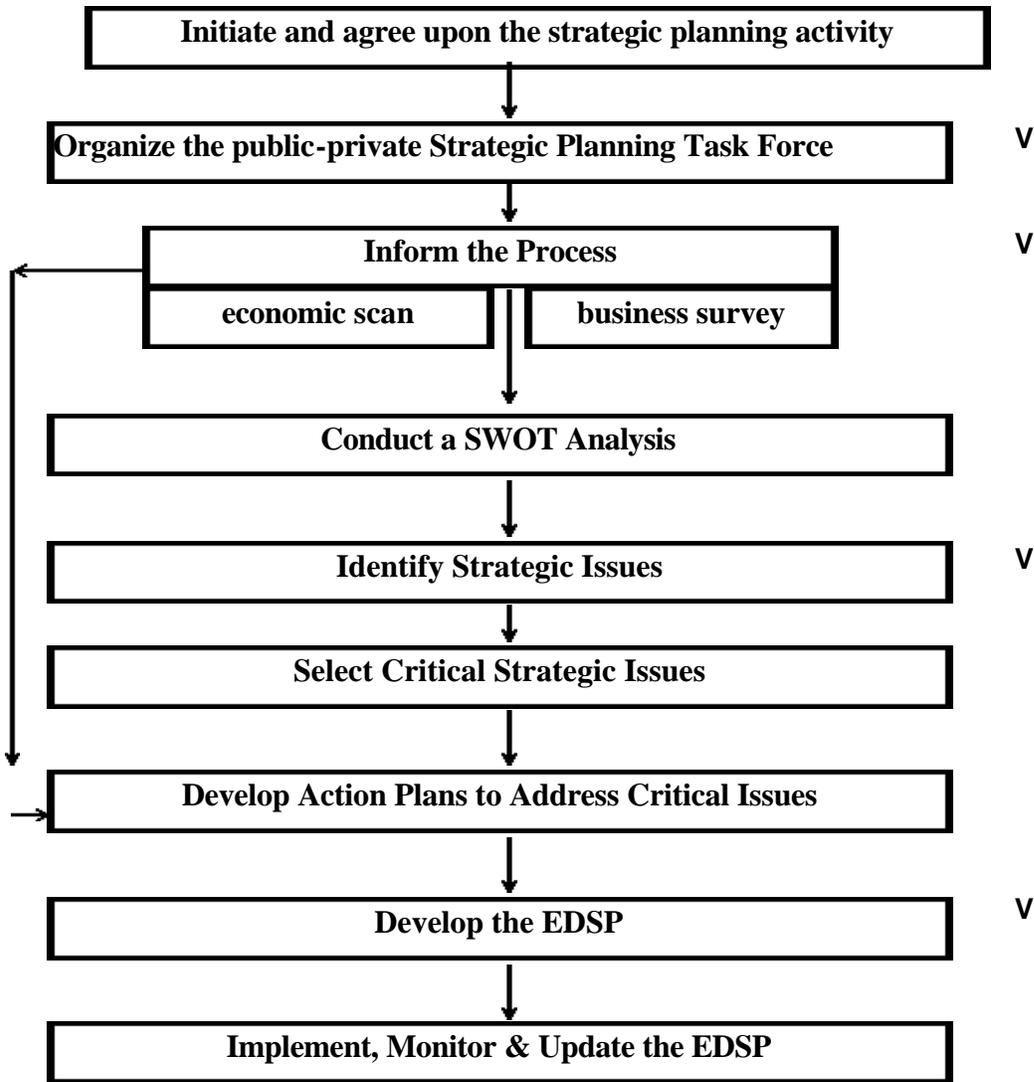
The public is kept informed about progress and findings during the EDSP process, and public meetings at key points during the process provide venues for broader community participation. After each Task Force meeting, a press conference helps disseminate information to all citizens. Task Force members can serve as spokespersons during the planning process, making presentations to other groups in the community and obtaining their input. The city may choose to use other media to keep the public informed, for example, a special supplement in the newspaper, a program on the local television, and/or postings on the city web site.

It is important to acknowledge that community involvement places burdens upon the planning process. Organizing and supporting the Task Force takes time. The Task Force has to invest time in consensus building and negotiations. Still, the benefits of community involvement justify the extra effort. Community involvement continues into the implementation phase as a process for monitoring progress toward stated goals and objectives; making modifications and adjustments in the plan where appropriate

THE LOCAL GOVERNMENT REFORM PROJECT MODEL

The LGRP strategic planning model describes how to produce a local economic development strategic plan (EDSP) through a process that involves the community and lays the foundation for a public-private partnership in the implementation of the plan. The model is illustrated below, and its components are described in the text that follows. One component, *Develop A Vision For The Economic Future Of The Community*, does not have its own box. Rather, this very important activity occurs several times during the process. Those times are marked with the letter **V** in the diagram.

COMMUNITY-BASED STRATEGIC PLANNING FOR ECONOMIC DEVELOPMENT



Initiate and agree upon the strategic planning activity

Usually, creation of a community-based strategic plan for economic development is initiated and led by the Mayor, but a Deputy Mayor, a City Council member or even a business leader may be the initiator and leader. Often more than one local government is involved. Creating an EDSP requires work and commitment, an investment of time from community leaders and an investment of resources from the sponsoring organizations. The LGRP model is based upon cooperation among public and private sector entities, and so the first step is for those entities to agree how they will work together.

The model can be implemented on the local level without extensive assistance from outside experts. However, there are costs associated with the process - for meetings, research, preparation of materials, mailing, and facilitation to support Task Force deliberations. The sponsors identify the financial and staff support that will likely be needed and how they will provide that support. For example, county chambers of economy maintain economic databases. The chamber is asked to participate on the EDSP Task Force because it is an important business organization, it also is asked to provide data. Institutions such as Employment Offices and county chambers of craftsmen are also valuable sources of data and insight. The local government may provide meeting facilities.

Organize the public-private Strategic Planning Task Force.

Task Force membership reflects the public-private co-operation that supports economic development in a market economy. Ideally, the Mayor and an important business leader are co-chairs. Task Force members include leaders from city and county governments, from the business community - the chamber of economy, chamber of craftsmen, employment office, associations of employees and other important business organizations, healthy and bankrupt firms. There is representation from educational institutions, and from citizens groups and NGOs. Task Force membership should represent all entities whose cooperation likely will be needed for plan implementation, including city council members from other parties.

Because the plan is likely to call for actions by city departments, participation of department managers is important. If top managers - public or private sector - cannot make the time commitment required of Task Force members, they are asked to send a trusted deputy to represent them in Task Force deliberations. It is very important that top managers be regularly debriefed on the results of the Task Force work and can give their input at any time of the process.

While continuity is valuable, the Task Force membership is not closed. If it becomes apparent that other individuals could make important contributions to the development of the EDSP, they will be invited to join the Task Force and its working groups.

The EDSP process is made transparent by keeping citizens informed about the work of the task force, and providing opportunities for citizens to give their suggestions. For that reason, media coverage of the process is encouraged by press conferences after each meeting.

Develop A Vision for the Economic Future of the Community

A plan is designed to move a situation from one point to another. A vision of the desired economic future describes the destination for the EDSP. Each individual's vision of the future reflects his or her values. Developing a consensus vision requires that thoughtful consideration of the community situation override parochial self-interest.

Developing the vision occurs throughout the planning process. The discussion of vision and values begins at the organizational meeting when Task Force members are asked to state their hopes for the planning process - what they would like the Task Force to achieve. After hearing information about the current situation at the second meeting, the Task Force begins to develop a shared vision. Only at the end of the planning process is the vision statement finalized in the EDSP document.

Inform the Planning Process

Strategic decisions are decisions based upon information, and so strategic planning for economic development starts by gathering information about the economy. The information needed to guide development of the EDSP includes hard statistics as well as softer information from interviews and surveys about the local economy and the community. Information describing the current situation is called the baseline data, and it represents the starting point for the EDSP.

Information is an important ingredient throughout the EDSP process. Before the first meeting of the Task Force, the partners supporting the process will begin compiling the statistical information about socio-economic trends, key industries, and the economic development infrastructure - physical and programmatic - that makes up the economic scan. At the first meeting Task Force members will be asked to assist with a survey of local businesses regarding the business climate. The economic scan and business survey results will be presented to the Task Force at its second meeting. Eventually, the Task Force will focus on specific issues - the critical strategic issues - and is likely to identify additional information needs concerning those issues.

Conduct a SWOT analysis.

The Task Force uses an analytical framework called a SWOT to organize information from the baseline data, the business survey and their own personal knowledge. The SWOT categorizes situations as internal strengths or weaknesses or as external opportunities or threats - all relevant to local economic development.

The SWOT framework promotes a strategic focus on situations that the entities represented on the Task Force can impact. It differentiates between internal and external factors. In the context of economic development planning the SWOT focuses potential interventions on factors like workforce preparation, local tax and regulatory structures, local service provision, or the condition of the town center. However, it is also important to recognize that communities cannot alter national programs and regulations, but local leaders often have influence on national political decisions that underlie those programs and regulations.

Identify strategic issues

Contrasting the situation described by the SWOT analysis with the vision of the desired economic future helps the Task Force to identify strategic issues - those issues that are likely to impact the economic future of the community and affect achievement of the vision. Strategic issues are usually found on the negative side of the SWOT. They are the internal weaknesses that restrict local economic progress and the external forces likely to have a negative impact on the local economy (threats).

Strategic issues are expressed in the form of questions for which there are more than one answer. This follows the commitment of strategic planning to make decisions based upon information. A statement that limits potential responses to the strategic issue would be premature at this point in the planning process, because it is not likely that the Task Force has enough information to select the best response.

Select critical issues

Critical issues are those strategic issues that are (1) most important to the achievement of the desired economic future and (2) most likely to be affected by local intervention. These two criteria reflect the strategic planning commitment to (1) focus on the highest priority needs and (2) concentrate on those things that can be changed or at least influenced by the people doing the planning.

The selection of critical issues sets both the agenda for future work and the direction of the economic development strategic plan. Once the critical issues have been identified, the Task Force divides itself into working groups, one for each critical issue. The Task Force divides into working groups to conduct in-depth study of each critical issue, making most efficient use of TF resources.

Develop Action Plans to Address Critical Issues

Each working group develops an action plan addressing its critical issue. The LGRP model uses a very basic version of the LogFrame (Logical Framework) to specify the proposed intervention, the logic behind that intervention, the assumptions that underlie that logic, and how progress will be measured toward achievement of goals. (LogFrame is the project management technique required by both The World Bank and the European Union for sponsored projects. As EU accession proceeds, Croatian cities may have opportunities to compete for pre-accession grants from the European Community; for example, funding to bring their environmental infrastructure up to EU standards.) The LogFrame analysis (a) contributes to a transparent planning process by specifying the assumptions upon which decisions rest and (b) integrates performance measurement into the planning process from the beginning.

Information from the LogFrame analysis is used to develop an action plan that (1) defines the entity with the lead responsible for implementation of the strategies plus any partners, (2) identifies the amount and source(s) of resources needed for implementation, (3) sets the schedule for implementation, and (4) specifies the benchmarks, indicators that measure progress from the baseline to the desired situation. The action plan builds in continuity between planning and implementation, and anchors the plan in reality.

There are likely to be more proposed interventions than available resources will support. By revealing strengths and weaknesses of proposed interventions, LogFrame analysis helps the working group select the most promising proposals. Working groups can weigh estimated costs against expected benefits. The consultant or other staff supporting the strategic planning process provides information regarding available resources and if necessary, keep the action plans focused on the critical issues. A priority should be to look for interventions that can be accomplished quickly and without a major investment, innovative approaches, as well as interventions that require long-term commitments.

The LogFrame process of analyzing the critical issue and then identifying and planning potential solutions requires an investment of time and perhaps research resources. Also, the action plan concept is simple, but completing an action plan requires concrete information that can be difficult to compile. At least four to six weeks of weekly meetings should be allocated for this most creative and challenging part of the EDSP process.

Develop the EDSP

In an informational session, each working group presents its action plan to the Task Force, describes key choices that were made during the planning process, and answers questions from other Task Force members, who may request additional information. The Task Force assesses the resource requirements of the combined action plans but makes no decisions regarding relative worth or priority at this session.

In a second session, the Task Force integrates the action plans into an EDSP. This is likely to involve difficult decisions about allocation of limited resources, and so it benefits from professional facilitation. On the positive side, proposals in different action plans might reinforce each other, indicating very promising proposals. On the negative side, there might be internal contradictions between action plans or competing proposals for using for the same resources. Resolution of these issues is part of the integration process. At this session, the facilitator should be assisted by a recorder, because these decisions and the reasoning behind them will be part of the final plan document.

The Task Force has to weigh many factors as it integrates the action plans into a coherent strategic plan for economic development. In some cases, the availability of resources can only be assumed; for example, grants and loans from national ministries and international donors. The strategic planning process can accommodate uncertainty, because the model includes monitoring and updating. The strategic plan is revised as additional information becomes available. Once the interventions have been integrated into a single plan, the Task Force develops guidelines for monitoring, updating and implementing the EDSP.

The draft EDSP produced by this process is presented at community meetings, and citizens are invited to comment. At its final meeting, the Task Force considers citizen input and finalizes the EDSP. Supporting staff will produce a final plan document that includes the following sections:

- The names and affiliations of Task Force members
- A brief summary of the process that produced the strategic plan
- The vision for the economic future of the community
- A summary of the SWOT analysis
- A brief description of each critical issue; how and why it was chosen
- The economic development strategic plan - prioritized and integrated action plans

Supporting documentation is provided in an appendix to the plan:

- The environmental scan
- Business survey results
- Detailed SWOT results
- The LogFrame matrix and action plan for each critical issue
- Guidelines for monitoring, updating and implementation
- Comments from the community

Implement, Monitor and Update the EDSP

Implement. Implementation is the test of the strategic planning process. The LGRP model lays the foundation for implementation, because it creates a shared vision and consensus in the community about issues, priorities, and how the community should respond. Moreover, those who will be asked to implement the plan have been involved in creating it.

Because it was built upon a foundation of action plans, the EDSP document describes the implementation process. However, the first step of implementation is to submit the EDSP to the city - and perhaps the county - for adoption. Although those entities were represented on the Task Force, formal adoption of the plan is important because it represents an institutional and legal commitment to implementation.

The EDSP needs the support of an entity responsible for overseeing plan implementation. The decision about which entity fills this role reflects the local situation. An existing entity may be assigned this responsibility, or an oversight committee can be formed from the members of the Task Force who are willing to continue their service. Or new people may become involved. Another option is to create a new entity to fulfill this role.

Monitor. Monitoring provides the information needed to assess plan implementation and to guide modifications and updates that will keep efforts on track toward realizing the vision. The entity that oversees implementation also monitors progress. Regular monitoring reports, which are made public, maintain a transparent process and reinforce the commitment to implementation. Monitoring should track each intervention on the following dimensions:

- Indicators from the LogFrame matrices assess if planned interventions are not only taking place but also having the desired results
- A comparison of action plans and budgets reveal if (1) resources are being used at the level allocated and (2) the intervention is on schedule
- An organizational review looks for changes in individuals and organizations that may affect their abilities to complete implementation assignments.

Update. The strategic plan is a tool for adjusting to change, and so it has to be kept fresh with periodic reviews and current information. Most databases are updated annually when new information becomes available from government sources. The new information informs a new environmental scan. When a new scan is completed, it is an auspicious time for the monitoring entity to seek answers to four additional questions.

- Is this issue still critical to the community's economic future?
- Does this intervention continue to address the critical issue?
- Do program benefits continue to justify the resources required for implementation?

- Are there any unintended (negative) consequences of the intervention?

Unless the external environment is undergoing rapid and significant change, the strategic plan should remain viable for five to ten years. In a rapidly evolving environment such as Croatia, however, more frequent updating may be needed.