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COMPETITIVE CITIES FOR JOBS AND GROWTH

WHAT, WHO, AND HOW

COMPETITIVE CITIES FOR JOBS AND GROWTH

A 'competitive city' successfully facilitates its firms and industries to grow jobs, raise productivity and increase incomes of citizens. Improving the competitiveness of cities is a pathway to **eradicate poverty and increase shared prosperity.** While three quarters of cities grew faster than their national economies since the early 2000's, there is still room for improvement: millions of additional jobs could be created every year if more cities performed at the level of the world's most competitive cities. This report aims at understanding **what makes a city competitive,** and how more cities can be competitive.

WHAT, WHO, AND HOW

COMPETITIVE CITIES DRIVE DISPROPORTIONATE JOB GROWTH AND INCREASED INCOME AND PRODUCTIVITY

Looking at data on 750 cities for 2005 to 2012:

72% 72 percent outperformed their countries in terms of economic growth.

10% **But there is huge variation in performance**

Top 10 percent of cities achieved 9.2% annual job growth, compared to 1.9% in the other 90 percent of the cities.

Often these cities are under the radar: Secondary cities rather than household names.

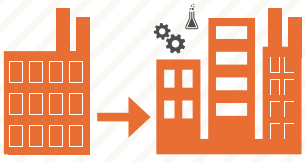
These competitive cities were not a foregone conclusion: many of them exhibited success amidst adversity - e.g. landlocked and in a lagging region of the country. What can we learn from their growth?

WHAT DO THEY DO?

Competitive Cities Leverage Key Interventions To Increase Competitiveness

A **Cities do not always need to overhaul their economies—sometimes it is enough to do what you already do, but do it better.**

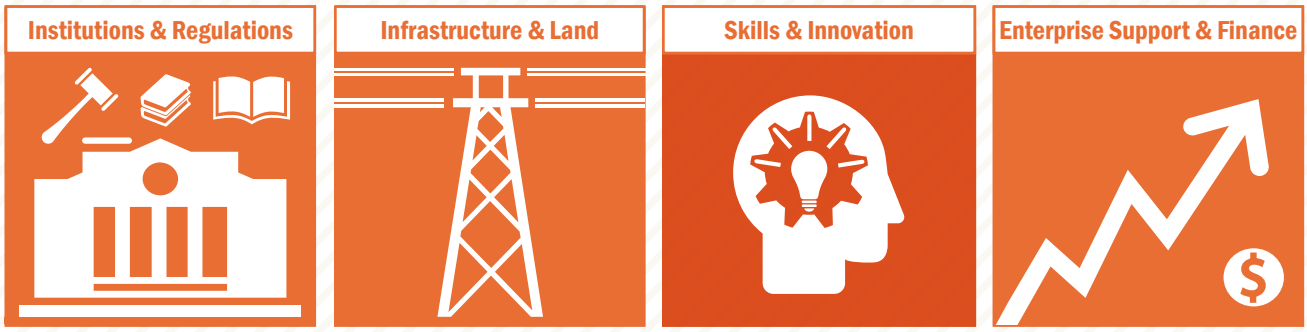
Market towns to Industry
At GDP per capita below $2,500, cities are typically 'market towns' that will need to industrialize and transform to increase their incomes;



Increase Production Centers
At GDP per capita from $2,500, cities are typically 'production centers' that can grow to around $20,000 GDP per capita by increasing the value of their existing industry mix;

Increase Creative & Financial Services
To rise above GDP per capita of $20,000, cities will typically need to move towards higher value creative and financial services.

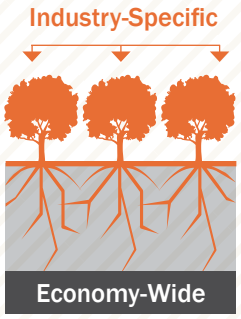
B **Cities Can Facilitate The Growth of Jobs, Productivity and Incomes Through Four Categories of Interventions:**



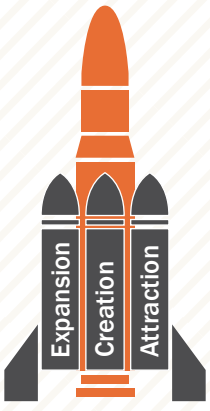
C **Cities Become Competitive By:**

Leveraging their comparative advantage, especially in tradable sectors that can be sold in other cities and exported to other countries.

2.5 In the fastest-growing cities tradable sectors grew 2.5 percentage points faster than non-tradable sectors;



Pursuing general reforms as well as specific initiatives (targeted to particular industries and investors);



Focusing on all three sources of growth: expansion of existing firms; creation of new firms; and attraction of investors.

WHO DOES IT AND HOW?

Competitive cities use three channels to get things done:

Mayor's Wedge
Make economic development an explicit priority. Cities need to focus their efforts and prioritize according to the outcomes they care about most. (They also need both the power and capacity to ensure successful interventions).

Growth Coalitions
Nurture public-private coalitions to solve particular problems. It doesn't matter who carries out the key interventions, as long as someone does.

Intergovernmental Relations
Use external leverage with neighboring jurisdictions and other tiers of government. These can expand the city's reach and engage with problems that one city alone cannot solve.

Competitive Cities Focus on Turning Strategies into Real Action - Through:

1. **Strategic Budgeting**
2. **Problem-Solving During Implementation**
3. **Ensuring Quality Delivery Through Accountability**

BACKGROUND AND ACKNOWLEDGEMENTS

This research was prepared jointly by the Social, Urban, Rural, and Resilience Global Practice and the Trade and Competitiveness Global Practice of the World Bank Group. Its objective is to create a knowledge base on what makes cities competitive, to improve the understanding of job creation at the city level, and to establish a foundation for a community of practice on this topic for World Bank Group staff, academia, development partners, and practitioners.

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The steering committee for this research comprised Stefano Negri, Cecilia Sager, Sameh Wahba, and Somik Lall. The research was led jointly by Megha Mukim and Austin Kilroy as task team leaders. This overview document was prepared by a team led by Austin Kilroy, Megha Mukim, and Stefano Negri. The joint team included Kenan Fikri, Drilon Gashi, Z. Joe Kulenovic, Elisa Muzzini, Sharmila Railkar, Dmitry Sivaev, Daniel Stock, Joanna Watkins, and Juni Tingting Zhu. Senior management of the two global practices provided guidance and strong support throughout the research. The managers included Ivan Rossignol, Klaus Tilmes, and Anabel Gonzalez for Trade and Competitiveness and Ede Jorge Ijjasz-Vasquez and Marisela Montoliu-Munoz for Social, Urban, Rural, and Resilience. Practice managers for the research were Stefano Negri, Sameh Wahba, and Cecilia Sager. Inputs were also provided by the World Bank Group's Governance Global Practice, the Jobs Cross-Cutting Solution Area, and the International Finance Corporation's Cities Initiative.

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This overview document is drawn from detailed findings contained in several companion papers, as described in the following section titled "Methodology, Approach, and Outputs."

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About the Competitive Industries and Innovation Program (CIIP)
The CIIP partnership was created to enhance country growth and employment prospects by supporting public policies and investments that promote competitiveness and innovation within and across industries. The partnership's resources are focused on supporting governments' efforts to develop transformational economic development projects and to aggregate cutting-edge knowledge that can be implemented as part of targeted pro-growth initiatives. As the Trustee and Administrator for CIIP, the World Bank Group is responsible for program development, implementation, and monitoring and evaluation. For more information, visit www.theciip.org.

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METHODOLOGY, APPROACH AND OUTPUTS

The goal of this research has been to create a robust body of knowledge to address cities' questions on benchmarking their performance, on analyzing what has worked and what has not, and on understanding how to organize for delivery in different contexts. The approach has used several methodologies to tackle these questions on the basis of best practice, data availability, replicability, and simplicity. In many cases, the research team leveraged new and existing data sources to shed new light on unanswered questions; in other cases, the team conducted primary research because available data were inadequate. The research involved looking at global and regional trends, comparing different typologies of cities—by income, sector, region, and industrial mix. The team buttressed these findings with econometric "deep dives" and case studies in selected countries and cities. Where possible, the study cites existing resources (research, analysis, toolkits, and experts) from the extensive literature on each topic.

Supplementing and informing this overview document are several companion papers that provide the foundations for the conclusions. These papers, available on the website at www.worldbank.org/competitivecities, are as follows:

COMPANION PAPER 1

"City Analytics"

This paper identifies common threads in city performance by assessing the state of cities today and identifying factors that appear to be correlated with better economic outcomes. The document also demonstrates how the database and analytic tools can be used in other contexts such as in regional econometric deep dives. Prepared by Kenan Fikri and Juni Tingting Zhu with substantial inputs from Anca Bogdana Rusu and guidance from Megha Mukim.

COMPANION PAPER 2

"Deep-Dive Quantitative Studies," combines two studies: (a) "Empowering Cities: Good for Growth? Evidence from China" and (b) "Decentralization in Ethiopia—Who Benefits?"

Both studies use longitudinal firm-level data to provide econometric and causal evidence of whether and how cities drive economic growth and job creation. (a) Prepared by Juni Tingting Zhu and Megha Mukim, and (b) prepared by Ritam Chaurey and Megha Mukim.

COMPANION PAPER 3

"Six Case Studies of Economically Successful Cities: What Have We Learned?"

The case studies were prepared in collaboration with regional teams, including the relevant program leaders. This paper synthesizes the findings of the six individual case studies—Bucaramanga, Colombia; Coimbatore, India; Kigali, Rwanda; Changsha, China; Gaziantep, Turkey; and Tangier, Morocco—analyzing the similarities and dissimilarities among them and identifying cross-cutting themes. The paper highlights the institutions and strategies that successful cities have relied on to spur economic development, the conditions in which such successes have occurred, and the lessons of this experience that might be applicable to decision makers in other cities. Prepared by a team led by Z. Joe Kulenovic with contributions from Alexandra Cech, Drilon Gashi, Luke Jordan, Austin Kilroy, Megha Mukim, and Juni Tingting Zhu.

COMPANION PAPER 4

"User's Guide to Implementing City Competitiveness Interventions,"

This paper supports cities in identifying management approaches that can help decision makers implement interventions to support the city economy. Prepared by Drilon Gashi and Joanna Watkins.

COMPANION PAPER 5

"What Do Multinational Firms Want from Cities?"

This paper reviews what multinational firms want from cities from the perspective of intermediary consulting firms that provide location advisory services and city or regional investment promotion intermediaries. Prepared by Juni Tingting Zhu, Valerie Joy Santos, and Yago Aranda Larrey in consultation with Robert Whyte and Stefano Negri.

COMPANION PAPER 6

"Growth Pathways: A Diagnostic Methodology for City Competitiveness," and the City Snapshot diagnostic tool

This paper provides a methodology for generating a snapshot of a city economy with reference to the performance of various sectors and firm types—and for identifying potential growth pathways. These diagnostics help decision makers to assess how competitive a city economy is, to understand what a city's competitive advantages are, and to identify the key barriers that a city's businesses are facing. Prepared by Dmitry Sivaev in consultation with Austin Kilroy and Stefano Negri.

COMPANION PAPER 7

"Public-Private Dialogue for City Competitiveness,"

This paper offers a framework for formulating structured dialogues at the city level, including objectives, analytics, and participants. Prepared by Dmitry Sivaev, Benjamin Herzberg, and Sumit Manchanda, in consultation with Steve Utterwulghe.

COMPANION PAPER 8

"What Makes a Good City Strategy"

This paper reviews various approaches to city strategy-setting and identifies common pitfalls of city strategies based on a review of theoretical and empirical evidence. Prepared by Dmitry Sivaev in consultation with Sameh Wahba, Soraya Goga, and Austin Kilroy.

Note

Unless otherwise described, region in this paper refers to World Bank Group regions: Africa, East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, and South Asia.

ABBREVIATIONS

DRC	Development Research Center
EIU	Economist Intelligence Unit
FDI	foreign direct investment
GDP	gross domestic product
GIS	geographic information system
GMCA	Greater Manchester Combined Authority
GVA	gross value added
IFC	International Finance Corporation
IPI	investment promotion intermediaries
LED	local economic development
MICE	meetings, incentives, conferences and events
MNC	multinational corporation
ODI	Overseas Development Institute
OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
OIZ	organized economic zones
PPD	public-private dialogue
RCC	regional competitiveness commission
SEZ	special economic zone
SMEs	small and medium enterprises
TEU	20-foot equivalent unit
UNCTAD	United Nations Conference on Trade and Development
WEF	World Economic Forum

All monetary amounts are US$ unless otherwise indicated.

EXECUTIVE SUMMARY

Improving the competitiveness of cities is a pathway to eradicate poverty and increase shared prosperity. Millions of additional jobs could be created every year if more cities performed at the level of the world's most competitive cities.

A competitive city is a city that successfully facilitates its firms and industries to create jobs, raise productivity, and increase the incomes of citizens over time. Worldwide, improving the competitiveness of cities is a pathway to eliminating extreme poverty and to promoting shared prosperity. Of the largest 750 cities in the world, three-quarters have grown faster than their national economies since the early 2000s; but several million additional jobs could be created every year if more cities performed at the level of the world's best. The primary source of job creation has been the growth of private sector firms, which have typically accounted for around 75 percent of job creation. Thus city leaders need to be familiar with the factors that help to attract, to retain, and to expand the private sector. This document aims to analyze what makes a city competitive and how more cities can become competitive.

What Do Competitive Cities Look Like?

Cities vary on their economic performance, and competitive cities are a cut above the norm. Using data from 2005 to 2012, the report finds the following:

- *Accelerated economic growth.* The top 10 percent of cities achieved 13.5 percent annual gross domestic product (GDP) per capita growth, compared with 4.7 percent in an average city;
- *Outstanding job growth.* The top 10 percent of cities achieved 9.2 percent annual jobs growth, compared with 1.9 percent in the remaining 90 percent.
- *Increased incomes and productivity.* The top 10 percent of cities increased the average disposable income of their households by 9.8 percent annually.
- *Magnets for foreign direct investment (FDI).* The top 5 percent of cities obtained as much FDI as the bottom 95 percent of cities combined.

Although 72 percent of cities outperformed their national economies in GDP growth alone, only 18 percent of cities were able to outperform their national economies on jobs, growth, and productivity simultaneously. Thus it appears that usually trade-offs are made between these economic outcomes and that city competitiveness carries risks as well as opportunities.

Competitive cities include more than just household names, capital cities, or global centers of commerce. They are often secondary cities, and they are experiencing rapid industrialization. According to this study's data, competitive cities include Saltillo, Mexico; Meknes, Morocco; Coimbatore, India; Gaziantep, Turkey; Bucaramanga, Colombia; and Onitsha, Nigeria. The success of these competitive cities was not a foregone conclusion: many of them exhibited success amid adversity—for example, many of them are landlocked and in a lagging region of the country.

What Did Competitive Cities Do to Achieve Success?

Economic structure

Structural transformation came first, efficiency gains and productivity next. Cities do not always overhaul their economies to become competitive. They simply become better at what they do. At lower income levels, the cities are typically market towns that face the challenge of transformation from a service center to a production center through rapid industrialization. At middle-income levels (between $2,500 and $20,000), cities are typically production centers striving to increase productivity and take advantage of market opportunities rather than to dramatically transform their industrial mix. At higher income levels, cities typically become centers for financial and creative industries, with the challenge once again to transform themselves by shifting economic activity into higher value-added sectors.

One common theme in each of these stages is that long-term job growth in cities is usually driven by tradable sectors. Competitive cities have found niche products and markets in tradable goods and services, rather than in retail or public services. In the fastest-growing cities (the top 10 percent in GDP per capita growth), tradable sector employment growth outstripped nontraded sector growth

by an average of 2.5 percentage points annually. Tradable sectors also ignite job creation in nontraded sectors: Cities in which tradable sector employment grew fastest recorded 6.6 percent job growth in nontradable industries. By contrast, in less competitive cities, tradables and nontradables both grew around 2 percent annually.

Sustained long-term economic success in most case-study cities has been observed across all three channels of firm-level growth: the growth of existing firms, the attraction of outside investors, and the creation of new businesses. Successful cities do not just rely on attracting outside investment to spur economic growth. They balance business recruitment with assisting the growth of existing firms—which typically account for the largest share of new jobs in most economies—as well as with helping the formation of new businesses.

Policy levers

Competitive cities use a menu of interventions to increase competitiveness, including institutions and regulations, infrastructure and land, skills and innovation, and enterprise support and finance. Each city customized its choices and interventions within each area to its local circumstances, political economy, and economic opportunities and to the needs of its firms. At lower income levels, institutions, regulations, and basic infrastructure tend to be crucial drivers of competitiveness. At higher income levels, human capital, advanced infrastructure, and innovation systems become crucial for sustained economic growth and job creation.

Competitive cities focused these policy levers on economywide interventions as well as on specific industrial sectors. In practice, this strategy means creating a favorable business climate and targeting individual sectors for proactive economic development initiatives. City case studies showed no substantial trade-off between the two types of initiatives; competitive cities often did both. Cities used extensive dialogue and a solid fact base to minimize the ever-present risk of "capture" by special interests and market distortion (such as subsidies and protectionist measures) and to eventually show the necessary ability to let go when some sectors were recognized as not globally competitive.

Several critical success factors differentiated the use of those policy levers in competitive cities compared with most other cities. For example, (a) business leaders were *consulted* about their needs and the constraints they encountered in their operations; (b) infrastructure investments were made in *collaboration* with the firms and industries they aimed to serve; (c) skills initiatives were designed in *partnership* with firms, ensuring that curricula addressed their practical needs; and (d) industries were supported where they had a real commercial potential, through *collective* initiatives with the private sector rather than through the public sector alone.

Growth coalitions

Competitive cities paid attention to *who*—the power of growth coalitions. Within the city, growth coalitions of public and private stakeholders in economic development were a feature of all the successful case studies examined. Beyond city boundaries, competitive cities found ingenious ways to leverage the capabilities of their neighbors and of other tiers of government when they lacked the capabilities or financing themselves. These mechanisms helped to ground strategies in local economic realities and to solve shared problems.

Implementation and delivery

Competitive cities pay attention to *how*—to turn strategies into action. Cities chose a strategy for economic development, aligned their budget to finance it, solved problems during implementation, and mobilized sufficient staff capacity and attention to the quality of implementation. They had an explicit economic development–oriented mindset that complemented a social and environmental vision, and they rallied agencies and layers of the city government around it.

Where cities do not have adequate powers or capacity to perform these functions, national and provincial governments may need to invest in decentralization, including by building the capacity of local governments to act effectively. Given that the ingredients for city competitiveness are distributed between various tiers of government and between various entities, competitive cities will need to know how to complement their own wedge in economic development by leveraging other tiers of government and private sector partners to generate outcomes that are more than the sum of their parts.

There is no single recipe for becoming a competitive city, but some common patterns can be identified and some techniques recommended to cities that are designing and implementing an economic development strategy. Cities at all levels of income and with different industrial structures and political regimes have found ways to increase jobs, raise incomes, and strengthen productivity, thus benefiting their citizens. Their path depends on their starting point, size, endowments, economic vocation, economic structure, and administrative remit. Cities can improve their performance by using a custom process for designing and implementing a strategy and by using tools that are already available. These tools include strategic analysis of the local economy and external market trends and opportunities, public-private dialogue, and techniques for harnessing the political economy during implementation. The competitive cities examined in this document explicitly or implicitly used some of these tools to make informed decisions according to their specific needs.

“GAZIANTEP IS THE NUMBER ONE OF THE WORLD IN MACHINE WOVEN CARPET PRODUCTION. WE WANT TO CATCH BELGIUM IN FITTED CARPET PRODUCTION. IF WE MAKE THIS SUCCESS DESPITE THE HARSH CONDITIONS IN OUR REGION, THIS IS A GOOD MODEL.”

— Mehmet Aslan, Chairman of the Board of Directors, Gaziantep Chamber of Commerce

INTRODUCTION

Making cities competitive
Urgent, complex, and with big potential returns

Gaziantep is Turkey's sixth-largest city. As recently as the 1970s, it had a population of about 120,000 people. The city's population today stands at 1.54 million, not counting approximately 300,000 Syrian refugees. Gaziantep has limited natural resources, and its land is dry and ill-suited for agriculture; it is not a port city; it is not a capital city; it does not have high-tech clusters; it is not a household name or a large, primary city.

Yet Gaziantep's light-manufacturing firms sell their products in 175 countries around the globe. Exports increased tenfold in just 11 years, from $620 million in 2002 to $6.2 billion in 2013. It ranked ninth globally for economic growth in the decade 1999 to 2009. It recorded an average of 6.3 percent in annual gross domestic product (GDP) growth from 2005 to 2012, and 3.6 percent in annual employment growth.

Gaziantep is a competitive city.

INTRODUCTION

A *competitive city* is a city that successfully facilitates its firms and industries to create jobs, raise productivity, and increase the incomes of citizens over time.[1]

Successful and attractive cities have many dimensions—including social and human development, environmental sustainability, and political freedoms. This document focuses on the economic outcomes of cities: output and employment growth, labor productivity, and household disposable income. The objectives of this report are to understand what drives the economic outcomes of cities and to find an evidence-based approach for economic development strategies that maximize those outcomes.

Job creation in cities is at the forefront of the economic development challenge globally (World Bank 2013a). Many developing countries are experiencing a demographic and spatial transition, with millions of new entrants to the labor market (UN System Task Term on the Post-2015 UN Development Agenda 2012; World Bank 2013b). Creating job opportunities in urban areas—quickly—is essential if countries are to take advantage of their "demographic dividend" and thus avoid a social disaster created by unemployment and inequality. Cities need jobs and opportunities for their citizens and the means to generate tax revenues to fund projects that meet their populations' growing demand for basic services.

Existing literature shows that urbanization and economic growth go hand in hand and that higher levels of development are correlated with a greater concentration of production and population in cities (Hytenget 2011; Glaeser and Joshi-Ghani 2015; McKinsey Global Institute 2012; World Bank 2009). Research for this project confirms that cities have been the engines of growth in most countries and that cities in developing countries provided jobs and lifted households out of poverty:

- Of the 750 largest cities analyzed from 2000 to 2012, 72 percent outperformed their national economies in terms of economic growth,[2] with most of the exceptions being resource-rich countries or countries with already-high urbanization rates.
- Those 750 cities created 87.7 million private sector jobs, accounting for 58 percent of all new private sector jobs in their 140 countries, despite collectively being home to only one-quarter of total private sector employment. Jakarta, Beijing, and Chongqing created more than 2 million new jobs each.[3]

A disproportionately high number of the fastest-growing cities since the year 2000 were lower-middle-income cities, a circumstance that provides evidence of global and regional convergence. At the city scale, evidence also suggests income convergence through economic development: as cities develop, an influx of migrants leads to an increase in intracity inequality, but subsequently inequality levels tend to decline as cities gradually include migrants in the labor force.[4]

Even for cities enjoying positive economic trajectories, there are pitfalls along the way. Urbanization does not automatically breed economic success (Glaeser 2009; Puga 2010; World Bank 2009). Cities whose leaders do not continuously reassess their approach to growth can lose their momentum. Well-known examples in developed countries such as the United States include Detroit, Michigan, and Cleveland, Ohio, and such cities in low- or middle-income countries also need to rekindle growth. Of the 750 cities studied in this project, one-third experienced per capita GDP growth rates of less than 2 percent annually from 2000 to 2012 (such as Valparaiso in Chile, Bloemfontein in South Africa, and Kuching in Malaysia). Conversely, city leaders who realistically reassess their economic opportunities and act to implement strategic initiatives can execute successful turnarounds, even from an apparently dire situation. Good examples are provided by cities like Bilbao in Spain and Pittsburgh, Pennsylvania, and Oklahoma City, Oklahoma, in the United States (KPMG 2014).

Faced with these challenges, city leaders have clear questions on their minds:

- What should I do to create more jobs for my citizens?
- How do I choose between competing priorities and interventions?
- How do I make things happen for real?

City leaders realize that their task is no longer limited to providing efficient services to their citizens: It now also includes positioning local firms to compete in the global marketplace. Leaders are beginning also to recognize that an economic development strategy alone is insufficient. Implementation mechanisms and delivery systems are equally (and perhaps more) important to achieving the desired results.

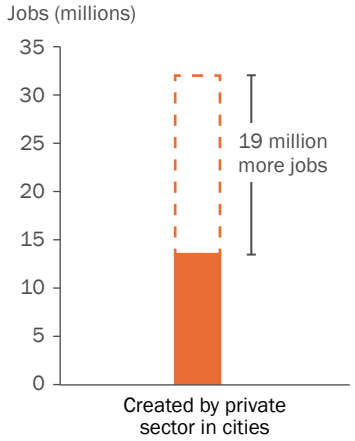
Silver bullets are not available. Countless examples reveal attempts to find them through investments in large infrastructure projects, flagship events, or new trending industrial sectors. Some of those investments are driven by political-economy priorities rather than by competitiveness considerations. Most of the time, unfortunately, top-down and one-off interventions are not sufficient to trigger the desired job creation and economic growth, and they sometimes generate expensive "white elephants" (Zimbalist 2015). No single recipe guarantees success across the board. Improving competitiveness is, instead, a long and complex process that involves multiple public and private stakeholders. Some of these approaches are summarized in chapter 3.

However, cities can be particularly well suited to solving economic development challenges. The scale of a city tends to match the natural scale of economic development in two ways:

- *Agglomeration economies.* Economic development happens through the growth of firms and industries, and abundant empirical research finds that agglomeration effects (the productive efficiencies that result from colocation of firms) are integral to that development. An industry can have a wide geographic span, but agglomeration effects tend to be spatially bound. Usually economic geographers would consider the natural scale of agglomeration to be within a metropolitan area (for example, see Drucker 2012), where workers commute to jobs, there is a recognizable pool of labor, infrastructure is shared, and knowledge can spill over between firms. Proximity tends to be more important for industries that rely on face-to-face interactions and knowledge exchange.
- *Administrative reach.* Policy implementation tends to be more manageable at the city level than at the national level, with city leaders employing a range of policy levers and taking a relatively more pragmatic approach to dealing with problems (Glaeser and Joshi-Ghani 2014; WEF 2014)—transcending the political gridlock that is frequently experienced at the national level. City governments often struggle, however, with fewer resources and lower capacity. Getting policy right at the outset will have important implications for city competitiveness and, because urban areas contribute the majority of countries' economic growth, for national-level wealth creation and poverty reduction.

Overall, the city competitiveness opportunity is huge (box I.1). If all large cities had been able to increase their rate of job growth to the level of the best 25 percent of cities in their region, almost 20 million additional jobs would have been created just in the year 2012.[5] Practically, it will not be possible for all cities to perform as well as the world's best, but lessons and insights from those competitive cities can help others to do better.

Figure I.1: Job creation in the average city brought to the level of the top quartile would have created 19 million jobs, 2012.



Source: Oxford Economics Dataset 2012.

Box I.1: The Competitiveness Opportunity

Across all regions of the world, cities perform unequally. For example, cities in the top quartile of Sub-Saharan Africa (for example, Onitsha, Nigeria; Dar es Salaam, Tanzania; Kumasi, Ghana) created jobs at a rate 4.5 percentage points faster than the rest. For each of the other regions of the world, this gap is at least 3 percentage points.

The authors calculated the gains that could be achieved if the average rate of job growth in the top quartile of cities from each region were achieved by all cities in the region with growth rates below that average. The global gap between that potential rate of job creation and the actual rate of job creation was 19 million jobs just in 2012 (figure I.1).

Why Study Cities?

This study explores the "What," the "Who," and the "How" of competitive cities, thereby trying to find an answer to city leaders' most pressing questions:

Chapter 1, "Performance and Characteristics," paints a numerical picture of what competitive cities look like and what their outcomes are, making use of descriptive data.

Chapter 2, "Evidence and Analysis," examines what the private sector, as the main creator of jobs, needs from cities. The chapter analyzes the determinants of success, presents evidence from case studies, and presents a framework of the levers used by competitive cities.

Chapter 3, "Implementation," outlines a user's guide for city leaders who are pursuing the difficult path to competitiveness and focuses on diagnostic tools, public-private dialogue, and delivery techniques.

In a world of multiple, overlapping tiers of public administration and many structures of devolved government, why does this report concentrate exclusively on cities as its subject? The question is especially pertinent in countries that do not have strong powers for city governments and instead have a concentration of powers at the state level (for example, India and Nigeria) or at the provincial or county level (such as Kenya). Is a report on cities still relevant?

To some extent, city is convenient shorthand for local government. Some of the insights in this report will be relevant to any subnational government that is considering an economic development strategy, regardless of whether the administrative area ends at the city limits, includes a rural hinterland, or indeed includes several urban areas. Public administrators for all of those areas will need to consider the drivers of subnational economic development ("what"), the stakeholders in that process ("who"), and the techniques for diagnostics, design, and implementation ("how"). Some other aspects may require adjustment, adapting to the legal powers available at each administrative level or to the extent to which recognizable spatial clusters of firms and industries exist (because the core objective of a competitive cities approach is to understand and engage coherently with the local economy).

Overall, the report concentrates on understanding the underlying and practical dynamics of economic development in cities rather than on defining exactly what differentiates a city from other local, subnational administrative units. The label *city* is used as a term that readers can most readily identify, even as the authors recognize that these insights will be adapted to local contexts.

A Note about the Data

City-level data are notoriously difficult to obtain. Even when data are available, well-known concerns are usually associated with the data (for example, the definition of a city for administrative or economic outcomes). Although the authors of this report acknowledge all these issues, the Oxford Economics (OE) dataset was considered the best available, with some caveats.[6]

Briefly, the cities in the database can be described as follows:

- *Sample selection*. The 750 cities included in the dataset are the world's largest urban agglomerations or metropolitan areas with populations of at least 400,000,[7] according to the list compiled by the Population Division of the United Nations Secretariat Department of Economic and Social Affairs. Some "strategically important" cities, such as country capitals that did not make the threshold population of 400,000, were then added to the list.

- *Regional distribution*. The 750 cities are located in 140 countries across all regions. The sample distribution covers East Asia Pacific, 27 percent; Latin America and the Caribbean, 13 percent; South Asia, 12 percent; Eastern Europe and Central Asia, 9 percent; Sub-Saharan Africa, 9 percent; Middle East and North Africa, 6 percent; and members of the Organisation for Economic Co-operation and Development (OECD), 23 percent.[8]

- *Income distribution*. The sample distribution by income levels using the World Bank Group's per capita GDP cutoff lines as of 2012 is as follows: low income (< $1,035), 9 percent; lower-middle income ($1,036–$4,085), 33 percent; upper-middle income ($4,086–$12,615), 26 percent; and high income (>$12,615), 32 percent.

- *City size distribution*. The sample distribution by size using UN-Habitat's population cutoff lines is as follows: small cities (<500,000), 5 percent; intermediate cities (500,000–1 million), 25 percent; big cities (1 million–5 million), 48 percent; large cities (>5 million), 22 percent.[9]

Approximately 40 percent of the data points in the OE dataset are estimates instead of actual observations. For regions, OECD countries have the best city-level data coverage, almost reaching 100 percent; more estimates are used for cities in Africa and the Middle East. Data availability for cities across Asia and Latin America is somewhere in the middle. For variables, demographic and labor market series have the most complete data, with more than 90 percent of series based on published data, followed by economic output variables. Detailed consumer spending and stratified income variables are the least complete.

Construction of the database was challenged by three categories of data that were originally missing. These missing data were estimated in the following ways:

- For data series with missing values (but where historical data are available at the city level in certain years), data-mining techniques, such as extrapolation or interpolation, are used to fill in the gaps. For example, census data usually fall under this category, as most countries conduct a census only every five years, and thus yearly data points have to be extrapolated or interpolated.[10]
- For data series with only one year or no observations at the city level, estimations are obtained by using regional- or country-level data coupled with specific economic assumptions. For example, when city-level GDP data are not available, OE scales down regional- or country-level GDP data using a modified ratio of city population to regional or country population.
- For data series with no observations either at the city or the country level, estimates are made by analyzing similar countries by economic development and region.

Competitive Cities: An Emerging Consensus?

***Competitive cities* and *city competitiveness* are terms that have become widely used by economic development practitioners, political leaders, researchers, and others.** Their definitions vary, but some common underlying threads can be noted. This report defines a competitive city as one that successfully facilitates its firms and industries to create jobs, raise productivity, and increase the incomes of citizens over time. A framework is proposed for nurturing a competitive city by (a) prioritizing firm-level performance, (b) considering the determinants of that performance, (c) determining the policy levers available to improve performance, and (d) combining the scope and capacity of the city public administration with private partnerships and intergovernmental leverage (see page figure 2.2, page 36 for a full explanation).

In reviewing similar literature from organizations such as the World Economic Forum, OECD, McKinsey Global Institute, Brookings, KPMG, and previous literature from the World Bank, several patterns can be noted (Brookings Institution Metropolitan Policy Program 2007, 2011, 2012, 2013; Centre for Cities 2013, 2014a, 2014b, 2014c, 2015; Cities Alliance 2006; McKinsey Global Institute 2013; OECD 2006, 2013; WEF 2014; World Bank 2006):

- **Most literature considers all four major categories of policy levers (institutions and regulations; infrastructure and land; skills and innovation; enterprise support and finance) as being integral to city competitiveness.** City leaders in some sense need to juggle those multiple complex areas of policy and investments to facilitate city competitiveness.
- **The messages on what to do within these four categories are largely consistent across reports.** It is unusual for reports on city competitiveness to contradict each other, as shown in examples here:
  - *Institutions and regulations*. Reports tend to highlight the importance of a taxation and regulatory system that is conducive to business and investment, a transparent and efficient public administration, and the use of some special measures to address environmental degradation, social cohesion, and traffic management.
  - *Enterprise support and finance*. Reports tend to highlight the importance of regular conversations with businesses, roadshows to attract investors, public-private partnerships, training and mentorship networks for small and medium enterprises (SMEs), and seed capital.
  - *Skills and innovation*. Reports tend to highlight the importance of strong educational institutions, the alignment of training curricula with the needs of local industry, and arts and culture to attract international talent and investment.
- **However, consensus seems to be lacking on how to balance those policies and investments, given scarce resources**—including the processes for making decisions, the choice of partners, and the techniques for implementation.
  - Some reports emphasize a collaborative approach between various stakeholders in a city and with other tiers of government (for example, OECD, World Bank, Cities Alliance, Brookings).
  - Other reports emphasize the need for bold mayors and city leaders to envision and push a development agenda from the front (for example, WEF, McKinsey Global Institute).
  - Some reports frame economic development as a long-term strategic effort, requiring reliable financing, timelines for implementation, ownership of the process from stakeholders, and a collaborative approach (for example, OECD, Cities Alliance, World Bank).
  - Other reports highlight a more opportunistic approach for achieving "wins" in economic development, through an adaptive, pragmatic approach that evolves according to needs (for example, Brookings, McKinsey Global Institute, and WEF).

Notes

[1] The term *competitive cities* has become widely used, and it is featured in a number of high-level reports and academic articles. However, there is no consensus about precisely what competitive cities means, as noted by Harris (2007) and others. For this report, the authors have combined a number of elements that appear in the economic literature to best reflect their understanding of city competitiveness. The components include the dual priorities of job creation and productivity growth, as identified by the European Commission (2007); a focus on firms, as suggested by Storper (2013) and Parkinson and others 2004; and the recognition of the "city" as a combination of local public, private, and civil-society actors, as noted by WEF (2014) and Zhang (2009).

[2] Measured as GDP growth over the study period (2000–12 or the first year the data became available for certain cities). Unless otherwise noted, the data reported here were obtained from Oxford Economics and analyzed by the World Bank.

[3] See Fikri and Zhu (2015). Because most city-level job data start only from 2005 in the Oxford Economics data, the figures here are from 2005 to 2012.

[4] A time and city fixed-effect regression model was used to test the Kuznets effect at the city level: As income increases, inequality will increase first before it starts dropping. The global full sample dataset from OE does not have city-level inequality observations for each city in each year. Some observations were extrapolated by models. A robust check conducted by the authors used cities with actual observations only (which in itself is subject to sample bias), and the same Kuznets effect still holds, although it is no longer statistically significant.

[5] Calculated by applying the average rate of job growth in the top quarter of cities from each region to all cities in the region where growth fell below that average and then comparing the resulting net increase in jobs to the actual increase.

[6] For more information on Oxford Economics, see oxfordeconomics.com.

[7] To be precise, this dataset includes at least the largest 500 cities in the world. For the rest of the cities in the dataset that are close to the 400,000 population threshold, whether they are the largest depends on how boundaries are drawn for metropolitan areas.

[8] Does not sum to 100 percent because of rounding.

[9] When trying to pinpoint the exact statistical boundaries for each urban agglomeration or metro area, OE uses the United Nations' list of urban agglomerations as the starting point. It then compares the metro population figure published by the United Nations with the metro population figure published by individual countries' official statistics. If they are close, then the boundaries used by the official statistics are adopted. If they are significantly different, in general OE adopts the statistical boundaries (either by the United Nations or by the individual country) that include the higher population.

[10] The 40 percent missing value figure excludes instances in which OE had to estimate missing values in between years or beyond the available historical series through interpolation or extrapolation (such as through census data) because most of these annual estimates are made on the basis of actual observations.

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COIMBATORE IS NOT A WELL-KNOWN NAME OUTSIDE OF INDIA. YET THIS BOOMING CITY OF MORE THAN TWO MILLION HAS SINCE 2000 GROWN JUST AS FAST AS BANGALORE OR HYDERABAD, AND FASTER THAN MOST OF ITS PEERS — AS THE SUPPLIER OF UP TO TWO THIRDS OF THE MOTOR PUMPS PRODUCED IN THAT COUNTRY.

CHAPTER 1

What do competitive cities look like?

Cities vary enormously when it comes to their economic performance. While 72 percent of cities grow faster than their countries, these benefits do not happen uniformly across all cities. The top 10 percent of cities increase GDP almost three times more than the remaining 90 percent. They create jobs four to five times faster. Their residents enjoy higher incomes and productivity, and they are magnets for external investment.

Competitive cities include more than just household names, capital cities, or global centers of commerce. They are often secondary cities, and they are experiencing rapid industrialization. According to this study's data, competitive cities include Saltillo, Mexico; Meknes, Morocco; Coimbatore, India; Gaziantep, Turkey; Bucaramanga, Colombia; and Onitsha, Nigeria. The success of these competitive cities was not a foregone conclusion: many of them exhibited success amid adversity—for example, many of them are landlocked and in a lagging region of the country.

CHAPTER 1

There is no single recipe for becoming a competitive city, but some common patterns can be identified and some techniques recommended to cities that are designing and implementing an economic development strategy.

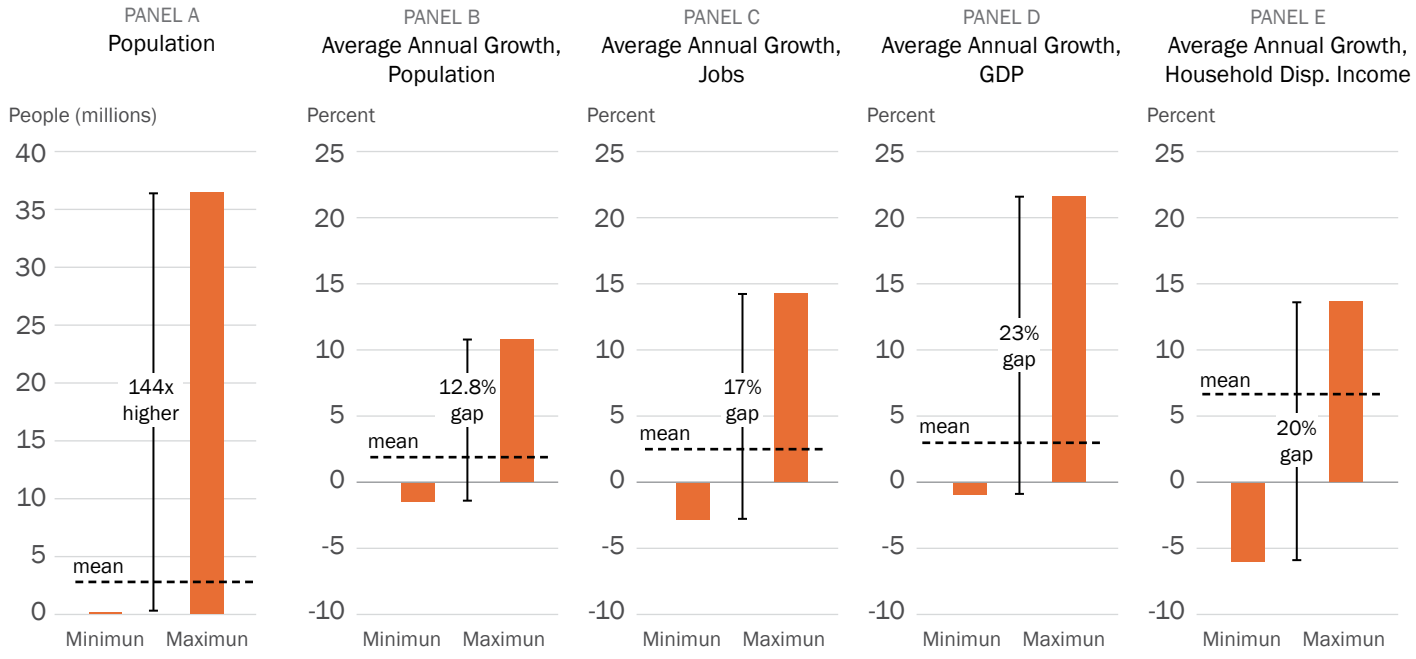
Cities differ in many dimensions: size; economic orientation; geographic location and endowments (port, landlocked, resource rich, barren)**; income level; history** (new, old, planned, unplanned)**; political system** (highly federal versus centralized)**; among others.** As highlighted in figure 1.1, cities' economic performance also varies dramatically.

Moreover, each city has its own set of development concerns that shape its perspective and objectives. Several cities in Eastern Europe, for example, are shrinking because of their declining industries. In Africa and Asia, cities are trying to integrate a flood of migrants into their job markets and social fabric. In some cities in the developed world, the onus is on attracting and retaining talent; in some cases, it is on preventing mass outflows of people.

Cities appear to fall into three categories in their mix of economic sectors.[1] The categories are defined using the data shown in figure 1.2. Patterns in the data suggest the following three categories of cities:

- *Market towns with GDP per capita of about $2,500 or less.* Consumer services (such as wholesaling, retail, catering, and recreation) account for a large proportion of the economy of these cities, consistent with their function as trading centers and market towns for the surrounding rural economy. Industry accounts for a growing proportion of their economy as cities move up the income ladder toward $2,500. The main challenge for these cities is how to facilitate job creation through industrialization, and therefore how to become a production center.

Figure 1.1: Economic performance of cities varies greatly across the world

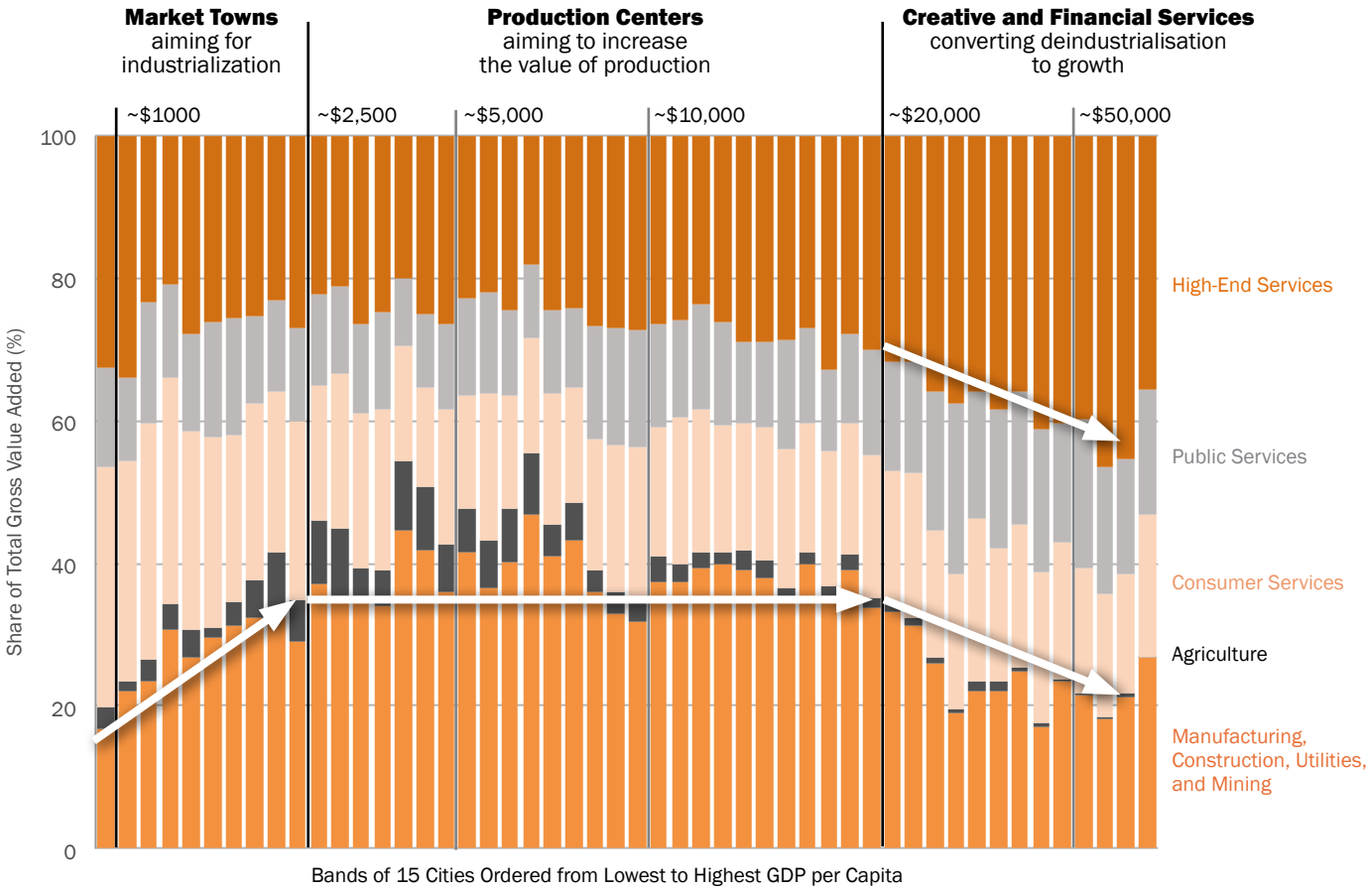


Source: World Bank analysis of Oxford Economics Data 2000–12. See Fikri and Zhu 2015.
Note: GDP = gross domestic product; Disp. = disposable.

- *Production centers with gross domestic product (GDP) per capita between about $2,500 and $20,000.* These cities have a large range of incomes yet a strikingly similar mix of industries. Manufacturing, construction, and mining accounts for the largest share of economic activity in these cities. During this phase of production center development, cities make large gains in value by becoming more sophisticated and productive at what they are already doing: improving productivity of firms and industries through product and process innovation and capturing more profitable niches in their value chains. The main challenge for these cities is how to create the conditions to increase efficiency and productivity for their firms and how to exploit market opportunities.
- *Creative and financial services centers with GDP per capita of about $20,000 and higher.* High-end services account for an increasing share of the city economy in cities with incomes of $20,000 and above, and industry represents a declining share. The main challenge for these cities is how to support their firms in remaining competitive with increased costs of production and, hence, how to facilitate the shift of economic activity into higher value-added sectors.

In the dataset of 750 cities that the World Bank examined, 150 are market towns, 405 are production centers, and 195 are creative and financial services centers. The 750 cities are stratified into bands of 15 cities each in figure 1.2.

Figure 1.2: The different industry structures and different needs of cities at different levels of income



Source: World Bank analysis of Oxford Economics Data 2000–12. See Fikri and Zhu 2015.

Competitive Cities Are a Cut Above the Norm

The research focused on understanding what a competitive city was and what drove its success. The task was to identify a set of best-performing, most competitive cities[2] and to isolate what they seemed to have in common and to remain sensitive to their structural differences. The data revealed cities in each region of the world that had outperformed their national economies on job growth, income growth, and productivity growth.[3] Of the largest 750 cities in the Oxford Economics (OE) dataset, 130 meet this performance standard. Since the beginning of the millennium, these competitive cities have been growing faster, their economies have created a disproportionate number of private sector jobs, and their household disposable income grew faster than their peers.

Many of the competitive cities are not household names or world-famous primary cities. They can be found in all regions and on all continents. Judged by economic performance, competitive cities are places like Bucaramanga in Colombia, Coimbatore in India, and Onitsha in Nigeria. They host firms and industries that create growth and jobs and that improve the income levels of their people—and they do it in a variety of ways.

Box 1.1: The Informal Economy

Across all regions of the world, but particularly in lower income countries, a substantial proportion of the economy is constituted by informal activities. *Informal* economic activities are those that are not regulated and registered and thus would not show up in official economic data.

The data used in this chapter do not make a distinction between formal and informal jobs. For African and Indian cities, the Oxford Economics dataset made some adjustments to account for informal employment. For other countries, the extent of adjustment depends on whether the official statistics adjust for informal jobs.

For this report, World Bank did not specifically explore the role of the informal economy in city competitiveness. A broad existing body of literature explores the dynamics of informal economic activities and the links between the formal and informal economy. For example, there is some evidence that the informal sector, like its formal counterpart, is attracted to cities and the benefits of their urbanization economies and better access to infrastructure (Ghani, Goswami, and Kerr 2012; Ghani, Kerr, and O'Connell 2014; Ghani, Kerr, and Segura 2015).

When the diversity of circumstances and needs mentioned previously is taken into account, the top-performing cities show that when it comes to economic performance, they are a cut above the norm. They exhibit the following characteristics:

Economic growth

Annual GDP per capita growth in an average city is already impressive at 4.7 percent,[4] but the top 10 percent of cities achieved 13.5 percent per year between 2005 and 2012. Production centers achieved the fastest GDP per capita growth rates, averaging 6.3 percent per year. That growth rate compares with 5.3 percent in generally less-developed market towns and only 1.0 percent in more mature creative and financial centers. More than two-thirds of the fastest-growing cities in GDP per capita were lower-middle-income cities, confirming the existence of a global convergence or "catch-up" story at the city level. A conditional convergence rate of 1.4 percent to 9.0 percent per year is observed for the 750 largest cities in the world from 2000 to 2012. In other words, cities with a lower per capita GDP are catching up at a rate of 1.4 to 9.0 percent per year.[5] Of particular interest is the evidence from Africa: The top 10 percent of African cities in the dataset achieved an annual growth rate of 11.0 percent, strengthening hopes for the continent's growth story. Unfortunately, the bottom 10 percent suffered from a fall in GDP per capita of 1.7 percent each year, underscoring the severity of Africa's competitiveness challenge and the need for growth-focused interventions in Africa's urban centers to fully reap the benefits of urbanization.

Job creation

The top 10 percent of cities achieved 9.2 percent annual jobs growth, compared with 1.9 percent in the remaining 90 percent of cities, from 2005 to 2012. On average, job growth was faster in market towns and production centers (annual averages of 3.5 percent and 3.3 percent, respectively) than in creative and financial services centers. Still, the most competitive metropolises managed to generate impressive private sector job growth, quickly rebounding from the 2008 financial crisis and ensuing recession.

Average incomes

The top 10 percent of cities increased the average disposable income of their households by 9.8 percent annually. Some of the strongest performers on this metric were market towns, but production centers saw the highest annual average increase in incomes at 4.6 percent. Conversely, many creative hubs struggled to raise living standards: household disposable income increased by only 0.7 percent on average, and it increased by a meager 0.1 percent in the bottom 10 percent of cities. Advanced economies were not the only ones to grapple with stagnation or falling living standards: in Sub-Saharan Africa, even as the top tenth of cities grew incomes by 11.0 percent a year, the bottom tenth saw household incomes fall by almost 4.0 percent.

Productivity[6]

In 2012, 70 percent of cities in the database outperformed their countries in productivity. Across the three types of industrial structures identified, market towns and production centers experienced the fastest growth in productivity (at 4.4 percent and 4.1 percent annually, on average), compared with creative and financial services hubs at 1.0 percent annually. However, considerable variations can be found across regions, across countries, and across cities within countries:

Middle East and South Asia. The top 10 percent best-performing cities increased productivity 3.0 percentage points faster than their peers.

Africa. The top 10 percent of city performers increased productivity 1.7 percentage points faster than their peers.

United States. Even in this country with a mature urban system, the average masks wide variations: output per worker in San Jose, California, the most productive U.S. city, is more than twice that of the least productive, Buffalo, New York, at more than $210,000 per worker compared with $87,500.

China. In this rapidly urbanizing country, the results are even more skewed, with top-performing cities such as Tangshan (Hebei) and Dongguan (Guangdong) averaging up to seven times the national average productivity. This disparity is driven by, among other things, differences in city economic structures and industry specializations, yet it remains a stark reminder of why competitiveness matters.

Interestingly, a close relationship was not found between productivity and other indicators of economic performance. Job creation, income growth, and productivity improvements do not necessarily go hand in hand. The dataset indicates that some cities experience job growth but not productivity growth, income growth but not job growth, productivity growth but not income growth, and so on. These patterns are shown in table 1.1. In only 69 percent of the cities did job growth go hand in hand with both productivity growth and increases in average household income. During the same period, only 18 percent of cities, or less than one in five, performed better than their national economies on all three measures.

Tradable sectors

In the 10 percent of cities in which GDP per capita grew fastest from 2005 to 2012, tradable sector employment growth outstripped nontradable sector employment growth by an average of 2.5 percentage points annually—6.2 percent compared with 3.7 percent. Economic literature often finds that tradable sectors—goods and services that are geographically mobile and thus subject to regional and international trade—are the most important drivers of higher productivity and wages (Atkinson 2013; Porter 1990; U.S. Cluster Mapping Project n.d.). It should not, therefore, be a surprise that competitive cities exhibit a particular emphasis on the production of tradable goods and services as a way to boost their economic growth and job creation (Fikri and Zhu 2015). Significantly, traded sectors also seem to ignite job creation in other nontraded sectors in a city's economy. The 10 percent of cities in which traded sector employment grew fastest from 2005 to 2012 (9.8 percent annually) recorded also a 6.6 percent growth in jobs in nontradable industries. By contrast, in less-competitive cities, tradable and nontradable industries grew at effectively the same slower rate: just above 2.0 percent. This contrast is particularly stark in production centers, where the most competitive cities achieved nearly 11.0 percent annual average traded sector job growth and 9.1 percent total job growth, compared with a global average of 3.2 percent.

One caveat here is that nontraded sectors will almost always make up the bulk of a city's economy—including most of its jobs—so they should not be neglected. The insight is rather that tradable sectors will be critical in determining the overall economic development pathway of a city, through driving growth in incomes and providing spillovers for other sectors. An economic development approach that nurtures both tradable and nontradable sectors is outlined on page 45.

Table 1.1: Incomes, jobs, and productivity in the largest 750 global cities, 2005–12.

	Income growth alone	Job growth alone	Productivity growth alone	Growth in all three simultaneously
Percentage of 750 cities in which growth occurred	85	85	90	69
Percentage of 750 cities which outperformed their countries	50	73	42	18

Source: Oxford Economics Database, 2005–12.

Foreign direct investment (FDI)

The top 5 percent of cities obtained as much FDI[7] in the decade leading up to 2012 as the bottom 95 percent combined.[8] This statistic carries a "chicken and egg" dilemma: Did FDI generate growth or did fast-growing cities attract FDI? Large high-income services hubs (such as Singapore and London) and production centers (such as Guangzhou, China, and Bucharest, Romania) dominate this list in absolute terms. However, normalizing inflows by the size of a city's economy presents an entirely different picture. In FDI capital investment relative to city GDP, low-income market towns account for 45 percent of cities among the top 10 percent of performers. Sub-Saharan Africa populated the top bracket with as many cities as the East Asia and Pacific region, led by Abuja, Nigeria, and Addis Ababa, Ethiopia. These cities punch far above their weight in the global competition for mobile, production-oriented capital.

Yet the economic development potential of FDI should not be overstated. Although the attraction of high-profile outside investors often yields the most attention, the majority of jobs are actually created through the growth of existing domestic firms, and FDI should be seen as a means to trigger economic activity, technology transfer, and local content, rather than as an end. In the average city that received any FDI in 2012, foreign investors directly created only 1,400 jobs. Those jobs represented 0.1 percent of the employment base, or only a small fraction of the 2.0 percent net job growth that occurred on average in these cities (Fikri and Zhu 2015). Recent work from Latin America underscores the fact that FDI is no silver bullet for competitiveness (World Bank 2014). For vaunted productivity increases and spillover benefits to materialize, foreign companies must be integrated into domestic production networks and supply chains.[9]

Such integration amplifies the local multiplier effect of an investment, too. For example, in the automobile industry in India, for every 100 jobs generated in automobile manufacturing, 300 more jobs can be generated in auto component and auto body manufacturing (Bhasker 2013). Additional jobs are generated through auto services (such as dealerships, auto finance, and auto insurance).

Comparative advantages

Successful cities make the most of what little they may have had to power ahead of competitors. A common theme across all of the case study cities is that city leaders found a competitive advantage and leveraged it. (Examples include a skilled workforce, geography, language, cultural ties, technical know-how, existing industry base, and product and market knowledge.) Note, for example, the following:

- In Kigali, Rwanda, the city leveraged its nearby gorilla-viewing opportunities to build a MICE (meetings, incentives, conferences, and events) sector by harnessing a national-level focus on national parks and by designing and marketing a world-class master plan to encourage hotel and tourism investors.

- In Bucaramanga, Colombia, the city used oil revenues to invest in universities with a specialization in oil industry research, a strategy that has created broader technical skills that have spilled over into new industries.

These cities and many others seized on opportunities when they presented themselves and forged their own paths rather than jumping on bandwagons or following the latest economic development fads (such as biotech, software, and clean tech). Similar to what happens in the markets for private companies, first-mover cities and their firms can obtain a higher return on their investments when they manage to secure a market niche where they have a clear comparative advantage.

The paths to success differ depending on the city, yet successful cities offer lessons for others. Documenting the success of cities such as New York, London, Dubai, and Singapore helps set the bar for best practice, but useful nuggets can be obtained from cities that are not household names and that managed to overcome common challenges often faced by cities in the developing world.

For an explanation of how the informal economy is considered in the data in this chapter, see box 1.1.

KEY TAKEAWAYS FROM CHAPTER 1

In this chapter, we described what competitive cities look like and how they perform. Here are the key findings:

Cities vary greatly across their characteristics and their performance, across the world, and across time. For example, the top 10 percent of cities achieved 9.2 percent annual jobs growth from 2005 to 2012, compared with 1.9 percent in the remaining 90 percent of cities. The top 10 percent of cities achieved 13.5 percent annual GDP per capita growth, compared with 4.7 percent annually in the average city.

Cities that are competitive are markedly different from their counterparts. They grow faster; they emphasize tradable sectors; they exhibit FDI success and growth of their domestic firms; and they create a disproportionate number of private sector jobs. For example, in the top 10 percent of cities in which GDP per capita grew fastest from 2005 to 2012, tradable sector employment growth outstripped nontradable by an average of 2.5 percentage points annually. The top 5 percent of cities obtained as much FDI as the bottom 95 percent combined in the decade ending in 2012.

Competitive cities do not include only familiar household names, and they are often a country's secondary cities. They are not unique to any particular region or country; instead, they are dispersed across the world.

Slicing cities by their levels of per capita GDP and their economic composition results in three broad categories: poorer *markets* towns, whose economies consist mainly of wholesale and retail consumer services; lower-to-middle-income *production centers*, where industrial activity tends to dominate; and richer *creative and financial centers*, where high-end services are increasingly important. Cities do not always need to overhaul their economies to increase incomes; in particular, it seems that cities at GDP per capita levels from $2,500 to $20,000 typically have a similar mix of industries, yet those at the upper end have been able to greatly increase the value of those economic activities. In other words, sometimes it is enough to do what you already do, but to do it better.

Striving for competitiveness might involve tradeoffs between top-line economic growth, job creation, and productivity. Only 18 percent of cities in the data, or less than one in five, are able to outperform their national economics on all three measures. Cities may need to choose between more jobs, better jobs, or inclusive jobs over different planning horizons—now, soon, and later.

More investigation into some of those factors will be needed. For instance, this chapter looked at the proportion of tradable sectors in cities' economies, but it did not investigate the relationship between regional or global trade and competitiveness outcomes. Here, the measure of productivity is labor productivity, which fails to capture total factor productivity—the force that predominantly drives economic growth at the national level. The World Bank data allow us to look at a decade or so in time (2005–12), and so they shed little light on the question of path dependence in outcomes over decades or even longer periods in time. Researchers will aim to deal with some of these gaps in later phases of work.

Notes

[1] The three categories of cities—market towns, production centers, and creative and financial services cities—are similar to the categories used in the *World Development Report 2009: Reshaping Economic Geography* (World Bank 2009). Here we provide data to catalog the income levels and typical distribution of sectors that these categories entail.

[2] To distinguish a tier of the most competitive cities whose performance truly stood apart from the rest, the World Bank identified cities that outperformed their countries on three key measures: private sector job growth, productivity growth, and disposable income per capita growth since 2000 (the first year for which data became available).

[3] Several countries exhibit many cities that fill these criteria—particularly China (18), India (24), Mexico (9), Nigeria (14), the Russian Federation (8), and the United States (7).

[4] World Bank analysis of OE data for the years 2005–12.

[5] The results are made on the basis of a five-year lagged model, similar to the one used in Barro (2015). Consistent with regional growth literature, it seems the speed of city convergence is faster than country convergence, contributing to the argument that cities are the leaders in economic growth and convergence to reduce poverty. The 1.4 percent rate is from a model without fixed effects and the 9.0 percent rate is from a model with fixed effects (plus additional controls such as education, foreign direct investment, and other public services provisions). Unconditional convergence is tested as well, and positive and significant convergence rates are observed at an interval of 1.9 percent (without fixed effects) and 4.5 percent (with fixed effects). For comparison for this convergence exercise, see Barro (2015) and Gennaioli and others (2014).

[6] Here, productivity is measured as gross value added per worker. This definition of productivity is predicated mainly on data availability. Although the definition captures elements of labor productivity, it remains biased given the inability to account for the effect of changes in capital productivity and total factor productivity.

[7] This report refers only to greenfield FDI investments, as they alone are tracked by the fDi Markets data underlying this analysis.

[8] World Bank analysis of data from fDi Markets, a service of the Financial Times, London, http://www.fdimarkets.com.

[9] See, among other pieces, Javorcik (2004) from Lithuania. For a thorough review of the ambiguities of the literature, see Görg and Greenaway (2003).

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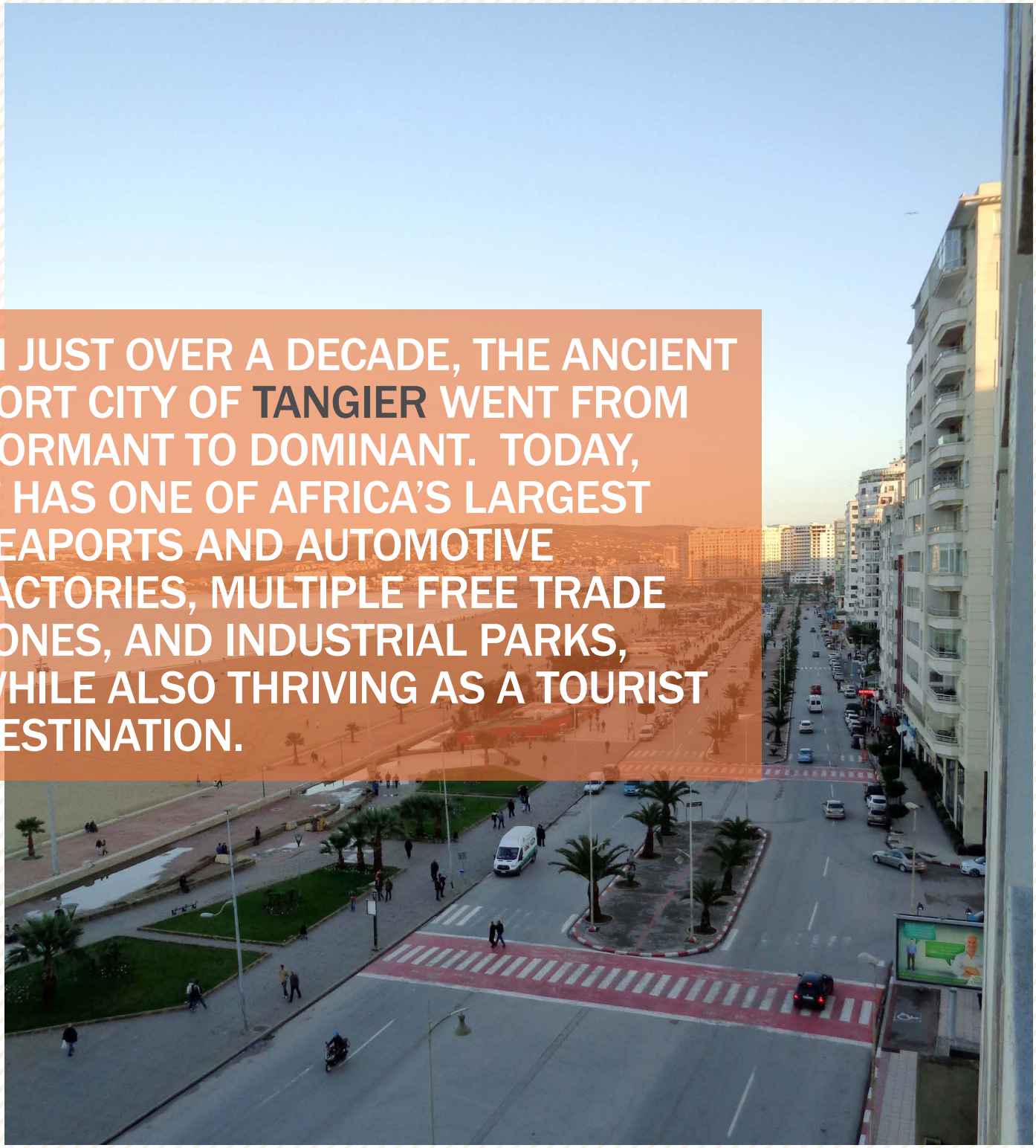


IN JUST OVER A DECADE, THE ANCIENT PORT CITY OF TANGIER WENT FROM DORMANT TO DOMINANT. TODAY, IT HAS ONE OF AFRICA'S LARGEST SEAPORTS AND AUTOMOTIVE FACTORIES, MULTIPLE FREE TRADE ZONES, AND INDUSTRIAL PARKS, WHILE ALSO THRIVING AS A TOURIST DESTINATION.

CHAPTER 2

What Have Competitive Cities Done to Achieve Their Success?
Evidence and Analysis

This chapter presents evidence and analysis on what cities have done to become competitive. Three areas of evidence are covered:

What were the interventions used?
Who were the stakeholders involved?
How were the sequencing and processes employed?

Mayors and city leaders worldwide are striving to understand what interventions can best achieve job creation and economic growth. Which interventions have the potential to generate the biggest return for a city's growth? Who should be designing and implementing the interventions? How should investments and policy reforms be prioritized and sequenced, using the starting point of each city as the basis for action?

This chapter proceeds from the premise that private firms are the main job creators (IFC 2013), and thus firm-level performance is at the heart of a competitive city. If job creation and growth are to be sustained over time, employment opportunities and increases in productivity and growth must come from the private sector, because relying on government funds alone is not feasible. Understanding what influences firms' performance, and understanding what attracts them to specific locations, is therefore at the core of this investigation.

CHAPTER 2

Job creation and economic growth in cities are clearly linked to the cities' success in attracting and expanding private sector firms. City leaders need to understand what factors help attract, retain, and expand firms that create jobs and spur economic growth.

What does the private sector need from cities? This question is important because of the centrality of private sector growth in creating jobs and increasing incomes. Between 2002 and 2012, the private sector accounted for about 75 percent of job creation and about 80 percent of gross value added across the 750 cities in the Oxford Economics (OE) database. It is therefore imperative for city leaders to be familiar with what factors help attract, retain, and promote the expansion of private firms—both domestic small and medium enterprises (SMEs) and multinational corporations (MNCs). Domestic SMEs usually account for the largest proportion of any city's employment, and thus their success is essential for the overall economic performance of every city. Large MNCs, at their best, help provide entry to global value chains for SMEs and can help catalyze technical innovation that grows tradable sectors. Because MNCs can choose where to invest and are mobile across cities, they offer a lens through which to evaluate what makes cities attractive to businesses. Both types of firms are addressed here.

SMEs

According to previous studies, SMEs will favor locations where they can find proximity to suppliers and consumers, connective infrastructure, and basic services. Examples include García (2014), Mazzarol and Choo (2003), Urata and Kawai (2000), and van Noort and Reijmer (1999). Those studies also find that SMEs prefer to stay near the business owner's home city and are reluctant to lose valuable human capital by moving far from an existing location—suggesting that SMEs are less mobile than MNCs. Indeed, when making investment decisions, SMEs often have neither the resources to engage consulting firms to advise them on location decisions nor the capacity to perform extensive evaluations themselves.

Within a given location, entrepreneurs are more likely to establish or expand businesses in favorable regulatory and financial environments (Gonzales Rocha 2012). Cities officials can therefore work to improve labor laws, tax codes, trade restrictions, limited access to credit, and other constraints whose elimination or reduction benefits both MNCs and SMEs (Audrestch 2012). In developing countries, where the business environment is less established, skilled labor markets are smaller, and credit is scarcer, SMEs inevitably face different considerations (Lingelbach, De La Vina, and Asel 2005). High-growth "gazelle" firms—a small proportion of SMEs that grow fast—are an important source of new jobs (Audrestch 2012). Clustering of firms can be particularly advantageous, because SMEs are more reliant on their executives' personal networks and knowledge than are larger businesses (Kuah 2002).

MNCs

For MNCs, fundamental attributes of cities explain most investment location decisions. Existing literature on location determinants of foreign direct investment (FDI) using data on revealed preferences highlights that the presence of robust institutions, government stability (Sánchez-Martín, de Arce, and Escribano 2014), infrastructure (Cheng and Kwan 2000), and human capital and peer effects (Nunnenkamp and Mukim 2012), and a lack of corruption (Wei 2000) matter significantly when multinational firms aim to expand and make location choices. Studies of firms' stated preferences in survey results,[1] including recent interviews with location advisory firms, confirm these econometrically tested findings and provide a more complete picture of the factors that matter for firms, some of which are not easily captured by data.

But other "softer" factors—such as the professionalism and responsiveness of city leadership to investor needs and the overall image and quality of life that cities offer to corporate leaders—can tip the balance between competing locations. The final mile of such decisions consists of the interactions between firms and cities in the final stage of the decision making process. These so-called 10 percent factors often tip the balance of a decision between one city and its closest competitors in securing an investment.

The World Bank found that the perceived importance of such factors varies across categories of investor, as summarized in figure 2.1. In preparing this study, the researchers interviewed 5 major location advisory firms and 10 city or regional investment promotion agency officials

about their experiences of what multinational firms want from cities. Their comments highlighted two main areas: first, the needs of investors who seek low-cost production locations are different from those who seek large markets and are different in turn from those who seek strategic assets and natural resources. Second, cities do not have full control of every factor that firms care about. Therefore, a broader set of governmental actors needs to be considered.

FDI literature widely uses four categories to summarize motives for multinational firm expansions: (a) market-access seeking, in search of new consumers for the firm's goods or services; (b) efficiency seeking, in search of low labor costs or rationalizing their operation to decrease production costs; (c) strategic-asset seeking, in search of tangible or intangible assets to strengthen its market leading position; and (d) resource seeking, in search of natural resources, raw materials (Dunning 1993).

Given the varied needs of investors, cities must develop an investment-attraction strategy and a value proposition that is consistent to the city's comparative advantage and that is customized to the type of investor (by size and industry, for example) that it wants to attract. Cities need, first, to understand their existing value proposition (such as endowments and business environments) and what needs to be done to improve it (such as through investments in infrastructure or pushing for business regulatory reform). Cities then should try to identify which types of investor are most likely to be interested in the city's value proposition. As shown in figure 2.1, efficiency-seeking manufacturing firms look for different things in cities than do market-seeking services firms. Investor outreach and promotion efforts can then center on communicating the city's identified comparative advantages to its hoped-for investors. Some of the needed investments or reforms can be directly enacted by cities, but others require leveraging other tiers of government and private sector partnerships. Targeting industries whose needs are within the city's administrative authority or within the city's ability to leverage change is a better and more effective way for city leaders to demonstrate to investors that they not only are able to *identify* the city's core competitiveness but they also are able to *deliver* what they say the city's benefits are.

Figure 2.1: What do private sector investors need from cities?

			FIRM TYPE			
Category	**Factor**	**Level of city influence**	**Efficiency seeking**	**Market-access seeking**	**Strategic asset seeking**	**Resource seeking**
Location endowments	Proximity to major markets/distributors	○	🛠	√		
	Natural resources	●	🛠			√
Relationship with city	Personal connections between firm and city	○	√			
	"Soft power": city image, proactive mayor, proactive and responsive IPIs	●	√	√		√
General business environment	Macroeconomic stability and growth potentials	○	√	√	√	√
	Institutional and regulatory environment	●	√	√	√	√
	Labor availability, skill and cost	●	√	√		√
	Infrastructure and availability of land	●	√	√		√
	"Sweetener": fiscal and nonfiscal incentives	●	√			
Level of sector development	New opportunities due to a neighboring country or city moving up the value chain	○	√	√	√	
	Presence of forward- and backward-linkages firms	●	🛠	🛠		√
	Presence of similar firms/competitors	●	⛱	⛱	√	

○ City has no influence
● City has influence but not full control
● City has major influence or full control

√ Valued by all firm types (strategic asset-seeking and resource-seeking were not broken out by firm type)
⛱ Valued by service firms only (efficiency-seeking refers to back office services; market-access refers to high-end services)
🛠 Valued by manufacturing firms only

Source: Zhu, Santos, and Larrey 2015.
Note: IPI = Investment promotion intermediaries.

Fiscal incentives or tax holidays are not the main priority for the majority of potential investors, and the extent to which incentives are useful is subject to debate. Interviews with location advisers, however, did suggest that when competition for investment is fierce in the final stage, incentives can tip the balance (Zhu, Santos, and Larrey 2015). They are obviously appreciated, especially by efficiency-seeking investors, but they are usually considered to be a nice bonus and become crucial only after other structural interventions are in place, such as a decrease in the cost of production through better connectivity.

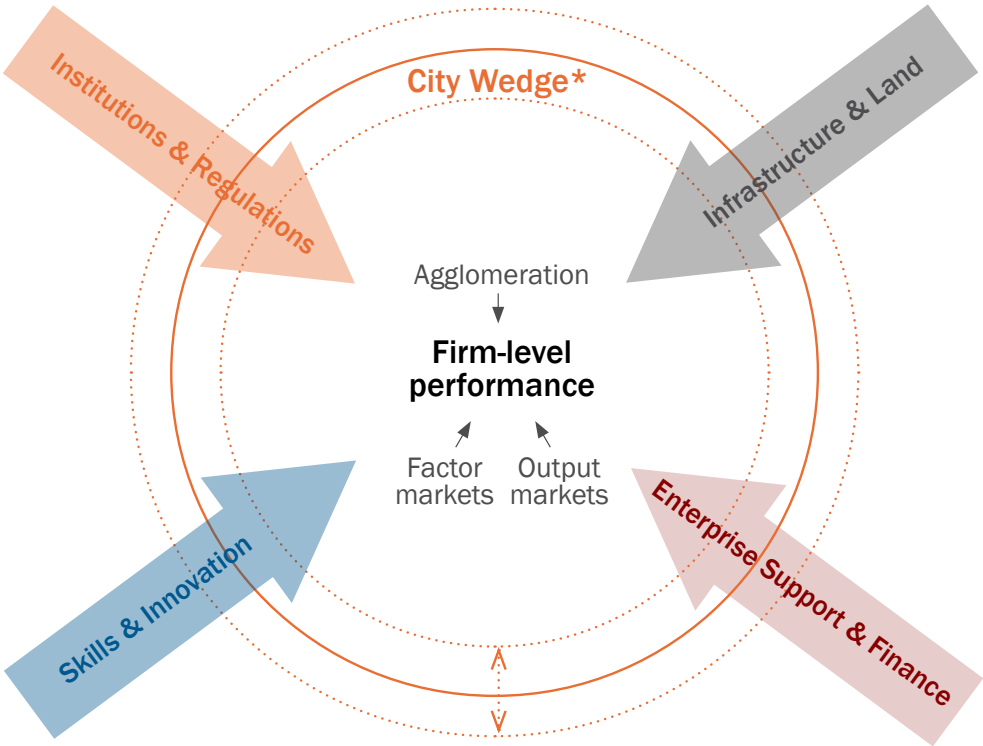
What Can Cities Do for Firms?

This section presents a framework for thinking about competitive cities. The overall framework is represented in figure 2.2 and is derived from the preceding analysis combined with a review of economic theory and empirical research.

Several points should be noted:

- **Firm-level performance is placed at the center of the framework, because jobs, incomes, and productivity are at root generated by private sector firms.**

Figure 2.2 Competitive cities address firm-level performance as the core of job creation and growth



Source: World Bank.

Note: This figure illustrates a framework for thinking about competitive cities. Firm-level performance is placed at the center of the framework, because jobs, incomes, and productivity are at root generated by private sector firms. Firm-level performance is a function of factor markets, entrepreneurial ability, output markets, all of which are facilitated by agglomeration effects. The four arrows represent enabling factors (or levers) in the agglomeration process. Cities can assert these levers of economic development using the *city wedge*.

*The term "City wedge" refers to the policy space available to and the leverage that various city actors can use to modify key conditions of the business environment in the city, that are largely shaped by external forces including market trends and national policies.

- **Firm-level performance is a function of factor markets, entrepreneurial ability, output markets, and agglomeration effects:**
  - *Factor markets.* Inputs such as land, labor, and capital are configured through entrepreneurial ability, turning raw materials into products.
  - *Output markets.* Products are transported and sold in particular markets, necessitating connective transportation and logistics, plus trade facilitation.
  - *Agglomeration.* This process is catalyzed by the presence of similar firms nearby that in combination will form local pools of skilled labor, create a critical mass for shared infrastructure, and generate knowledge spillovers between firms and between employees.
- **Cities provide several enabling factors in the agglomeration process: (a) institutions and regulations, (b) infrastructure and land, (c) skills and innovation, and (d) enterprise support and finance.** Those four categories try to encompass the suite of policies and interventions available to city governments, and were aggregated from a long list of factors identified in an extensive review of literature.[2] Each of the categories includes policies and initiatives of considerable nuance:
  - *Institutions and regulations:* taxes, licenses, duties, legal regulation, promotion and branding
  - *Infrastructure and land:* roads, electricity, water, sanitation, transportation, communications, and land (including colocation arrangements for similar firms)
  - *Skills and innovation:* basic education, vocational training and workforce development, and innovation networks
  - *Enterprise support and finance:* access to capital, subsidies, incentives, export assistance, and capacity development for operational activities (legal, financial, administrative)

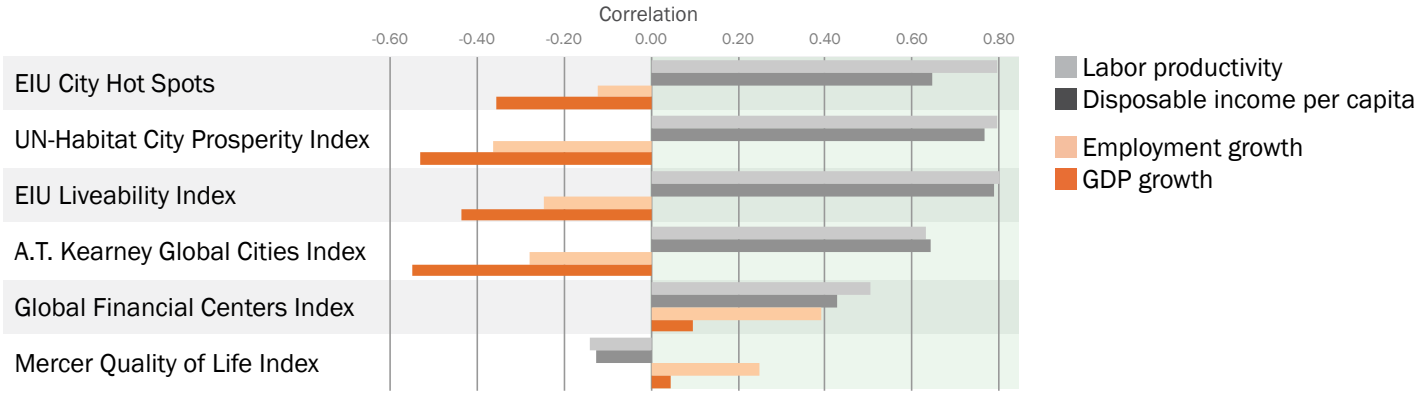
Hence, competitive cities are more than simply a geographic space in which competitive firms and industries grow. They are environments that enable firms to perform effectively by providing factors and conditions such as regulations, infrastructure, services, quality of life, talent, and strong governance.

Those levers are similar in nature to those available at the country or subnational[3] levels of government, but they differ according to the scope and capacity of a city to exert them. Not all levers and actions are within the legal powers and administrative capacity of the local government. For example, a city can set up a one-stop shop to speed approvals and business registration, but if firms face further paperwork at the national level, the effect on competitiveness would be limited.

- **Cities can assert the levers of economic development using three wedges, which together we term the *city wedge*:**
  - Mayor's wedge—the internal *scope* and *capacity* of the city administration compared with other tiers of government
  - Growth coalitions wedge—*partnerships* with other city stakeholders (especially private sector and civil society)
  - Intergovernmental relations wedge—external *leverage* with neighboring jurisdictions and other tiers of government

This chapter explores each of those topics in turn. First to be addressed will be the four categories of interventions (what); second, the actors involved (who); and third, the processes undertaken (how).

Figure 2.3: City indexes predict levels of development better than they predict growth of jobs and incomes



Source: Fikri and Zhu 2015.
Note: EIU = Economist Intelligence Unit; GDP = gross domestic product.

Figure 2.4: Correlates of good economic performance vary by city income level and move sequentially

[1] Physical Capital (EIU), Infrastructure Index (UN), Cost of Electricity (DB)
[2] Social and Cultural Capital (EIU), Healthcare (EIUL), Quality of Life (UN)
[3] Human Capital (EIU), Education (EIUL)
[4] Number of patents (GUC)
[5] Private Credit Bureau Coverage (DB), Financial Maturity (EIU)

\+ Positive stastistically significant correlation at the 10% level
— Negative statistically significant correlation at the 10% level

Source: Fikri and Zhu 2015.

Note: DB = World Bank doing business index; EIU = Economist Intelligence Unit City Competitiveness Hotspot; EIUL = Economist Intelligence Unit Livability Index; GDP = gross domestic product; GUC = Chinese Academy of Social Science Global Urban Competitiveness Report; UN = UN-Habitat City Prosperity Index

What interventions are used by competitive cities?

A review of the resources readily available to city leaders to help guide decisions and interventions found that several are available. City indexes are one of the most conspicuous measures of city competitiveness, as they intend to rank cities on meaningful aspects of their business environment and attractiveness to firms. City indexes are produced by various organizations and are usually launched with great fanfare and publicity. However, it is not clear if good performance in a city index actually does translate to good performance in the real world in terms of growth of incomes and jobs. Therefore, as a first step, this report tries to test whether the various popular city indexes are well correlated with the economic outcomes that city policy makers care about: gross domestic product (GDP) and job growth, levels of disposable income, and city labor productivity.

On investigation, it appears that popular city indexes are better predictors of the level of city development than predictors of growth. The EIU (Economist Intelligence Unit) Hot Spots and Livability surveys, A. T. Kearney's Global Cities survey, and the UN-Habitat City Prosperity Index are all highly correlated with both city labor productivity and household disposable income—two competitiveness outcomes that vary with overall level of development but remain quite stable from year to year.

No ranking identified was consistently reliable in predicting changes in output or employment. One of the underlying reasons may be that city-level indexes tend to have a rich-country bias (city-level data are more likely available in rich countries). This bias limits the indexes' abilities to predict economic outcomes for cities at different stages of development. No particular index was found to have universal predictive ability across regions and outcomes.[4]

A better answer comes from disaggregating the indexes and supplementing them with new data. Various popular city indexes can be disaggregated to allow for a detailed analysis, focusing on the four levers of city competitiveness.[5] Data on the economic outcomes of 750 cities come from the OE database.[6] Figure 2.3 summarizes the results of a pair-wise correlation to test whether certain levers of city competitiveness tend to be observed in cities with good economic outcomes.

The results imply that cities can use a sequence of interventions to maximize economic outcomes. One of the project's objectives was to identify whether certain determinants matter more than others and whether the different dimensions come into play sequentially in different typologies of cities.[7] It appears that the building blocks of competitiveness—institutions and social and basic physical infrastructure at lower incomes, then innovation capacity—can be sequenced to build the human-capital base required to compete, grow, and prosper as a high-income city.[8] (See

figure 2.4.) This finding is largely consistent with existing literature (World Bank and DRC of the State Council 2014; Moretti 2004; Samad, Lozano-Gracia, and Panman 2012; Shapiro 2006; World Bank 2009). As local decision makers prioritize such interventions, they should also keep in mind the main industrial structure of the city and its competitive advantages.

These high-level statistical results are supplemented with detailed case studies of successful cities. Econometric results are useful to identify general patterns, but cities require more detailed guidance when making real choices on interventions. The World Bank commissioned six city case studies to understand at a more detailed level the interventions that were pursued and the effects that were generated. The six cities were selected by ranking the best performing cities on economic performance outcomes and identifying one city in each region of the world that broadly represents the typical challenges faced by the majority of cities that are in lower- and upper-middle-income countries, that are of medium size, and that lack an abundance of natural resources.[9] The detailed results from this work are presented in a background paper accompanying this overview document (Kulenovic and others 2015).

All six of the cities studied represent, in some way, success amid adversity—and their experiences can be used by other cities to glean some lessons on pathways to success. The following are examples:

- Bucaramanga, Colombia, is hundreds of kilometers from the country's capital city and major industrial centers, yet it has become a center of research and innovation.
- Changsha, China, has engineered a successful proactive industrial strategy in a provincial capital.
- Coimbatore, India, is landlocked and is within a country that has plenty of competitor cities of a similar size, yet it has achieved income levels that are double the national average and it has become a center for precision manufacturing, mechanical engineering, and textiles.
- Gaziantep, Turkey, is landlocked and is in one of the poorer parts of the country, yet it has achieved phenomenal export growth, its GDP per capita growth was around 6 percent annually from 2005 to 2012, and it produces 57 percent of all machine-made carpets globally.
- Kigali, Rwanda, has emerged from civil war and has inspired an impressive economic rebirth.
- Tangier, Morocco, has leveraged its port to build up its industrial base in logistics and transportation, mechanical engineering, chemicals, textiles, metals, and automotive manufacturing.

Taken together, these six case studies illustrate that there is no single recipe for economic success. Each of these cities has pursued its own path to prosperity, building, consciously or unconsciously, on its own singular competitive advantages, existing constraints, national policies, local scope and capacity, overall market trends, and even administrative and cultural traditions. In some cases, the public sector was not at all the leader in local economic development efforts; rather, private sector actors stepped in to formulate proactive economic development strategies and guide their implementation. These six cities are as different from one another as they are successful.

The competitive cities' initiatives were examined under the four intervention categories proposed in the competitive cities framework outlined earlier in this chapter. The summary of that examination is presented in table 2.1 and is supplemented with additional findings from a literature review. In particular, the analyses focused on the conditions and factors that enabled those initiatives to produce positive results—given that many other cities have unsuccessfully attempted initiatives similar to the ones listed, and hence the biggest challenge is in identifying what special circumstances led to success where so many others have failed.

Box 2.1: Engaging with Traded and Nontraded Sectors in Barcelona, Spain

Tradable sectors were assigned to an agency called 22@Barcelona, whose mandate was to help the sectors to compete and innovate at the highest level. For example, a tech cluster was built in a derelict site close to the harbor. Collaboration with local firms led a critical mass of technology and research institutions to relocate to the cluster, supported by the government, which streamlined land use change, eased zoning regimes, and provided basic infrastructure, street paving, and fiber-optics. Between 2003 and 2009, the number of firms in the cluster tripled.

Nontradable sectors were assigned to another agency, Barcelona Activa, whose mandate was basic business support and mentoring to help companies run efficiently. Physical hubs were established where entrepreneurs could attend classes and seek guidance on their businesses.

When the agencies were later combined, both functions suffered.

Table 2.1: What kind of competitiveness initiatives were tried—and why were they successful?[a]

	Initiatives		
	Horizontal (economywide)	Vertical (sector specific)	Critical success factors
Institutions and regulations	***Expedited permitting*** (including one-stop shops or "single window" systems) and **support to firms** in navigating the city's regulations. ***Business-friendly*** zoning regulations and land-use policies. Online ***e-government services***, greater transparency and accountability for public agencies (including staffing decisions and public procurement).	Special governance regimes for ***special economic zones*** or industrial parks. Assistance to firms in meeting sector-specific quality standards.	Local business leaders and local chambers of commerce were **consulted** about their needs and the constraints they encountered in their firms' daily operations. Mayors and other local officials focused on **constraints** they could realistically and directly affect (such as water supply or land use). Constant attention to avoid rent-seeking and bribery: "**Governments should be business friendly, not friends of business**."[b]
Infrastructure and Land	***Basic service delivery.*** Concerted effort to ensure essential services were available for industries (such as feeder roads, water, and electricity).	Free or highly subsidized ***land*** or ***office space*** for priority industries. Subsidized or public provision of ***sector-specific infrastructure*** (such as logistics for manufacturing and agribusiness; fiberoptics for information and communications technology industry)**.**	Infrastructure investments often made through **consultation with targeted sectors and firms** (rather than a build-it-and-they-will-come scheme).
Skills and innovation	***Improvements to the overall educational system.*** These measures were intended to develop and foster the next generation of human capital, as a longer-term strategy. ***Talent attraction programs***. For example, offering resettlement allowances and attractive positions to diaspora; improving the livability of the city through improvements to safety, cleanliness, low costs of living, and low congestion; attracting foreign universities to establish branch campuses and offer graduate-level programs to local students.	***Worker training programs.*** For example, regulating and promoting vocational schools to improve the quality and applicability of training; designing or funding customized worker training programs in response to industry needs; fostering industry-academia partnerships, including links between private for-profit firms and vocational schools (or universities) to improve curricula.	Human capital initiatives were **designed in collaboration with private for-profit firms**, making sure that curricula addressed the needs of business and maintained a highly applied, practical focus. **Program funding linked to performance**, assessed through periodic reviews, in which diverse stakeholder groups were consulted.
Enterprise support and finance	***Investment facilitation****:* business recruitment, expansion and retention, incentives, site selection services (zoning and permitting, business facilities, other infrastructure), custom workforce training, investor aftercare. ***Market intelligence and business information****:* competitiveness analysis, planning, market research, lead generation, branding and marketing, firm targeting.	***Financial incentives targeted toward priority industries or sectors***, including tax rebates, industry-specific subsidies, cash grants, credit access programs (lines of credit, credit guarantees, export credit) and including the leverage of national support tools. ***Colocation of similar firms*** (such as shoemakers, craftspeople, carpet manufacturers) assisted with the provision of supportive business training and backroom services.	Industries supported because of **real commercial potential** according to market analyses (rather than arbitrary judgments). Presence of institutions to guard against the risk of lobbying and capture of subsidies. Effective mechanisms for **engaging key stakeholders** and enabling collective action.

a. Table 2.1 is based on team findings from case study research, complemented by prior literature.

b. Gilles Duranton, chair of the real estate department of The Wharton School, University of Pennsylvania.

Table 2.1 ***continued***

Institutions and Regulations: City examples

KIGALI, Rwanda, upgraded its one-stop shop to target obstacles faced by foreign investors, while cleverly leveraging a well-designed and well-marketed master plan to attract investors (Kigali case study annex in Kulenovic and others 2015**,** 6, 12, 15).[c]

How they did it

City leaders

- Created the Kigali Investors' Forum, a private sector forum, to collaborate with government to identify specific reforms.
- Diagnosed constraints with a Doing Business assessment (through the World Bank) and through the Kigali Investors Forum, highlighting the following constraints: inefficiency and lack of interagency coordination on construction permits.
- Established a one-stop shop in 2010 that brought together all agencies needed to approve construction permits. In 2011, the city also created an electronic platform for construction permits with support from the International Finance Corporation and African Development Bank to further reduce red tape. The city based the project on a similar one that was successful in Nairobi, Kenya, and paid for it from its municipal budget.

What they achieved

Investors now handle all approval needs in one place and receive a construction permit within 30 days. The city is now 34th worldwide in dealing with construction permits, according to Doing Business surveys.

What cities can learn

Business climate reform was targeted at the constraints that offered the most effect indicated by the private sector and then was facilitated by coordinating effectively with the national government.

[c] Data also from Doing Business 2015 indicators (database), World Bank, Washington, DC (accessed February 27, 2010), http://www.doingbusiness.org/data/exploreeconomies/rwanda.

GAZIANTEP, Turkey, improved its business environment by reducing red tape and improving regulatory practices.

How they did it

City leaders

- Differentiated Gaziantep from other cities on what usually are key constraints: the city provided *land* (including industrially serviced land) at a relatively low cost and created *a one-stop administrative process in the OIZs* (special economic zones) for expedited permitting.
- Rationalized the municipal bureaucracy: the city's mayor slashed the municipal administration from 2,700 to about 100 employees as part of the streamlining of bureaucratic procedures, limiting opportunities for corruption and political patronage.

What they achieved

Gaziantep's exports have increased tenfold since 2002, with $6.2 billion exported annually by 2013, and the city exports products to 164 countries.

What cities can learn

A competitive business location is achieved by combining several interrelated, mutually reinforcing activities. Furthermore, strong political will to implement radical reforms can help turn the local business climate around in a relatively short time.

COIMBATORE, India, permitted the private development of a private economic zone (Coimbatore case study annex in Kulenovic and others 2015, 32–33). The developer formed a pipeline of clients during construction, built the zone gradually as tenants came in, and then customized facilities and services to their needs.

How they did it

- Staff members of the developer, KgiSL,[d] undertook an extensive, systematic analysis of market trends and players in the offshoring world and, in particular, the activities of multinational corporations (MNCs) in India. Observing that some companies had run out of room to grow in places like Bangalore and Chennai, the developer made targeted pitches positioning Coimbatore as a viable alternative, given its highly educated, English-speaking workforce that is available at significantly lower cost than in Tier 1 cities.

What they achieved

The zone has been able to attract Cognizant, Dell, and Bosch among its tenants, amassing 20,000 jobs.

What cities can learn

Market-driven industrial development, with appropriate guidance and support from the city government, allows for more customized and overall successful projects, avoiding new construction that sits empty.

[d] KGiSL stands for K Govindaswamy Information Systems Private Limited. It is now a conglomerate of companies, but it started out as a cotton-trading venture by Shri.K Govindaswamy Naidu in 1932.

Table 2.1 ***continued***

Infrastructure & Land: City Examples

GAZIANTEP'S organized industrial zones (OIZs) have each been developed with specific sectors or sizes of firms in mind, from the type of infrastructure provided to the sizes of plots (Gaziantep case study annex in Kulenovic and others 2015, 42–43). This strategy may have set them apart from less successful industrial zones in Turkey and elsewhere.

How they did it

- The city's first two OIZs were more generic, initially servicing small and medium enterprises (SMEs) and eventually larger producers. The first few OIZs featured smaller land parcels for tenants, helping to formalize SMEs and to facilitate upgrading their operations. Later OIZs catered to large carpet-making firms as well as intermediate and smaller firms that produced related products.
- The process for implementing OIZs is the same throughout Turkey, but Gaziantep has benefited from greater interaction with target firms and greater collaboration from public agencies. The municipality and governor's office closely collaborated in forming the OIZs. In addition, regulations aimed to avoid speculation: title deeds for land are transferred only after the tenants begin operation.

What they achieved

Gaziantep has five OIZs at full capacity, with the fifth under construction, and a sixth now being planned. The sixth zone is planned to be as large as all previous zones combined.

What cities can learn

Gaziantep avoided the build-it-and-they-will-come approach and built industrial parks as they were needed. This approach was facilitated by close collaboration between public agencies and target firms.

TANGIER, Morocco, leveraged national investment in a large new port to attract foreign investors in automobile manufacturing and supplier industries, which pay higher wages than previous local averages (Tangier case study annex in Kulenovic and others 2015, 6, 25, 32).

How they did it

- Morocco's government funded the construction of a new seaport facility, Tanger-Med, 35 kilometers from Tangier City. The new port would have capacity to accommodate large container ships and provide landside access for an expanded volume of commerce (which was limited in the old port).
- Major upgrades were also made to northern Morocco's road and rail connectivity. The highway and rail connections enabled rapid intermodal transfer of containers, bulk cargo, and motor vehicles and quick access from the port to nearby regional population centers, offering market access for manufacturing and logistics industries.
- City stakeholders worked hard to attract specific investors, including Renault, combining efforts of the national investment promotion agency, AMDI, with the city's local economic development entity, TMSA. One of the key dealmakers was the public sector offer to set up a dedicated automotive training center to provide sufficiently skilled workers, with skill needs identified through industry working groups.

What they achieved

Tanger-Med is now one of the largest intermodal facilities on the Mediterranean Coast and Africa's biggest container port with an annual capacity of 3.2 million 20-foot equivalent units (TEUs). The port has led to a rapid increase in investment in the Tangier-Tetouan region—for example, Renault initially employed 5,500 at the site, supporting up to 30,000 additional jobs in the region indirectly.

What cities can learn

Large-scale national infrastructure investment initiatives can unlock new growth potential for a city, if leveraged well. Tangier enjoyed maximum benefits from the new port development because it was well connected and governed by a dedicated agency that understood and targeted growth opportunities to benefit local companies.

BUCARAMANGA, Colombia, successfully lobbied for infrastructure upgrades that were most needed by the city economy (Bucaramanga case study annex in Kulenovic and others 2015, 13). It built a local private sector coalition to persuade the national government to fund the infrastructure.

How they did it

- The city chamber of commerce identified connectivity as a constraint in a 2004 study. Transportation was a key constraint to the growth of local firms.
- The study was used as a supporting document to lobby the national government. The results of the study could be linked to concrete infrastructure needs. For example, the airport reconstruction and expansion in particular aims to support the tourism sector as well as health services and precision manufacturing exports.

What they achieved

The national government responded by providing new investments, including the construction of new highways (the Ruta del Sol highway) and a new airport (Palo Negro Airport). Furthermore, the 2012 Bucaramanga Regional Competitiveness Plan included planned upgrades for all modes of transportation in Santander State.

What cities can learn

City needs can sometimes seem like a wish list for higher-tier government. Bucaramanga backed those requests with a study and linked that study to the industry sectors that could benefit most. It identified the value proposition for the national government's infrastructure investment.

Table 2.1 ***continued***

Skills and Innovation: City Examples

COIMBATORE'S private sector growth is directly linked to its thriving collection of vocational training institutions that produce a workforce with skills relevant to industry needs (Coimbatore case study annex in Kulenovic and others 2015, 9–10, 28–29)**.**

How they did it

- Coimbatore's higher educational institutions were created by the city's family-owned firms and thus are shaped directly by current industry needs, in addition to helping to develop future potential in new areas. They offer practically oriented technical curricula developed in consultation with for-profit companies.
- Local engineering students spend part of each school day on the shop floor as well as in class. This regime is distinct from schools elsewhere in Tamil Nadu. Students graduate with relevant applied skills and extensive manufacturing experience.
- Coimbatore's engineering schools produce engineers and managers as well as shop supervisors and machine operators. The city has 10 universities, 60 engineering colleges, and 30 polytechnic and industry training institutes that prepare graduates with technical skills and specialize in fundamental disciplines such as physics and mathematics.

What they achieved

Coimbatore's colleges produce "150,000 employable graduates every year," according to a leading city conglomerate. About 1 in 10 of India's engineering colleges are located in Coimbatore, putting it on par with or above many cities that are larger in size, including Pune and Jaipur.

What cities can learn

Cities' growth can be rooted in training institutions that produce a workforce with practical skills to meet current needs *and* be relevant to growth in new areas. This directed training is achieved efficiently through the private sector's involvement in devising curricula, sponsoring internships, and as in Coimbatore, even running universities or university departments.

CHANGSHA, China, improved the quality of vocational training programs by stimulating competition among schools and strengthening links between schools and businesses (Changsha case study annex in Kulenovic and others 2015, 22–23).

How they did it

- Competition was stimulated among vocational schools. The municipal government encouraged competition by having schools publicize student national exam scores and employment rates, and it allowed for private as well as public competitors.
- Incentives and links were strengthened between schools and businesses. The government provided funding to schools on the basis of enrollment numbers, and it offered tax credits to firms for sending participants to worker training programs. Performance data on vocational schools were distributed among businesses. Funding was provided for training offices and fairs.

What they achieved

Changsha's firms have stated that labor has been relatively easy to find, and this fact has allowed for both continuous and new investment.

What cities can learn

Vocational training abounds in city efforts to improve skills. Changsha ensured that this training was effective. Its methods are replicable: some barriers to entry ensure quality and incentives spur competition among schools.

CHANGSHA attracted talent (highly skilled individuals) from within China by identifying the needs of firms, leveraging national programs, and engaging in additional recruitment efforts domestically and abroad (Changsha case study annex in Kulenovic and others 2015, 21–22, 24).

How they did it

City leaders

- Formed a "Leading Group" on talent attraction composed of civil servants from multiple municipal departments. Establishing the group enabled the city to coordinate tasks among municipal departments and with higher-tier government—and, most important, to solve implementation problems along the way. Key initiatives were to identify the talent needs of existing and emerging firms, to leverage available national programs and funding schemes for talent attraction, and to engage in recruitment efforts domestically and abroad.
- Attracted national talent using the 1,000 Talents program, which provided compensation packages for highly qualified Chinese nationals willing to resettle within China. Changsha's leading firms, Sany and Zoomlion, recruited high-level talent through the program.
- Used diaspora networks to attract new applicants from targeted industries, offering them jobs and incentives to start their own businesses in Changsha.

What they achieved

Some 10,000 professionals were attracted through national programs from 2009 to 2011, and the city has set aside Y30 million to fund future talent attraction programs. The city recruited 102 "high-level talents" and 17 start-ups in two years from municipal programs.

What cities can learn

Cities must be aware of and capitalize on national programs for talent attraction and to the extent possible use the logic of those programs to devise local initiatives. Talented individuals need assurances and incentives to relocate, and as Changsha discovered, they can be attracted to a good opportunity or even to start their own business.

Table 2.1 *continued*

Enterprise Support and Finance: City Examples

CHANGSHA developed a system of measures to attract new industries and diversify the local economy. The city offered incentives to favor specific industries, developed relationships with investors, and improved communication between firms and government officials.

How they did it

- The city government offered attractive incentives to investors, including preferential tax policies, funding (such as tax credits for high-tech research and development activities) and locational advantages in industrial parks (colocated input suppliers and component producers).
- The Changsha government's attentiveness and coordination stood out to investors. Industrial park organizing committees and independent management structures provided support to tenant firms (for example, addressing labor supply needs by conducting regular recruitment events).
- Changsha also supported firms through an intergovernmental coordination mechanism known as the Leading Group for an Open Economy, a committee to coordinate among various government departments, industrial park organizing committees, and top-level officials and keep them aware of progress and problems.

What they achieved

Automobile industrial output doubled between 2008 and 2012, reaching $4.95 billion. Currently, firms in this industry include Bosch, GAC Fiat, Hitachi, and Lizhong Automobile Design. A new Volkswagen plant is under construction; that plant will increase car production to 300,000 by 2016.

What cities can learn

Changsha's combination of tools—industrial parks, preferential tax policies, local supplier links, and coordinated government support—has been a "dealmaker" in bringing investors to the city rather than to competitors with similar endowments.

BUCARAMANGA'S chamber of commerce helped the city succeed by actively and continuously assisting firms trying to receive national support, including assistance in selecting and applying for funds (Bucaramanga case study annex in Kulenovic and others 2015, 15–16).

How they did it

- The chamber convened 70–80 business, academic, and government leaders to adapt and seek new growth areas to help the city survive in the global economy.
- The national government, meanwhile, created regional competitiveness commissions (RCCs) to serve this purpose—Santander Competitivo in Bucaramanga's case. The new RCC did much of what the chamber of commerce had done before: identifying national sources of support (for technology development, training, funding, export assistance, and so on) and submitting timely applications for its members.
- The chamber offered its assistance and office space to help operationalize the RCC. The RCC's full-time staff of four was paid by public and private funding and led by an executive director.

What they achieved

The RCC and chamber of commerce provide a mechanism for firms to leverage national programs and support, particularly to fund activities outlined in the RCC's regional competitiveness plan (such as funding to support nationally targeted sectors). The initiative involves working with SENA, the national learning agency, on worker training programs and with ProExport, the national export promotion agency, to provide export assistance to local firms.

What cities can learn

The chamber of commerce assisted its members and the city by identifying national support and funding schemes and submitting timely applications on behalf of its members.

COIMBATORE'S private sector stepped up to bridge the gap when the regional investment promotion body did not fully represent the interests of the city (Coimbatore case study annex in Kulenovic and others 2015, 22, 30–32).

How they did it

- KG Group—a private conglomerate offering information technology, information technology enterprise solutions services, business process outsourcing services, real estate development, and higher education—was the developer of a large office park in the city. To attract investors, it pitched Coimbatore to MNCs as a viable alternative to Bangalore and Chennai, with their growing labor and land costs and lower potential for growth. The city was presented as one with a highly educated, English-speaking workforce with engineering skills and practical training.
- KG performed typical economic development functions: analytics for business recruitment; industry and firm identification; and targeting, business expansion, and investor aftercare. KG also organized a dinner between prospective investors and the Coimbatore business community, showcasing the city's entrepreneurial and collaborative spirit.

What they achieved

KG Group has been able to attract Cognizant, Dell, and Bosch to its special economic zone, amassing 20,000 jobs. Cognizant, which employs 10,000, is looking to add space to employ up to 60,000 in the next three to five years.

What cities can learn

KG Group filled the role conventionally played by an economic development agency because Coimbatore lacked one. KG Group worked to shepherd new investment, doing so with extensive, systematic analysis not only to find and recruit investors but also to provide a menu of economic development support.

Some key insights from these case studies can be highlighted:

- *Competitive cities pursued horizontal (economywide) interventions as well as vertical (sectorally focused) interventions.*[10] All six cities prioritized the provision of basic enabling infrastructure and services needed to attract and retain investment and to promote business formation and growth. Wherever it was practical and was within the city's scope to do so, bureaucracies were streamlined, permits and licenses were simplified and expedited, and services were enabled online. At the same time, most cities also targeted specific sectors for economic development, such as through the provision of dedicated training programs, marketing efforts, targeted infrastructure, or export-promotion initiatives. For instance, nearly every city studied placed human capital among its top priorities, recognizing its importance to the realization of short- and long-term goals, the growth of key industries, and the attraction of investors. Rather than only aiming generally to improve the overall education system, these cities also focused on the development of specialized skills and know-how in such areas as automotive technologies and medical science to foster the growth of those industries above others. Such efforts were sometimes led by public sector entities and sometimes led by private sector entities.

- *To minimize the risk of "regulatory capture" and market distortion (such as subsidies and protectionist measures), the cities used extensive dialogue and a solid fact base to anchor their priorities in real comparative advantages.* The fact base helped them make decisions that were based on technical merit rather than on political interests or arbitrary judgments. The city leaders also showed an ability to "let the losers go" when some sectors were judged not to be globally competitive. These trends are consistent with city case studies conducted by other researchers. For example, studies of cities in the United States that have executed successful turnarounds have shown that the cities combined broad interventions in transportation and communications infrastructure with sector-specific investments (Kodrzycki and Muñoz 2009).

- *Competitive cities benefited from all three channels of firm-level growth: growth of existing firms, attraction of outside investors, and creation of new businesses.* The cities did not target only one of those channels. They balanced recruiting investors with assisting the growth of existing firms—which typically accounts for the largest share of new jobs in most economies—and with helping the formation of new businesses.

- *Competitive cities' growth was usually driven by at least two or three tradable sectors.* In Coimbatore, the sectors were mechanical engineering, textiles, and food; in Gaziantep, they were carpets, food, and shoes; in Kigali, they were tourism and trade services; in Changsha, they were construction engineering and some manufacturing. In top-performing cities more widely, tradable sectors typically grow around 2.5 percentage points faster than nontradable sectors do. Tradable sectors thus seem to be a driver of city income growth because they provide a pathway to injecting new income from exports while reducing income leaks due to imports.[11]

Traded and nontraded sectors may be treated as two separate opportunities, with two different approaches to industry support. Nontraded sectors (such as coffee shops, shopping malls, hairdressers, and maintenance services) can be used as tools of spatial income redistribution within a city and as a means to create jobs in underserved areas, and they do not need sophisticated industrial strategies to account for global competition. Traded sectors (such as manufacturing and exportable services) require strategic analysis and sector prioritization because they are subject to external competition, and they succeed when a competitive niche has been identified within global value chains. An example of this distinctive approach in Barcelona, Spain, is summarized in box 2.1.

Figure 2.5: Leading economic development—from public to private and many points in between

Public-Private Spectrum

A predominantly **public model**, with a dedicated city economic development agency or local government department (responsible for investment attraction, entrepreneurial assistance, or capacity building) seems most appropriate in conditions of an underdeveloped local private sector or where the state already plays an influential role in the economy. *Kigali, Tangier, and Changsha used this model.*

A **mixed public-private model**, with shared responsibilities between the local government (in a supportive role for public-private dialogue and public investments) and business associations and private institutions (providing sector-specific support and assistance to firms) seems most appropriate where local industries already have a foothold and some local private sector champions are emerging. *Gaziantep and Bucaramanga used this model.*

A predominantly **private sector–driven model**, where local government focuses on providing public goods like trunk infrastructure and physical security (but does not directly intervene in investment attraction and firm growth) seems most appropriate where local government lacks the legal scope for interventions or does not have the institutional capacity to exercise its administrative powers. *Coimbatore used this model.*

Source: Kulenovic and others 2015.

Who creates city competitiveness?

Popular literature on city competitiveness has conventionally drawn attention to the central role of strong mayors, important personalities or chief executives (KPMG 2014b, 28–29; WEF 2014, 49) as a driving force behind city success. Although this narrative may reflect the reality of several urban success stories, an emphasis on the role of personal leadership does not suggest many actionable recommendations. The emphasis on a mayor's leadership also excludes a wider spectrum of city leaders, such as other actors from the public, private, and nonprofit sectors. In the case studies, leadership came from different combinations of actors working in and for the city. Moreover, personal leadership will lack traction unless it is accompanied by an institutional structure to turn intentions and aspirations into action and delivery.

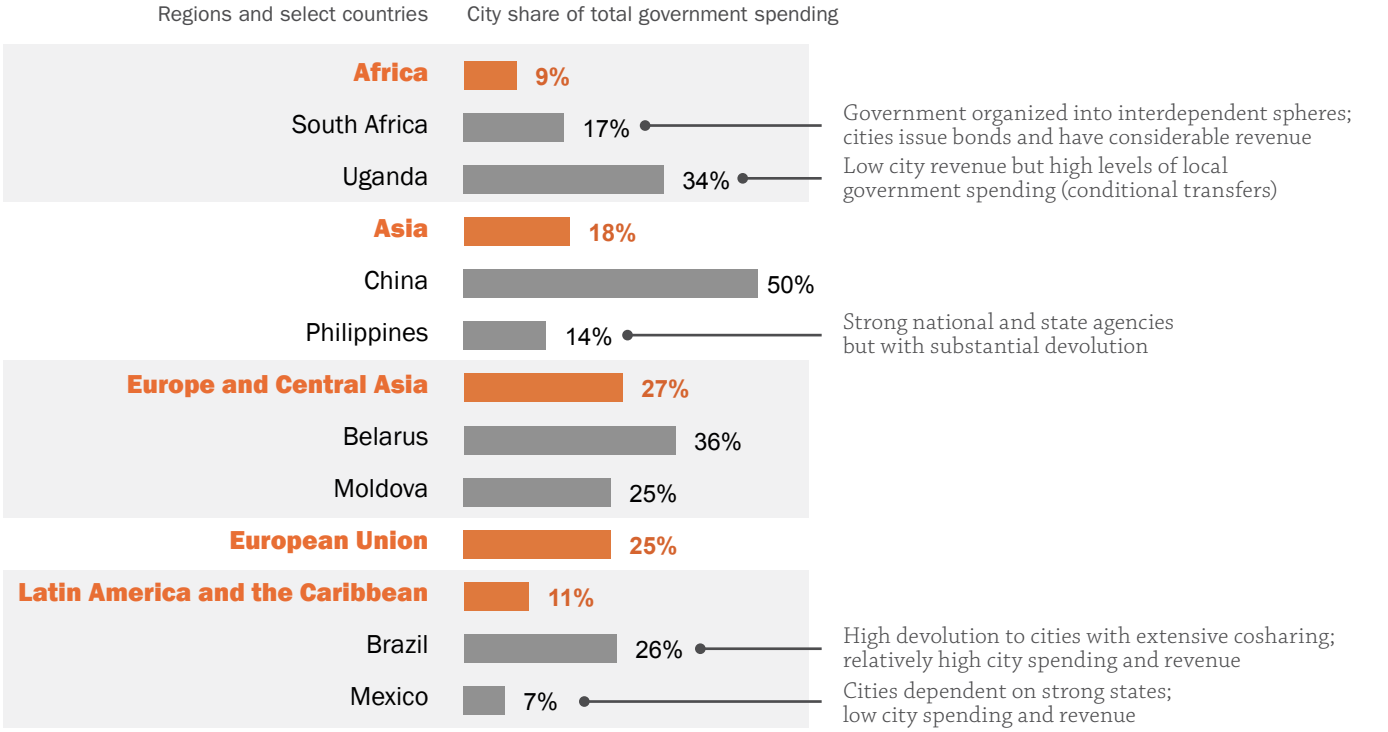
The research team found that it did not matter precisely *who* performed a particular role in economic development in a city, as long as *someone* did it. Certain policy levers such as regulatory reforms, legal provisions, and fiscal incentives are the prerogative of governments only, but other initiatives can be pursued by a wide range of civic actors (including skills and innovation support, infrastructure investments, and financial instruments). This conclusion contradicts the opinion of some city governments that they must do everything in economic development. The case studies of successful cities demonstrate that this is not the case.

The different configurations of proactive city leadership can be framed as a *city wedge* on which city leaders pursue economic development through three different avenues:

- Mayor's wedge—the internal *scope* and *capacity* of the city administration compared to other tiers of government
- Growth coalitions wedge—*partnerships* with stakeholders, especially with private sector
- Intergovernmental relations wedge—external *leverage* with neighboring jurisdictions and other tiers of government

Ideally, a city's proactive engagement in competitiveness includes all three of the wedges. Successful cities leverage their full city wedge, using their internal scope and capacity, creating growth coalitions with the private sector, and linking with other levels of government and neighboring jurisdictions. All of the case-study cities employed some form of public-private dialogue that had a visible bearing on their economic outcomes. What was most critical was whether the leading actors had the capacity to lead local economic development, including (but not limited to) the ability to engage with stakeholders, develop effective strategies, identify key industries, improve the business environment, and address the needs of local businesses.

Figure 2.6: Cities vary widely in the resources available to them



Source: Spending data from UCLG and World Bank 2009; qualitative findings from Smoke 2013.

In practice, who takes the lead varies case by case, depending on politics and on the capacity of the public sector compared with the private sector. The lead actors in this process will be a function of history and relative institutional strength, as illustrated by figure 2.5.

In the following three subsections, findings on each of the three "wedges" are described. A companion paper provides more detail on each wedge (Gashi and Watkins 2015).

Figure 2.7: Competitive cities know their own competencies relative to other stakeholders, and they prioritize their efforts accordingly

	Institutions and Regulations	Infrastructure & Land	Skills and Innovation	Enterprise Support and Finance
National government	Macroeconomic management National investment and trade policy Legal framework amd property protection Industry-specific taxes and regulations	Highways, roads, airports, ports Power grid Regulations for infrastructure provision, such as PPP laws	Public education system Immigration policies to attract talent R&D funding, support schemes Healthcare	Export and trade facilitation Access to finance support schemes
Mayor's Wedge				
City government	Municipal taxes and incentives Zoning and land use policies Construction permits; business licenses Public safety and law enforcement	City roads and public transportation Water and sanitation Public safety Housing/slum upgrading	Talent attraction programs Cluster development support Linking firms with academia	Business support services Investment policies, promotion, and aftercare Facilitation of seed, catalyst, and risk capital
Private sector	Standards and certification associations	Additional infrastructure and shared services	Vocational training programs R&D	Business associations and support networks Market intelligence and business information Equity and debt

Source: World Bank.
Note: PPP = public-private partnership; R&D = research and development.

Box 2.2: Mayor's Wedge in Practice

A powerful mayor's wedge

Bilbao, Spain, is unique in that its fiscal policy is completely devolved from the central government. The city used that power to its advantage by raising a direct tax to fund the regeneration of a critical city asset, the Nervion River, for urban and economic regeneration. The city also solidified its economic development landscape by setting up two new development agencies—Bilbao Ria 2000, a public corporation set up to redevelop the riverfront and brownfield land, and Bilbao Metropoli-30, a nonprofit economic development partnership to strategize the city's economic revitalization (Summary in Gashi & Watkins 2015 of KPMG, Magnet Cities, 2014: 34, 39-42, 50-53).

A slimmer mayor's wedge

Tangier, Morocco, has a city government with a limited administrative role in interventions aimed at economic development, although it plays an active enabling role in practice. The government engages in interventions that include "placemaking" through quality of life improvements for residents, visitors, and investors; investment promotion events (inbound and outbound); and work to improve the business climate and simplify administrative procedures. The city government has formed a regional growth coalition with the regional government (the Wilaya of Tangier) as well as with other local stakeholders.

The Mayor's Wedge: Internal City Delivery

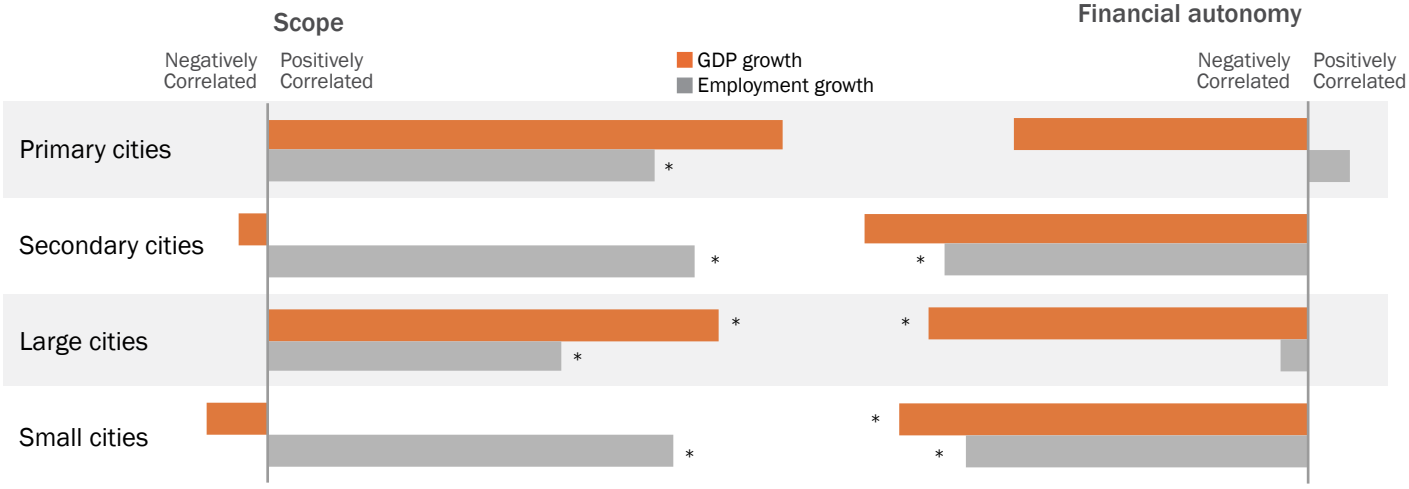
The scope and capacity of city governments varies greatly across cities and countries. Figure 2.6 summarizes some of the expenditure figures worldwide, showing the proportion of total government spending that is administered by local governments. The wide variation in these numbers illustrates the imprudence of generalizing about the role of city governments.

City governments' ability to act will therefore be conditioned by their particular scope and powers, that is, the mayor's wedge. Figure 2.7 provides an illustrative typology of what powers and responsibilities might be mapped to different levels of government and between public and private sectors, with the city government having only a share of these.

In several cases, cities were able to prioritize interventions according to their powers. Where they lacked the administrative remit or the financial resources, cities were able to facilitate growth coalitions with the private sector and to lobby national governments in a coherent and coordinated way to address the investment gaps. Those patterns are examined more thoroughly in later sections of this document.

For national policy makers, one key question concerns whether an increased scope and capacity of the mayor's wedge is important in determining economic outcomes. The World Bank investigated econometrically

Figure 2.8: Effects on economic outcomes of increased administrative scope and financial autonomy for city governments



(Bars reveal relative magnitude and direction of the relationship.)
* denotes statistical significance at the 10 percent level.

Source: Fikri and Zhu 2015.
Note: GDP = gross domestic product.

whether the scope, financial autonomy, and capacity of local government actually does influence GDP and employment. The proxy used for measuring the scope of local government is the local share of total government spending. The proxy used for measuring financial autonomy is the share of the city's revenues raised locally. The proxies used for measuring capacity of local government are local government size, local tax extraction capability, and public employee productivity.[12] The conclusions are the following:

- Increased city government scope is associated with increased GDP growth and job growth, globally. Here, *scope* means the administrative responsibilities of city governments. Scope was measured using data on the proportion of total government spending that is expended by local governments. Globally, increased city government scope is associated with positive economic outcomes (as shown in figure 2.8). Results from this figure are calculated on the basis of a regression model controlling for year and city fixed effects.

- Conversely, increased financial autonomy is associated with *decreased* GDP growth and job growth. These results are stronger for small and secondary cities than for primary and larger ones. [13]

- This puzzle is explained by the finding that public sector capacity is the underlying driver of positive outcomes. In other words, scope and financial autonomy do not produce an influence unless they are accompanied by a capacity to implement. Using more detailed data from the European Union and China (Zhu and Mukim 2015), the analysis examined what happened to firm-level outcomes when cities were provided a larger administrative scope at a specific point in time. The research found that an enlarged administrative remit did indeed translate into better outcomes for incumbent firms and new entrants—in particular, in increased profitability and operating revenues and in higher wages for employees—but *only* when accompanied by commensurate increases in local government capacity. Increasing scope without capacity was not enough.

- Bigger scope and capacity at the city level also creates a better conduit for implementation of national-level reforms. In Ethiopia, decentralization through city proclamations (a sudden broadening of the mayor's wedge across the country) resulted in better implementation of existing national-level tax policies, leading to better economic outcomes for the intended private sector beneficiaries (Chaurey and Mukim, forthcoming). This

Box 2.3: Growth Coalitions in Practice

In **Bucaramanga, Colombia**, the chamber of commerce convened 70–80 businesspeople, academics, and government leaders in 2006 to seek new growth areas—motivated by the risk that the city would become a backwater in the global economy. Subsequently, regional competitiveness commissions were mandated by the national government to plan for the country's economy at provincial scale; in Bucaramanga's case, only a quarter of the members of the commission were from the government.

In **Gaziantep, Turkey**, a city assembly was established in 2006 with 225 members,[a] of which only 20 percent were from the government and 80 percent were from the local private sector and civil society organizations. The assembly assigns subcommittees to analyze and propose solutions to specific citywide problems (such as transportation, small businesses, international visibility, broader economic development) that can then be implemented collectively by the city government and private sector associations. When the research team first arrived in Turkey, interviewees in Istanbul and Ankara told them, "It is amazing how people from Gaziantep speak with one voice." But after visiting Gaziantep, the team realized that this one voice is not amazing: it is rooted in institutionalizing a growth coalition.

Sialkot, Pakistan, is known for its export manufacturing cluster consisting of sporting goods, surgical instruments, and leather. However, the cluster was in dire need of better transportation and logistics, and it turned to its local chamber of commerce for help. The Sialkot Chamber of Commerce and Industry teamed up with local government to create a public-private institutional mechanism—the City Package Association—which built several kilometers of roads and the first private sector airport in South Asia, operating 27 flights a week (Gashi and Watkins 2015; Zaheer 2012).

The universities in **Pittsburgh, Pennsylvania**, helped diversify the heart of the U.S. steel industry into the new economy. In the high-tech cluster, the state government recognized university efforts, particularly those of Carnegie Mellon University, to establish close ties between university research and development and the city's economic growth. The state government supported the creation of Ben Franklin Technology Partners, which offers office space and support to startup firms and venture capital investment. Since 1989, this initiative is credited with creating 80,160 jobs (KPMG 2014b).

[a] Public-private collaboration in Gaziantep predated the council's formation in 2006, but it was formalized in the city council structure after the enactment of national legislation for city councils in the same year.

finding suggests that local actors, with adequate capacity, are well placed to transmit institutional and business environment reforms more efficiently and according to local needs and particularities.

In summary, the larger the mayor's wedge, the higher the potential for positive competitiveness outcomes, but only if accompanied with commensurate local government capacity. (See box 2.2 for two examples of the mayor's wedge at work.) This result confirms the hypotheses of other publications.[14] The findings are particularly relevant at a time when city managers in many countries are taking on additional powers and accountability, including the responsibility for economic development, but not always with adequate preparation. In several examples, power is devolved to cities without devolution of resources and governance and capacity-building efforts. For example, in Kenya, a country currently undertaking ambitious decentralization reforms, local governments have empty coffers, and they thus run the risk of being incapable of undertaking much-needed, economic development initiatives. Similar situations are occurring in several countries in Latin America and southern Africa.

A Growth Coalition of Public and Private Stakeholders

With all their differences, a common feature across the case studies was the existence of an effective growth coalition. The coalition combined public and private stakeholders in setting a strategic direction and contributing to economic development.

That pattern contrasts with the experience of many cities, where various stakeholders in city economic development work at cross purposes. City governments, agencies, chambers of commerce, sector associations, local universities, training centers, and labor unions all have a stake in economic development. But, somehow, they exhibit parallel strategies, duplicative functions, and sometimes competing mandates. Within the public sector, such inefficiencies are usually symptoms of a lack of coordination. Between the public and private sectors, they are usually symptoms of a lack of trust.

In successful cities, collaboration and coordination occur. In some cases, businesspeople from a city were renowned elsewhere in the country for thinking with one mind—having a "hive mind." City transformation resulted from individuals within government, industry, and academia working together for the advancement of their city rather

Box 2.4: Intergovernmental Relations in Practice

On interjurisdictional cooperation, **Bucaramanga, Colombia, and Gaziantep, Turkey**, ensured interjurisdictional cooperation within their respective metropolitan areas, collaborating between municipal governments and through public-private growth coalitions. The Bucaramanga Metropolitan Area is made up of four individual municipalities and has a coordinating body with a small professional staff. Whereas the body is primarily focused on metropolitan development projects of areawide significance on transport, mobility, water supply and sewerage, and housing, it is also involved in proactive economic development through its participation in the area's public-private growth coalition (the Regional Competitiveness Commission). Similarly, Gaziantep's three municipalities within its metropolitan area have roles in public works (maintaining secondary roads), sanitation and land management, and expropriation. They take part in the Gaziantep City Council, where they engage with government and external stakeholders on the city's most pressing issues, including economic development (Bucaramanga case study annex in Kulenovic and others 2015, 13–14; Gaziantep case study annex in Kulenovic and others, 2015, 30–31).

In the **United Kingdom, Greater Manchester's** 10 local authorities have a legacy of successful collaboration and were willing to make the institutional changes necessary for devolution. Cooperation between Manchester's local authorities began through the Association of Greater Manchester Authorities. The Greater Manchester Combined Authority (GMCA) formalized these collaborative arrangements and was created as a statutory body to manage transport, economic development, and regeneration functions (Wilcox, Nohrová, and Williams 2014, 12). The GMCA was, in effect, the creation of an additional tier of government for Manchester—a cabinet of 10 leaders with powers to deliver joint programs. The authorities also established the Greater Manchester Transport Fund, to combine the various contributions for infrastructure spending (KPMG 2014a, 12).

On intertier lobbying and cooperation, **Bucaramanga and Coimbatore, India**, like many other cities, lobbied their national governments for infrastructure investment. However, they lobbied with a purpose. Bucaramanga's chamber of commerce identified connectivity as a constraint to the growth of its local firms in an infrastructure study, and it used the results to lobby for specific infrastructure needs. Similarly, Coimbatore's chamber of commerce and industry led a "10 point agenda" (backed by 110 stakeholder groups in the city) to articulate the top 10 infrastructure needs of the city. The city leaders purposefully promoted the agenda during local and national elections, lobbying politicians using their specific project proposals (Gashi and Watkins 2015, 24).

than from the actions of a visionary mayor alone. Nongovernment stakeholders are not just consulted in these cities: they are often the drivers of the entire process, as cocreators and coimplementers. They create a *growth coalition*. Examples are shown in box 2.3.

The stakeholder engagement process is often formalized. In Kigali, participatory planning was done at every tier of government, giving citizens a greater voice in identifying priorities. In Bucaramanga, government and nongovernment stakeholders interacted through roundtables and regional committees, collectively developing a regional strategy. In Gaziantep, dialogue took place through a forum (the City Council) that brought together business leaders, academia, civil society groups, and government officials.

Intergovernmental Relations

Cities' scope for action is limited by administrative powers, geographic boundaries, and fiscal resources. Examples follow:

- *Administrative powers:* Lucknow, a city of 4 million people in the Indian state of Uttar Pradesh, was unable to respond to mounting challenges of rapid population growth because of the limited administrative powers of cities in India. A city mayor has authority over road construction projects, but cannot make decisions on bridges—which limits what can be done in a city that flanks a river (Barata and Pokharel 2009).

- *Geographic boundaries:* The city of Denver in the United States wished to expand its public transport service through the "FasTracks" initiative, but did not have sufficient geographic reach to cover the whole network. The metropolitan area is divided into central city and suburban districts, with fragmented political leadership (Katz and Bradley 2013, 56–61).

- *Fiscal resources:* Cities worldwide usually need revenue transfers from the national government to fund major projects. The city of Amsterdam, Netherlands, funds major projects through nationally created reserves. Cities such as Cape Town, South Africa, and Brisbane, Australia, depend on pooled resources, shared by city-provincial-national tiers (OECD 2013, 31).

Thus competitive cities use their leverage to nudge others to do what they cannot do themselves. In response to their limitations, competitive cities work closely with their fellow metropolitan area city leaders, and create mechanisms and channels to access higher-tier funding and support schemes. This may involve the following:

- Interjurisdictional cooperation—with neighboring cities and districts

- Intertier lobbying and cooperation—across tiers of government (state, provincial, national, and federal)

Box 2.4 provides selected examples of how these two mechanisms can work in practice.

How are economic development strategies sequenced and delivered?

Many city economic development strategies, as sophisticated as they might be, fail to prove effective. A reviewed of the most common reasons for failure revealed the following patterns (Sivaev 2015). In brief, it is notable that most of failures concern the *process* of strategy design and implementation—the *who* and the *how* of strategy setting, not just the *what*. Some typical pitfalls include the following:

- Spending huge resources on data collection and description—sometimes as mandated by national-level requirements[15]—rather than focusing tightly on the most urgent objectives for the city *(Boiling the ocean)*

- Using a checklist approach for interventions selection instead of an analytic process derived from evidence *(Cookie cutter)*

- Presenting too many initiatives simultaneously without prioritizing them *(99 priorities)*

- Creating a wish list of ideal interventions that do not reflect cities' administrative scope, responsibilities, and implementation capacity *(Straight to Utopia)*

- Limiting private sector engagement to consultations only or developing a draft strategy first and approaching the private sector later *(Consulting not cocreating)*

- Hiring external consultants who do the analytical exercise once, present their results, and then leave *(Fly-in/fly-out)*

- Responding to a local economic development initiative started by a private sector association by taking it over *(Control freak)*

- Treating a strategy like a fundraising proposal to attract funding throughout the implementation phase (Hence only selected projects get implemented, and the strategy ends up having vast gaps.) *(Vision without a budget)*

- Abolishing a previous administration's projects without determining which ones were working *(New leader/New strategy)*[16]

For this final topic—the *how* of city competitiveness—the research findings have been combined with guidance on strategy making, implementation, and delivery. The approaches are presented in chapter 3.

KEY TAKEAWAYS FROM CHAPTER 2

Job creation and economic growth in cities are clearly linked to the cities' success in attracting and expanding private sector firms. The World Bank estimates that the private sector accounted for three-fourths of job creation and four-fifths of gross value added across the 750 cities in the database. City leaders need to understand what factors help attract, retain, and expand firms that create jobs and spur economic growth.

Four key categories of policy interventions should be considered. It appears that the building blocks of competitiveness can be sequenced: institutions and infrastructure at lower incomes, then innovation capacity and the human-capital base required, together with the enterprise support and finance provided for firms to compete, grow, and prosper as a high-income city. A careful sequencing of these interventions also depends on the main industrial structure of the city and its competitive advantages. Competitive cities often pursued both vertical and horizontal interventions. (They worked to improve their business climate and also targeted individual sectors for proactive economic development initiatives.)

A city's proactive engagement on competitiveness includes a leverage of its full city wedge, using its internal scope and capacity (the mayor's wedge), creating growth coalitions with the private sector (the growth coalition wedge) and linking with other levels of government and neighboring jurisdictions (the intergovernmental wedge). Certain policy levers are the prerogative of governments only (such as regulatory reforms, legal provisions, and fiscal incentives), but others (skills and innovation support, infrastructure investments, and financial instruments) can be pursued by various actors, either public or private. In the case studies, it did not matter precisely who performed a particular role in economic development, just so long as someone did.

A delicate balance between scope and capacity is needed. Increased mayoral scope (compared with other tiers of government) is not sufficient to improve economic outcomes. Power has to be accompanied by capacity to bring about city competitiveness outcomes.

Critical attention needs to be paid to implementation and delivery. Competitive cities chose a strategy for economic development, aligned their budget to finance it, organized to deliver it over time across electoral cycles, and provided sufficient staff capacity and attention to the quality of implementation.

Although it is impossible to replicate the path of other competitive cities, each city can improve its performance by learning from these findings and by using a custom process to design and implement a strategy using tools that are already available. Such tools include strategic analysis of the local economy and external market trends and opportunities; public-private dialogue; and techniques for harnessing the political economy during implementation. The techniques are outlined in chapter 3.

Notes

[1] Some popular surveys in this area are the World Bank's enterprise survey and United Nations Conference on Trade and Development's world investment prospects survey.

[2] The literature included academic papers and reports by multilateral organizations and nongovernmental organizations that address the issue of city competitiveness. These sources included Choe and Roberts (2011), Kamiya (2013), Nollen (2011), OECD (2006), Parkinson and others (2003), Rodríguez-Pose, Farole, and Dowson (2007), and Zhang (2010). Additionally more than 30 empirical studies of individual determinants of economic performance of cities were reviewed, including Acemoglu, Johnson, and Robinson (2001); Aghion, Howitt, and Mayer-Foulkes (2007); Barro (2002); Bloom and Van Reenen (2007); Boulhol, de Serres, and Molnar (2008); Branstetter and others (2010); Calderón and Servén (2004); Escribano and Guasch (2005); Glaeser and Kerr (2009); Kaufmann, Kraay, and Mastruzzi (2008); Mauro (1995); and others.

[3] Unless otherwise defined, *subnational* in this paper refers to the government tier between city and national government.

[4] The EIU Competitiveness Index (used for Hot Spots), for example, does a better job predicting outcomes in East Asia and Pacific and Organisation for Economic Co-operation and Development cities than it does in Latin American and Caribbean or South Asian cities, and it does a better job in high-income cities than it does in low-income ones. The A. T. Kearney Global Cities Index performs better with primary cities, and the Mercer Quality of Life Index performs better for secondary cities. Hence, it is difficult to know a priori which index is a useful measure of competitiveness for any given city.

[5] Raw data from popularly used indexes—covering themes ranging from competitiveness to livability, sustainability, and infrastructure—was combined with the World Bank Group's Doing Business Indicators, the Chinese Academy of Social Science's Global Urban Competitiveness Report for patent data, and the International Monetary Fund's Government Yearly Financial Statistics.

[6] The OE database covers 750 cities across 140 different countries. The dataset contains 12 years of historical data, covering the period from 2000 to 2012, and includes 90 variables containing demographics, output and employment (each by sector), household income, consumer spending, and retail sales, among others.

[7] The results are given in the context of previous research such as Duranton and Puga (2013), which finds in developed economies that physical (transportation) and social (housing supply and amenities) infrastructure, as well as human capital, entrepreneurship, and technology shocks are key drivers of population growth of cities.

[8] There is one countervailing result here, where social infrastructure is observed to be in an inverse relationship with labor productivity at lower rates of income, as shown in figure 2.4. This report does not dwell on this anomaly because the predominant pattern is as described: infrastructure is broadly in a positive relationship with economic outcomes at all levels of income, with this single exception. (The exception may also be due to a small sample size and data noise, which appear to affect social infrastructure data more than some of the other data series.)

[9] The high-growth metropolitan economies studied span a range of income levels and economic structures, but none of them has an economy based primarily on extractive industries (natural resource wealth), major military installations, or other nonreplicable economic advantages.

[10] This mix of horizontal and vertical interventions is similar in nature to what scholars have begun terming *new industrial policy*.

[11] Nontraded sectors account for most of the economy and are important for employment and service delivery. Traded sectors provide a growth engine for a city's economy. An accessible exposition of this principle can be found in Jacobs (1969).

[12] Attempts to directly measure local government capacity systematically across countries met methodological roadblocks. To try to get around these global issues, the performance of proxies was explored for capacity in two institutional contexts: China and the European Union. In China, two proxies were used to measure capacity: (a) share of public employees paid through public finance out of the total city population (that is, local government size), and (b) tax revenues collected locally out of city GDP (that is, local tax extraction capability). In the European Union, public employee productivity was captured in the dataset, which probably is a better proxy overall for measuring government capacity.

[13] Indeed, literature shows that affects of fiscal decentralization have mixed results across countries. That effect probably occurs because fiscal decentralization has to be coupled with political and administrative decentralization when it is evaluated, because a systematic approach that takes into account the design of fiscal decentralization is more relevant than the fiscal dimension alone. See Martinez-Vazquez, Lago-Peñas, and Sacchi (2015).

[14] See Lall (2013). The report points out that too much emphasis on financing without careful planning first could set back a city's development for decades. In turn, planning requires a reasonably high local government capacity, which can determine the degree to which the financed infrastructure and services are successful and sustainable.

[15] Several countries require cities and local governments to produce large strategic documents to access national funding. As a result, documents get produced only as a duty rather than to maximize their usefulness to economic outcomes.

[16] The team also made some incidental observations: (a) local economic development (LED) literature is produced predominantly by organizations that conduct LED operations, and case studies are biased toward successful cases that support their own methodologies, and (b) most LED methodologies focus on local government as the client, with the local public sector playing the lead role. The cases in which the private sector facilitates citywide strategic exercises appear to be underrepresented.

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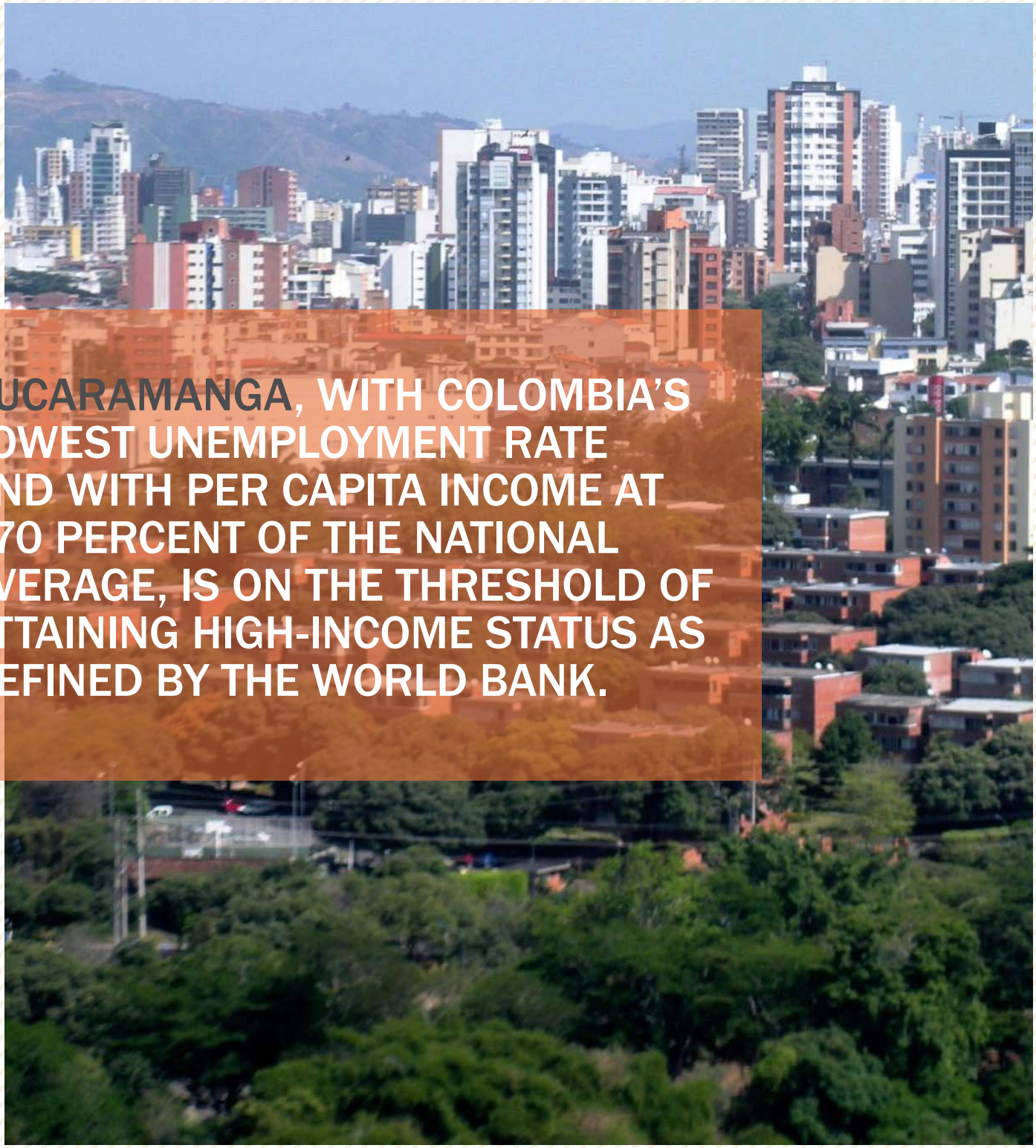


BUCARAMANGA, WITH COLOMBIA'S LOWEST UNEMPLOYMENT RATE AND WITH PER CAPITA INCOME AT 170 PERCENT OF THE NATIONAL AVERAGE, IS ON THE THRESHOLD OF ATTAINING HIGH-INCOME STATUS AS DEFINED BY THE WORLD BANK.

CHAPTER 3

How can cities become more competitive?

This chapter is offered as a pragmatic user's guide to city competitiveness. It is written for city administrators and leaders—mayors, city managers, directors of economic development, public officials, and private sector leaders and associations. It is designed to support efforts to increase competitiveness as a dynamic attribute. It does not contain recipes for guaranteed success. Instead it provides tools and processes, alternative approaches, and organizational systems that can help city leaders to identify and implement a strategy and then to evolve and adapt it so that it can support decisions in each city's discovery process.

CHAPTER 3

There is no single recipe for becoming a competitive city, but some common patterns can be identified and some specific techniques can be utilized by city authorities designing and implementing economic development strategies.

The techniques presented in this chapter are not new, but they have tended to be poorly used or not used at all. Several toolkits on local economic development techniques are readily available from a number of development organizations,[1] and local economic development efforts have been undertaken for decades. Yet in practice, urban economic development efforts commonly suffer from some of the pitfalls identified in the final section of the preceding chapter, particularly in not striking a balance between the what, who, and how of strategy design and implementation. In some cases, economic development initiatives are implemented as process alone, without robust analytics to help leaders define targets, structure the process, and make decisions between various competing viewpoints and desires. In further cases, local economic development is interpreted narrowly as a need to focus on local small and medium enterprises (SMEs) and cooperatives rather than to solve particular problems that move the whole local economy toward greater competitiveness. This chapter attempts to respond to some of those pitfalls with a consolidated approach.

No single prescription will likely be found to be useful in a policy environment as varied and complex as city economic development. Thus we present a number of different approaches, some less interventionist and some more interventionist. Even in the case studies of highly successful cities, a number of different approaches and recipes for competitiveness are apparent. The World Bank will continue to test and adjust these ideas in a continuing series of engagements with cities.

Chapter 2 explained that successful cities focus on the who and how of competitiveness, not only the what. With firm-level competitiveness at its core, a city administration would take the following steps to create a strategy:

1. Identifies sources of growth (section 1: "What: Growth Pathways and Prioritization")
2. Collaborates with various stakeholders to determine a course of action (section 2: "Who: Growth Coalitions")
3. Organizes its own role in the process (section 3: "How: Organizing to Deliver")

Within each step, different approaches are available, each of which is suitable to different types of governance and capacity, as outlined here.

In real-world cases, the process described is not necessarily linear or formal. In fact, successful cities may assert some elements far more than others, or they iteratively return to the beginning of the cycle to continuously adapt their strategy using sophisticated "market sensing." For example, the cities of Bucaramanga, Colombia; Changsha, China; and Kigali, Rwanda, all prioritized investments in human capital. However, in Bucaramanga, the strategy was informed by extensive analytics and benchmarking (Growth Pathways); in Bucaramanga and Kigali, the strategy was driven by formal stakeholder engagement in planning (Growth Coalitions); and in Changsha the strategy was refined through organizational innovation, experimentation, and flexibility in long-term plans (Organizing for Delivery). In Gaziantep, Turkey, researchers did not find written or sophisticated strategies, but all key city stakeholders knew exactly what the priorities were and who was accountable for them.

What: Growth Pathways and Prioritization

This section presents a series of diagnostic tools that can facilitate a prioritization process. The tools are not new. The analytic techniques summarized here have been used by strategic analysts in developed and developing countries and in the public sector as well as in the private sector.

The use of the techniques is inspired by evidence presented in previous chapters. As noted, the most successful cities made strategic choices about their expenditures, involved a coalition of stakeholders and followed up with an appropriate implementation staff and structure. Plans were developed through various techniques, including identifying the city's competitive advantages, assessing external market opportunities, and highlighting constraints to growth that need to be addressed.

In particular, strategies were able to support multiple sources of growth. Interventions not only supported existing firms' activities, but also were able to support new firms and to attract firms into the city. Hence interventions were formed that not only catered to the wishes of incumbents—who often focus their lobbying efforts on lowering the costs of production[2]—but also examined opportunities in new markets or in more lucrative products. This approach is important because, as presented in chapter 1, *cities will transform the structure of their economy over time and across income levels*. Efficiency alone is not sufficient.

This approach to city economic strategy making mirrors trends in private sector firms since the 1950s. An earlier emphasis on productive efficiencies from the era of Henry Ford and Frederick Winslow Taylor evolved into an emphasis on the customer and the market, as conceptualized by Peter Drucker, Theodore Levitt, and Philip Kotler (box 3.1). According to the theory, firms succeed by determining a competitive advantage then organizing to deliver it. This delivery involves the firm's making big choices to outcompete their rivals (strategy) and performing their core operations efficiently (management). Currently, many cities appear to focus mainly on management, delivering a generic set of basic services and infrastructure. By contrast, as shown in chapter 2, the most successful cities in the world in the last few decades have delivered a core set of services and infrastructure (management), and they have *also* intervened strategically in support of growth opportunities (strategy).

The approach offered in this section is based on the interpretation of a city economy as an interaction among enabling conditions and needs of businesses that vary across industries, sizes, and ownership types. This approach follows directly from the case-study findings that competitive cities engaged in both economy-wide interventions and in sector-specific interventions. To structure the interventions, the research team consolidated a number of analytic techniques into three dimensions:

- A City Competitiveness Snapshot looks into growth potential and constraints that certain types of businesses face. This process provides a bird's-eye view of a city economy.
- Deep Dives focus on specific sectors and types of firms and reveal enabling conditions that are missing.
- Constraints Diagnostics focus on selected citywide conditions that are major barriers to growth across industrial sectors and business types.

Box 3.1: The Evolution of Management Thinking from Productive Efficiencies to Strategic Choices and Market Creation

- "We do not ask the initiative of our men. ... All we want of them is to obey the orders we give them, do what we say, and do it quick."
  —*Frederick Winslow Taylor (from June 4, 1906, lecture, cited in Kanigel 2005, 169)*
- "There is surely nothing quite so useless as doing with great efficiency what should not be done at all.
  —*Peter Drucker (1963, 83)*
- "Managers do things right. Leaders do the right thing."
  —*Warren Bennis and Burt Nanus (1985)*
- "The essence of strategy is choosing what not to do."
  —*Michael Porter (1996, 64)*
- "Good companies will meet needs. Great companies will create markets."
  —*Philip Kotler (cited in Capstone Publishing, 2003, 268)*

Figure 3.1: Three levels of growth pathways analysis[a]

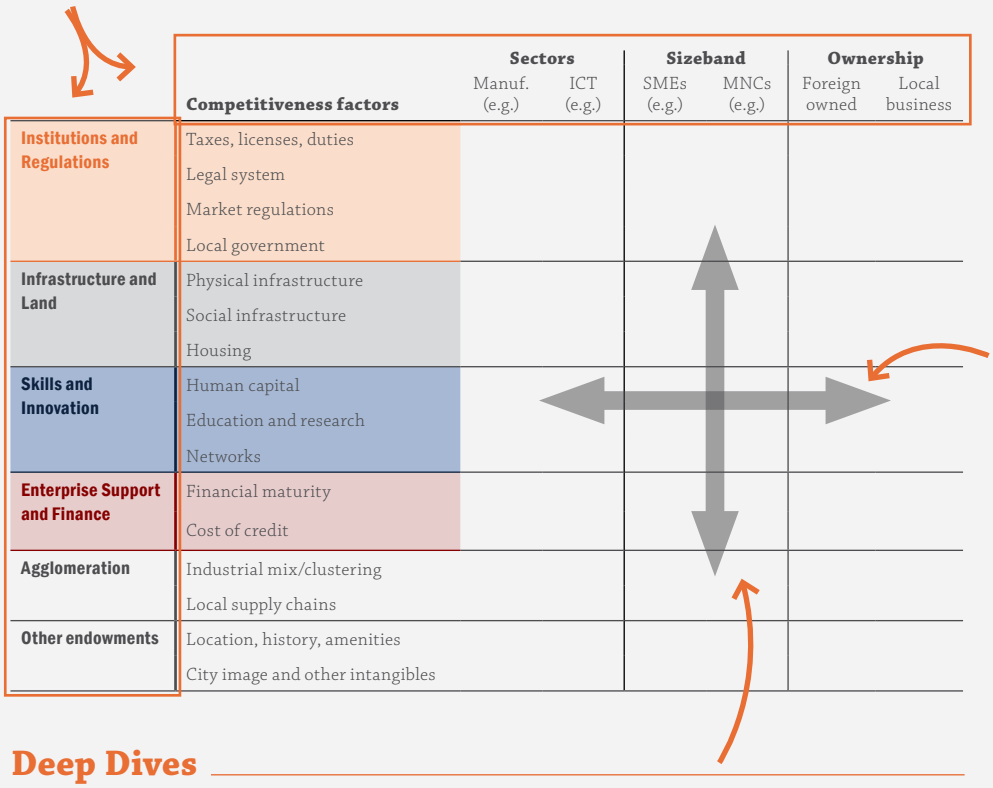
Competitive Cities Snapshot

The snapshot is an overview of the city economy that focuses on changes in key economic indicators, on benchmarks of the city's economic performance, and on enabling conditions with relevant comparator cities, and provides analysis of the city's economic structure.

Why do it: The snapshot answers the question from city leaders, "How is my city doing?"

What it delivers: Beyond an overview of the city's economic performance, this exercise helps formulate two types of hypotheses: (a) factors that are likely constraining city competitiveness and (b) sections of the city's businesses (defined by sector, size, or type of ownership) that offer growth potential or are underperforming.

How it is done: It can be done in two parts: *Part 1* is an automated economic overview and benchmarking exercise. Globally available data (global datasets, city indexes, Doing Business indicators, and data on patent registration) is used. Indicators include gross domestic product (GDP); employment and income growth; industrial structure and location quotient for broad sectors; and index values for infrastructure, institutions, skills, and access to finance. *Part 2* is a customized approach. The analysis is expanded with other data sources such as the World Bank Enterprise Survey, Subnational Doing Business survey, and local data sources. Detailed analysis of the business structure can be conducted using location quotient, shift-share analysis, and business demographics techniques (which global data usually do not permit). Qualitative techniques (expert surveys and triangulation) should be used to complement the analysis, verify results, and identify gaps in local perceptions.



Constraints Diagnostics

This level of analysis zooms into economywide conditions that appear in the snapshot to be major barriers to growth of local businesses across industrial sectors and business types.

Why do it: The research indicated that successful cities use both targeted interventions and general business climate reforms. Such conditions may include infrastructure, regulations, skills and innovation issues, enterprise support, and access to finance.

What it delivers: An in-depth understanding of the issues related to a specific determinant of city competitiveness and a rough estimate of the potential benefits in fixing the problem.

How it is done: Selection from a large number of off-the-shelf diagnostic tools for various parts of the business environment. Tools for this purpose could include regulatory impact analysis, subnational tax assessment, TRACE energy analysis tool, land use and housing diagnostics, jobs diagnostic, financial infrastructure analysis, and others.

Deep Dives

This level of analysis focuses on selected industrial sectors or firm-size bands and ownership types to identify their competitive potential and identify key constraints.

Why do it: This approach to city competitiveness starts from firm-level needs. The firm-level needs differ across industries, firm sizes, and ownership types. Thus the most efficient interventions are sometimes those that identify and target needs of specific business with growth potential given the comparative advantages of a certain city.

What it delivers: This approach identifies detailed issues that need to be addressed to support specific types of businesses in the city.

How it is done: In-depth prioritization uses market intelligence and industrial analysis techniques (such as "five forces" and diamond analysis) to understand the growth potential of given groups of businesses. These exercises rely on qualitative data collection, interviews, and focus groups in addition to any related quantitative data.

Driving conditions benchmarking uses literature review, expert consultations, and sector analysis (such as value chain analyses) to identify constraints and opportunities. This analysis compares a range of data sources collated in the World Bank database to evaluate these conditions against comparator cities and to identify where the city is lagging behind the most. It is based on economic boundaries rather than on administrative boundaries, meaning that the analysis will often include the broader metropolitan area and beyond as needed.

Source: Sivaev 2015.
Note: ICT= information and communications technology; Manuf. = manufacturing; MNC = multinational corporation; SME = small and medium enterprises.
[a] For sample outputs of this diagnostic tool, see Sivaev 2015, annex 1, 23–26, and annex 3, 35.

A short description of the tools follows in figure 3.1 and is available in more detail in the companion paper "City Competitiveness Snapshot and Growth Pathways," which accompanies this document (Sivaev 2015). Such tools are created on the basis of real-world use in city economic strategies. The following are examples:

- In the Philippines, a "Cities Competitiveness Ranking" initiative helped cities compare and contrast their strengths and weaknesses through a benchmarking exercise (Rodriguez-Pose, Farole, and Dowson 2007).
- In Toronto, Canada, location quotient analysis formed the foundation of the Toronto 2000 development strategy (Rodriguez-Pose, Farole, and Dowson 2007).
- In Glasgow, Scotland, shift-share analyses were used to inform the city's strategy revision in 2005 (Rodriguez-Pose, Farole, and Dowson 2007).
- In Nairobi, Kenya, the recent integrated development plan combines industrial structure analysis, benchmarking, geographic information system (GIS) techniques and detailed investigation of constraints including land use and infrastructure issues (Nairobi City County 2014).

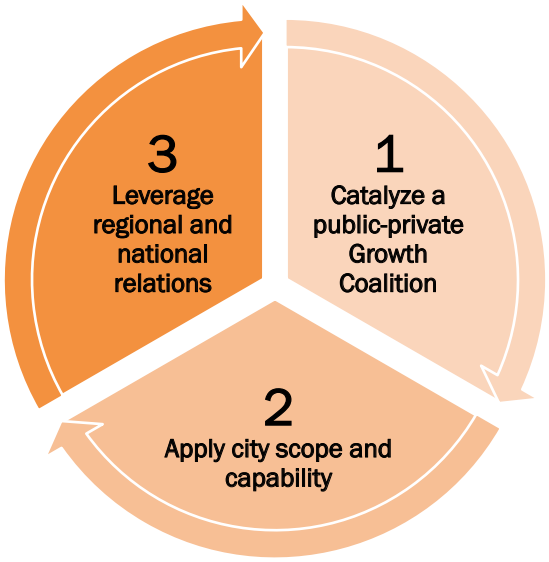
These analytic techniques help to build a list of potential interventions, and that list provides a solid fact base for discussion. But it is not meant to be prescriptive, and it is not the same as knowing where to start. The next important step will be the prioritization of interventions. One approach to prioritization is a technocratic process of selecting the interventions with the highest effect and the potential for the quickest wins. However, high-priority initiatives also need to be politically feasible, able to be implemented given local capacities, and need to be supported by key local stakeholders. The process outlined here can be used to identify priorities using a structured dialogue between public and private stakeholders, to develop consensus, and to generate a coalition to support selected interventions. A companion paper, "Public-Private Dialogue for City Competitiveness," offers examples of applying public-private dialogue at the city level and discusses how dialogue processes should be designed to address the specifics of a city context (Sivaev, Herzberg, and Manchanda 2015).

Who: Growth Coalitions

Once an analytic fact base is available to make discussions productive, cities can leverage three wedges to support economic development: the growth coalitions wedge, mayor's wedge, and intergovernmental relations wedge (figure 3.2). Each of these was detailed in chapter 2. In sequencing the wedges, a growth coalition is placed as primary because it will define priorities for internal delivery and leverage of other government tiers.

Figure 3.2: The City Wedge

Three main points of leverage for city economies: (1) public-private collaboration; (2) internal delivery; and (3) external relations.



Source: Gashi and Watkins 2015.

Box 3.2: Using Strategic Economic Staff to Help Solve Economic Development Problems

Cape Town, South Africa, funds several cluster promotion organizations (such as fashion, oil and gas, information technology, and business process outsourcing). Each of these has a different strategy, of which the Cape Craft & Design Institute is arguably the most strategic. One of its main initiatives is to communicate a better understanding of buyers' needs on quality and characteristics to its members, thus helping producers of handicrafts achieve a better orientation of their product toward commercial markets and reducing the production of handicrafts that are made without a clear buyer in mind.

This section focuses on potential approaches to forming a productive growth coalition. The process is often termed public-private dialogue (PPD) or structured dialogue.[3] A companion paper reviews key concepts for this process (Sivaev, Herzberg, and Manchanda 2015). Three key questions can help frame this approach:

What is the problem to be solved?

Effective growth coalitions change over time, according to the problems they attempt to solve. Several characteristics of productive growth coalitions remain constant, such as a clear statement of objectives and a facilitator and organizing body. But because problems change over time, the composition of the dialogue to solve them should also change—including the benchmarking that is done and the initiatives that are undertaken. The PPD process can be driven with smart questions about the problem to be solved. Underlying questions can be framed as "How can we compete better in this value chain? And how do we deliver the changes required?"

Flexibility and adjustment are the roots of success. As global trends evolve and new competitive positions (markets and products) are identified, new challenges and potential solutions will emerge. Hence cities should not have a linear plan of design and implementation but should instead build feedback mechanisms and cyclical processes.

Who participates?

Effective growth coalitions choose their participants on the basis of economic and strategic analysis. When the seafood cluster was organizing itself in the city of Hull, United Kingdom, most participants were fishing firms and processors. But, as it turned out, the biggest constraint to the seafood cluster was logistics, not fish (Duch and others 2011). This problem became clear only after industry analytics and benchmarking were performed. So PPD processes should not pick their participants until they have performed strategic analytics.

How will the discussion be structured?

Talk to firms, but come with data. Economic development professionals often ask firms what they need. Paradoxically, firms may not have the best picture of what is really holding them back. (They may all say taxes and regulations, even when a formal industry benchmarking reveals that unproductive labor is what is pushing up costs.) Thus diagnostics and analysis can be a critical prerequisite for convening productive meetings.

Discussions need to be structured and filtered according to analytic inputs. Facilitators perform the role of strategy consultants, elaborating on the strategic analysis with participants, and preparing the group for a process akin to change management. Action lines are prepared through intensive dialogue and one-on-one interviews. For example, in Bucaramanga, the competitiveness commission was staffed

with four full-time employees to perform this role, tasked with performing analytics and guiding the dialogue.

Furthermore, the process will need to be underpinned by strategic economic staff members. Successful examples exist of staff members being employed by various organizations—the city, an economic development agency, a chamber of commerce, and others. In general, their influencing role, capability, and function are more important than where they fit within the bureaucratic structure. Their key functions usually include the following[4]:

- *Researching specific value chains to identify where value is created and how firms in the city can move into those positions.* This information will be specific to each subsector of the economy, and it usually requires specialized research rather than the review of secondary information. For instance, no single economy is competitive across entire macrosectors such as "information and communication technology" or "manufacturing." Instead, opportunities and constraints are specific to particular products and particular markets. (See box 3.2.)

- *Bringing knowledge and strategic thinking from outside the city.* Strategic economic staff members should interact not only with existing firms in the city but also with firms in competitor cities and with advanced buyers elsewhere. Doing so will generate more strategic thinking about sources of competitive advantage. Talking with this wider range of stakeholders in the value chain often yields distinctive and better answers.

- *Configuring public-private dialogue to achieve these competitive advantages.* Conducting this dialogue is an expert skill in itself because it will involve presenting a viable commercial case and building private sector support for new activities in the value chain. Usually these activities will need to be distributed between public and private stakeholders. If new investments are required (for example, in shared services or shared infrastructure), these may be structured through public-private partnerships.

How: Organizing for Delivery

This section explores techniques that competitive cities have used to get things done. The emphasis is on underlying processes rather than on organizational prescriptions. Traditionally in cities, economic development has been the remit of a department or agency (Clark, Huxley, and Mountford 2010)—but in practice, the mindset is more important than the organizational structure and institutional form. Successful cities manage to orient all departments toward a productive agenda. Chinese cities demonstrate this pattern dramatically: the mayor's performance assessment and promotion path is based on achievement of city economic growth objectives. Thus mayors themselves are de facto the head of economic development or CEO for their cities, and the entire municipal government is responsible for delivering those objectives. *Leading groups* (an organizational structure detailed later in this chapter) to manage cross-departmental initiatives and help to fast-track prioritized initiatives.

How can a delivery strategy avoid the classic pitfalls of implementation? Recurring implementation problems include unclear objectives, lack of clarity among competing priorities, lack of accountability for achieving targets, imperfect information on progress, and a lack of coordination across large multisector organizations.

City administrations are often structured according to function, with one department for transportation, another for infrastructure and utilities, another for housing, another for economic development, and so on. However, city objectives often span multiple departments. For example, reducing crime will involve interventions in policing, transportation safety, public housing design, and jobs programs. Economic development initiatives, more than any other function, tend to span multiple departments and require coordination of programs, projects, and decisions.

The following three key internal techniques have proven successful in facilitating implementation in cities around the world:

Aligning budget and initiatives around strategic outcomes

Do not tell me what you value. Show me your budget and I will tell you what you value.

—U.S. Vice President Joe Biden

Competitive cities make strategic choices on their investments, thus aligning their budgeted expenditures and daily initiatives with overall city priorities. What process can be used for this prioritization? There is no best model, but the following are notable examples of cities that employ a budgeting process on the basis of intended outcomes:

- In Baltimore, Maryland, in the United States, every department and agency must propose exactly why it merits a budget allocation, and how the work relates to six agreed citywide priorities. Implicitly, the starting point for the next year's budget is zero unless a clear justification for spending is made. The proposals are considered by "Results Teams," which include members of the public, and when the justification is not strong enough, entire programs may be abolished (Kamensky 2013). The city reduced and reallocated its budget by several hundred million dollars using this technique as a way to navigate the political economy and vested interests associated with such discussions.
- In Lagos, Nigeria, during the turnaround of the city, a 10-point plan was formed with specific goals for infrastructure, employment, security, health, and revenue enhancement. The goals were then translated into a medium-term expenditure framework, which tied projects to available resources over a three-year horizon. Each goal and objective was dissected into a set of projects with specific budgets assigned to them.[5]

The underlying principle here is to focus on truly strategic initiatives that solve problems rather than on budgets that are "sticky" between years and that focus on conducting business as usual. These techniques, familiar to managers of private sector firms, can also be used by cities. Indeed, many of the "turnaround" cities examined placed a strong emphasis on rigorously prioritizing their expenditures according to strategic priorities across the city. Some process of budget alignment is essential to avoid expensive mistakes and also to ensure that all programs are tightly configured toward agreed-upon city objectives.

At least two types of organizational innovations may be necessary to implement such an approach:

- Within city administrations, cities may need to create a team of staff members from several departments to work on the interventions rather than assign the interventions to individual line departments, which might work independently as silos. One of the most common types of problems in city government stems from a lack of coordination, whereby different departments fail to implement an agreed policy or pursue several conflicting policies at once (Tavakoli and others 2013, 16–17). By using an interdepartmental team to work together on interventions, funds can be managed according to the project to buy necessary staff time, services, and goods.
- Beyond city administrations, special agencies may be established, such as economic development agencies, investment promotion agencies, or cluster management organizations. Such agencies enable cities to outsource high-priority initiatives and overcome some structural constraints, such as civil service human resources policies or onerous procurement regulations, that they do not have the power to change.

One discipline that might help to encourage strategic prioritization would be to publish and consult on more details of the city's finances and expenditures. The most straightforward technique involves disseminating the budget publicly, offering televised city council hearings on the budget or televised monthly reviews of departmental performance.[6] For example, in Phoenix, Arizona, the city publishes and widely distributes a summary of its proposed budget as a 16-page newspaper insert (Denhardt and Den-

Box 3.3: Continuity Across Electoral Terms

Boston World Partnerships in Massachusetts is chaired by the mayor and is composed of and financed jointly by the public and private sectors. The senior board includes Boston's former chief economic development officer and senior representatives from Harvard Business School and firms such as Bain Capital Ventures. Thus the mayor, a key stakeholder, is also part of a board of stakeholders equally invested in the city's success and has an interest in a longer time horizon.

The mayor of Gaziantep, Turkey, for 15 years, Celal Doğan, set priorities on the city's economic development, with efforts focused on upgrading infrastructure, improving the business environment, enhancing livability and quality of life, and promoting the city. His successors continued the approach, developing a light rail system, treating city wastewater and upgrading water supply generally, and providing infrastructure to the city's slums. A reason for this consistency has been closed public-private collaboration throughout, made formal with the creation of a city council with a majority private sector in 2006. City councils in Turkey, acting as de facto metropolitan parliaments, run alongside city government staff and elected officials and work as a check and balance to the municipality's actions. In this case, it assures continuity in work on the city's economic development needs (Gaziantep case study annex in Kulenovic and others 2015, 11, 28–30, 32).

hardt 2001, 7–8). A more comprehensive technique would involve participatory budgeting, as pioneered in a number of Brazilian cities. Participatory budgeting is an inclusive approach to allocating public funds at a city level through direct consultation with communities.[7] Porto Alegre, a recognized leader of the process since the late 1980s, has established a yearly cycle of consultations (World Bank 2003). In most cases, participatory budgeting accounts for a relatively small portion of city government spending in narrowly defined areas; however, it has been recognized as a powerful tool for improving service delivery, enhancing trust in the credibility of governments, and promoting active citizenship and social accountability.

In the longer term, cities face a problem of ensuring the continuity of strategic initiatives across political administrations. A lack of continuity is an especially relevant problem in economic development, a discipline in which industries take years to develop fully. Thus, to achieve long-term objectives, cities require a continuity of policies and investment strategies across electoral cycles. Yet elected officials enter office with a mandate to deliver on their promises and the need to "put their stamp" on a city often leads to new initiatives, even if that means neglecting what has gone before.

How can the chances of continuity be improved? Implementing initiatives across electoral cycles is inherently difficult because it depends on the next administration, which is outside the control of the current leaders. There is no right answer to accomplishing continuity, but one notable technique involves establishing an institutional structure for economic development that is mandated to provide long-term and external advice.

Economic advisory boards are used by some cities to improve the continuity and quality of economic development activities. The boards are formed to provide feedback, offer consultation, and help hold the city officials to account. Examples include the Amsterdam Economic Board in the Netherlands, Boston World Partnerships in the United States, Greater Manchester Local Enterprise Partnership in the United Kingdom, and Oslo Teknopol in Norway (see box 3.3). These public-private structures are relatively unusual: Indeed, the Organisation for Economic Co-operation and Development (OECD) finds that less than one-tenth of governance bodies include members from the private sector and other city interest groups (OECD 2014, 88). Such boards allow for decision making on economic development initiatives to be made in consultation with economic stakeholders. They also mirror the benefits of structured dialogues on specific value chains (see the growth coalitions section in this chapter), building consensus on strategies, programs, and projects for the city. New political administrations will be less likely to abolish initiatives if they continue to be backed by key city actors.[8]

Solving problems during implementation

With $20,000, off-the-shelf software, and a few good people, you can revolutionize city government.

—Mayor Martin O'Malley, City of Baltimore (Henderson 2003, 12–13, 15, 21–22)

The underlying challenge of implementation is to identify problems and solve them. Problems are sometimes viewed as pathologies; arguably, they are an inevitable part of a complex world, owing to unexpected events and many interlocking protagonists. Many problems cannot be solved merely by consulting a predetermined plan because they involve multiple departments, personalities, and unanticipated external events.

Solving problems depends, at the core, on three critical ingredients: meetings, information, and staff. The research team examined four well-regarded and effective delivery structures: CitiStat in Baltimore; PEMANDU in Malaysia; Leading Groups in China; and Pernambuco state administration in Brazil (Jordan 2015). The four cases illustrated that the precise institutional form can vary substantially but several fundamental characteristics and behaviors are shared. Three key ingredients were the following:

- *Productive meetings.* In particular, meetings exist to reach decisions or, as a second best, to unearth new information that will improve the decision of the meeting one tier above it. The agenda items are constituted by exceptions requiring a decision. Those meetings are followed up through an institutionalized management system, and any outstanding issues must be resolved by the time of the next meeting. This pattern contrasts with meetings in many cities that are focused instead on information sharing (listening to reports) or on considering approvals that have already been given by a subordinate administrative tier.

- *Relevant targets and information.* Effective targets are deliberately designed to be difficult to achieve, thus improving performance and prompting the organization to unearth problems and to learn (box 3.4). Typically the targets will include whole-of-city outcome targets, intermediate outcomes, and outputs from individual activities, with these three levels linked by a theory of change (from outputs through to outcomes). Data collection is usually frequent by light touch—where key performance indicators may be updated weekly but are sourced directly from an automated system such as enterprise or call-center logging software (rather than requiring extra work to collect and report these data).

- *A general support unit.* Often this critical unit is missing. The CitiStat office generally employs 5 analysts; in PEMANDU, the number is around 100 (though 5 team members are assigned to Kuala Lumpur); in Chinese

cities 1 or 2 individuals are assigned per sector. The team members become experts in preparing for, structuring, and guiding meetings—supporting problem solving. Staff members of the unit assist this process by (a) preparing meeting participants with a common understanding of the problem and intent of the meeting, (b) ensuring that the most relevant data and information are brought to the meeting, (c) delineating the decision to be made, and (d) communicating clearly the expectations for follow-up after the meeting. The unit's staff must have the authority to gain access to department heads and senior executives.

When this structure works most efficiently, it generates a learning organization that can perform better by solving problems. A recent meta-analysis suggests that organizations with performance systems tend to be associated with incrementally better performance than those that do not (Gerrish 2014).

Improving quality of delivery through accountability and capacity

> *In the British government, if you ask somebody for a plan, what they actually did was write an essay. It was a beautiful essay, very good English, grammatically correct; might have the occasional number in it. They'd put it in a glossy cover, print it beautifully, send it to you, and then nobody would read it again. … We weren't talking about that kind of plan. We wanted a real plan. I used to talk about plans with coffee stains and marmalade on the corners. The plan that you got up in the morning and said, 'Have we done that? Whose job is it to do it? When's it got to be done by? And how can I check? A real operational plan that gets scribbled on.*
>
> *—Sir Michael Barber, former head of U.K. Prime Minister's Delivery Unit (Lecture on April 10, 2013 at World Bank, Washington DC).*

Accountability and capacity of public officials appear to be key drivers of effective delivery. The analytic findings indicated that increased administrative scope for cities does not appear to lead to economic outcomes unless it is accompanied by capacity improvements. In practice, capacity may entail multiple skills, from basic project management through to technical knowledge about economic development.

Some capacity issues can be tackled through carefully tailoring training programs to ensure that staff members are equipped with the right skills to deliver effectively. However, beyond training, cities have also used some structural changes to improve performance. Three categories of techniques are highlighted here:

- *Getting the right people.* Cities can improve their recruitment and retention of highly qualified staff members by addressing underlying problems in, for example, (a) the compensation and terms and conditions (reflected in distortions in compensation relative to the private sector), (b) the use of merit-based (competitive) recruitment processes, and (c) the career development (creating a career ladder). Identifying and recruiting the right staff member in the first place is an absolute requirement for subsequent performance (Ketelaar, Manning, and Turkisch 2007). For example, during the turnaround of Lagos, Nigeria, private sector professionals were appointed to open government positions, including top barristers, bankers, and consultants, and governors Bola Tinubu and Babtunde Fashola worked to inculcate a culture of professionalism among existing staff members.[9] In Gaziantep, the reformist mayor associated with the economic rise of the city from 1989 onward oversaw the repopulation of the municipal council from well-educated managers and professionals to businesspeople, who were wealthier but with lower levels of education. The share of council members with university degrees declined from 70 percent in 1989–1994, to 56 percent in 1994–1999 and 35 percent in 1999–2004 (Bulut 2000, 36–38). The council was perceived to have become more pragmatic and business friendly.

- *Getting people to do the right things.* Cities can improve the focus of staff members on strategic priorities by addressing individual performance management issues. The scale for this accountability ranges from a city's mayor down to a city's individual staff members.

- At the top leadership level, for example, Chinese mayors are formally assessed according to their performance on a number of key economic indicators. In Rwanda, all mayors have to report to the president once a year on their achievements vis-à-vis their declared priorities, and this report is televised as a news event. During the turnaround of Lagos, Governor Fashola reported on progress in a televised open meeting every 100 days.

- For technical staff in cities, techniques include using quality performance dialogues with staff members and ensuring effective follow-up. Performance contracts or agreements can be used to clarify objectives and strengthen accountability. For example, in Lagos, each commissioner (the head of city department) was given a personalized work plan that matched the city's 10-point agenda. Officials benchmarked their progress against quarterly goals (ISS 2014, 6). Performance contracts and agreements first emerged in the context of overseeing public enterprises, and they have been used in a number of OECD countries as well as in India, the Republic of Korea, Pakistan, and elsewhere. Cities could also introduce well-designed incentives for staff to perform and opportunities for them to perform, recognizing that motivation is a product of both extrinsic and intrinsic factors. Extrinsic motivation is harnessed by incentives that provide rewards (such as performance bonuses) for tasks completed or disincentives for tasks left unaccomplished. Intrinsic motivation is fostered by allowing time for staff members to find their own paths to meeting organizational goals rather than instructing them on the details.

- *Learning through knowledge sharing and experimentation.* Some improvements in capacity will be specific to the local context in which they must be applied. In knowledge sharing between city staff, several techniques are available. For example, in the early 2000s, the Bogotá, city administration created "transversal teams" of civil servants who worked on common issues of civil service but who were in different offices or had different titles. These teams helped make best practices universal. The teams shared best practices within themselves and applied them across different offices. The teams also identified departments that needed training, saving the cost of more formal servicewide evaluation and training (Devlin and Chaskel 2010).

For experimentation, cities can institute ways to modify initiatives during implementation, either to improve the functioning of one initiative, or to spread successful initiatives more widely—or indeed to shut down initiatives that are not achieving their objectives. The following are examples:

- In New York City, Mayor Michael Bloomberg introduced innovation teams (i-teams) that serve as in-house consultants and work directly with the city chief executive and other city public agencies to solve problems.[10] I-teams break down problems into carefully assessed challenges and attempt to address them through a process of generating ideas. They then choose the most promising ideas, create an implementation plan, and, lastly, implement the plan and begin monitoring results (Bloomberg Philanthropies 2014, 5–7). The center was continued under current Mayor Bill de Blasio (Puttick, Baeck, and Colligan 2014, 66–77).

- In Chinese cities, experimentation techniques have been used at a much larger scale—so-called Point-to-Surface in the literature.[11] In this paradigm, the central government identifies key constraints to growth and lets local governments experiment to find solutions. Local-level municipalities and provinces seek the solutions to these constraints through "points of experimentation," extensive pilot projects that test alternatives. The approaches that emerge as being successful are then transferred from the local points of experimentation to the national surface of general policy. One of the best-known evidences of the effectiveness of this process is the creation of the first five special economic zones in the coastal regions of China in the early 1980s, a policy that was then extended and adopted throughout the country through knowledge and expertise sharing.

KEY TAKEAWAYS FROM CHAPTER 3

This chapter is intended to be a user's guide for competitive cities. Accordingly, the concluding section summarizes the preceding material as a checklist for city leaders.[12]

Building consensus and preparing the groundwork

✓ 1. Create a shared analysis and understanding of problems and challenges to achieve a clarity of purpose, both within city government and as a result of a public-private dialogue.

✓ 2. Activate personal leadership, with senior leaders owning the objectives, through the involvement of key executive government offices and through the formation of a representative board with leaders from public, private, and research sectors.

✓ 3. Gather a dedicated, diverse, and capable team to drive the program.

✓ 4. Ensure that a public-private coalition underpins the city's engagements on competitiveness, with tasks shared among the different actors and a significant degree of private sector ownership. (This partnership could be created through joint public-private boards or through cooperation between distinct bodies.)

Calibrating for successful implementation

✓ 5. Develop a realistic time line that draws on the insights of the groups responsible for implementation.

✓ 6. Ensure the program or policy is sufficiently resourced through city government resources, private capital sources, and higher-tier funding.

✓ 7. Assess the political dimensions of program and, in some cases, disentangle particular reforms from specific politicians or parties. Include private and other stakeholders in the program to offset its being excessively identified with a particular politician or party.

✓ 8. Adapt the sequencing and level of ambition of the program to respond to the capabilities of government departments, taking into account the specific concerns of leading officials. If capabilities are insufficient, consider targeted interventions.

✓ 9. Ensure that leaders and teams articulate a compelling vision: display empathy for governmental challenges and work hard and in collaboration to address them.

✓ 10. Gain personal accountability of key officials critical for progress. Ensure that there is sufficient accountability from the top down (within government) and also from the bottom up, supporting a process with private sector and civil society buy-in.

Monitoring and adjusting implementation

✓ 11. Establish standards for the ongoing monitoring of execution and performance. This process will require developing meaningful outcome measures for programs, agencies, and the community.

✓ 12. Set up the protocols for reviewing performance information. (A number of countries have introduced data-driven reviews to improve program performance.)

✓ 13. Routinely report on progress to determine whether programs are achieving desired results.

✓ 14. Build and maintain the capacity for ongoing quality improvement.

✓ 15. Manage evolving situations to make mid-course corrections.

The Role of the World Bank Group in Competitive Cities

The World Bank Group has, over time, offered a suite of financial and technical support to its clients, comprising financial lending, technical assistance, and analytic work. These engagements include operations oriented toward cities, including at the national level by engaging with systemic issues such as fiscal transfers and decentralization and at the urban level through municipal financing and infrastructure investments. Many projects have included local economic development initiatives.

In working with cities, the World Bank Group often fills a gap in knowledge and financing. In knowledge, cities in low-income and lower-middle income countries do not usually engage commercial consultants to advise them on economic strategies and may not be aware of some of the insights from global experience presented in this report. Moreover, a typical World Bank Group project would last several years and thus provide scope for support on implementation and ongoing technical advice, which goes beyond initial diagnostics and strategy making. In financing, the World Bank Group offers a flexible series of instruments, including investment project financing, development policy lending, and results-based financing.

The insights provided in this report summarize some of the dimensions to city economic development that can be supported by the World Bank Group through financing, technical assistance, and analytic work. The key channel for these engagements is provided by local World Bank Group offices, which in turn engage global staff to deliver projects for client governments, firms, and other entities.

Future Research

Each of the main topics covered by this report—analysis of city performance, diagnostic tools and techniques, and implementation modalities—could benefit from further research. However, some gaps in existing knowledge resources available to cities should be priorities for research to help solve the following problems:

- *Resilience to economic shocks.* Which cities weathered the financial crisis better, and what factors can help more cities sustain economic performance over time?
- *Governance structures and economic performance.* For example, do elected mayors tend to generate better economic performance?
- *City administrative performance.* How can cities solve some of the specialized management problems in cities, such as joint implementation across line departments, and human resources policies to train and retain specialized staff?
- *Informality in cities.* How best can governments facilitate a transition from low-value nontradable activities to high-value and tradable value chains?
- *Good quality and comparable city-level data.* How can city-level data be improved and deepened, including through use of crowd-sourced and secondary data?

Notes

[1] These include City Development Strategies (Asian Development Bank), City Development Strategies (Cities Alliance), LED through Strategic Planning (United Nations–Habitat), Local Economic Development (International Labour Organization), Local Economic Development (Organisation for Economic Co-operation and Development), Local Economic Development (World Bank), and Strategic Urban Planning (Institute for Housing and Urban Development Studies).

[2] Incumbent firms will often lobby for objectives such as regulatory reform, fiscal leniency, infrastructure investments, improved labor skills, and price reductions on their utilities. Those changes will help firms scale up their existing activities, but they may miss opportunities to transform activities into new products or sectors.

[3] Many definitions and recommended procedures exist; this paper offers a selective summary of some of the key features.

[4] A fuller framework for choreographing this process is available in World Bank (2011).

[5] See Filani (2012, 19–20, 42). Note that the "city" of Lagos is managed predominantly by the government of Lagos State (rather than a city government, per se). However, this example is included as an instance of subnational results-based budgeting.

[6] According to the World Bank, *social accountability* is defined as the "extent and capability of citizens to hold the state accountable and make it responsive to their needs." Televising city council hearings on the budget or reviews of performance form a critical element of social accountability—namely, the need for vast information for accountability purposes that is needed from the state to citizens (and also from the citizens to the state). Considerable effort is required to improve citizens' and civil society's access to information, as well as their understanding of the information. For more on social accountability, see Grandvoinnet, Aslam, and Raha (2015).

[7] See Participatory Budget Formulation, a World Bank website, at http://goo.gl/KlaAaa.

[8] See, for a more detailed exposition, the case study of Rosario, Argentina (Steinberg 2002, 20).

[9] See Kuris and Blair (2014, 5, 7). Because of labor union rules, unproductive workers were reassigned rather than fired.

[10] "Government Innovation: Innovation Teams." Bloomberg Philanthropies website at http://www.bloomberg.org/program/government-innovation/innovation-teams/.

[11] See Sabel and Jordan (2015, 43). These points of experimentation are disseminated through extensive media coverage, high-profile conferences, "intervisitation" programs (exchanges between localities) and appeals for emulation to more and more regions. See also Heilmann (2008, 2).

[12] In this checklist, previous technical conclusions can be found in the literature on change management in the public sector. A recent review is provided by Panchamia and Thomas (2014).

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