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New Partnerships for a New Economy:
Driving Innovation in Cities

Briefing Paper

Urban regions will lead the way to national and global economic renewal. Investments in human capital, research and development, and physical infrastructure will increasingly determine the success of initiatives to build a more vibrant, inclusive, and sustainable urban economy. These investments can only happen—and can only succeed—through partnerships along multiple dimensions.

Cities face two major partnership challenges in supplying the soft (human capital) and hard (physical capital) infrastructures crucial for economic renewal:

First, can they harness ideas, talent, and resources from the market and civil society?

Second, can cities effectively coordinate with each other within the public sector to ensure coherent and effective approaches to improving regional economic competitiveness?

Cities and Economic Renewal

Cities and city-regions are the new drivers of economic growth. The majority of the world's population now resides in metropolitan regions. In the United States and many other countries as well, crucial economic assets are increasingly concentrated in the metropolis.[1] The battle for economic renewal will necessarily take place in urban regions.

The concentration of assets in regions, however, will not automatically translate to economic renewal. In a 2009 report, the OECD identified three broad areas where effective public policy is crucial to region-led economic recovery:[2]

- Policies encouraging past and current investments on competitive-enhancing **infrastructures**, from transport to information and technology assets.

- Policies targeting human capital development, especially **education and workforce training** programs.

- Policies encouraging **innovation**, such as programs that facilitate stronger linkages between research and industry.

Because these policies are highly interconnected, governments cannot afford to focus on a single policy and postpone action on others. Studies have shown, for instance, that public infrastructures have limited impact on economic growth when there is low innovation capacity in a region, or when the workforce lacks appropriate levels of education.[3] This is understandable since infrastructure contributes to growth by moving goods, ideas, and people quickly and efficiently.

> To have a stronger impact on economic recovery, governments will need to increase investments in BOTH hard infrastructure (fixed capital assets) and soft infrastructure (human capital and research and development).

City Limits

As public policy-making is decentralized in many countries, local governments now have a greater role in delivering hard and soft infrastructures. At the same time, their capacity or willingness to do so may be limited.

First, many cities have been forced to cut spending as a consequence of the Great Recession. While cuts may enable cities to balance their budgets in the short-term, they have hampered recovery efforts, and may weaken local governments' fiscal capacity in the long run.

Second, both hard and soft infrastructure require huge investments that cannot typically be supported by the local treasury alone, even under "normal" economic periods. Inter-governmental grants are often used to supplement local spending but national governments are also facing a difficult fiscal environment.

Third, because services such as education and public infrastructure generate benefits that spill over to other jurisdictions or regions, there is strong economic incentive for each jurisdiction to provide less and let others take up the slack.

These issues severely constrain the ability of local governments to influence regional development. Still, they do not in any way suggest that municipal leaders are not in a position to contribute to the process of economic renewal, however difficult the task.

> Doing nothing has never been an effective option. Municipal leaders will need to formulate new approaches to old issues, and repackage old tools to address new problems.

From Government to Governance

In the last two decades, there has been increasing reliance on governance rather than government to address complex and dynamic urban economic and social problems.

Government monopolizes the responsibility over the provision of services and infrastructure, and relies on command and control to implement public programs.

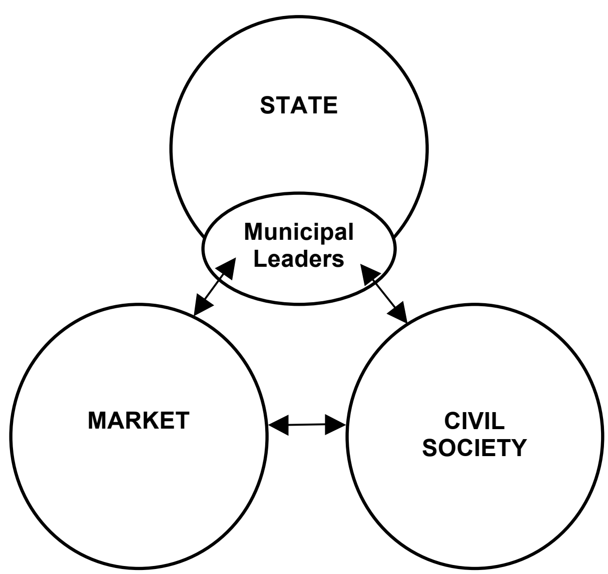
Governance harnesses the contributions of other institutions, from the market to civil society, and recognizes that the capacity for action depends not on the power to coerce, but on the ability to guide and steer. Governance, in other words, is about voluntary cooperation and partnerships.

Improving local infrastructure, developing human capital, and encouraging greater innovation in regions all require metropolitan governance. For local governments, this means actively collaborating with various stakeholders from within the public sector, and from other sectors such as business, and civil society.

Multi-Level and Multi-Sector Partnerships

Partnerships occur at two different levels – policy formulation and service delivery. At the policy level, stakeholders define the strategic direction of regional growth policies. At the service level, regional and local actors implement programs, projects, and activities to achieve the goals set forth in policy. And partnerships may occur along four axes: between government and business, between government and civil society, among governments, and between business and civil society.

Figure 1
From Government to Governance



First, local governments work closely with the private sector. At the policy level, local business elites form coalitions with elected officials to shape local economic development policies.[4] Local governments also rely on the private sector to raise resources to support production or for direct provision of services via a public-private partnership mechanism or PPPs. Government can mobilize the private sector to deliver just about any type of service from management and support services, to operational and social service activities, and facility construction.[5]

Since the 1990s, one type of partnership that has gained increasing importance is the infrastructure PPP, by which private partners build, operate, and/or maintain fixed assets via longer term contracts. Infrastructure PPPs enable local governments burdened by debt and budget deficits to mobilize private finance for large infrastructure projects, to share risks and rewards, and to tap expertise available in the private sector.[6] Since the 2008 economic downturn, local governments have also relied on PPPs to provide financial support when local government fiscal positions were strapped.

Second, local governments can also encourage the participation of civil society groups in local policymaking, such as community-based organizations and non-government organizations (NGOs). This can increase the information available to local officials and is also one way to improve "local ownership" of policies. NGOS are also increasingly playing an important role in public service delivery. NGO-based partnerships may be more advantageous compared to public-private partnerships, at least in some instances. For example, because of their access to volunteer labor and their tax-exempt status, contracting with NGOs can lead to bigger cost savings compared with contracting with private entities. Additionally, because delivering services to a community may be part of an NGO's mission, and not merely a means to earn a profit, NGOs may have quality advantages over for-profit firms.[7]

Third, local governments coordinate with other organizations within the public sector. Intra-sectoral cooperation may take the form of vertical partnerships where local governments engage in dialogue with offices at higher levels of government to coordinate regional growth policies, or enter into voluntary contracts to deliver a specific level of service. An advantage of this approach is that given their proximity to sources of regional growth bottlenecks, municipal governments have a greater ability to adapt solutions to local difficulties and contextual factors. There are also horizontal partnerships or cooperation among local governments within the region. Interlocal cooperation often takes the form of service agreements where one local government contracts services to another local government, such as the provision of fire services. These service agreements enable local governments to realize cost-savings from economies of scale in production and consumption.

Finally, business and civil society groups have formed strategic partnerships to channel resources in areas where government has had limited impact. These partnerships go beyond philanthropic relationships where business donates funds to community-based groups. They are strategic in the sense that both sectors are jointly involved in the development and implementation of programs. These strategic partnerships take advantage of the strengths of each sector – the financial, production, and innovation capacities of the private sector, and the community organizing capacity and social service expertise of civil society.

Examples of Multi-Level and Multi-Sectoral Partnerships

Public Finance Initiative in Portsmouth, UK*:* In 2005, the City of Portsmouth embarked upon the first road management Private Finance Initiative (PFI) contract in the United Kingdom. The PFI is a form of public private partnership (PPP) which transferred responsibilities for the city's 414 kilometers of roads to a private company. The contract involves a five-year core investment program where the private partner raises financing for the upgrading of the city's highway network. In addition, the city will pay its private partner to manage and maintain the road system in the next 25 years based on agree-upon performance targets. The PFI is seen by the city as a long-term sustainable strategy to halt the decline and restore the condition of its transportation infrastructure.[8]

Neighborhood Revitalization Program of Minneapolis, Minnesota*:* In the last 20 years, Minneapolis' Neighborhood Revitalization Program (NRP) has empowered local residents to develop and implement projects addressing their communities' housing, safety, economic development, recreation, health, social service, environment and transportation needs. The program requires local neighborhoods to organize and coordinate a planning process where residents identify and prioritize local community issues and agree on an investment plan with technical assistance from the city government. With funding and technical support from city hall, local residents implement their Neighborhood Action Plans.[9]

VINNVÄXT of Sweden: "Co-opetition" arrangements have been increasingly used in various countries to strengthen coordination of innovation policies at the local level. "Co-opetition" involves both cooperation and competition. In Sweden's VINNVÄXT program, for example, regions compete for multi-year grants to develop innovation systems and to support needs-driven research with the aim of developing internationally competitive research and innovation regional environments. A fundamental requirement of the program is that proposed innovation projects should be based on collaboration among business firms, research and development organizations, and politicians and public authorities. The program taps local knowledge to bring about stronger regional innovation systems.[10]

Intel Education Initiative: Intel actively collaborates with non-government organizations, educators, local technology providers, governments, development agencies, and other business organizations to improve the quality of education. Since 2007, Intel has worked with the Clinton Global Initiative to expand its Teach Program which trains teachers to use information technology to improve classroom learning. In 2009, Intel, together with Cisco and Microsoft, supported a research initiative that identified new methods of defining, measuring and teaching skills needed to successfully compete in the knowledge economy. The recommendations from the research will soon be pilot-tested in three countries.[11]

Expanding and Strengthening Urban Partnerships

Local governments have always engaged in different forms of partnerships. Even PPPs are not a recent invention. The question is, how do local governments create new partnerships and strengthen existing ones? More importantly, how do local governments ensure that partnerships will benefit the city, the region, and the citizens?

First, ***revise laws prohibiting or restricting PPPs***. A supportive institutional environment is a basic necessity. Institutions create the rules of the game that govern behavior within and across organizations.[12] These rules can provide incentives for, or inhibit, cooperation among public and private organizations. For example, some state regulations prohibit local governments from engaging in public-private partnerships or inter-local service agreements.

Second, ***focus on region-wide benefits***. Prospective partners should emphasize their common interests. City governments and private firms, for example, have a common goal in seeing the local economy grow. Emphasizing this common objective can limit opportunistic behavior on the part of private partners and influence them to think beyond short-term private returns, and focus more on the long-term region-wide socio-economic benefits of cooperation. Visible long-term region-wide benefits are keys to public acceptance.

Third, ***develop technical and administrative capacity among local governments to initiate and manage partnerships***. Such capacity will enable cities to identify services suitable for private provision. Additionally, cities should also carefully study the transaction costs (or the costs of bargaining, monitoring, and enforcing contracts) involved in private or non-profit contracting to ensure that the partnership really represents value for money.

Fourth, ***maintain transparency***. Inter-sectoral partnerships can degenerate into political patronage and "rent-seeking," specifically when select groups are allowed to influence policy, or when a vendor is allowed to monopolize service provision. Public-private deals must be made transparent, and service contracts should be subject to competitive bidding. Accountability can be further strengthened by establishing service benchmarks and performance targets.

The New Economy

The Great Recession that began with the real estate market decline in 2007 and the stock market collapse in 2008 will inevitably bring about structural changes that could permanently alter not only businesses, but also the culture and institutions that underpin the economy. Cities must be at the forefront of a sound and vital economic rebirth, and must lead the way in shaping those changes.

Some observers are heralding the birth of green industries, and their potential as new wealth and jobs creators.[13] In their competitive search for jobs for their residents, cities may continue to place bets on particular components of the "new economy," building partnerships to attract emerging growth industries and building IT and green infrastructure.

Other observers point to more profound structural changes. The end of a consumer culture fuelled by cheap credit may yield a sustained growth in personal savings but may also permanently reduce governments' sales-tax revenues. Still others point to ideologically-based antagonisms about the relationship of the state and the market, which may finally evolve to a pragmatic recognition that one cannot succeed without the other, and partnership is mutually beneficial.[14]

But the volatility of the Great Recession has demonstrated forcibly that the creative destruction of business cycles does significant harm to individuals and societies, especially in the dense gatherings of cities. Hence <u>*regardless*</u> of what form the new economy takes and what industries they develop, cities will need to provide growth that is solid, inclusive, and sustainable.

Solid growth will minimize the destructive potential of economic downturns.

Inclusive growth requires that opportunities are shared across society, and not monopolized by a few.

Sustainable growth means that, in promoting economic development, we do not neglect environmental and social assets that are crucial not only for our own wellbeing, but also that of future generations.

New Partnerships

Success for cities in a "new economy" will depend on the ability of municipal leaders to mobilize the different organizations and institutions in the city to apply the talent, ideas, and resources at hand in resolving long-standing economic and social policy issues. It is too soon to tell for sure, but it is increasingly likely that the Great Recession will not only transform the economy, but will also be a powerful force that will drive changes in metropolitan regional government and governance.

We propose that these changes will make the following forms of partnership increasingly important:

1. Because economies are regional, *municipal leaders will have to work with other municipal leaders.* In doing so, some hard choices will be made. Is bi-lateral voluntary cooperation enough? Or will cities need to work together to establish a metropolitan-wide organization that will coordinate regional development and investment policies? What are the consequences for local democracy and, most importantly, for the quality of life citizens?

2. Because of a difficult fiscal environment, *city governments will have to increasingly cooperate with the private sector to raise resources to build and maintain public infrastructures*. The crucial question that municipal leaders will have to answer is, how can

they ensure that new partnerships do not lead inadvertently to privatized benefits and socialized costs?

3. Because government cannot do it all, *citizens, community-based groups, and non-profits will play a vital role in the construction of the new economy*. In many communities, we have witnessed how ordinary citizens have come together to transform decaying neighborhoods or reform public education. How do we create and expand civic space? How can citizens and their organizations be empowered to play a fuller and more active role in urban governance? How can local governments engage citizens in creative problem solving?

Forging new partnerships is not easy. Partnerships must be tailored to the specific situation in a city and even the national context. In some societies, partnerships will require changes in attitudes about the proper roles of government, business, and civil society in constructing a new urban economy. Potential partners need to overcome some deep-rooted bias and move beyond simplistic debates pitting the state against the market. In some nations, outdated regulations and impenetrable bureaucracies that have inhibited multi-sectoral cooperation need to give way to a more open, facilitative, and supportive institutional environment. In some communities, government, private firms, and citizen groups may be willing to work together but have little experience in dialogue, networking, and sustaining long-term partnerships. Capacity building must be a priority. City governments worldwide can benefit by engaging in dialogue and communication, and sharing innovative ideas and best practices. By working together at the local, regional, and global scales, we place ourselves in a better position to improve the human condition and the quality of life in our cities.

Benedict Jimenez
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April 2, 2010
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Notes

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