



Japan Local Government Centre, London

Monthly Report for December 2011 (Germany) – The organisation of local economic development and its changing role

History of local economic development and its hierarchy

The establishment of local self-government as it is known in Germany today is intrinsically linked to local economic development. When at the beginning of the 19th century wide-ranging reforms in Prussia made it possible for property owners to participate in local self-government in the city and enabled the cities to access funds by taxing local businesses, and so giving them an incentive to ensure favourable conditions for business, the basis of local self-government was put on a modern fundament¹. This recalibration enabled cities to provide conditions favourable to economic development under the rapidly changing conditions of the industrial revolution and thus bring Germany into the front rank of developed nations.

The tasks of public promotion of economic development are now divided between four levels:

1. At the European level: European regional policy sets goals for Europe-wide economic development, while at the same time European competition rules apply
2. At the federal level: federal government is responsible for the joint task (*Gemeinschaftsaufgabe*) of 'improvement of the regional economic structure', which is mainly concerned with assistance to particularly disadvantaged regions and is conducted in co-operation with the *Länder*
3. At *Länder* level: co-operation in the joint task and regional economic promotion through own programmes
4. At local authority level: local economic development, which is the focus of this report, is conducted both by the municipalities (*Städte und Gemeinden*) as well as the counties (*Landkreise*).

The goals and tasks of local economic development

Increasing mobility of people, goods and finance has led to a globalisation of the economy and the locations in which economic activity takes place. At the same time this also means a loss of influence of local economic development and the need for a more regional approach. In the years of steady economic growth after the Second World War, it was possible for local authorities to attract new

¹ These reforms applied only to the urban centres at first. It took fifty years for the new system to be rolled out to all municipalities.

businesses by offering subsidies; however in the current climate this is no longer possible due to financial constraints and the changing outlook of regulatory politics.

Therefore the current goal of local economic development policy is mainly focused on supporting and developing businesses that are already present in the location. However there are various aspects to creating an environment that is conducive to businesses prospering: it means the 'hardware' provision of land and infrastructure, but also the 'software' of an attractive environment, and branches out into marketing activities of various kinds. The latter focus links in closely with the overall planning and place-shaping agenda of cities and will not form a focus of this report.

The German Institute of Urban Affairs (DifU) has conducted research regarding the local economic development function of the 188 larger cities (over 50,000 people) in 1995, 2001, and 2007/2008. The questionnaire sent to these cities focused on the organisational structure, fields of activity, areas which are regarded as particularly important, and the significance accorded local economic development. In the last round, particular emphasis was given to the two topics 'clusters' and 'scarcity of skilled personnel', which have had a relatively high media profile and which were assumed to play an ever larger role in local economic development work as well. In 2008, for the first time the German Association of Towns and Municipalities (DStGB) conducted a similar exercise targeting the 1,170 cities between 10,000 and 50,000 people, so as to give a more complete picture, including also those cities which are part of counties. Not covered are the 10,900 municipalities under 10,000 people (the total number of cities and municipalities in Germany is about 12,300). This report draws on the results from the last DifU study as well as the DStGB study. However, while the DifU study was able to present a representative sample as 144 cities out of the 188 provided answers, the response quota for the DStGB study was with 277 cities out of 1,170 too low to be scientifically accurate, but the results can nevertheless serve as an indicator of the situation in the smaller cities.

The different organisational forms of local economic development

Economic development is a voluntary task of local authorities, therefore it is entirely up to them how they organise it. It can be organised within the main administrative structure, or it can be separated out to a third-party organisation, it can be implemented in co-operation with another local authority, or with the participation of other parties in the form of an incorporated body based on private law.

The majority of local authorities, regardless of population size, have opted to keep the function of local economic development as part of the main local authority structure, either setting it up as its own department or assigning the function to a larger department. In the cities between 10,000 and 50,000 people, 72% have opted for this approach, with 15% having a separate department for economic development, while 57% assign the function to a department. This can be the finance department (20%), the construction department or indeed it can be assigned to the Mayor's office (10% each), however depending on local circumstances, other departments such as tourism, city planning and development, as well as citizen services can also act as host departments. In this category of cities, only 7% have opted to set up separate bodies, mainly in the form of an incorporated organisation, which will very often have participation from the private sector in the form of a public-private partnership.

However, while still just under half of the larger cities are maintaining the economic development function in-house, more than 50% have set up arms-length bodies with private participation, in which the local authority will mostly retain a majority stake. Especially in the large metropolises, these are very often influential bodies in their own right, combining tourism and marketing strategies with economic development.

Personnel capacity of local economic development

The personnel situation of local economic development offices is very varied, as it depends on the economic circumstances, the specific financial situation of a local authority, the significance accorded to local economic development and naturally the size of the local authority. In the cities between 10,000 and 50,000 people which responded, the number of employees ranged from one part time position (0.5 full-time positions) to up to 8.5 positions. The average is exactly one full-time employee responsible for local economic development per city. 75% of these cities have up to 1.5 positions, and only a small minority employ more people for this task. It should therefore not surprise that 79% of the cities cite an increase in personnel as an important factor for improving the work of local economic development.

The situation in the cities over 50,000 people is remarkably similar. In nearly half of these cities less than five staff members deal with the tasks of local economic development. In relation to their population, cities employ the same number of staff for local economic development, regardless of size.

Main areas in which local economic development offices work

The areas which are given as most important vary surprisingly little between large cities and smaller cities. They are in the main:

- Procurement of suitable land and premises for industrial and business operations, which means playing a facilitating role
- Marketing the industrial and commercial locations
- Planning and development of sites for industrial and commercial use
- Developing the retail sector
- City marketing is something that is more important for the smaller cities than the larger cities

Current topics of local economic development work

There is some divergence between what are regarded as current important topics in this area of work between the smaller and the large cities. While the smaller cities cite in the overwhelming majority the same four topics as given above, another very important area is the 'improvement of infrastructure used by businesses'. Other areas which also receive mention by the smaller cities are tourism promotion, co-operation between local authorities, regional networks, supporting start-ups, co-operation between schools and businesses, local employment policies and the issue of lack of skilled personnel, supporting technology and innovation, and clusters.

The only important topic currently shared between the smaller and the larger cities is 'developing the retail sector'. Apart from that, the large cities say they are increasingly concentrating on the creation of networks, supporting start-ups, improving the infrastructure used by businesses, and the co-operation between universities and business. As seen above, these are in the main topics cited by the smaller cities as well, however they have more relevance for the larger cities.

No clear division of responsibilities for local economic development

Apart from the cities, counties (*Kreise*) also are engaged in local economic development activities. As this task belongs to what local authorities can choose to do and is not a prescribed duty, in principle the counties will take this on because smaller municipalities might lack the capacity, or because there is a need to balance out inequalities between municipalities within the county area. In the majority of cases there will be a distribution of roles and responsibilities between municipalities and the county, although formal agreements are rare. This also raises the possibility that duplication takes place, and that for some businesses it might be confusing to understand who does what.

In some big cities, over the past years small-scale area-based local economic development agencies have also sprung up in specific urban regeneration areas to close the gap between the needs of small enterprises or of excluded groups and the focus of mainstream local economic development. However these are mostly connected to urban renewal programmes (for example, the German joint programme 'Social City', and the EU URBAN approach) and of limited duration. This approach has yielded results in allowing for greater responsiveness towards local needs and opportunities, but has also brought the danger of parallel structures, where some actors in local economic development are working city-wide and some only in specific neighbourhoods.

It is also necessary for local economic development to fit into the *Länder* strategies for regional economic development, demanding quite a large amount of co-ordination.

Conference of the local economic development promoters

The incorporated local economic development organisations are since 2001 organised in the 'German Association of economic development organisations', which currently has 135 members. It holds an annual conference of the people and organisations engaged in local economic development. Initially it was mostly attended by participants from the larger cities and supported by the German Association of Cities. Increasingly participants would also come from the smaller cities, as well as from the counties and other related organisations. Based on these developments, in 2008 a 'Forum of the German Economic Developers' (Forum Deutscher Wirtschaftsförderer) was established with support from all three local government representative organisations (German Association of Cities, German Association of Towns and Municipalities, German Association of Counties) and sponsored by a number of other organisations, mainly financial organisations involved in regional and local development. The annual conference has increased in size and reach and its programme provides a good indicator of what the current tasks and topics in this field are.

The 2011 conference took place in Berlin on the 17th and 18th November. It was entitled 'Renaissance of looking after your established businesses', and apart from a case study from Lyon (France) and a national contribution, a number of workshops focussed on the new challenges in this field. They can be categorised as follows:

- The impact of social media on local economic development and how its power can be harnessed
- Tailoring services to the needs of existing businesses not ad-hoc, but following a strategic and long-term approach
- Dealing with the skill problem: recruitment drives internally and externally for skilled people as needed in local businesses
- Supporting innovation and achieving knowledge and technology transfer in a regional context

It is clear that the new challenges local economic development promotion face lie in the provision of IT infrastructure which enables business to operate and grow, responding to the demands of the 'creative class' and people in the knowledge economy, as well as promoting a truly integrated concept of planning and development, and bringing funders and entrepreneurs together.

Notable examples of innovative approaches included local economic development organisations using social media such as facebook and twitter – not only large cities such as Berlin, but also smaller ones such as Schmalkalden (Thuringia), as well as making apps available which provide location and property information of interest to business users (for example, Mönchengladbach). In the area of knowledge and technology transfer, participants were introduced to recent networks specialising in such areas which were able to demonstrate impressive results. One such regional network has started in 1999 in Lower Saxony with the purpose of enabling small and medium companies to access necessary knowledge and innovation to enable them to grow and develop. It has grown organically from two members to nine, not counting some associated cities in 2011. The network has established in 2006 a knowledge transfer centre (Transferzentrum Elbe-Weser), which is responsible for technical details and matching universities, research organisations, consultancies and other relevant organisations with the businesses as necessary. 75% of the funding for the network which then in turn commissions work from the centre comes from the European Regional Development Fund (ERDF) which has a particular pot for regional knowledge and technology transfer and can be accessed by local authorities, while the remaining 25% are made up from contributions of the network member counties, as well as from associated local authorities. The transfer centre works to the following agenda:

- Search out, develop and help to adopt knowledge and solutions for specific technical problems in small and medium size businesses, covering all fields
- Optimise existing technologies and help to develop new technologies
- Assist with legal issues and obtaining legal protection (patents) for innovations

- Develop regional technological focus points together with universities, research institutes and businesses
- Facilitate access to support and funding from EU, federal and Land technology programmes
- Support entrepreneurs and start-ups, in particular start-ups arising out of universities
- Co-ordinate work placements and graduation theses placements in technical fields

The support offered by the transfer centre is initially free to the businesses. In the time between 1999, when the network started, to October 2011, more than 2,300 transfer activities have been implemented.

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