



THE LOCAL BUSINESS ENVIRONMENT AND DECENTRALISED COOPERATION



by Simon White

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EXECUTIVE SUMMARY

In both developed and developing countries, increasing attention is paid to the role local and regional governments play in improving the business environment and investment climate for private sector development (PSD) and inclusive growth. While most business environment reform (BER) involve changes to national policies, laws and regulations, several initiatives have begun to focus on the local business environment (LBE). This trend reflects the realisation that national BER does not always lead to an improvement of business conditions at the local level.

PLATFORMA, the pan-European coalition of local and regional governments engaged in international cooperation for sustainable development, commissioned this study to show how improving the LBE requires capacity development for local governments and decentralisation reforms. Through decentralised cooperation local and regional governments can lead reforms that support business growth, create jobs and drive innovation.

The LBE is a complex of policies, laws, institutions, and regulatory conditions that govern local business activities. This includes interactions between public, private and civil actors. Reforms to the LBE reduce business costs and risks, while increase competitive pressures. National and local business environment reforms require a high level of cooperation between national and sub-national governments, as well as between the relevant business representative organisations.

The local business community is an important asset for all local economies. PSD improves the way the private sector functions in the economy and increases private investment in the production of goods and services and the creation of productive and decent employment. While economies grow through increasing levels of private investment, it is the pace and pattern of growth that influences the degree to which growth results in poverty reduction, while reducing inequalities. Local responses to PSD promote more inclusive models of development in which the needs and opportunities of local businesses, workers and civil society are considered. Furthermore, the private sector can deal directly with governments as well as through multisector platforms to become agents of local development. Through decentralised cooperation, local and regio-

nal governments can work in partnership with the private sector and other public and civil society actors to improve the business environment and facilitate the creation and development of private sector jobs.

Three broad policy themes influence their ability of local governments to engage in LBE reform: local economic development (LED), small business development, and investment attraction.

There are a growing range of LBE assessment tools that local governments can use to better understand the LBE and its effect on local business and investment decisions. While most of these are national level assessments, recent developments show an increasing focus on sub-national competitiveness.

Local and regional governments lead a range of reforms to improve the LBE:

- 1. Local governance and regulatory reform:** to improve the efficacy and efficiency of local laws and regulations – this includes reducing local regulatory constraints and improving national and local government coordination;
- 2. Local business registration and licensing reform:** to reduce the cost and time required to start a business;
- 3. Local construction permit reform:** to simplify the complex processes associated with building and construction;
- 4. Local taxation reform:** to improve the transparency and accountability surrounding local taxation, while reducing the cost of administration;
- 5. Local investment policy and promotion:** to improve the attractiveness of the locality to investors (i.e., domestic and foreign), while facilitating investment compliance;
- 6. Local land reform and local area planning:** to ensure land using planning and zoning is consistent and transparent, while providing investors with a clear understanding of their obliga-

LIST OF ACRONYMS

BER	Business environment reform
DCED	Donor Committee for Enterprise Development
EC	European Commission
EQI	European Quality of Government Index
EU	European Union
FDI	Foreign direct investment
IFC	International Finance Corporation
ILO	International Labour Organization
LBE	Local business environment
LBER	Local business environment reform
LED	Local economic development
LEP	Local Enterprise Partnerships
OECD	Organisation for Economic Cooperation and Development
PPD	Public private dialogue
PSD	Private sector development
RCI	Regional Competitiveness Index (EU)
RIA	Regulatory impact analysis
SBA	Small Business Act (EU)
SDGs	Sustainable Development Goals
SECO	State Secretariat for Economic Affairs (Switzerland)
SME	Small and medium-sized enterprise
SNDB	Subnational Doing Business (report of the World Bank Group)
UCLG	United Cities and Local Governments
UK	United Kingdom
UKCI	UK Competitiveness Index

Background and rational

The Council of European Municipalities and Regions hosts PLATFORMA, the pan-European coalition of local and regional governments engaged in international cooperation for sustainable development. PLATFORMA federates European local and regional governments with their regional, national, European and global associations. It is a hub of expertise on local and regional governments' international action, aiming to boost European local and regional governments' contribution to international sustainable development and European Union (EU) development policies.

PLATFORMA commissioned this study after recognising the increasing role donors and the international community play in supporting business environment and investment climate reforms in developing countries. These reforms are part of a broader approach to private sector development (PSD) and economic development in general. They contribute to long-term development goals, including the international Sustainable Development Goals (SDGs). Local and regional governments can cooperate with one another to share information and experiences that stimulate the local economy and create better conditions for private sector growth, employment creation and poverty reduction. Indeed, local and regional governments are critical leaders in these processes, collaborating with the private sector, national government and civil society to stimulate social and economic development.

While most business environment reform (BER) involves the reform of national policies, laws and regulations, several initiatives have begun to focus on the local business environment (LBE). This trend reflects the realisation that national business environment reform does not always lead to an improvement of business conditions at the local level. There are many factors affecting the relationship between national and local governments and the roles these levels of government can play.

Local and regional governments are key actors when it comes to the LBE. While these governments face several constraints to their ability to lead and engage in this agenda, they can participate in decentralised cooperation engagement to build local reform capacities. For examples, European local and regional governments, with their vast experience in local business environment reform can help developing countries LRGs to overcome those constraints.

The investment climate and business environment

Of the range of factors that affect business growth, the most important are markets (i.e., the way buyers and sellers interact). While businesses grow based on their ability to compete in the marketplace, many factors affect the performance of markets and the competitiveness of firms within markets. In its *World Development Report 2005*, the World Bank (2004; 2) argues that improving government policies and behaviours that shape the investment climate is fundamental to driving growth, job creation and poverty reduction. It



defines the investment climate as 'the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand'.

The Donor Committee for Enterprise Development (DCED 2008) define the business environment as a sub-set of the investment climate, consisting of a complex of policy, legal, institutional, and regulatory conditions that govern business activities. This definition includes interactions between public, private and civil actors. Where the investment climate has an overall effect on private sector activities, government policy and regulatory decisions, at national and sub-national levels, directly affect the business environment.

Governments improve the business environment to development the private sector grow the economy and create more and better jobs. BER changes the behaviour of private enterprises by:

- Reducing business costs: so firms are able to increase profits so that these may be further invested to increase market share so that output and employment is increased¹;
- Reducing risks and uncertainty: by improving the quality and stability of government policies, laws and regulations in order to reduce the cost of capital and increase the number of attractive investments in the market; and
- Increasing competitive pressures: firms become more competitive by making market entry easier and by stimulating the efficiency and innovating incentives of the market.

¹ A cost to business is defined as a 'sacrifice incurred in the pursuit of some activity' (Bannock, Davis, Trott, & Uncles, 2003).

The DCED (2008) identifies several 'functional areas' of BER. While BER can focus on general business environment issues, most reforms are concentrated on one or more of the following:

- Simplifying business registration and licensing procedures;
- Improving tax policies and administration;
- Improving labour laws and administration;
- Improving the overall quality of regulatory governance;
- Improving land titles, registers and administration;
- Simplifying and speeding up access to commercial courts and to alternative dispute resolution mechanisms;
- Broadening public-private dialogue processes with a focus on including informal operators, especially women;
- Improving access to market information; and
- Enabling better access to finance.

More recently, the EU adopted the External Investment Plan in 2017, which provides a multi-level approach to working with partner countries towards creating a 'conducive investment climate'. This includes support for structured dialogue between governments and businesses, as well as policy and political dialogue with partner governments to address key constraints to investment and promote good governance. The plan also supports regulatory, policy and governance reforms, designed to encourage investment in EU partner countries in Africa and the EU Neighbourhood region.

While BER mostly focuses on national level reforms, increasing attention is given to LBEs (see Klapper, Lewin, & Delgado, 2009; Loayza & Servén, 2010; World Bank, 2017). **Local governments create**

business environments that influence inclusive economic growth by addressing the three business environment elements:

1. **Policies and strategies** for economic and business development. These identify local challenges, problems and opportunities and provide local economic actors with a framework to act. They provide a vision for how government can foster business development and create a basis for working with other tiers of government, business, academia, and the local community to share information and facilitate local partnerships and innovative approaches.
2. **Local laws and regulations** govern business activities. They work best when they provide a realistic and proportionate response to identified problems. A good business environment is not synonymous with the deregulation of business activities. Rather, it promotes the use of effective and proportionate regulation. While good regulation is essential for markets to function properly, bad regulation that is poorly targeted, costly, bureaucratic, and cumbersome, inhibits business growth and good governance.
3. **Institutional arrangements** frame the interaction between local councils and the local business sector. Often referred to as 'public-private dialogue' (PPD), this interaction influences the ways local governments engage with and respond to local businesses. Reforms in this field typically open up dialogue, so that it goes beyond a cosy club of those who are 'in the know' and accommodates the diverse views and experiences of a broader range of local businesses. Moreover, councils can also facilitate the engagements between local businesses, teaching institutions, research organisations, and other civil society organisations.





Outline of study: purpose and objectives

There are two objectives of the study. The first is to show that improving local business environment requires building the capacity of local and regional governments in partner countries and promoting decentralisation reforms.

The second objective is to show the potential contribution of decentralised cooperation to help local and regional governments undertake business environment reforms and advocate for decentralisation reforms.

More broadly, the study seeks to:

- Describe the LBE agenda, presenting initiatives and the roles played by local and regional governments through examples from Africa, Asia and the Pacific, and Latin America;
- Clearly outline why local governments are important to improve the business environment at the local level;
- Identify needs in terms of capacities and skills for local governments to improve the business environment of their territories;
- Explain frequent legal and financial constraints and demonstrate the need to pursue decentralisation reforms (e.g., fiscal and administrative) to empower local governments to improve their local business environment through examples from Africa, Asia (and Pacific) and Latin America;
- Explore potential contributions of European local governments to the improvement of local business environment in partner countries through decentralised cooperation; and
- Demonstrate that decentralised cooperation can be a useful tool to improve local business environment of partner countries.

Approach and methodology

The study applied the following approach and methodology:

- Review of relevant policies, programmes and technical reports produced by local and regional governments as well as national and international development agencies;
- Review of the academic literature related to private sector development and the role of governments, and sub-national government authorities in particular) including the literature related to local economic development and business environment reform; and
- Consultation with key informants and stakeholders via email or telephone or Skype interviews.

Structure of report

This report is organised as follows. The first chapter presents an overview of how LBE reform contributes to stimulating private investment and supports an inclusive approach to economic development. This includes an examination of the role of local and regional governments in supporting local economic development (LED), small business development, and investment attraction. It also positions LBE reform within the context of decentralised government systems.

Chapter 2 examines the range of typologies, or areas of focus, for local business environment reforms (LBER). This begins with a review of the tools used to assess the LBE and identify areas where reform is required. These tools have been instrumental in guiding reforms and have been used by reform support programmes to improve the capacity of local and regional governments to better understand and monitor changes in the LBE. Following this, the chapter assesses the common themes in most LBE reform programmes.

The last part considers the requirements for further support to local governments in LBER.





CHAPTER 1

LOCAL BUSINESS ENVIRONMENTS STIMULATE
PRIVATE INVESTMENT AND
INCLUSIVE ECONOMIC DEVELOPMENT

LOCAL BUSINESS ENVIRONMENTS STIMULATE PRIVATE INVESTMENT AND INCLUSIVE ECONOMIC DEVELOPMENT



Private investors and businesses are an important asset for all local economies. Developing the private sector, through what is referred to as 'private sector development' (PSD), aims to improve the way the private sector functions in the economy and increase private investment in the production of goods and services and the creation of productive and decent employment.

PSD is based on an understanding of how entrepreneurs act in a market system and on the financial and human resources private enterprises can bring to achieving sustainable development outcomes. The private sector refers to non-state actors (e.g., firms or individuals) engaged in commercial transactions within a market system. This does not include public-owned enterprises or non-commercial activities. Private enterprises can be large, multinational or foreign-owned firms employing thousands of people. They can also be very small, micro enterprises operating in local markets barely employing one person. From a local government perspective, it is important to recognise the heterogeneity of the local business community. Increasingly, the local private sector includes social enterprises that are commercial entities established with social or environmental objectives.

Economies grow through increasing levels of private investment. This can be the result of increased sales – where consumers, including government, buy more products and services – as well as through investments into new business start-ups or the expansion of existing businesses. There is extensive research on the link between PSD, economic growth and poverty reduction (see Dollar & Kraay, 2002; Kraay, 2006).

While private investment drives growth, it is the pace and pattern of growth that influences the degree to which growth results in poverty reduction and reduced inequalities. The pace of growth is important because economies must expand fast enough to accommodate the increasing demands of population growth and new labour market entrants. However, the pattern of growth is as important as its pace because this affects who benefits from growth. For instance, the pattern of growth can depend on the sector or region in which investments and growth occurs. Thus, the pace and pattern of growth affect the extent to which growth can be 'inclusive'. Inclusive growth is economic growth that 'creates opportunities for all groups of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society' (OECD, 2018d). PSD contributes to inclusive growth by creating productive and decent employment. In local economies, PSD is specifically focused on the needs and opportunities of local businesses, workers, products, and services.

The OECD (2018d) framework for inclusive growth recommends investing in people and places, while supporting business dynamism, and creating more inclusive labour markets to contribute to rebuilding trust and strengthening social cohesion. In many instances, this requires the active engagement of local and regional governments. Indeed, the OECD (2018d) framework recommends governments do more to empower citizens and communities to shape policies for people, thriving businesses, shared prosperity, and a sustainable planet.

In addition to the growing interest in inclusive growth, the United Nations' 2030 Agenda for Sustainable Development and the SDGs highlight the role of the private sector as a key stakeholder and development partner. PSD stimulates innovation and the economic and social transformation required to achieve the SDGs. PSD makes enterprises more productive and competitive by improving their access to services, markets and finance; it creates jobs and benefits workers as investments are made into business expansion; it improves the access consumers have to goods and services by promoting competition and stronger links with international markets;

and it contributes to democracy and state building by increasing the tax base and creating a legal and political space for private sector employers and workers to participate more fully in the economy. Fernández de Losada and Moreno (2018; 5) describe how the private sector can deal directly with governments as well as through 'multisector platforms' to become a 'real agent of local development'. This includes actively participating in publicly-driven initiatives. Through decentralised cooperation, local and regional governments can improve the business environment and facilitate the creation and development of micro, small and medium enterprises, the provision of a friendlier business environment, the attraction and management of investments, the development of public-private partnerships, the generation of new economic models, the creation of employment, etc. The private sector can also play a crucial role in building bridges for commercial exchanges and raising awareness for sustainable development.

Decentralised cooperation has been broadly recognised by the international community as an effective means of development cooperation. Initially conceived as the transfer of aid and knowledge from the rich North to the poor South, this form of cooperation has evolved into partnerships where knowledge and experience flow in different directions (i.e., North to South, South to South and South to North). Within this context, local and regional territories provide a focus for innovative partnerships involving the most relevant territorial stakeholders, such as civil society organisations, the private sector and knowledge-based organisations (Agustí Fernández de Losada Passols, 2017).²

If local and regional governments are to engage in LBER, they require the legal and political mandate, powers and financial resources to do so. Nation states set the parameters for local and regional government and determine their ability to drive economic development.

No one system of government ensures a positive outcome for local and regional governments. While federal systems typically devolve significant powers to state or provincial governments, other levels of government (e.g., local and regional governments, village councils) may not be constitutionally determined and the limits of their authority may be unclear or subject to frequent changes. Unitary systems may clearly define the role of local and regional governments, but this can encourage highly centralised government arrangements and may not guarantee appropriate financial support for sub-national authorities.

While the devolution or decentralisation of government functions is critical, this requires a legal and political mandate provided by the nation state. Many local and regional governments face intense demands from both national governments and local residents and businesses. However, their ability to satisfy these demands is often constrained by a lack of financial resources.

Rodríguez-Pose and Garcilazo (2015) argue that local and regional governments determine the rules of the game at the local level. The quality of local governments influences economic development and help shape the efficiency and returns of public investments.

“Accountable and transparent governments, staffed by well-trained civil servants and led by trustworthy politicians who have the interests of the local community at heart, will, in all likelihood, design and implement policies and deliver public goods and services needed by its citizenry, benefitting the community as a whole.

Unaccountable and poorly staffed governments and governments with inept and/or corrupt politicians at the helm will, by contrast, deliver inefficient policies or, worse still, lead to situations where rent-seeking and insider-outsider problems are pervasive”

A. Rodríguez-Pose & E. Garcilazo, 2015

Decentralised development co-operation draws on local know-how and expertise through local governments. The OECD's *Reshaping Decentralised Development Co-operation* report argues that this form of development co-operation contributes to improving the quality of local government services and broadens their coverage, increasing the satisfaction with and trust in local administration, and providing wider access to financing for sustainable development (OECD 2018a; 63).

In its assessment of 25 cities in Croatia, the Czech Republic, Portugal and Slovakia, the World Bank (2018b) finds that while many aspects of business regulation are nationally legislated and implementation varies substantially among cities and regions. Moreover, alongside the national legislative framework, local and regional governments can establish their own regulations, policies and incentives, leading to sometimes important variations in the ease



² These partnerships are especially common in Southern Europe, mainly in France, Italy and Spain, and in some emerging economies such as Brazil, Colombia or Mexico.

of doing business. Differences in regulatory performance among locations within the same country can help policy makers identify opportunities for improving administrative processes and building the capacity of local institutions (World Bank, 2018b).³

The European Commission (EC, 2017) describes how territorial cooperation supports policy cohesion by focusing on joint action and the exchange of policy ideas and experiences between national, regional and local governments in different EU Member States. It recognises the 'significant variations across regions in the quality of government which reflect the way in which national regulations are implemented and differences in the efficiency of regional and local and regional governments in this respect' (p. 138). Thus, along with strengthening infrastructure endowment and human capital, the EC says it is important to 'support improvements in administrative capacity and the effectiveness of government as well as reductions in the incidence of corruption, which erodes trust in governments and their policies' (p. 161).

In its most recent survey of regulatory policies, the OECD (2018b; 108) describes how many states are challenged with the effective implementation of regulation. This includes making decisions on which institutions will be responsible for enforcing regulations and the kinds of competences and resources required to do this. This is especially relevant in cases where sub-national levels of government are responsible for enforcing national regulations. Many state and local governments complain about an increasing number of responsibilities while the resources for executing these powers are in fact decreasing.

The EC (2016) New European Consensus on Development, *Our world, our dignity, our future*, supports the development of the UN SDGs. Recognising that the achievement of most of the SDGs depends on the active involvement of local and regional governments, the EU and its Member States 'supports decentralisation reforms, when appropriate, to empower local and regional governments for better governance and development impact' (S.69). In addition, the Consensus describes how the EU and its Member states will 'help to make developing countries more business-friendly.... by contributing to improving conditions for economic activity by promoting better policies and regulatory environment, better business environments, new business models and greater government capacity' (S.41). While PLATFORMA (2018) supports the directions set by the Consensus, it is concerned with the marginalisation of local and regional government finances. Thus, while the EC proposal supports the improvement of the business environment of partner countries, little attention is given to the local dimensions and impacts of these reforms. Because national business environment reforms are not automatically implemented at the local level and do not necessarily lead to improved local conditions, it is 'essential to support the role of local governments in the improvement of business environment at local level, in a partnership approach'.

Three broad policy themes that influence the ability of local and regional governments to engage in LBE reform:

- **Local economic development:** this focuses on local and territorial development rather than national development, and positions local and regional governments as important lead agencies;

- **Small business development:** a sub-set of LED and PSD, small business development is a major focus for many local and regional governments because of the important role small business performs in the local economy – largely because they are often owned and managed by residents;
- **Investment attraction:** a major driver for economic growth and especially relevant as local businesses participate in larger national and international markets; and

These themes are discussed in more details below.

1. Local economic development

Local economic development (LED) is a locally-owned, participatory development process in a given territory that encourages partnership arrangements between local private and public stakeholders. These partnerships enable the joint design and implementation of a common development strategy. LED stimulates the use of local resources and the creation of local competitive advantages in a global economy.

There are several key differences between traditional development strategies and an LED approach (Andres Rodríguez-Pose, 2002). First, traditional development strategies adopt a sectoral approach to development, while LED takes a territorial approach, focusing on the development of a region or locality rather than an industrial sector.

Second, development strategies are generally top-down, with the central government deciding where intervention is needed with little or no input from local actors. In contrast, LED focuses on development from below and advocates for economic development in all areas. While national institutions are often too remote to be able to respond effectively to the rapidly changing local and regional needs, local institutions can be much more flexible and better able to interact with other local economic and social actors.

Third, traditional development strategies have tended to focus on large industrial projects or infrastructural investments, using financial incentives to attract large firms in the hope this would foster additional economic activity. Instead, LED strategies exploit the development potential of each area and stimulate the adjustment of local economic systems to the changing economic environment. LED aims to develop local strengths and overcome weaknesses in order to allow the locality to successfully confront the opportunities and threats it faces from the external environment.

Local and regional governments play a key role in LED. Indeed, Fernández de Losada and Moreno (2018) describe how decentralised cooperation can strengthen the institutional and operational capacities of local and regional governments for LED by promoting 'public policies aimed at fostering an environment that is more favourable to generating economic activity and employment'. This is consistent with the outcomes of the 2011 Commonwealth Local Government Conference held in Cardiff (known as the Cardiff Consensus for Local Economic Development), which called on 'national, state and local government, the private sector, civil society and development partners to support and strengthen local government's role in LED to help reduce poverty and promote economic prosperity across the Commonwealth'. This included a recognition of the role of local government in creating the

³ Of the four countries reviewed, Portugal shows the most homogeneous performance among its benchmarked cities, with the smallest differences in the distance to frontier score – a measure showing how far each city is from global best practices in absolute terms as well as providing the basis for ranking. The Czech Republic and Croatia have the biggest subnational differences.

Figure 1: Comparing local BER and LED approaches

	Local Business Environment	Participatory LED approaches
Diagnosis	<ul style="list-style-type: none"> • External expert based • Documentary sources & survey methods • Lengthy, slow and costly • Diagnostic capacity not transferred substantially to local actors 	<ul style="list-style-type: none"> • Little attention to traditional research methods • Participatory appraisal of competitive advantage • Rapid, low cost, high capacity transfer to local actors
Dialogue	<ul style="list-style-type: none"> • Seen as a distinct stage following diagnosis • No clear follow up strategy to ensure action 	<ul style="list-style-type: none"> • Not seen as a distinct stage in process • Built into all phases from diagnosis to M&E
Prioritisation of actions	<ul style="list-style-type: none"> • Experts provide recommendations • Experts provide detailed reform plans 	<ul style="list-style-type: none"> • Participatory • Flows from diagnosis • Involves local actors • Based on quick, visible results
Implementation	<ul style="list-style-type: none"> • Carrying out of detailed plans • Reliance on external expertise • Time consuming 	<ul style="list-style-type: none"> • Action flows directly from diagnosis • Incremental, cumulative, self-re-enforcing change
Monitoring and evaluation	<ul style="list-style-type: none"> • Objective indicators tied to plans • Amendments to plan based on indicators 	<ul style="list-style-type: none"> • Participatory • Focus on learning • Continuous feedback and adjustment

> Source: Hindson and Meyer-Stamer (2007)

environment for business to flourish by ‘promoting direct investment, providing core services, convening the private sector, and reducing red-tape’ (Commonwealth Local Government Conference, 2011).

More recently, local governments’ engagement in LED has led to the emergence of what has been called the ‘new municipalism’. McInroy (2018) describes how new municipalism reflects a new local social contract based on the local propensity for deep and enduring place-based economic relationships that the nation state cannot offer. This concept conceives the local state as ‘a facilitating institution that empowers, coordinates and upscales social innovation from community organisation and social enterprises’. Described by some as a ‘partner state’, this concept is rooted in the understanding that communities can be effective in self-provisioning cultural and social activities and employment. Rather than the local state providing local communities with services, new municipalism is about creating the conditions for community organisation to operate and grow. The new municipalism builds local wealth through a functioning local economy and positions local and regional governments as key stakeholders in driving, facilitating and enabling inclusive development.

While LED has a wider focus compared to LBE, the two approaches have similarities and potential synergies. Critiquing LBER approaches through a LED framework, Hindson and Meyer-Stamer (2007), see Figure 1.

While it could be argued that the processes associated with LBER have evolved in the last decade and have incorporated greater levels of public-private participation and lesson learning, there remains value in identifying how LED processes intersect with LBER. The United Cities and Local Governments (2016; 9) argues that local and regional governments are ‘responsible for the creation and maintenance of an enabling environment in which all economic actors – investors, workers, educators, financial institutions, service providers – can make good decisions and work together to generate economic development’. Indeed, there appears to be significant opportunity to highlight those areas where LBER approaches can be used to complement and support local economic development.





2. Small business development

While often considered a sub-set of LED, many local and regional governments pay specific attention to small business development. In most countries, micro, small and medium-sized enterprises account for the highest number of firms. This number increases as the size of the firm decreases. However, while the numbers of micro and small enterprises are generally substantial, they are individually small by nature in terms of turnover, employment and value addition, discussion revolves around the cumulative contribution of these firms.

Birch (1981) presents the seminal study on small and medium-sized enterprises (SMEs) and job creation. His study found that SMEs were major job creators in the United States of America. Subsequent studies highlight the important contribution of SMEs to employment and growth in developing, emerging and developed economies (see Ayyagari, Demirgüç-Kunt, & Maksimovic, 2011; Criscuolo, Gal, & Menon, 2014).

The International Labour Organization (ILO, 2018) in its *World Employment and Social Outlook; Trends 2018* report, presents evidence to show how the share of total employment in SMEs has been growing over the last few years, from 31.2 per cent in 2003 to 34.8 per cent in 2016, with important differences across countries at various stages of development. Indeed, the number of total full-time employees in SMEs has also risen: over the period 2003 to 2016 the number nearly doubled, from 79 million to 156 million.

In developing economies, White (2016) describes how many donor and development agencies promote LBER because of its proximity to the private sector. However, many local and regional governments inhibit the growth of local businesses through poorly designed and implemented local laws and regulations. These costs to doing business can vary dramatically from one location to another. Regulatory burdens can also accumulate and become very difficult for businesses to navigate. Furthermore, in some jurisdictions, subnational government authorities are required to implement national policies and programmes and enforce national laws and regulations.

Campbell and Partridge (2013; 6) describe how city authorities create the conditions for local economic growth by supporting existing businesses, paying close attention to their needs in respect of information, advice, property, planning and so on. They can build strong relationships with local representative business bodies and can create a 'business friendly environment and competitive local conditions to encourage business attraction and inward investment'. Moreover, Blume (2006) suggests that because a favourable business climate is a key factor for local economic development, local and regional governments can cooperate support economic growth, recognising the market competition firms operate in and adopting 'business-oriented local policies'.

The Local Government Association (2017) United Kingdom (UK) highlights the significant role local councils and Local Enterprise Partnerships (LEPs) play in supporting business start-ups and growth, whether through planning advice or formal structures designed to support growth such as Growth Hubs⁴. In addition, council regulatory services 'play a critical role' and the primary authority function of many councils allows businesses to access technical expertise from councils at an extremely competitive price. More recently, the government has described the role of local councils in the development of Local Industry Strategies (GOV.UK, 2018).

3. Investment attraction

Increasing integration of the global economy has facilitated the mobility of private investment and intensified the competition among local areas. Local governments are more aware of the importance of investment attraction to stimulate economic growth. In their study of foreign direct investment (FDI) and competitive cities, Juni Zhu, *et.al.*, (2015) suggest that, while the legal and regulatory framework is usually determined at the national level, city entities function within these national frameworks and have significant potential to change the dynamic of the local economy. Examples of regulations, policies and administrative procedures at both levels are illustrated in the figure next page.

⁴ Growth hubs are local public-private sector partnerships led by Local Enterprise Partnerships LEPs that join up national and local business support, so it is easy for businesses to find the help they need.

Figure 2: National and city influences on investment

National	City
Trade/Investment agreements	Local one-stop shops
Export/Import licenses	Construction permits
Customs	Technical certificates
Visas	Activity licenses
Company registration	Property registration
Foreign purchase or lease of land permits	Land use certification
Sector incentives	Local incentives
Foreign-direct investor sector restrictions	
Income taxes	

> Source: Juni Zhu, *et.al.* (2015; 11)

Of course, cities are not the only subnational entities local reform programmes work with. Multi-stakeholder partnerships create arrangements between a public authority and one or more private stakeholders to facilitate knowledge sharing and the pooling of resources for mutual benefit (Agustí Fernández de Losada Passols & Moreno, 2018). Depending on the country, there may be other players at subnational level, such as state governments in Mexico, autonomous communities in Spain and regional governments in Italy. Even port authorities can be involved in driving and managing local reform efforts. These entities can have an important role in the business and regulatory environment and may be responsible for huge differences in the business and regulatory environment at subnational level.

Hindson and Meyer-Stamer (2007) use the term ‘locational quality’ to define the range of factors that make a location attractive for business. Locational quality is ‘the result of market processes, government intervention and collective action’. While on the one hand, they argue locational quality involves a ‘more holistic perspective’ than national business environment reform, on the other hand, they claim it has a ‘narrower perspective due its focus at a local or regional territory’.

Juni Zhu, *et.al.*, (2015) describe how city entities lobby their central government for changes and improvements in conditions for foreign direct investment, which is decided at national level (e.g., customs, export and import licenses, visas). City-based investment promotion agencies may play a strong role in fast-tracking investment procedures at the city level (e.g., through the issuing of businesses licenses and construction permits). Even under the same overall regulatory framework, differences in the performance of local administrative and regulatory bodies can make an important difference to investment levels.

Figure 3, on the right, examines the influence of local control over investment decisions more. It identifies the factors local and regional governments have most control over as ‘soft power’, used to describe the image of the city, local leadership (e.g., presence of a proactive mayor), along with the presence of proactive and responsive investment promotion intermediaries. Other factors include local infrastructure, the availability of land, and fiscal and non-fiscal ‘sweeteners’ or incentives.



Figure 3: Major factors foreign investors consider when they make location decisions

Category	Factor	Level of Local Control
Location endowment	Proximity to major markets/distributors	None
	Natural resources	Some
Relationship with city	Personal connections between firm and city	None
	"Soft power": city image, proactive mayor, proactive and responsive investment promotion intermediaries	Full
General business environment	Macroeconomic stability and growth potentials	None
	Institutional and regulatory environment	Some
	Labour availability, skill and cost	Some
	Infrastructure and availability of land	Full
	"Sweetener": fiscal and non-fiscal incentives	Full
Level of sector development	New opportunities due to a neighbouring country or city moving up the value chain	None
	Presence of forward- and backward-linkages firms	Some
	Presence of similar firms/competitors	Some

> Source: Juni Zhu, *et.al.* (2015; 9-10)

Not all private investment comes from foreign sources. Many governments and development agencies recognise the importance of private domestic and local investors. For example, in the United Kingdom, The Co-operative Party has produced a guide for generating local economic wealth. This includes advice on mobilising lo-

cal investment and the use 'patient capital' from anchor institutions to support new co-operative enterprises. Examples include local or regional impact investment funds, social impact bonds. The use of local public procurement policies and practices is also recommended (Birley, 2017).







CHAPTER 2

TYPOLOGIES OF LOCAL BUSINESS
ENVIRONMENT REFORM

TYPOLOGIES OF LOCAL BUSINESS ENVIRONMENT REFORM

This chapter examines the range of common typologies, or areas of focus, for LBER in developing and developed countries that local governments engage in. The relevance of these reforms is determined by an LBE assessment, as well as by the extent to which local and regional governments have the political and legal mandate, and financial resources, to lead these reforms.

Eight LBE reform typologies are discussed:

1. Local governance and regulatory reform: to improve the efficacy and efficiency of local laws and regulations – this includes reducing local regulatory constraints and improving national and local government coordination;
2. Local business registration and licensing reform: to reduce the cost and time required to start a business;
3. Local construction permit reform: to simplify the complex processes associated with building and construction;
4. Local taxation reform: to improve the transparency and accountability surrounding local taxation, while reducing the cost of administration;
5. Local investment policy and promotion: to improve the attrac-

tiveness of the locality to investors (i.e., domestic and foreign), while facilitating investment compliance;

6. Local land reform and local area planning: to ensure land using planning and zoning is consistent and transparent, while providing investors with a clear understanding of their obligations and the process in which development applications are assessed; and
7. Local procurement policies, regulations and procedures: to stimulate local business and employment opportunities through local government procurement of goods and services.
8. Public private dialogue and partnerships: reforms to improve the ways local and regional governments interact and partner with the business community.

Before describing the above reform typologies, the process of identifying reform priorities is considered. LBE assessments collect evidence on the functioning of the LBE in order to compare localities and determine reform needs.

1. Local and regional business environment assessments

It is important for local and regional governments to understand how their actions influence business and investment decisions. To do this, it is important to assess the LBER. This requires careful, focused assessment tools. As Sen, Fitoussi and Stiglitz (2010) have argued, 'what we measure affects what we do; and if our measurements are flawed, decisions may be distorted'.

There are many indicators that can be used to assess the businesses environment and to better understand the issues affecting private investors. However, most of these focus on national factors. For example, the World Bank (2018a) conducts annual *Doing Business* assessments focussing on 11 business environment topics, which are compared across some 190 countries. In addition, the World Economic Forum produces the annual *Global Competitiveness Report*, which assesses indicators to national competitiveness (see World Economic Forum, 2018). There is also the *Global Entrepreneurship Monitor* which assesses national levels of entrepreneurship (Global Entrepreneurship Research Association, 2018).

As increasing attention has been given to the role of the local economy in national economic growth and development, the demand for subnational data has increased. The **World Bank Group's Subnational Doing Business** (SNDB) reports capture differences in business regulations and their enforcement across locations



⁵ See World Bank Group's Subnational Doing Business website: <http://www.doingbusiness.org/en/reports/subnational-reports>

⁶ See YouTube video on the SNDB project: 'Subnational Doing Business' (3:23 minutes): <https://www.youtube.com/watch?v=0kNOxpUX094>

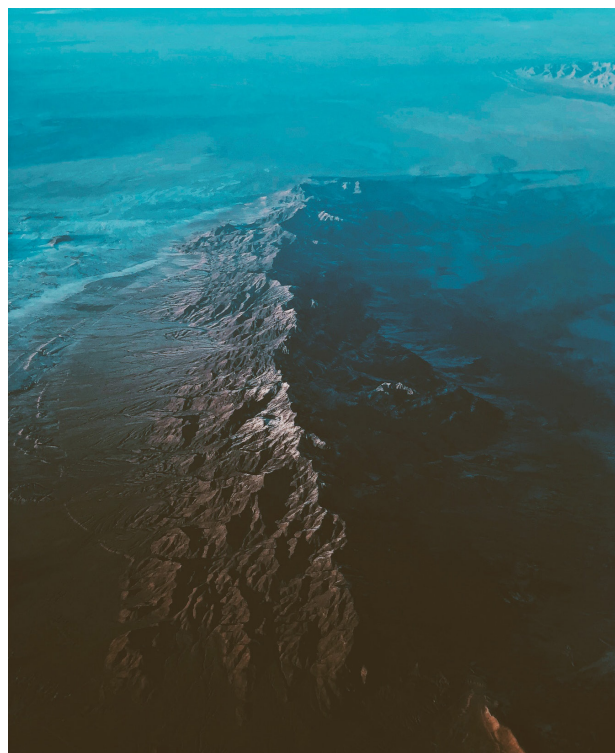
⁷ It recommends reforms to improve local performance in each of the indicator areas. Eighteen economies, including the Arab Republic of Egypt, Colombia, Mexico, Nigeria, the Philippines, the Russian Federation and South Africa, have undertaken two or more rounds of subnational data

in a single country or region (i.e., group of countries).⁵ The annual global *Doing Business* assessments have often been criticised for focusing on the business environment of the main political or commercial capital of the country and ignoring local differences. In more recent years, *Doing Business* has sought to capture data from two major cities in countries with more than 100 million inhabitants, but this still does not go far enough to measure the significant variations found between the major urban centres and other locations. The SNDB project attempts to address this problem. Where the national *Doing Business* reports present a bird's eye view of the national business environment, the SNDB reports aim to get a more granular, locally sensitive understanding of the business environment as it affects business owners and managers across the country.⁶ SNDB provides data on the ease of doing business in specific locations and ranks each location.⁷

One of the first countries to employ the SNDB methodology was Mexico. Since its first assessment in 2006, there have been four additional assessments and significant reforms have been documented, with the most recent published in September 2016. In the state of Oaxaca in 2013, the World Bank Group and the Federal Commission for Regulatory Improvement (COFEMER) commenced collaboration on local business environment reforms. With the mandate to improve the regulatory framework in Mexico, COFEMER has advocated for the state government of Oaxaca to pass a regulatory reform law as well as working with the municipality of Oaxaca de Juárez on different initiatives for business regulation simplification. These reforms promoted competition among state governments by identifying regulatory and procedural differences and ranking cities according to the ease of doing business. The project supported peer-to-peer learning across states and improved cooperation between different levels of government levels and among different government agencies (Asia-Pacific Economic Cooperation & International Finance Corporation, 2009).

SNDB reports have been used by governments, development agencies and donors in many local economies to guide reform activities. For example, in Nigeria, German technical cooperation has supported local reforms based on the results of a series of SNDB reports. In 2014, the SNDB project reported on the case of Nigeria. While Lagos and Kano represent Nigeria in the annual global *Doing Business* report, this does not reflect the realities of many private enterprises in such a large federal country. *Doing Business* in Nigeria 2008 for the first time went beyond Lagos to measure the regulatory and business environment in the largest business city of ten additional locations. *Doing Business* in Nigeria 2010 expanded the study to measure the largest business city of all 36 states and Abuja in the Federal Capital Territory. Two updated assessments were produced in 2014 and 2018.⁸

The **European Union's Regional Competitiveness Index** (RCI) allows regions to monitor and assess their development over time and compared with other regions. Launched in 2010 and published every three years, the RCI applies the concept of regional competitiveness as the ability of a region to offer an attractive and sustainable environment for firms and residents to live and work. The RCI builds on the approach of the World Economic Forum's Global Competitiveness Index. It covers a wide range of issues including



innovation, governance, transport and digital infrastructure, and measures of health and human capital (Annoni, Dijkstra, & Gargano, 2017). As with the Global Competitiveness Index, the RCI does not provide detail on the business environment, but considers economic institutions, which are largely framed by national institutions.

The **European Quality of Government Index** (EQI) measures institutional quality at the regional level in the European Union. Institutional quality is defined as a multi-dimensional concept consisting of high impartiality and quality of public service delivery, along with low corruption. Building on the World Bank Governance Indicators, the EQI aims at capturing average citizens' perceptions and experiences with corruption, and the extent to which they rate their public services as impartial and of good quality in their region of residence. EQI presents data on the quality of government for all EU 28 countries, for a total of 220 political units. Charron and Lapuente (2018) describe how 'analysing the quality of government in a territory is fundamental for understanding why some regions within not only the same continent (Europe), but also within the same country... presents divergence socio-economic indicators'. For example, consider the well-known differences between Northern and Southern Italian regions, or Wallonia and Flanders in Belgium.

The **UK Competitiveness Index** (UKCI) was introduced in 2000. It provides a benchmarking of the competitiveness of the UK's localities and it has been designed to be an integrated measure of competitiveness focusing on both the development and sustainability of businesses and the economic welfare of individuals. Competitiveness is considered to consist of the capability of an economy to attract and maintain firms with stable or rising market shares in an activity, while maintaining stable or increasing standards of living for those who participate in it. The UKCI recognises that the 'competitiveness

collection to measure progress over time. In 2018, the results of a 25-city SNDB assessment in the EU was conducted, covering Croatia, the Czech Republic, Portugal and Slovakia (World Bank, 2018b). On-going studies include those in Afghanistan (five cities), Kenya (ten cities), Mexico (31 states and Mexico City), the United Arab Emirates (three emirates), an additional three EU member states (24 cities in Greece, Ireland and Italy), Kazakhstan (16 cities), Mozambique (10 cities) and the United Arab Emirates.

⁸ State-based BER in Nigeria has been coordinated by the Presidential Enabling Business Environment Council and the Enabling Business Environment Secretariat (EBES), which was

established in 2016. These entities have an explicit mandate to improve Nigeria's business environment at national and subnational levels. However, the most recent SNDB report reveals that while engagement at the subnational level has been growing, recent trends indicate that despite an increase in the number of business reforms in the states, these reforms have been mostly in areas where the federal government has pushed for them. 'Areas where it is up to the states to improve, such as property registration or construction permitting, have not moved as fast' (World Bank, 2018c: 2).

of localities and the competitiveness of firms' are interdependent concepts'. The index draws on a series of indices incorporating data that are available and comparable at the local level, and that 'go some way towards reflecting the link between macro-economic performance and innovative business behaviour' (Huggins & Thompson, 2016). While business environment issues are not directly assessed, these issues may be indirectly considered in terms of their influence on business activities in a locality.

The Asia Foundation has conducted a series of Economic Governance Indexes in countries throughout South and Southeast Asia, including Bangladesh, Sri Lanka, Vietnam, Cambodia, and Indonesia. Economic Governance Indexes are country-specific diagnostic tools used to assess and rank sub-national units (e.g., provinces, states, districts) on various aspects of their regulatory environments. For example, the Asia Foundation project on Provincial Business Environment in Vietnam was instrumental in facilitating sound competition between provinces on pertinent business environment issues. It also contributed to an increase in local and national ownership of the project by the national business membership organization, the Vietnam Chamber of Commerce and Industry, enhancing effectiveness and turning key survey findings into reform-oriented messages for local leaders (see Asia Foundation & Vietnam Chamber of Commerce and Industry, 2011; Hang, 2005). Malesky and Merchant-Vega (2011) claim these assessments have become an important tool to provide relevant economic governance information to policy makers, business leaders and citizens. USAID developed and continue to build from the Vietnam Provincial Competitiveness Index, which also became the base for USAID's work in El Salvador on the **Municipal Competitiveness Index**. The El Salvador index, which formed a part of the USAID Municipal Competitiveness Project, applies a business owner survey and municipal official survey to better understand the conditions for private sector development. The broader objective of the index is to provide openness for continuous constructive dialogue between the public and private sectors at the local level in order to improve the business environment and make progress on the decentralization agenda in El Salvador.⁹

German Technical Cooperation has had a long involvement in supporting local business environment assessments and reforms. This includes a programme in the mid-2000s in the Philippines, which focused on improving local and national business environments. This programme introduced a **Philippine City Competitiveness Ranking**, conducted by the Asian Institute of Management in eight cities. Local business simplification procedures were supported in two cities (Gross).

2. Local governance and regulatory reform

Local regulatory reform is to improve the efficacy and efficiency of local laws and regulations. Often over-simplified as 'red tape reduction', smarter regulation is about redesigning regulation to ensure it is fit for purpose.¹⁰ For example, Sir Philip Hampton's UK review of administrative burdens found that the regulatory system imposed too many forms, duplicate information requests and multiple inspections on businesses. Hampton recommended introducing risk assessments, by reducing inspections and cutting the number of forms sent to bu-

sinesses. A measured approach to risk assessment would help target non-compliant businesses more effectively and reduce the burden on those businesses that do comply (Hampton, 2005).

Regulation is defined as the 'imposition of rules by government, backed by the use of penalties that are intended specifically to modify the economic behaviour of individuals and firms in the private sector' (OECD, 2002). Mallett, et al. (2018; 19) describe the 'often complex and messy processes that characterise how SMEs engage with regulations'. Regulations 'vary in terms of relevance and significance for businesses, can offer competitive opportunities or protections and, ultimately, carry variable consequences'.

The local regulatory framework for business lies at the heart of the LBER agenda. Dollar, et al., (2005) describe the important role of governance and regulation in business and investment decisions.



If the local government is highly bureaucratic and corrupt, and if government's own provision or regulation of infrastructure and financial services is inefficient so that firms cannot get reliable services, then returns on potential investments will be low and uncertain, and one would not expect much accumulation and growth in these environments.

By contrast, in developing locations that create a good governance and business environment, returns and accumulation should be high"

Dollar, et al., 2005

Tan and Tran (2017) report on a review of provincial business environments in Vietnam. They find that an improvement in the provincial business environment increased firm productivity. Key elements of this were a reduction in local corruption levels, reduced risks of land expropriation, and reduced time and cost of business entry regulations. They find the most productive firms in a province are the firms most likely take advantage of improvements in the business environment. Additional research in Vietnam finds that the quality of local governance has a significant influence on local entrepreneurship. Young and small firms are typically geographically constrained to local business environments, which are strongly shaped by local governance structures. Local governance quality, including 'corruption, transparency and proactivity', are important determinants of local SME growth performance (Nguyen, Mickiewicz, & Du, 2017).

Harvey, et al. (2017) highlight the significance of local laws and regulations in their report to the UN Secretary General's High Level Panel on Women's Economic Empowerment. This series of case studies show how street vendors and other informal workers and enterprises are affected by local government policies, laws and procedures.

Reducing local regulatory constraints

Regulatory reform typically seeks to reduce the burden of local regulation while increasing regulatory quality. Regulatory simplification – 'the act of reducing or eliminating elements of a process in order to reduce complexity and inefficiency' – involves 'not only a business process

⁹ See USAID El Salvador, Índice de Competitividad Municipal 2009-2013: <http://indicemunicipalesalvador.com/index.php?lang=ing>

¹⁰ Regulatory best practices are characterised by five core principles: (1) Proportionality: regulation should only be used when necessary. Remedies should be appropriate to the problem and costs should be identified and minimised; (2) Accountability: regulation must be justified and subjected to public scrutiny; (3) Consistency: government rules and standards must be harmonised and implemented fairly; (4) Transparency: regulations should be as simple and user-friendly as possible; and (5) Targeting: regulations should be focused on the problem and minimise side-effects.

change but also a cultural change in how municipalities view those whom they regulate, and how those who are regulated perceive the value and effectiveness of the regulatory processes' (World Bank Group, 2005). While regulatory reforms have been established in developed economic for some time, this field of reform is gaining traction in many developing economies.

In South Africa, Wegmann and Cunningham (2010) describe how the private sector and the local government have different reasons for reducing local red tape. While business is interested in less red tape to reduce business costs, the public sector is interested in reducing administration costs and in the indirect benefits of supporting business growth and attracting new enterprises. This view is supported by the World Bank Group, which has supported a range of sub-national simplification reforms:

“

Simplified regulatory procedures, when combined with service improvement initiatives, usually results in less complicated, less costly, and shorter regulatory approval processes.

Streamlining municipal business processes, when coupled with the introduction of service standards or simple 'one-stop shops', can mean an improvement in service quality for clients – the private sector. Experience in the Philippines and Bolivia indicates that clients are reporting better service ”

World Bank Group, 2005

The World Bank Group Investment Climate Unit supports local efforts to improve business regulation. This involves tackling administrative constraints, improving service delivery and enhancing transparency on business regulations at the subnational level to foster firm productivity, economic growth and job creation.¹¹

In Mexico, the ILO assessed the business environment in the state of Jalisco (2014-15) in cooperation with the State's Industrial Business Council (*Consejo de Camaras Industriales de Jalisco, CCIJ*). This assessment provided an opportunity to establish links with the State Tripartite institution (*Consejo Economico y Social de Jalisco, CESJAL*) and led to a state-level initiative designed to support municipalities of the urban centre of Guadalajara, the State's capital. Beyond the creation of an effective technical capacity at CCIJ to address business environment issues, progress has been made in areas such as labour practices, supporting information technologies in small firms, links between large and small firms and addressing entrepreneurs' technical needs.

Regulatory reform has been a major focus of governments at all levels. In Canada, sub-national regulatory reform has focused on provincial-level reforms. Describing the experiences of regulatory reform in the province of British Columbia, Jones (2018) suggests that setting a clear target for regulatory reduction and establishing a clear and compelling measure for evaluating success is important. Indeed 'anecdotal evidence suggests that red tape reduction was an important contributor to British Columbia's recovery'.

Local regulation guillotine: Western Balkan countries

In the Western Balkan countries, the International Finance Corporation (IFC) implemented the Subnational Competitiveness Programme between 2007 and 2010, which was financially supported by the Swiss State Secretariat for Economic Affairs and the Swedish International Development Agency. See the figure newt page. The programme adopted a local 'regulation guillotine' to reduce the costs and time required for the implementation of business administrative procedures, enhance the capacities of local and regional governments for resolving administrative procedures and issuance of permits, and set up a transparent and legally secure registry of administrative procedures that contains required information for businesses and general public. The first subnational Doing Business report was also conducted over the same period and published in 2008. A later assessment was done in 2011. This project highlights the complementary role played between subnational benchmarking the competitiveness programming.



¹¹ At the subnational level the business regulation work focuses on: promoting regulatory simplification; supporting the introduction of transactional online portals and e-registers of business permits and licenses in any given locality, while improving back-office processes to enable faster issuance of permits and licenses; fostering the improvement of subnational level business inspections from basic scoping and assessment to the reorganisation, operational changes, risk-based approach and enhancing transparency; assisting with the implementation of national level regulations at the subnational level; and providing a framework to measure and improve service delivery with subnational authorities and in close partnership with the private sector.

Figure 4: IFC's Subnational Competitiveness Program, Western Balkan countries

Phase 1: Preparation of administrative procedures inventory	Local officials mapped all existing administrative procedures affecting businesses and citizens and compiled all supporting documentation for the electronic Inventory of administrative procedures.
Phase 2: Consultations with the business and civil sectors	Focus groups and workshops were convened for individual entrepreneurs, representatives of business associations, chambers of commerce, and civil society. The consultations produced feedback on the administrative procedures, along with recommendations for simplification.
Phase 3: Analysis and preparation of recommendations	In each locality, a working group composed of officials systematically reviewed the inventory, and made recommendations for local and Republic level in terms of: the elimination or simplification of documents, submission forms and steps; elimination of information, shortened deadlines; reduction in related stamp duties and fees, elimination of administrative procedures etc. The working groups took into consideration the recommendations from focus groups and workshops, incorporating inputs of all stakeholders in the decision-making process.
Phase 4: Adoption and implementation of recommendations	City and municipal authorities adopted recommendations and relevant legal acts; new Internet-based Registries of administrative procedures were established in each locality and a system of quality control was introduced to monitor new regulations.

> Source: Živković, *at.al.*(2015)

While the IFC programme concluded in 2010, the regulatory reform work has continued under the auspice of the Standing Conference of Towns and Municipalities – *ubaci drugi deo naziva SKGO* – the national association of local and regional governments in Serbia. This programme, conducted in collaboration with the State Secretariat for Economic Affairs in Switzerland (SECO) and the OPTI-MUS-Centre for Good Governance, is titled *Improving Environment for Businesses at Local Level Through Regulatory Reform*. It aims to improve the LBE by 'simplifying unnecessary, complicated and non-transparent administrative procedures and enhancing the general regulatory framework, striving to ensure a solid implementation of regulations in the future, and to prevent the adoption of regulations that would unnecessarily burden the business sector'.

The programme focuses on achieving (Živković et al., 2015):

- Simplified and cheaper issuance of licences, permits, decisions and approvals upon the request of businesses;
- Created sustainable regulatory mechanism for passing high-quality local regulations that will ensure low costs and operating risk; and
- Increased transparency and efficiency of local public administration through an electronic registry of all administrative procedures of the local self-government.

Improving national and local government coordination

Improvements to the local regulatory regime require improved coordination arrangements between national and local levels of government. Poor coordination leads to an accumulation of ad hoc and confusing administration and reporting procedures.

In Denmark in 2006, the national government's De-bureaucratisation Programme paid special attention to the interaction between central and local governments. The underlying strategy is to promote performance-based regulations, leaving municipalities with the capacity to define their own processes for achieving required standards of service quality. The annual agreement between central and local governments on the overall financial framework for municipalities included priorities and targets for better regulation. Government also introduced specific procedures ("VAKKS") for assessing the impact of new regulations on local governments, and created a dedicated unit (KREVI) in charge of carrying out VAKKS and more broadly of promoting regulatory quality and the effective management of resources in municipalities and regions (OECD 2010; 40). More recently, Denmark has continued to apply several principle-based ex-post reviews. This includes reviews into the overlaps between local, regional and federal regulation. The Danish Business Forum conducts in-depth reviews of regulations in different policy areas (OECD 2018b; 68).

In the United Kingdom in 2008, the Local Better Regulation Office was established to spread good regulatory practices at a local level throughout the country. The office provided advice to local and regional governments regarding their interaction with businesses to promote consistency, determine priorities for simplification at the local level, and mediate any disputes between local and regional governments in respect of regulatory public services (OECD 2009). The office was dissolved in 2012 with responsibilities passing to the Department for Business, Innovation and Skills and Welsh Ministers.¹² In its last annual report, the office described how, in a 'crowded and opinionated' landscape, it had driven 'change by building evidence for the need for new ways of working, demonstrating the benefits of effective local regulation, and building support for collaborative approaches' (Local

¹² Later, the Small Business, Enterprise and Employment Act 2015 was introduced to reduce the barriers that hamper the ability of small businesses to innovate, grow and compete. It was designed to open new opportunities for small firms to innovate, compete and get finance to create jobs, grow and export. The act includes provisions to reduce unnecessary regulation, along with powers to streamline public procurement and improve small business participation in the £230bn public procurement market.



Better Regulation Office, 2012; 13). This included the development of common frameworks that improve transparency in areas such as data capture, risk assessment, competence standards, performance assessment and reporting. In addition, the office supported the creation of 'primary authorities', which allowed businesses to be involved in their own regulation, by enabling them to form a statutory partnership with a single local authority. This changed the delivery of local regulation. It established 'a positive partnership between businesses and regulators' and a focus on supporting business towards compliance, and delivering desired outcomes (Local Better Regulation Office, 2012; 15).

In Europe, the Small Business Act (SBA) is a regional framework for SMEs. It aims to improve the approach to entrepreneurship across Europe, simplify the regulatory and policy environment for SMEs, and remove the remaining barriers to their development¹³. It has four main priorities: (1) promoting entrepreneurship, (2) reducing the regulatory burden on SMEs, (3) improving SME access to finance, and (4) improving SME access to markets and internationalisation.¹⁴ The SBA has largely been designed for, and adopted by, national EU Member States. While the relevance of the act and the Think Small First principle for local governments is clear, there is little evidence of local government adoption of these measures.

The European Regional Development Fund (2016) argues that local and regional authorities are closer to local firms and have better information on the regional economic structure and better understanding of the needs of SMEs and their support requirements. Thus, 'regions can adopt an active role according to the institutional and legal arrangements in each Member State'.

One of the most important objectives of the SBA is creating an environment for entrepreneurship in which entrepreneurs and family businesses can thrive and young people's interest in self-employment is awakened. At regional level, strategies can be developed for mentoring and support measures that contribute to an increase in the number of business start-ups by women and migrants. Support for business transfers and successions is becoming increasingly important (European Regional Development Fund, 2016).

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European Regional Development Fund, 2016

3. Local business registration and licensing reform

One area in which local regulatory reform is commonly highlighted is in the regulations and procedures for business registration and licensing. This is a common feature of the World Bank Group's SNDB reports, which assess the costs and times required to start a business. While SNDB methodology generally focuses on firms of a particular size and character, the registration process is also a central concern for agencies wishing to reduce the size of the local unregistered and unlicensed business sector. Thus, while business registration and licensing reforms are considered beneficial for the local business community in general, local and regional governments also want to increase compliance among local businesses (i.e., reduce informality).¹⁵

One-stop-shops for business registration and licensing have been common reforms introduced by both national and sub-national authorities. Their success often depends on a clear cooperation

¹³ For more information go to: https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en

¹⁴ The 'Think Small First' Principle enshrined in the SBA takes SMEs' interests into account at a very early stage of policy making. This helps the EU develop SMEs-friendly legislation. To support and feed the above key enabling factors, the SBA have established ten principles: (1) education and training for entrepreneurship; (2) efficient bankruptcy procedures and second chance for entrepreneurs; (3) institutional and regulatory framework for SME policy making;

(4) operational environment for business creation; (5) support services for SMEs and public procurement; (6) access to finance for SMEs; (7) support to SMEs to benefit from Euro-Mediterranean networks and partnerships; (8) enterprise skills and innovation; (9) SMEs in a green economy; and (10) the internationalisation of SMEs.

¹⁵ The World Bank Group (2010b, 2013) has produced useful resources for practitioners in this field.



agreement between national and local government entities. For example, in Barru, a rural district in South Sulawesi, the local government transferred 129 types of licences from 14 departments to a one-stop-shop incrementally and developed standard operating procedures based on national service standards. Where once it took around 20 working days to issue a license, and applicants were charged more than official rates, the time to process a licence was reduced by 50 per cent from 2011 to 2013. In addition, the types of required business licences were reduced by 70 per cent. Businesses with the correct licences increased from 26 to 45 per cent over three years and private sector investment jumped from US\$4.3 million to US\$130.6 million. While the Government of Indonesia promoted the establishment of one-stop-shop at sub-national levels to simplify business licenses in 2001, many offices including those in Barru had no or limited authority to issue licences. This problem took a long time to address. Eventually, licensing deregulation efforts were legalised through a local regulation, which was approved by the local legislative council – the highest level of regulation that a local government can issue. The transfer of licensing authority to the one-stop-shop improved the quality of services and governance of the one-stop-shop was also legalised through district head decrees or regulations (Organisation for Economic Co-operation and Development, 2018c).

In the early 2000s, the UK Department for International Development supported local licensing reforms in Entebbe Uganda. This included a simplified trade licensing process in the municipality, which reduced the reporting requirements of local businesses, lowered fees and ensured the immediate issuance of the license document, all in one place and time. The reforms led to cheaper and shorter process: compliance cost dropped by 75 per cent and was estimated at two per cent of per capita Gross Domestic Product after the reform. Average registration time reduced to 30 minutes, down from two days. In addition, there were reported improvements in local business-government relations, and more businesses registered – an increase of 43 per cent. Significantly, government revenue from the reduced registration fee increased by 40 per cent (Development Alternatives & Bannock Consulting, 2005). These reforms were implemented without changes to national laws, which would have been very difficult and slow to achieve.

4. Local construction permit reform

Typically, local building construction reforms are complex. They focus on the relationship between the central authority, which sets the standards, and the local and regional governments required to enforce them. It is often challenging for central governments to overcome problems such as conflicting policy objectives, difficult communication with municipalities, inconsistent legal enforcement on the ground, weak feedback from end-users and municipal services, limited accountability, constrained resources on the ground, reluctance to innovate on the part of the municipalities, and inconsistent procedures developed by local bodies. Building permit reforms also take time and do not follow a simple blueprint (Moullier, 2009).

The building permit system is a set of laws and procedures that

all building practitioners, such as builders, architects, specialised design consultants, and contractors, abide by when engaging in the construction of a new building or in the modification of an existing building that has structural implications. The building permit is the core instrument of the construction regulation system. It grants legal permission to start construction. Local municipalities or a specialised local authority usually grant these permits.

In its assessment of 25 cities in Croatia, the Czech Republic, Portugal and Slovakia, the World Bank institutions (2018b; 33) finds that construction inspections are mandatory in all four-member states. In the Czech Republic, Portugal and Slovakia local and regional governments are responsible for construction oversight, while in Croatia inspections are carried out by the central government's Ministry of Construction. Construction in Croatia must be overseen by an external supervisor, while in the other three countries this is done by an in-house engineer. In all four countries, building regulations available online and clearly specify the requirements for a building permit. However, only Portugal has local and regional governments staffed with licensed architects and engineers who verify that building plans are in compliance with the building regulations.¹⁶

In Morocco in 2013, the World Bank Group assessed the quality of service delivery at the subnational level and found considerable discrepancies across cities, including significant variations in application processing times and uneven service delivery. A particular concern was the administration of local construction permits and local procurement practices. The assessment and subsequent recommendations highlighted the need to reduce bureaucratic discretion, while improving service delivery through the use of risk-based approaches to inspections and the adoption of clear assessment standards and workflow management systems.

The Government of the Netherlands supported the World Bank Group in its construction permit reforms in Moscow City. Similarly, SECO supports the IFC in Colombia to improve the overall quality of regulatory governance, with a special emphasis on the construction sector. This includes municipal simplification (i.e., simplification of procedures in the issuing of construction permits in different cities) and the introduction of a Green Building Code (e.g., elaboration of local green building codes that could include different types of incentives (tax, procedural).

5. Local taxation reform

Local and regional governments can introduce a wide variety of taxes, fees, levies, licenses, and other revenue-raising instruments; each of which affect the local costs of doing business. Thus, the administration of local taxes is a focus on many LBERs.¹⁷

In Colombia, SECO funded an IFC programme on improving tax policies and administration. This project supports local tax authorities within a broader national tax simplification program. Similarly, SDC has supported fiscal decentralisation projects in Latin America. This has included LBER dealing with local taxes and public fees.

The Tanzania Local Investment Climate project identified problems



created by multiple taxes imposed on small business by district authorities, which creates an unfriendly atmosphere between the local business community and the local government. The project argues for the streamlining of these taxes to promote business growth. For example, local government authorities are authorised to assign a five per cent crop levy on the market price of agricultural products. However, it is unclear how this market price is set and who determines it. Furthermore, the geographical location and associated transportation costs are not accounted for in these calculations.

6. Local investment policy and promotion

The World Bank Group (2010c) provides advice to subnational authorities on local investment policy and promotion. While national investment policies and programs, and the efforts of national investment promotion agencies have a major role to perform in this field, there are many actions local entities can take. This includes the development of local one-stop-shops for investors, the creation of special economic zones, and the streamlining and facilitation of local regulatory and administration systems. Subnational development, says the World Bank Group (2010c; 60) 'is likely to be better achieved by addressing the investment-limiting factors in the region itself, for example, by improving infrastructure, lowering ad-

¹⁶ All four countries require a supervising engineer to be legally responsible for supervising construction, either an in-house engineer, as in the Czech Republic, Portugal and Slovakia, or an external one, as in Croatia. Building control authorities in Croatia and Portugal conduct random inspections throughout the construction process.

¹⁷ The World Bank Group has produced a useful resource for practitioners in this field (World Bank Group, 2010a).

ministrative barriers, and simplifying investment regulations’.

The World Bank Group Investment Policy and Promotion Group of the Investment Climate Unit helps subnational authorities develop and implement strategies to better retain and grow investment, promote economic development and create jobs. Its partners include heads of city and local governments, economic development or other special units in mayoral offices, or subnational entities interacting with investors. The unit contributes to the subnational agenda by focusing on investment policy and promotion. Investment policy and promotion reforms help developing economies better integrate their private sectors with global and regional value chains, and better retain and attract FDI. Reforms address the legal, regulatory, and administrative impediments to investment both at the national and at the subnational level. They also promote steps towards maximizing the potential benefits of foreign direct investment and its interaction with the domestic economy to foster sustainable development.

In Kosovo, the Swiss-funded Promoting Private Sector Employment programme supported a new market system process for the coordination of three municipalities in strategic tourism planning by creating the destination management organisation, known as ‘West of Kosovo’. This organization combined municipal contributions with funds raised through a specifically created business-membership organisation with some thirty members and a cooperation agreement between the University Haxhi Zeka of Peja/Peć, and the University of Luzern. The Swiss Cooperation Office (2016) found it was too early for Kosovo to attract international tourists and instead, should focus its efforts on developing the local and regional market, improving and strengthening the local offer and tourism micro, small and medium-sized enterprise capacities so they can compete in the international market.

In Kenya, the UK Government supports the Sustainable Urban Economic Development Programme, a five-year programme supporting up to ten fast growing municipalities to develop sustainable urban economic plans and attract investment for critical infrastructure and value chain projects.¹⁸ The programme strengthens the capacity of municipalities to plan better for urbanisation, while supporting policy and legislative changes to enable greater private sector led growth. Among the programme’s interventions are Investment Climate Advisers who will work with municipalities to remove policy and regulatory business constraints and Investment Experts to help develop and implement investment promotion strategies to draw in investment, including public-private partnerships, to fund commercially bankable climate-resilient infrastructure and value chain projects identified in their urban economic plans.

7. Local land reform and local area planning

A key question for practitioners concerns the extent to which LBER is integrated with the other local economic development instruments, such as land use zoning and town planning.

The improvement of local land titling, registration and administration is feature of a number of LBER programs. For example, SECO

in Colombia is supporting the improvement of land titles, registers and administration. This is done through the strengthening of data management systems necessary for a functioning cadastre and using pilots to test the system in different regions. However, beyond land titling, registration and administration is the integration of other local regulatory instruments, such as land use zoning and town planning.

This issue often emerges within the context of green growth and the integration of economic, social and environmental policy objectives, as prescribed by the SDGs. In his discussion on construction permits, Moullier (2009) describes how building construction reforms are gradually adding new policy objectives in their reform efforts, such as energy conservation and environmental sustainability. However, he warns these may increase business costs and cites best practice reform experiences showing how new policy objectives, including those going beyond the improvement of public safety, can be combined with effective red tape reduction programmes and more efficient and streamlined processes.

Increasing attention is given to the processes of urbanisation and improving the regulations of cities. Municipal regulations and planning can have a significant influence on whether urbanisation drives economic growth or leads to malfunctioning slums. The UK Department for International Development describes how the recent economic crisis ‘provides opportunities to rethink the parameters of urban growth with appropriate regulatory frameworks emphasising low-carbon solutions for energy generation, locally sourced food and products, and the potential for recycling’ (Department for International Development, 2010; 6).

The United National Conference for Trade and Development supports the Science, Technology and Innovation for Sustainable Cities program, which responds to rapid increases in urbanisation. This programme explores new ways of planning and governance based on inclusive leadership, addressing local needs and providing long-term perspectives. This includes the introduction of equitable strategic metropolitan regulation and planning that protects the environment, provides basic and business services to the poor, and resolves land disputes that may arise from urban sprawl, especially in peri-urban communities.

8. Local procurement policies, regulations and procedures

Many local governments recognise that their procurement of goods and services affect the local economy. This presents a market opportunity to local suppliers. While there is some debate regarding the relevance and effects of local procurement preferences, the role of public procurement should not be overlooked. Many local governments have introduced local supplier support and development services. These programmes provide information workshops for local businesses interested in tendering for council contracts and can include referrals to local business development agencies. Regional and local governments are often required to work from the federal level legislation to adapt legislative procurement requirements to the local context.

¹⁸ For more information go to: <https://www.suedkenya.org>

Across the EU, close to 165 policy measures have been adopted or implemented under the state aid and public procurement principle since 2011. A majority of EU Member States have put in place protective measures for SMEs in case of late payments and have adopted proportionate requirements in public procurement tenders to enable micro-enterprises to also be eligible.

Many developing economies struggle under a centralised procurement system largely inherited from the colonial models. The demands of a developing economy have led to some of these economies moving towards a decentralised practice as an alternative (Nielsen, 2017).

Naga City in the Philippines sought to improve public sector transparency, which included the launch of an e-government website providing information on services, communication channels and complaint mechanisms. These efforts complemented other reforms to local procurement and led to greater participation of service providers in the bidding process, many of which were small firms. For example, an average of 19 firms would bid for the supply of the city government's medicine and medical supply requirements, while the national government requires only three bidders. By opening procurement to small businesses and allowing public scrutiny of notices and outcomes of bids posted on the website, this programme significantly reduced costs of public projects (e.g., construction of a public-school classroom was 36 per cent cheaper and cost of asphalt overlays was 47 per cent lower than those of other local governments). The City Accountant's Office estimates that the increased transparency of the procurement system has saved the city government at least P10 million (USD200,000) a year (Nielsen, 2017).

9. Public private dialogue and partnerships

It is important for local and regional governments to evaluate the way they interact with the business community and understand and respond to local business concerns. Typically, local and regional governments do this on an ad hoc basis. Encounters with business are based on aggrieved businesses complaining or elected officials visiting or observing local business associations. However, this is not enough. It is important to ensure dialogue with the business community is well organised and planned, and that it extends beyond the usual well-connected individuals. Local and regional governments can also create partnerships with the business community and engage with a range of private, public, academic, research, and civil society organisations to facilitate the flow of information that can be used by business to become more competitive.

The process of creating a better business environment requires regular public-private dialogue or PPD. PPD has been defined as 'bring together the government, private sector and relevant stakeholders in a formal or informal process to achieve shared objectives and play a transformational role for a particular set of issues' (Herzberg & Wright, 2007).¹⁹

There are three ways in which the local business community ty-

pically engage with government. The first is consultation. This is usually initiated by government and on government's terms. For example, council has a policy or strategy it wishes to adopt, and it consults with business before doing so. This engagement is narrowly framed only focused on a single topic.

The second common way in which government and business engage is through advocacy. This is where business approaches council with a specific concern it wants addressed. Again, in most cases, the engagement is around a single topic.

The third method is through PPD. This is where government and business interact in a more balanced manner, in a broader discussion about the issues they both faces. It is a more open discussion, not driven by any single issues. Instead, PPD creates a platform in which both parties can present their concerns, ideas and opportunities. Often, a joint action is agreed upon, which can be documented and used as a basis for continued engagement. Thus, PPD forms the basis for on-going collaboration and partnerships.

NESTA in the UK has developed ShareTown – an online fictional town with a cast of characters presenting a positive vision of a preferred future in which interactions between citizens and local government are balanced and collaborative.²⁰ ShareTown illustrates how data and digital platforms can be deployed for public benefit rather than private gain. In this future, government plays many roles, working closely with local people to understand their needs, how these can best be met and by whom. Budget restrictions in the UK have cut many council revenues by half, resulting in reduced services. Thus, ShareTown seeks to take a 'radically optimistic' approach to these issues and present a preferred future for public service delivery.



¹⁹ Economic and political scientists began studying the interaction between government and the private sector in the 1970s and 1980s in terms of rent-seeking, collusion and corruption. Analysis in the early 1990s in some Southeast Asian economies highlighted the role of the state in the economy and the scope for fruitful interaction between political elites, bureaucracy and the private sector. Subsequently, there have been increasing calls for consultation with the private sector in drafting government policies, laws and regulations (Pinaud, 2007).

²⁰ See: https://apolitical.co/solution_article/future-government-townscape/



This chapter draws conclusions from the findings presented in the previous chapter and proposes a series of recommendations for promoting decentralised cooperation among local and regional governments.

The study findings present a range of programmes that have supported local and regional governments in their efforts to engage in LBER. In developing economies, official development assistance and other forms of international development have been used to introduce and support local reforms. This has included the production of business environment assessment and reform tools and resources. Support programmes include those provided by multilateral agencies, such as the EU and the World Bank Group, bilateral development programmes (e.g., Denmark, Germany, Switzerland, United Kingdom), and international development agencies, such as the Asia Foundation.²¹ Within developed economies, many local government associations along with specialised government departments and agencies provide support to local governments in their economic development programming. Substantial attention has been given to supporting LED initiatives. However, very few agencies have focused on LBE issues.²²

Local and regional governments can improve the LBE by:

- Designing local policies, laws and regulations within the scope of their authority, ensuring they are practical and efficiently enforced;
- Ensuring local plans and zones do not unnecessarily hinder innovation and growth;
- Regularly assessing the impact of its decisions, laws and regulations on the business sector and the economy as a whole (rather than on a few existing 'noisy' businesses);
- Responding swiftly to the needs of their business customers;
- Establishing platforms for regular dialogue with a diverse range of local businesses and monitors any agreements that are reached;
- Encouraging the local business community to become organised and better able to represent diverse business views; and
- Ensuring there is a clear way in which the local business community can participate in the design, review and reform of business-related laws, regulations and administration arrangements.

The following key findings are relevant when considering the future of local and regional government leadership in LBE reforms.

Local and regional governments play an important role in the business environment through their competencies at the local level and the LBE reform agenda. While national business environments have attracted attention among policymakers and development practitioners over the last two decades, the relevance and significance of the LBE has been recognised as a critical element in the decisions made by private investors and business people.

These decisions have a direct impact on local investment, economic growth and job creation.

While national governments create the overall framework for governing business activity and creating the macro-economic framework for private investment and growth, local and regional governments have a significant role to play. Local and regional governments can create better, more dynamic and competitive business environments in which local businesses thrive. Indeed, increasing levels of globalisation and the integration of regional and global markets make local business environments even more relevant.

LED policies and strategies provide an important framework for private sector development strategies and LBE reform. Local and regional governments play a key role in LED. Many local and regional governments actively leader in formulating and implementing LED policies, strategies and programmes designed to grow the local economy and create more and better jobs for residents. However, LBE reform is often not included in these efforts.

Despite this, there is a growing recognition that local and regional governments are responsible for the creation and maintenance of an enabling LBE in which local investors, businessowners, workers, educators, financial institutions, and service providers can work together to generate new economic opportunities. Thus, LBE reforms provide an additional tool of LED policymakers and practitioners to use.

Local and regional governments are constrained in their efforts to improve the LBE by inadequate technical and financial resources and a highly-centralised political and financial systems. Many local and regional governments exist in highly centralised government systems in which their political, financial and technical capacities to formulate and manage LBE reforms are limited. Government decentralised is essential if local and regional governments are to realise their potential for stimulating local economic growth and creating local business environments that are conducive to increased private investment. However, the role of local and regional government in economic development varies across countries.

Local and regional governments require the political and legal authority provided to them by a decentralised nation state. In addition, they require the capabilities, tools and capacity to assess the LBE and to design, implement and monitor meaningful reforms.

²¹ For more information on support for business environment reform in developing economies see the Donor Committee for Enterprise Development website: <http://www.businessenvironment.org>

²² In the state of Western Australia, the Small Business Development Corporation has developed the Small Business Friendly Local Governments initiative to recognise local government authorities that are committed to actively supporting small businesses in their local area. Local governments are encouraged to sign a Small Business Friendly Local Governments Charter to show they have committed to work with, and support, small business.

RECOMMENDATIONS

Drawing on the study findings, three categories of recommendations are proposed below: recommendations for central governments, EU institutions and local and regional governments.

1. Recommendations for central governments

Recommendation 1: Support decentralisation reforms in collaboration with associations of local and regional governments

Government decentralised is essential if local and regional governments are to realise their potential for stimulating local economic growth and creating local business environments that are conducive to increased private investment. However, the role of local and regional government in economic development varies across countries.²⁴

Local and regional governments require a clear mandate from central government regarding their role in economic development. Such a mandate would:

- Provide clear direction and parameters within which local and regional governments can act;
- Facilitate local and regional government engagement with other state and non-state actors based on a clear understanding of the role of all participants;
- Provide a basis for improved coordination, alignment, cooperation, and collaboration between national government ministries, departments and agencies and local and regional governments;
- Describe the financial arrangements for decentralised cooperation, ensuring local and regional governments have the financial resources required to apply the powers assigned to them;

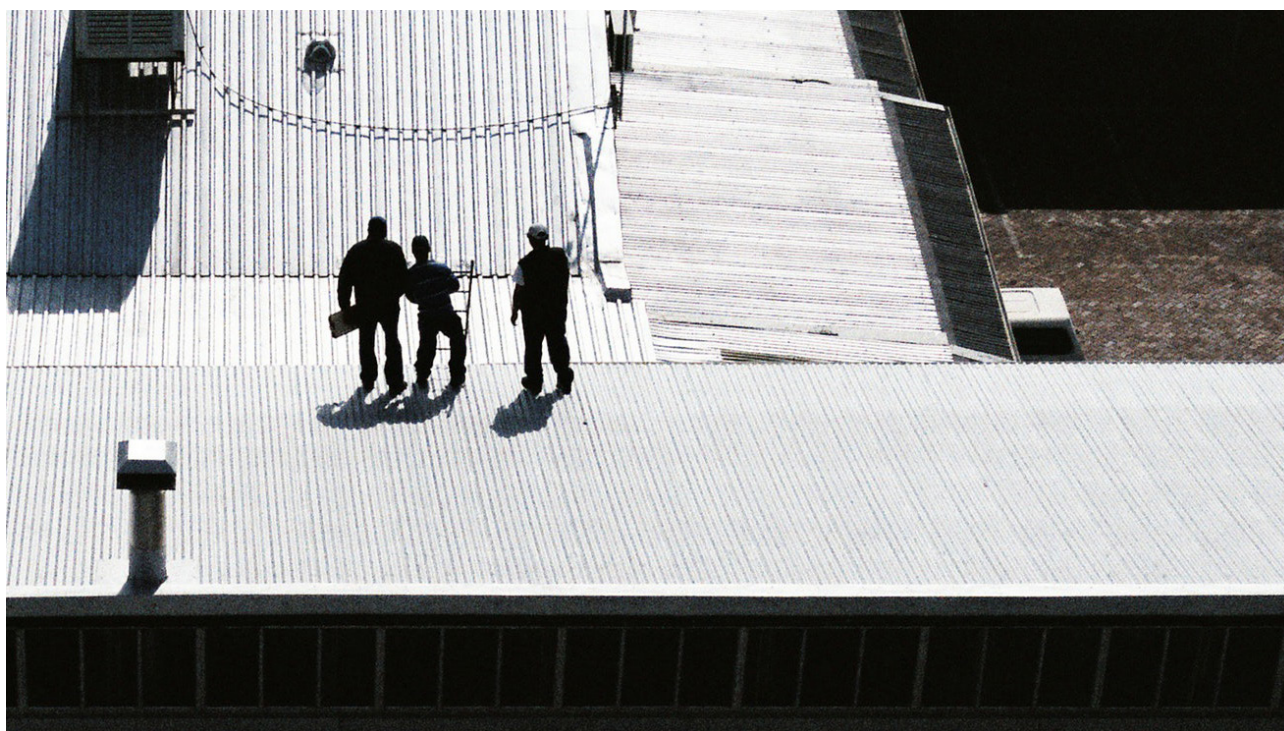
- Create a mechanism for improve local accountability, including improvements in accountability to the local business community, among other civil society, non-state actors; and
- Establish an agreed framework for monitoring local and regional government performance and benchmarking the performance of localities and the competitiveness of local firms.

There are many LBE reform issues that require coordination between national, local and regional governments. In some cases, national policies and laws require implementation by local and regional agencies, including government agencies. In other cases, national legal frameworks establish the scope for possible local reforms.

Recommendation 2: Promote national dialogue and collaboration with local and regional governments

Central governments should facilitate better dialogue and collaboration with local and regional governments on economic development. This dialogue should be organised through local and regional government representative associations and should create policy and programme synergies between economic and private sector development and business environment reforms.

Dialogue can be used to facilitate better policy coherence across national, regional and local levels. It can highlight the role localities play in broader, national industry and economic development strategies, while creating a platform for better collaboration between national, regional and local governments.



²⁴ For example, the Local Government Association of the United Kingdom says councils have a 'key role in driving economic recovery'. In France, Faure and Négrier (2017) describe the development of regional and local government and the emergence of local polities that seek to build on local identity, which includes a consideration of social and economic development, education and higher education and territorial infrastructure. In Australia, local government mandates are established by state governments reflect a range in which economic development is a primary role or simply an incidental one.

2. Recommendations for EU institutions

Recommendation 3: Promote the role of local and regional governments in economic and private sector development.

EU institutions should advocate among their Member States for a stronger role for local and regional governments in formulating economic development policies, strategies and programmes. This should emphasise the critical role local and regional governments can play in private sector development, investment promotion and business environment reform. The EU External Investment Plan provides a valuable framework in this regard.

Recommendation 4: Support decentralisation reforms in the political dialogue with partner countries' central governments

As proposed above, central governments are urged to decentralise their services and strengthen the role of local and regional governments in economic and private sector development. Within this context, EU institutions should advocate among their Member States for the decentralisation of government services and provide working models of successful policies and programmes that have been used to achieve this. This would also have the desired effect of strengthening regional cooperation among local and regional governments.

Recommendation 5: Support the benchmarking of local business environments

EU institutions should work with their Member States and partners to support data collection and analysis mechanisms that compare local business environments across Europe, and more broadly, where possible. This will stimulate debate among central, regional and local

governments about the role of the LBE and the need for reform.

Recommendation 6: Support the capacity building of local and regional governments through decentralised cooperation

EU institutions should provide technical and financial resources to build the capacity of local and regional governments to engage with the private sector, assess the LBE, and design, manage and monitor LBE reforms. This support should draw on decentralised cooperation opportunities in which local and regional governments, and their social partners, share information, experiences and resources.

To effectively design and manage LBER initiatives, local and regional governments require:

- Relevant tools and skills to objectively assess the LBE and compare it over time with other localities;
- The ability to engage in meaningful, regular dialogue with the local business and investor community to identify critical LBE concerns and design and monitor reforms;
- Skills to design LBER programmes based on identified needs and international best practices;
- Tools and skills to review the stock of local policies and laws in order to determine if any require revision or removal (i.e., ensuring local policies and laws are up-to-date and fit for purpose); and
- Tools and skills to perform ex-ante assessment of proposed local policies and laws and consider their impact on local business and investor decisions (this includes basic assessment skills such as cost-benefit analysis).

3. Recommendations for local and regional governments

Recommendation 7: Integrate local business environment reforms to local economic development strategies

LBE reform falls within a broader set of economic development frameworks that local and regional governments can pursue, including LED, private sector development and investment attraction. However, a distinctly different set of tools, skills and resources are used to reform the LBE. Thus, local and regional governments need to become more aware of the impact their actions have on business and investment decisions. While local economic and business development programmes are important, it is easy to overlook the ways local government enhances or inhibits local business growth through its existing policy and legal measures. This includes understanding how the administrative units or departments of local or regional government that are not directly related to economic development (e.g., planning, health, environment) also affect local business and investment decisions. Here again, decentralised cooperation provides an important mechanism for incorporating LBE reform tools and approaches into a broader body of LED best practices that can be shared across developing and developed economies.

Recommendation 8: Promote partnerships and dialogue with the private sector

Local and regional government support for LED and LBE reform provides an important framework for private sector engagement. Thus, local and regional governments should establish platforms for public-private dialogue that encompass a wide range of private investors and businesspeople to better understand and address the strategic and pragmatic problems affecting local economic growth. This should encompass the legal, regulatory and administrative constraints to new investment and business growth, as well as the broader strategies that can be developed to drive inclusive economic growth.

Recommendation 9: Promote the sharing of knowledge and experiences on LBE reform and support capacity building among other local and regional governments

Local and regional governments should recognise the opportunities for capacity building through decentralised cooperation and identify peers and development partners they can work with.



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LIST OF PLATFORMA's PARTNERS

PLATFORMA is the pan-European coalition of local and regional governments – and their associations – active in city-to-city and region-to-region development cooperation. Since its creation in 2008, PLATFORMA has been representing more than 100,000 local and regional governments. All are key players in international cooperation for sustainable development.

The diversity of PLATFORMA's partners is what makes this network unique. PLATFORMA reflects the diversity of local and regional governments' realities in Europe and across the world.

The aim of PLATFORMA is to facilitate the exchange of knowledge and mutual learning, but also to strengthen the specific role of local and regional governments in development policies.

In 2015, PLATFORMA signed a Framework Partnership Agreement (FPA) with the European Commission. Its signatories commit to take actions based on common values and objectives to tackle global poverty and inequalities, while promoting local democracy and sustainable development.

The Secretariat of PLATFORMA is hosted by the Council of European Municipalities and Regions (CEMR).

www.platforma-dev.eu



AEXCID: Extremadura Agency for International Cooperation for Development
www.juntaex.es/aexcid



CALM: Congress of Local Authorities from Moldova
www.calm.md



AFCCRE: French Association of the Council of European Municipalities and Regions
www.afccre.org



CCER/CEMR: Council of European Municipalities and Regions
www.ccre.org



AICCRE: Italian Association of the Council of European Municipalities and Regions
www.aiccre.it



CLGF: Commonwealth Local Government Forum
www.clgf.org.uk



AIMF: International Association of French-speaking Mayors
www.aimf.asso.fr



CPMR: Conference of Peripheral Maritime Regions
www.cpmr.org



ALAL: Association of Local Authorities in Lithuania
www.lsa.lt/en



CUF: United Cities France
www.cites-unies-france.org



ANCI: National Association of Italian Municipalities
www.anci.it



DIBA: Province of Barcelona
www.diba.cat



AUC: Association of Ukrainian cities
www.auc.org.ua/en



EEL: Association of Estonian Cities
www.ell.ee



Euskal Fundoa: Basque Fund - Association of local authorities from the Basque country for international cooperation
www.euskalfundoa.org



Nantes métropole: Nantes Metropolis
www.nantesmetropole.fr



Famsi: Andalusian Fund of Municipalities for International Solidarity
www.andaluciasolidaria.org



Région Sud-Provence-Alpes-Côte d'Azur: Region of South-Provence-Alpes-Côte d'Azur
www.maregionsud.fr/



FEMP: Spanish Federation of Municipalities and Provinces
www.femp.es



Regione Toscana: Region of Tuscany
www.regione.toscana.it



Fons Mallorquí: Majorcan Fund for Solidarity and Cooperation
www.fonsmallorqui.org/ca



SMOCR: Union of Towns and Municipalities of the Czech Republic
www.smocr.cz



Generalitat de Catalunya: Autonomous community of Catalonia
www.gencat.cat



UCLG/CGLU: United Cities and Local Governments
www.uclg.org/fr



KDZ: Centre for Public Administration Research - Austria
www.kdz.eu



Ville de Paris: City of Paris
www.paris.fr



LALRG: Latvian Association of Local and Regional Governments
www.lps.lv/en



VNG International: Cooperation agency of the Association of Netherlands Municipalities
www.afccre.org



LBSNN: National Town-Twinning Council Netherlands-Nicaragua



VVSG: Association of Flemish Cities and Municipalities
www.vvsg.be



NALAG: National Association of Local Authorities of Georgia
www.nala.ge



ZMOS: Association of Towns and Municipalities of Slovakia
www.zmos.sk

National business environment reform does not always lead to an improvement of business conditions at the local level. But through decentralised cooperation, local and regional governments can lead reforms that support business growth, create jobs and drive innovation.

The first objective of this study is to show that improving local business environment requires building the capacity of local and regional governments in partner countries and promoting decentralisation reforms.

The second objective is to show the potential contribution of decentralised cooperation to help local and regional governments undertake business environment reforms and advocate for decentralisation reforms.



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