REGIONAL DEVELOPMENT AGENCIES: THE TOOL TO STIMULATE ECONOMIC DEVELOPMENT IN REGIONS

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I am here with you, speaking very much as an economic development practitioner. I have spent the last 20 years working for Greater London Enterprise (GLE) where I was Chief Executive for ten years. GLE is a rather special type of agency being wholly commercial in its operations, making a profit, yet being wholly in the public sector being owned by the 33 London local authorities. A couple of years ago that I stopped doing that for the more challenging waters of academia at London South Bank University where I am now doing research on delivery of economic development. I am speaking also on behalf of the European Association of Development Agencies (EURADA), which is an association over 150 agencies across Europe. It is a membership organisation – agencies have to choose to join - so we do not have all the agencies in Europe as members. However, we have a close and effective relationship with the European Commission. Our activities are concentrated very much on exchanging best practice, developing public policy in economic development, lobbying the European Commission on economic development issues and generally doing what we can to improve the quality of the economic development work that all the members of our network do.

I want to start my remarks today by just making a few background comments about the issues that really concern economic development agencies and to try get some sort of realism into some of the strategic objectives that we hear so much about from regional development agencies.

Firstly I want say something about the concepts of market failure a concept which is ubiquitous in documents of the European Commission. Despite this, I think that understanding about what market failure is amongst economic development folk, and how we address it is far from clear. Euro economists will talk about the efficiencies or otherwise of markets. However, or myself, the only useful way of seeing market failure is in a situation where the market working on its own has not produced the outcomes that public policy wants to see, whether it be for a particular sector, or whether it be for a region as a whole. And it is the job of public policy to try to intervene in that market process in the best way it can to produce some outcome which is closer to what public policy wishes to see. It is essential that in developing a strategy, a development agency must be absolutely clear about what the failures in the market it is seeking to address and then to ensure that its programmes are designed precisely for this purpose. I will say little bit more about that as I go on.

It is really very important for everyone involved in public policy in economic development to be aware of just how strong commercial markets are. They place clear limits on what development agencies are able to do. I fear that a number of people who work in agencies, who come across what they consider to be a market failure and then rather with the zeal of social workers get to work to show how the mighty public sector is going to get in there and jolly well sort things out. It is very difficult to do that. Usually, things are as they are in commercial markets for very good reasons. And I think here particularly of my own area expertise which is the financing small businesses. Small businesses struggle because commercial marketplace is only too well aware that they are more risky than bigger firms, are costly clients to service, lack skilled management, and find it more difficult to grow. There are no perverse factors at work here which public policy can easily address.

So I think it is important to recognize the strength of markets. That means recognizing the limitations on what an agency can achieve both in the short and the medium term. And it also means –going to my third point here- that we should be looking at programmes which go with the grain of the market. By that I mean; if we are looking, for example, at banks in their financing of enterprise, rather than trying to introduce wholly new mechanisms, we should be looking at ways in which we can provide incentives to encourage them to do that a little bit extra to help the small businesses, rather than trying to reinvent a whole system from scratch.

I think it is also very important that a long term strategic commitment is made to addressing market failures. It takes a very long time for some of these policies to bear fruit and this is a real problem when we are looking at the political leadership of agencies because the political cycle is relatively short. Politicians want to commit resources in the current period so that within two, three, four years at the most they want to see some outcomes. And that is very difficult to do.

If we look at the experience, for example, in the US, there are many programmes there, which agencies use, which really go back to the Second World War. The federal government's Small Business Administration (SBA) and its work is a very good example of this. Recently, an American colleague said to me that even poor programmes, if they in existence for a long time, can be quite good in their effect because people get to know how to use them, how to work the system and to get what they want out of them.

The problem in the UK, and I suspect it happens elsewhere in the Europe too, is that we only try things for about four or five years before the government comes along and says this won't do, we're not getting value for money, and programmes are dismantled.. And then you loose the expertise, careers are disturbed, and strategic objectives are not achieved. Then of course the whole cycle often starts up again as another set of politicians decides that "something must be done" about the same problems of economic development. So it is very important to have a long view in terms of introducing economic development agencies here in Turkey I think.

Much was said earlier about the importance of leadership and multi-sector partnerships within the region, working together with the RDA, so I won't spend further time on that now.

I just want make a comment to about a real paradox in economic development and regional economic development which it is very important for policy makers to be aware about. It is the tension which exists between economic growth and regional development. We just heard a little while ago about the importance of reducing regional disparities and producing balanced growth in Turkey. It is clearly very important for regions which are lagging in economic development performance to want to do something to improve their position vis-à-vis both in European average and also their national average.

However, we have programmes, such as the EU's Lisbon Agenda, which are all about economic growth at the Europe-wide level and the need to compete globally benchmarking ourselves against the United States. This means, for example if we are concerned about creating a high-tech, growing, competitive small business sector in Europe, we should be putting our resources into the more successful regions. Because if one thinks there is market failure in the way the commercial sector helps and supports small businesses, you go to the regions where there are more are small businesses or where there is more activity. This means in the UK putting more resource into the London and the South East of England: - the most successful regions in the country.

But if you want to address regional disparity then that is the last thing you should do. There is a real tension in policy here. And I think the fact that you have big disparities between regions in Turkey that is something which is going to be very important in policies for the future. If I go from experience in the UK, I would have to say that although a great deal of public policy in effort has gone into addressing regional disparities almost the last century, the poor regions that were in existence early in the last century are still the poor regions today. And if we look at the North of England for example; the net job growth in the North of

England in the last fifty years has been virtually zero. So it is a really difficult task in bringing relatively disadvantaged regions forward and I think it is very important to be aware with that. Of course what we are talking here is really the importance of maintaining two agendas which are distinct. One of growth for the economy as a whole (which has to be done at the regional level because that is where you can most effectively intervene) but also achieving social cohesion overall which means special measures for distressed regions.

I now move on to problems of definition: what exactly is a Regional Development Agency? You have wholly funded government organization as we do in UK; you can have public/private partnerships; you can have RDAs that concern themselves with specific areas of policy like improving support for high-tech businesses or inward investment, or you can have agencies that cover a broad range of policy issues. If I look at what happens across Europe within the EURADA membership, sometimes a region has an agency that is set up as an independent agency and then a few years later the politicians change and they bring the agency back into the bureaucracy the local authority where people continue pursuing the same objectives but in a very different context.

The working contexts of agencies can vary enormously and here I contrast the situation between the UK and US:

In the UK we have nine large regional development agencies set up and funded under a national programme with a top-down approach. In London we have one which has got over 400 staff now and then annual budget of £400 million. Alongside that within the same region we have local authorities deploying just as many staff and just as large a budget in pursuit of economic development. We have a small business service. We have enterprise agencies and we have skills agencies or working toward similar objectives. This may all seem very complicated with a high overhead cost in maintaining so many delivery organisations.

If we look at the situation in the US, regional economic development is driven by the fact that the regions want to maintain their tax base. This is not a system where central government sets the goals out into the regions. The regions have got to generate tax from companies and from people working in their jurisdictions. This means that economic development for cities and regions in the US is about having programmes to attract firms and individuals which may include making the facilities in those cities in areas such as education and health as high quality as possible. This produces a very different model of regional development agencies than we are used to in Europe and also a context in which public and private sectors have a common interest in successful outcomes.

We now look at the functions which we might expect to see in an RDA. The starting point would be the development of a regional strategy and that should involve the political system and also the businesses in the region. In the UK, because we have top-down government programmes implemented through RDAs, it is often hard to engage businesses at the regional level which may have its own agendas. Strategy should identify the market failures and then prioritize action. Then there follows the devising and implementing the programmes to fulfil that strategy.

I think it is very important that the RDA itself should be a centre of expertise on good practice around the world. It is very easy now, using the internet and international networks to actually gather a lot of information about what works and what does not work and how our common policy concerns should be addressed. And I think that that resource should be used to devise and implement the strategy I am talking about. The agency obviously should be a centre of research and intelligence on its regional economy and it should establish a leadership within the region on its development agenda. And also of course the RDA has to fit in with the national programmes and strategies and make the very most of these for its own ends.

On this slide I list just of some of the things which I think it is really important for regional development agencies to have in terms of good practice and effectiveness. The RDA's must work effectively in partnership with all sectors which are vital to the local economic development of the region. That may include the business sector, the voluntary sector, politicians, and all sorts of people who may have an influence on what is happening in economic development. It never makes sense for an agency to try to do everything itself.

It is also very important, and this is particularly so in areas where public spending is very limited, that programmes should be devised which draw resources broadly from regional sectors through some form of partnership working. This may consist of cash to help to do things but it is also more likely to involve people and expertise. Such strong partnership working can create highly effective programme implementation.

Following on from this, I would say that the more that one can find what we might call commercially based solutions, the better for an agency. There is a real problem about setting up a government bureaucracy in a region, calling it a development agency, giving it well-funded programmes to implement and then asking it to go out and to interface and interconnect with commercial organisations. Experience shows that this is a very difficult thing to do. Businesses work on a very different dynamic – and let's not forget that business are at the heart of economic development They have to do things quickly and flexibly in order to earn revenue, to pay the wages and all the other costs they face. RDAs can be much more relaxed about it. I think that getting the business/RDA interface right is really very important and that the agency should not be a sort of a citadel of public interest separate from what is happening in the region.

I also think it is very important from the very beginning in establishing regional development agencies to have a regime of valuation of the work of the agency. This is vital to ensure that the agency can always justify its existence when the political cycle starts to change and the questions start to be asked about whether the money being spent in agencies is good value.

So, although the title of my talk was about agencies themselves being the tools of the governments, I'd like to think actually of the agencies themselves being small and flexible organisations which would then be wielders of tools which are those public programmes we have been talking about to achieve economic development.

As I draw to a close, I highlight on this slide the four main areas of market failure which appear to be common concerns of RDAs across all sorts of different economies. This suggests that across Europe we can really exchange best practice and find out what other people are doing and what things might be most appropriate for our region:

- Small business development and finance is absolutely critical in every economy both in terms of economic growth and employment
- Skills and training
- Inward investment and making the region itself really attractive for firms and individuals to both come and to stay there
- Real estate, including accommodation for small businesses.

These factors are problems in rich regions and poor regions. I hope that the opportunities available through EURADA membership will help emerging RDAs in Turkey to plug into a relevant resource of expertise and support.

Finally, this slide sets out some pitfalls for RDAs to avoid – or rather golden rules to follow:

- Always be sure to demonstrate adding value to the region.
- Put a high proportion of the resources in an agency into program delivery and not into the overhead cost of the agency
- Only embark on programmes which are well researched, fit for purpose, and clear examples of good practice - and avoid rushing into programmes because of political pressure which says "something must be done".
- Maintain flexibility of action, ensuring that the agency learns from experience but maintains a consistency to achieve the long term objectives.