

# Revamping Local and Regional Development Through Place-Based Strategies

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## Abstract

*The past four decades have seen an international movement toward decentralization. As part of this process, subnational tiers of government (state and local) have been gaining power to design and implement contextually tailored economic development strategies that reflect local socioeconomic and institutional characteristics, conditions, and realities. This article examines the increased role of subnational governments in developing place-based development strategies and provides examples of successful and failed strategies to achieve more efficient, sustainable, and inclusive economic growth. The latter include actions to increase the capacity of local governments; the adoption of coordinated multilevel governance approaches to limit overlap among, and maximize the synergies between, the actions taken by various tiers of government; initiatives to increase the competitiveness of local firms; investments in the local human capital; and expenditure on new infrastructure.*

## Introduction

In a world in which subnational tiers of government are gaining power, local and regional governments are increasingly the makers or breakers of economic dynamism and welfare (Pike et al., 2006; Scott, 1998; Storper, 1995, 1997). This ascendancy of subnational tiers of government is a consequence, at least in part, of globalization (Barca et al., 2012; Pike et al., 2006; Rodríguez-Pose, 2011; Smoke, 2003). Because the subnational level is the territorial scale at which processes of growth, development, and change operate, the pressures imposed by an increasingly competitive, knowledge-intensive global economy are more and more frequently incurred at this subnational scale with the effect of “increasing the importance of regional processes and the role of local actors in shaping development trajectories” (Ascani, Crescenzi, and Iammarino, 2012: 4).

Subnational governments the world over, as a result of this global trend toward devolution, have been awarded a mix of powers that vary considerably from place to place. Some have been granted little more than minimal decisionmaking authority. Others have been entrusted with as much as complete control over the design and implementation of full-fledged development strategies covering national economic policies, the attraction of foreign direct investment, education and health policies, infrastructure development, and a range of welfare issues. Although the capabilities and capacities of, and resources available to, local and regional governments may vary, little question exists that the responsibility for generating economic growth and dynamism, and for improving the well-being of local citizens, lies more than ever in the hands of subnational governments.

The empowerment of subnational governments represents an opportunity for localities to assume greater control over their development. More specifically, it affords them latitude to tailor expenditures, policies, and strategies to both the opportunities that arise from, and the challenges imposed by, local socioeconomic and institutional conditions and realities; local policies may differ substantially from the top-down policies that have dominated until recently. The global trend toward devolution has, in effect, opened the door for place-based territorial approaches to development.

Although this place-based approach to development represents an important opportunity to achieve more efficient, sustainable, and inclusive economic growth, questions about it remain: Do place-based development interventions really work? What steps and mechanisms are needed to ensure each territory fulfills its potential?

This article argues that place-based development strategies are off to a promising start and identifies further actions that could be taken to maximize their returns. Specifically, it recommends—

1. Capacity building to ensure that localities and communities are technically capable of shouldering the responsibilities associated with greater powers and developing territorially oriented approaches and interventions.
2. The promotion of multilevel governance to enhance vertical and horizontal coordination with a view to ensure, first, a sufficient degree of coherence between the resources allocated to and responsibilities assumed by local authorities and, second, minimal overlap between the actions taken by various tiers of government.

The remainder of the article is structured as follows. The Local Empowerment and Place-Based Approaches to Local Development section lays out the case for and contemplates the challenges to local place-based development before exploring the utility and effectiveness of such initiatives via a brief digression on an empirical examination of localized development approaches in Mexico. The Toward Equitable and Sustainable Development at the Local Level section considers the operationalization of localized development initiatives and proposes two fundamental steps that should be taken to ensure, or at the very least increase the likelihood of, the successful implementation place-based approaches to development. Concluding remarks appear in the Conclusion section.

## **Local Empowerment and Place-Based Approaches to Local Development**

Until the latter part of the 20th century, “the world was dominated by strong national governments, and regional governments tended to be either weak or non-existent” (Rodríguez-Pose and Gill, 2003: 336). In 1970, the number of truly devolved countries could nearly be counted on the fingers of one hand. Since then, local empowerment has evolved swiftly all over the world, making subnational governments central to the process of development (Rodríguez-Pose and Gill, 2003; Smoke, 2001). As these governments have become entrusted with a greater mix of powers, centrally driven approaches to economic development are increasingly being replaced by place-based strategies that reflect the preferences and needs of local agents and that leverage local characteristics.

This new capacity of subnational authorities to devise and implement territorially oriented approaches to development represents an important opportunity for regions and localities to mobilize their full economic potential. That said, the realization of this opportunity is often fraught with challenges, with questions arising about the appropriate scale of implementation, about uneven capacity, and about coordination among different levels of government. A discussion follows of the advantages of and challenges to place-based economic development and some suggested approaches to overcoming barriers.

### **The Advantages of Place-Based Economic Development**

In the most basic sense, place-based economic development entails the identification, mobilization, and exploitation of local potential (Vázquez-Barquero, 1999). A territory’s local potential is shaped by, among other factors, the economic activities in which it specializes and excels; its stock of physical, human, or other types of capital; its institutional context; and the resources with which it is endowed. The objective of place-based economic development strategies then is to leverage this potential and cultivate economic activity that is reflective of and “dependent on [a locality’s] specific economic conditions and comparative advantages” (Pike, Rodríguez-Pose, and Tomaney, 2006: 19).

Territories also face constraints that are products of their specific contextual conditions. Thus, in addition to capitalizing on local strengths, territorially specific economic development approaches must also mitigate a territory’s weaknesses and overcome its limitations.

Because context is so important, a localized development approach designed for one community may be radically different from one designed for another environment. Although the approaches may share some similarities in terms of, for example, the broadly defined types of programs and policies they employ (as discussed in the Conclusion section), the ways in which particular initiatives and policies are prioritized and integrated into the localized development approach will vary from place to place.

According to the evidence (Pike, Rodríguez-Pose, and Tomaney, 2006), place-based approaches are associated with both economic and social advantages, including—

1. A greater capacity to compete in the global economy.
2. A closer connection between needs and policies, which may result in more inclusive growth.
3. Applicability across heterogeneous situations.

The first advantage—the ability of place-based development strategies to improve a territory's capacity to manage and compete in an increasingly dynamic global economy—results from prioritizing economic activities that leverage the specific characteristics and strengths of a territory rather than building new activities from scratch. These activities are likely to “[improve] the [local] productive context” (Vázquez-Barquero, 1999: 84).

The second advantage is socioeconomic. In place-based development strategies, the participation of local decisionmakers in the design, implementation, and monitoring of development strategies may lead to a closer connection between local needs, priorities, and the strategy itself. Local empowerment effectively grants these local decisionmakers the autonomy, powers, and resources not previously at their disposal to mobilize and act on local knowledge; the types of contextually tailored policies this flexibility affords would likely not materialize within a centralized system. This tailoring of public policies to local needs is the greatest advantage of local empowerment and is usually reflected in a greater embeddedness of the supported economic activities and in the creation of more stable and high-quality jobs.

One example is the Ghana Decent Work Programme. The Ghana Decent Work Programme, executed in partnership with the International Labour Organization, has two aims: “to contribute to the reduction of poverty in Ghana by addressing Decent Work deficits in micro and small enterprises in the informal economy and by enhancing the employability of low-income women and men, the young in particular; and to mainstream employment-focused strategies for decent work in national and district policies in Ghana” (ILO, 2012: 6).

The program was piloted in eight districts where it was specifically tailored to the needs of local industries and economic activities. Not only has the program improved employment and growth, but it has also given rise to a series of additional economic benefits including increases in national health insurance registration in employers' associations and informal economy organizations and participation in training programs (ILO, 2012).<sup>1</sup>

The third advantage of place-based approaches lies in their applicability across territories of all types, sizes, and levels of socioeconomic development. Place-based economic development approaches work within the limitations imposed and opportunities afforded by local conditions and characteristics. Localized approaches can, as a result, be implemented in territories of various levels of ex-ante favorability and with different economic structures and specializations, resource endowments, and capabilities. The cross-contextual utility of territorial development policies is critically important given the heterogeneous national contexts in which place-based approaches may be pursued.

An example of adapting place-based strategies to different national conditions is South Africa (Rogerson and Rogerson, 2010), where territorially specific strategies have been increasingly popular since the mid-1990s. South Africa's local authorities, from the largest—including, among others, Durban (Robbins, 2010) and Johannesburg (Rogerson, 2005)—to much smaller and more remote rural areas, have devised and executed a number of place-based strategies.

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<sup>1</sup> ILO (2012: vii) attributed the success of the overall program to focusing on capacity building, deliberately limiting direct funding of programs, empowering local stakeholders to shape the local economic development approaches in accordance with local norms and values, and embedding local economic development initiatives within local government structures.

Although levels of success have varied, success has not been confined to larger territorial units (Nel and Rogerson, 2007). Alicedale, for example, represents the “most dramatic case of small town transformation” that is attributable to a well-designed and executed place-based economic development approach according to Nel and Rogerson (2007: 7). Alicedale, a town with a population of about 4,000, put in place a territorially specific economic development strategy to address the town’s pronounced economic challenges (Gibb and Nel, 2007). The initiative centered on the development of a resort and sought to generate employment, stimulate entrepreneurship, and foster local firm growth and development. The local economic development strategy “created more than 500 full- and part-time jobs for local people” in areas related to tourism and led to the formation of several additional small businesses that provide local employment and income generating opportunities (Gibb and Nel, 2007: 82).

## **The Challenges of Place-Based Development**

Although a place-based approach to development has a number of advantages, it also comes with challenges. A discussion follows of three issues that commonly arise in the development of place-based development approaches: (1) the appropriate scale of implementation, (2) capacity constraints, and (3) coordination among different levels of government.

### **Scale of Implementation**

What is the appropriate scale for the implementation of place-based policies? In large countries, the national level is too remote to effectively address local development problems. Although national interventions benefit from economies of scale, these actions do not have the strengths of local interventions, namely to tailor public intervention to local needs, to experiment and innovate with local policies, and to involve and empower local stakeholders (Rodríguez-Pose and Gill, 2005).

Below the national level, however, the best level of intervention is far from clear. States in the United States, like many regions in Germany or Spain or districts in Indonesia, have considerable powers at their disposal but are at times too large or heterogeneous, or both, to effectively address the diverse needs of different localities. While place-based intervention can possibly work for Delaware, Rhode Island, or even Connecticut and Maryland, larger states like California and Texas may be too complex and diverse for place-based interventions to really take hold. Chinese provinces, outside the city-regions, and most Indian states are possibly in a similar situation.

Metropolitan areas—as nearly perfect functional economic areas—are an obvious candidate, but often lack the degree of coordination among their constituent local authorities to carry out viable strategies. Finally, local authorities, such as counties or municipalities, may be too small and weak—both financially and in terms of capacity—to carry out the task.

### **Capacity Constraints**

Whereas some subnational authorities are in an ideal position to design and implement sound development strategies, others—particularly smaller, more remote, and often poorer areas—face far greater capacity constraints (both financial and technical) that hinder their abilities to make the most of their newfound powers. Such constraints may be less ubiquitous or pronounced in more

developed countries, whose local authorities tend to be well capacitated and are actively engaged in political processes at all levels of governance.<sup>2</sup> Unfortunately, not all localities and regions possess the capabilities, resources, and influence to make the most of territorial strategies.

In many parts of the world, especially in the developing world, smaller, undercapacitated, and financially constrained local authorities may be unable to design and implement sound development strategies on their own. Moreover, they are often isolated—both geographically and otherwise—from centralized decisionmaking processes, rendering them incapable of influencing political processes that affect them (Rodríguez-Pose and Gill, 2005).

Just as different regions of the world are characterized by radically different capacities and capabilities, different levels of government—even within the same country—may display different facilities for the mobilization of devolved powers, resources, and responsibilities. Higher-order territorial units, such as regions or perhaps larger cities and metropolises, are often better positioned to capitalize on self-government and pursue place-based development policies. Lower-order territorial units, on the other hand—including municipalities, smaller cities, and towns—are frequently less well endowed with financial resources and technical capacities, which hinders their capacity to mobilize autonomy and power and, ultimately, to implement place-based strategies and initiatives.

As a consequence, development strategies conducted by lower tiers of government do not always work. In India, for example, the empowerment of local authorities has given rise to problems of transparency and jeopardized the clarity of the roles of various tiers of government (Steytler, 2005). The absence of a clear delineation of roles and responsibilities has led, at best, to an inefficient duplication of expenditure, goods, and services and, at worst, to a complete failure to provide basic goods and services. In the state of West Bengal, Véron et al. (2006) documented how the local implementation of an Employment Assurance Scheme in rural areas undermined political, bureaucratic, and community accountability and reduced overall transparency, which, in turn, led to an inefficient provision of services and, worst of all, the emergence of local networks of corruption in which irregularities, abuses to beneficiaries, and other creative ways to steal funds became the norm rather than the exception.

Moreover, imbalances in the powers of states and municipalities have contributed to increases in what are already dangerously high levels of socioeconomic polarization in India. Economically dynamic states such as Gujarat, Haryana, Karnataka, Maharashtra, or Punjab have managed to extract considerable resources from the Indian government, leading to a highly territorially regressive transfer system. Awarding the stronger and more economically resilient states more resources to implement their own policies has come at the expense of the capacity of poorer states and Panchayats—most of which are located in the eastern part of the country—to develop and implement effective development strategies.

Some examples, however, show that lower-order territorial units can, perhaps even in the face of various capacity constraints, execute successful strategies and achieve socioeconomic development

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<sup>2</sup> Canada's largest city, Toronto, has, for example, resorted to place-based approaches to development to promote more holistic socioeconomic development and, more specifically, to boost the city's competitiveness and position it as a "knowledge city" and a viable host for the high-technology services, science and technology, and cultural sectors. Similar development strategies also have been implemented in Glasgow, Scotland, as part of a concerted effort to cope with industrial decline and reposition the city in both the United Kingdom's economy and the global economy more broadly. Such areas are, despite notable exceptions, well positioned to capitalize on the advantages of place-based development approaches.

when they are entrusted with increased control. Faguet (2004) explored the extent to which subnational governments in Bolivia tailored their expenditure decisions to local preferences and needs when granted the resources and autonomy to do so. He found evidence to prove that local investment in education, water and sanitation, water management, agriculture, and urban development after devolution was done more in accordance with the socioeconomic characteristics of each municipality than previously. He concluded that “[changes in expenditure patterns] were driven by the actions of Bolivia’s 250 smallest, poorest, municipalities investing newly devolved public funds in their highest priority projects” (Faguet, 2004: 887).

### **Coordination Among Different Levels of Government**

Finally, a lack of interaction and cooperation among tiers of government and jurisdictions can lead to policy coordination problems. Failures in vertical coordination among tiers of government can result in an oversupply or undersupply of public goods and services, whereas horizontal coordination failures may end up in beggar-thy-neighbor policies (Bartik, 2016) or bidding wars (Rodríguez-Pose and Arbix, 2001).

### **Overcoming the Barriers to Place-Based Development**

When place-based strategies do not deliver on their promise, their failure is most likely attributable to one or some combination of local-level barriers that are anticipated to prevent the realization of the benefits from these development approaches. There are, however, ways to overcome the aforementioned technical capacity constraints and vertical coordination failures.

#### **Capacity Building as a Means To Overcome Local Technical Constraints**

Local administrations are often plagued by technical capacity-related constraints. These constraints can be the product of absolute shortages in technical knowledge, skills, or experience. More often, they are attributable to mismatches between the capacities available and the capacities needed. That is, situations will arise in which policymakers and decisionmakers in a given territory may be capable in the general sense, but the experience, skills, technical knowledge, or institutional settings in which they operate may not be what is required to perform a given set of tasks (Akudugu and Laube, 2013).

The consequences of local capacity constraints are manifested in a number of ways. Technical capacity deficits at the local level may, for example, preclude the design and subsequent monitoring of efficient fiscal systems at the local level, interrupt the ability of localities and regions to raise tax revenue, impede policy innovations linked to place-based strategies, or inhibit the design and implementation of policies, disrupt the provision of public goods, services and expenditure, or obstruct effective decisionmaking more generally. In addition, capacity constraints may adversely affect a locality’s ability to communicate its needs and demands to the central government.

Capacity-building exercises and initiatives are therefore essential to ensure that localities are able to translate greater empowerment into economic growth, development, and increases in the well-being of its residents.

The severity and nature of the capacity constraints faced by subnational authorities varies enormously depending on context. Capacity constraints may, for example, be less pronounced in larger

regions than in smaller or lower-order territorial units. In contexts in which considerable discrepancy exists between the capacities of subnational authorities, there may be scope to supplement explicit capacity-building activities with the promotion of structures of multilevel governance and efforts to foster vertical (and perhaps also horizontal) cooperation and collaboration to encourage and enable better-capacitated authorities to assist the lesser-capacitated, weaker ones.

These local capacity constraints are particularly pervasive in the African context. Dickovick and Riedl (2010: 7) observed that capacity deficits of various kinds serve as “fundamental constraints” to the effectiveness of public policies. Moreover, they find considerable within-country heterogeneity in terms of local technical capacities. Generally, it is the smaller, poorer, or more remote localities that typically face the greatest capacity challenges (Ames et al., 2010; Tidemand et al., 2010). Dickovick and Riedl (2010) did note, however—citing the cases of Nigeria and Tanzania—that capacity constraints are not insurmountable obstacles and that they can be mitigated via suitable capacity-building initiatives and exercises.

Efforts to upgrade local technical capacities can assume any number of forms. In the most basic sense, capacity development is simply “the process by which individuals, organizations, institutions and societies develop abilities to perform functions, solve problems, and set and achieve objectives” (UN, 2006: 7). Following the UNDP’s (2009) conceptualization of capacity building as a multiscale process, capacity building for localities should entail a mix of both individual- and institutional-level efforts. This mix includes upskilling, training, the dissemination of knowledge, and learning from other experiences. It should also include institutional, organizational, and managerial reforms aimed at enhancing the efficiency and effectiveness of local policymaking and governance structures more generally.

### **Multilevel Governance**

Coordination and cooperation between regions and localities and national-level decisionmakers is also critical. Insufficient coordination between centralized decisionmakers and decisionmakers on the ground can create a mismatch between the resources and powers transferred downward and the responsibilities that lower-order territorial units assume. This mismatch may leave localities overburdened by responsibilities relative to the powers and resources with which they are entrusted. This overburden is only compounded by the capacity constraints examined in the previous section.

Addressing vertical coordination failures is therefore of paramount importance in ensuring that localities reap the benefits associated with greater decisionmaking capacity at the local level. The promotion of *multilevel governance*, understood as a “decision-making system to define and implement public policies produced by a collaborative relation either vertical (between different levels of government, including national, federal, regional, or local) or horizontal (within the same level, for example between ministries or between local governments) or both” (Stephenson, 2013), is one avenue for addressing vertical coordination failures. Multilevel governance structures and territorial networks in particular constitute means to promote the dialogue and interactions between parties that lie at the heart of the achievement of cross-territorial coordination and, ultimately, more efficient devolutionary processes (OECD, 2013).



Enhancing coordination and dialogue between the different actors involved in development can also change how local empowerment processes actually unfold to the benefit of all parties involved. Economic development processes in devolutionary settings are influenced and shaped in equal measure by subnational- and national-level actors, both of which have different preferences, aims, and priorities (Rodríguez-Pose and Gill, 2005). The economic outcomes are therefore likely to reflect the extent to which the interests of relevant actors can be balanced and reconciled. If one actor—that is, one level of government—is “dominant” (Rodríguez-Pose and Gill, 2005: 416) or the interests of other actors are not taken into account, development strategies are anticipated to yield suboptimal outcomes for *all* parties involved. The importance of reconciling such imbalances can therefore not be overstated.

Smaller and medium-sized localities are, in general, at a disadvantage in this respect. First, in large part due to their size, they are generally less able to exercise influence over the decisions of higher-order authorities and, second, they are often regarded as of secondary importance to higher-order government tiers. Larger regions and cities may be more actively engaged in political processes at all levels of governance and may be more able to effectively lobby central governments.

Vertical coordination is, as is illustrated by the intervention by higher tiers of government in the territorial development initiative in central Ghana, possible even in the face of serious local capacity constraints. In that case, local stakeholders aimed—with the involvement of employers’ and workers’ organizations—to design and implement a strategy that targeted economic sectors with high growth potential, link job quality to firms’ competitiveness, and build up the capacity of local stakeholders. Serious technical constraints arose in abundance, however, due to lack of technical and financial capacity at the local level that could have derailed the achievement of these objectives. The capacity problem was, to a large extent, addressed by the implementation of a National Legal Framework—Local Government Act 462—by the central government. This act envisaged the support and supervision of local initiatives by a national steering committee comprising government, employers, organized labor, and territorial development consultants. Local stakeholders were thus granted access to considerable expertise and resources in a multilevel governance framework that provided the necessary support for the initiative to succeed without compromising the locally owned and managed nature of the strategy (Fosu, 2013).

Although vertical coordination failures pose the greatest risk and challenge to economic development, horizontal coordination failures—that is, those between subnational authorities—do exist and cannot be overlooked. These horizontal coordination failures have implications for the capacity of territories to design and implement sustainable development strategies; the most prominent horizontal coordination failures relate to interterritorial competition, which, in the worst case scenarios, can descend into beggar-thy-neighbor policies (Bartik, 2016). Again, the promotion of interconnectivity, dialogue, and territorial networks will help mitigate these coordination failures.

Improved dialogue and cooperation among subnational authorities can impel the cross-territorial alignment of both the objectives of individual subnational authorities and of the territorially oriented policies they pursue to achieve them. This, in turn, could reduce inefficient interterritorial competition, reveal and permit the realization of synergies that exist among subnational authorities, lead to the sharing of resources (including knowledge resources), and contribute to a greater

coherence between planning processes and the objectives of subnational territories. The overall effect would be to increase the influence of subnational authorities on decisions made by higher levels of government that could, in turn, aid in the mitigation of the various capacity and other constraints they so often face (McGranahan et al., 2009).

### **Do Place-Based Approaches Work?**

Empirical examination is yet to provide a definitive and conclusive answer to questions relating to the effectiveness of these approaches. Much skepticism surrounds the utility and effectiveness of territorially oriented strategic interventions founded, for example, on the American experience (Holzer, 2016). The focus, so far, of many analyses on a limited number of successful case studies has raised doubts about the possibility of generalizing these results. The problem is that systematic analyses of the economic growth and development outcomes of place-based approaches are, unfortunately, few and far between.

One exception has been provided by Rodríguez-Pose and Palavicini-Corona (2013) for the case of Mexico. They considered the success or failure of development strategies implemented in 898 Mexican municipalities in 21 Mexican states, representing 40 percent of all Mexican local authorities. The sample included a majority of small local authorities in rural areas covering all geographical areas of the country—north, center, and south—between 1990 and 2005. The analysis focused on the effectiveness of seven dimensions of development “features and policy actions” (Rodríguez-Pose and Palavicini-Corona, 2013: 304) associated with place-based development.

The empirical analysis revealed that “municipalities engaging in local economic development during the past two decades have witnessed significant improvements in human development, relative to those which have overlooked local economic development strategies” (Rodríguez-Pose and Palavicini-Corona, 2013: 303), suggesting that, for a relatively large sample, place-based approaches can yield significant positive economic and social development results. The results revealed that simply contemplating implementing localized approaches might be linked with favorable economic development outcomes. This finding would imply that merely reflecting on local socioeconomic conditions and exploring how a territory’s strengths can be mobilized to enhance the well-being and livelihoods of its residents can deliver returns.

## **Toward Equitable and Sustainable Development at the Local Level**

Big cities in the developed and developing world alike have long been awarded privileged positions in national economic growth and development strategies. The perception that cities are the drivers of—and home to the greatest potential for—economic growth (Duranton, 2000; Fujita and Thisse, 2002; Glaeser, 2011) has often led policymakers to concoct and implement spatially blind policies that promote the concentration of people, economic actors, and economic activity in a limited number of large urban agglomerations (World Bank, 2009). The role of other localities and communities, by contrast, often has been overlooked.

Some signs, however, indicate that this policy paradigm is changing. As stated by Barca, McCann, and Rodríguez-Pose (2012: 140), “all [typologies of territories] have the potential to make substantial contributions to [national] economic growth.” The potential for economic growth cannot, however, be conflated with the achievement of economic growth. It is often the case that opportunities for growth can, for any number of reasons, go unrealized. The role for policymakers in localities is therefore to find ways to harness this potential and translate it into meaningful economic growth and more holistic social development. Territorially oriented, place-based economic development approaches are a particularly viable avenue for doing so.

This section discusses two recommendations for successfully implementing place-based approaches to development—integrating and balancing development strategies and undertaking robust strategic planning.

### **Integrating and Balancing Development Strategies**

As noted previously, place-based development strategies are highly context dependent and vary widely from one place to another. Nevertheless, they generally involve interventions in one or more of the following four basic development axes (Rodríguez-Pose, 2002).

1. Strategies aimed at boosting the competitiveness of local firms.
2. Strategies targeting the attraction of inward investment.
3. Strategies aimed at improving the local human capital and skill pool.
4. Strategies targeting infrastructural bottlenecks and the development of new infrastructure.

These factors represent the fundamental pillars determining the development potential of a territory. How much intervention takes place in each of these axes depends, in turn, on two factors.

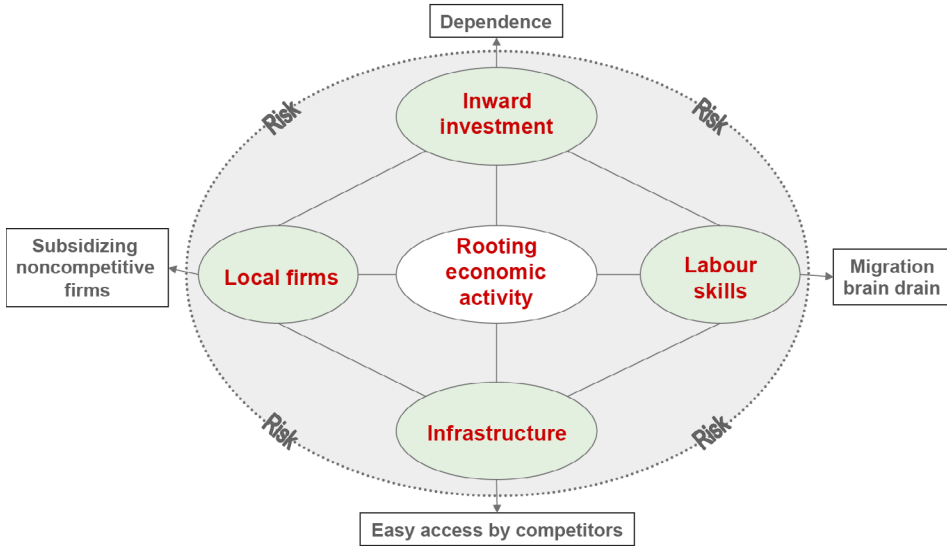
1. The power and authority endowed to each regional and local authority.
2. The starting situation in each locality.

The close and, in some cases, codependent relationships between the four development axes mean that choices regarding the type of intervention—and, especially, preferences for a particular axis (or axes)—have serious implications for future development prospects, as intervention in any of the axes will have the expected result only if local capabilities in the other three are sufficiently developed.

The focus on a particular development axis has implications for the overall development of a territory. As can be seen in exhibit 1, traditional preferences for inward investment or infrastructure, in the absence of solid foundations in local skills and local firms, may backfire. Too much attention to inward investment may lead to greater risk of dependence on external or foreign stakeholders in the absence of adequately skilled labor or of firms that could simultaneously act as suppliers and as recipients of the knowledge spillovers generated by the incoming firms. Improvements in local infrastructure alone similarly may expose weak economies to external competition and cause migration and brain drain.

**Exhibit 1**

**Foundations and Risks of Place-Based Approaches**



Source: Rodríguez-Pose (2002)

The failure of more traditional, top-down regional subnational development policies is, at least in part, attributable to what Pike, Rodríguez-Pose, and Tomaney (2006: 14) refer to as “internal imbalances” in the strategies. That is, dominant top-down policies tended to adopt a singular focus on one particular deficiency that was deemed to be the most prominent impediment to the achievement of economic dynamism. It was anticipated that the mitigation of that deficiency would be sufficient to impel economic growth. In practice, however, the neglect of other relevant factors and considerations compromised the effectiveness of approaches oriented around a singular focus. Place-based economic development approaches, because of their participatory nature and also the proximity between those tasked with designing the policy and the territory in which the policy is to be applied, are less prone to such “internal imbalances.” They are not, however, immune to them.

Territorially specific economic development approaches should feature an appropriate balance of structurally, socioeconomically, and institutionally oriented policies and reforms. It is not sufficient to simply target local firms or industries and implement policies designed to increase their competitiveness. The viability and competitiveness of firms and industries is a product of the quality of local human capital, physical infrastructure, and a multitude of other contextual conditions. Deficiencies in the socioeconomic context compromise the viability of local firms and derail the effectiveness of any policy actions designed to target them. Returns from initiatives to upgrade the quality of local human capital similarly will go unrealized if efforts are not made to ensure that jobs for newly skilled individuals are made available.

Moreover, the institutional context is increasingly understood to be a prominent influence on and determinant of the effectiveness of economic growth and development strategies. Hence,

“development strategies need to understand and be specifically tailored to the potential of place-bound institutions in order to make the most of interventions in human capital, infrastructure, or innovation” (Rodríguez-Pose, 2013: 1042).

As a consequence, place-based policies are more likely to achieve intended outcomes when intervention targets areas of development where deficiencies exist, provided that the other factors shaping processes of growth and employment generation are at levels that facilitate the formation of integrated and balanced development strategies.

## **Strategic Planning**

Place-based economic development is concerned with the implementation of policies that are uniquely tailored to the contexts within which they are to be pursued. The success of these policies and approaches is contingent, most immediately, on the employment of a robust strategic planning process. The planning process is composed of four elements.

1. An assessment of local conditions or “situation analysis” (UN-Habitat, 2005).
2. Local stakeholder engagement and participation.
3. Delineation of the strategy’s aims and objectives.
4. The identification of suitable policies and initiatives.

The most appropriate point of departure for the design of a territorially specific economic development approach is an evaluation of local conditions. The development of a feasible, effective, and implementable localized approach requires above all else a robust understanding of the “characteristics of the local economy” (Swinburn, Goga, and Murphy, 2006) and of its “economic base and how [it] functions” (UN-Habitat, 2005: 9). A well-conducted “local economy assessment” (Swinburn, Goga, and Murphy, 2006: 18) will expose, *inter alia*, the financial, technical, and other resources that the strategy can draw on; local strengths, viable economic activities, and growth opportunities to leverage; weaknesses and threats—including those of an institutional or technical-capacity nature—that need to be mitigated; and challenges and pitfalls that may be encountered.

The local assessment suggests the type of strategies that need to be adopted, as in the case of the Chocó Department in Colombia. Chocó is one of the poorest departments in the country. In 2012, 68 percent of the population was living in poverty. The percentage of population with unsatisfied basic needs was the higher in the Chocó Department than in any other Colombian department, with this situation disproportionately affecting children in what is a very young demographic structure. Given this diagnosis, the departmental government, in its 2012-to-2015 development plan, focused on the urgent issue of short-term income generation. The plan included measures such as conditional cash transfers, food sovereignty initiatives, financial support for local subject matter experts, and the promotion of the most successful local agricultural sectors (Gobernación del Chocó, 2012).

The municipality of Krakow, with 750,000 inhabitants, in Poland started from a very different position to that of Chocó. Although poverty was not a major concern, declining firms in traditional sectors and the loss of talent to migration suggested a different target for its local development

strategy. The main aim of the strategy was the attraction of inward investment that would be linked to the city's existing industries. The objective was to encourage forward and backward linkages and facilitate offshoring, but the diagnosis led the city's decisionmakers to implement training and skilling strategies aimed at improving the pool of local human capital with medium and high skills. This implementation facilitated the rapid assimilation of knowledge and innovation and led to the attraction of inward investment (Oshri, 2011). Offshoring now provides about 30,000 jobs for mainly young people in the city and its rural hinterland.

The aforementioned assessment of local conditions can be usefully supplemented by consultations and dialogue with local actors and stakeholders. The engagement of local stakeholders serves three related purposes. First, and most broadly, it empowers local economic actors and individuals by actively involving them in the planning process and, in doing so, granting them increased influence over their socioeconomic fortunes. Second, it provides firsthand insights into both the local capabilities and resources on which a strategy may draw and the constraints the strategy will inevitably face. These insights are directly complimentary to the inferences drawn from and conclusions reached in the local assessment. Third, it encourages the articulation of the "views, concerns, and issues" (UN-Habitat, 2005: 8) that ultimately guide and lie at the heart of local approaches.

Together, the local assessment and the engagement of local stakeholders cultivate the base of knowledge that informs the design of territorially specific economic development approaches. In that respect, these two processes feed directly into the third, and perhaps most critical, element of the planning process—the establishment of a vision and, in turn, narrow, more concretely defined priorities and objectives.

The *vision* is the broadest articulation of what a territorially specific economic development approach seeks to achieve (UN-Habitat, 2005). A vision requires the consideration of both the present socioeconomic situation as revealed in the local assessment and the priorities highlighted by local stakeholders (Swinburn, Goga, and Murphy, 2006: 28). Its function is twofold. First, it provides a "continuous point of reference" (UN-Habitat, 2005: 11) that serves to unify and align the priorities and actions of the strategy's various actors. Second, it informs the establishment of more exact priorities and objectives.

Unlike the vision, *priorities and objectives* are specific and correspond directly to and target identified strengths, opportunities, constraints, and limitations, and also the priorities of local stakeholders (Swinburn, Goga, and Murphy, 2006). They are ultimately what inform the policies and initiatives to be implemented as part of the broader strategy.

The final element of the strategic planning process is the selection of policies, projects, and initiatives that compose the territorially specific economic development approach. The actions taken should reflect and respond to the aforementioned priorities and objectives and also "existing limitations of time, budgets, administrative capacity and political resources" (UN-Habitat, 2005: 18).

Well-executed strategic planning processes are a prerequisite for successful and efficient territorially specific economic development approaches. An effective planning process will yield a strategy that is an accurate reflection of local economic realities, opportunities, and strengths; institutionally imposed constraints; and the priorities of the stakeholders that will ultimately be affected.

Engaging in a robust, comprehensive strategic planning process helps to ensure not only that the strategy represents a truly efficient deployment of scarce resources, but also that it may actually be operationalized within the socioeconomic and institutional context for which it is designed.

Conversely, a poorly executed or insufficiently robust planning process could lead to the misidentification of opportunities and priorities, inappropriate policy actions or interventions, and ultimately the misallocation of resources. It could also yield an overambitious or simply and plainly inadequate strategy that is not actionable due to financial, technical, or any other type of constraint. Ensuring, first, that resources are allocated and deployed as efficiently as possible and, second, that any strategic actions taken match local capabilities is especially important for regions, small towns, and rural municipalities where constraints on financial or technical capacity, or both, may be more pronounced or debilitating.

One example of a particularly effective and successful balanced, integrated place-based development approach is the one that was implemented in the Austrian region of Styria. Styria is the second largest *bundesland* in Austria, with a population of 1.2 million inhabitants. Its economy was heavily dependent on industry and, more specifically, on traditional industries often linked to agriculture and raw materials. The fall of the Iron Curtain, however, represented a huge challenge for the region, as competition from former communist countries put Styria's traditional sectors in jeopardy. An industrial crisis ensued in which the region's large state-owned, highly vertically integrated firms were exposed, and Styria suffered as a result of its unbalanced labor market, insufficient firm creation, and low rate of innovation of local firms. A very solid institutional environment, however, characterized by multiple links between the public and private sectors and the heavy involvement of civic, social, and political leaders in development matters, led to a bottom-up strategy articulated by the regional government and structured along three key axes. The first one—increased cooperation—focused on the development of clusters, the vertical cooperation between different tiers of government (local, regional, national), and the strengthening of regional infrastructures. Another axis had the goal of increasing the innovative capacities of firms and overall innovativeness. Pursuit of this goal involved the provision of incentives for firms' networking and cooperation in research and development, the creation of universities, the adoption of a specific focus on niche products, and the establishment of coaching programs and funding for new entrepreneurs. Finally, the strategy also sought to internationalize the economy of the region via the provision of support to exports by the local government and the development of crossborder value chains, especially involving neighboring Slovenia and Hungary (Kaufmann and Tödting, 2000). Today, Styria has overcome its structural problems and boasts a solid, mid- to high-tech internationally competitive industry, providing skilled and stable jobs that have been particularly resilient to the current economic crisis (Kaufmann and Tödting, 2000). The Styrian case shows that a thorough diagnosis of local conditions in combination with sound local institutions can lead to sustainable and effective territorial development policies.

## **Conclusion**

It is only recently that researchers and policymakers alike have started to develop an understanding of the importance of subnational territories to economic dynamism and social development.

However, it is at this territorial scale that the processes that drive growth and the factors that condition and shape them transpire (Ascani, Crescenzi, and Iammarino, 2012). The empowerment of regional and local authorities can increase their capacity to address and respond to local—albeit in a wildly heterogeneous way, depending on the competencies of different territories—conditions, characteristics, opportunities, and challenges. Simply stated, more localities the world over are better positioned to achieve meaningful economic growth and socioeconomic development. Place-based approaches to development are the mechanism through which they will actually be able to do so.

The question that needs to be asked is not *if* different localities have the potential to achieve sustainable and inclusive economic growth via territorial approaches to development, but rather, *what* must be done to ensure that they do, and relatedly, *how* do they do it. In this respect policymakers must carefully consider the necessary steps to ensure that those territorial strategies yield meaningful economic growth and social development.

The key lies in maximizing the efficiency of place-based strategies via both (1) capacity building at the local level to ensure that localities are technically capable of assuming the responsibilities associated with greater subnational empowerment; and (2) the promotion of multilevel governance to enhance vertical and horizontal coordination to ensure a sufficient degree of coherence between the resources allocated to, and responsibilities assumed by, regions and localities and also minimal overlap between the actions taken by various subnational authorities.

In the case of the latter, the efficacy of territorial approaches to generate economic and social development is contingent on the soundness of the approach in terms of both its coherence with local priorities and opportunities and also the extent to which it balances economic, social, and institutional factors and considerations. The employment, first, of a robust, participatory strategic planning process and, second, a concerted effort to develop a balanced and integrated approach are therefore essential for the realization of returns from territorial approaches to development.

Place-based strategies represent a new and interesting opportunity to revamp development strategies. They are pushing individuals in localities to think seriously about their futures, rather than wait for solutions to fall like manna from heaven. As such they have a lot to offer, but their efficiency may be put at risk by local capacity constraints, coordination problems, and inadequate local institutions. Hence, to make the most of the development potential of localized approaches, localities the world over must place as much emphasis on dealing with capacity and institutional bottlenecks as they do on designing sound development strategies.

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