

# UNDERSTANDING OF THE CONCEPT OF LOCAL ECONOMIC DEVELOPMENT

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**Abstract:** *The modern age is characterized by rapid change on all levels, from local and national, to regional and international. Changes and processes that induce the most attention are those that affect and determine economic life of society and of man as an individual. In the 20th century, such changes can be monitored at the local level, as the practice and decision-making in economic matters was descended to the level of citizens in local government units, which makes it a more effective and more efficient way of managing the economy both in the developed and the less developed countries. The following article deals with the concept and importance of the concept of local economic development, both in our country and beyond, at the international level, as well as the factors that significantly affect the local economic development.*

**Keywords:** *Local-economic development, factors of LED, local unit*

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## INTRODUCTION

Local units in the territorial organization of a country generate a wide range of responsibilities, and recently typical for them are the responsibilities and tasks that are in the sphere of economy and economic activities. Shifting of the focus of planning and decision-making on economic issues at the local level is the product of the needs of modern times, which are based on expeditious development at all levels.

With such demands of the time we live in, there has been developed was a concept of local economic development, which has a relatively short history, and that during that time has attracted the attention of professional circles in order to comprehensively address this issue. Consequently to great interest and many questions that the concept of LED opened

there is a number of different interpretations of both the concept of the local economic development and the content of this concept, measures and instruments that can be attributed to it.

Hereinafter there will be perceived different concepts of the LED by prominent experts, as well as the stages of development of the concept of time from when it appeared, after which it will be accentuated by instruments which have been applied or not applied through the LED, as well as factors important for development of the concept of local economic development. Before that, as a basis for consideration of these issues the meaning of the concept of local units will be determined, without which the LED would not have a spatial guideline for its action.

The local unit is a spatially conceived term used in parallel with the concept of the local community, to indicate the territorial framework for the exercise of the functions and responsibilities of local authorities, and in which there live and operate subjects to which these competencies are applied, and where there are also located natural, economic and other resources that represent its potential. The territorial principle of organization of local work can rest on different grounds, and be built on the basis of different criteria. Based on the criteria used and the choice of which of them will be dominant for organizing a network of local businesses different principles of organization of local government are formed. The territorial division may be organized as a basis for the performance of certain administrative activities, which is known in theory and in practice, but has not proved to be the most rational solution since it requires special and individual status of the organization and regulation of temporary functions of local authorities. Each activity would therefore be in direct relation with the central government, which would lead to its impractical and irrational high growth, which consequently carries with it a high degree of bureaucratization of local authorities. [1]

Territorial division can work through local units, i.e. through local units of general jurisdiction. Local units have their responsibilities defined with longer period life and a permanent administration. This kind of territorial conception has proved to be a more rational and efficient form of solutions, primarily due to the unification of all important local functions, and in order to facilitate their carrying out, as well as greater and easier access for the citizens of these functions for which they were established. This provides an opportunity for citizens of local communities to take part in the exercise of those functions. This concept is normally used in comparative legal practice.

Territorial division is applied to the entire territory of a state, and therefore it is necessary to take into account the size and position of the territorial units of the same type and the same level [2], as well as the ability of the local population to access local authority. Optimal territorial division is achieved through the best combination of these causal factors. When the local units are formed in a territorial way, citizens can participate in decision-making, through local centers. In these centers decisions are made and various service operations are performed necessary for the development and improvement of life of the citizens of a local community.

## **DEFINING THE CONCEPT OF LOCAL ECONOMIC DEVELOPMENT**

The term “local economic development” refers to a process of constant movement and changes in operating actors, who in this process are limited primarily by available sources of financing. Local economic development indicates that the units of local self-government

after the transition period from a centralized to a decentralized system of regulation, are an important actor affecting economic development and has its place in the economic life of the country together with the business entities. For this reason, a number of theorists and practitioners have tried to pinpoint the concept of local economic development.

However, the concept of local economic development is a dynamic concept, implies activism and events, rather than a passive state, and for this reason many authors who were trying to reach a single definition of the term, have not been able to agree on a single definition that can be considered as the only one and acceptable in general. Definition of local - economic development went from thinking that questioned only dealing with this concept, reducing the national and global economy in the simple sum of the local economies, from which it appeared that it was enough to study the national and global economy, i.e. it is unnecessary to deal with specific local - economic development. More specifically efforts in an attempt to define the concept of LED made Blakely and Bradshaw, who put emphasis on the importance of local elements in the economy, noting that "local-based economic development and encouragement of employment are more likely to succeeded if they are run at a local level compared to some other level. [3]"

Further, the experts of the World Bank contributed to the defining of the concept of LED, which according to them has a goal to create "the capacity of local communities to improve their own economic future and the quality of life for all. [4]" With such a definition local economic development is not limited only to the economy, but also it brings to the fore a broader concept, which refers to the overall quality of life of citizens at the local level. This broader understanding has led in the sixties of the 20th century to the emergence of the concept of economic development of the community, i.e. to the merging of social development with this concept.

Coulson perceived local economic development as the sum of interventions to be undertaken in order to strengthen both local and regional economy. [5]

Bartik is also one of the authors who tried to look beyond the local economic development, and by this term he meant all activities aimed at increasing the capacity of the local economy to create wealth for their local population, while the policy of local economic development he designated as a "special activities undertaken by state agencies or private groups to assist economic development. [6]"

An important feature of the concept of local economic development is its strategy, which is necessary for decision-makers at the local level in order to take advantage in the most optimal way of all conomic capacities within its territorial units, improve the investment climate, and increase productivity and market position of local businesses. Cooperation between businesses, citizens and local authorities is a necessary condition to strengthen the local economy and to use all available economic capacities[7].

From these and other similar attempts to define local economic development it can be concluded that the local economic development is a process that is still developing, and not a reached ideal state, and therefore it tends towards continuous engagement of involved competent authorities in the improvement of work and strengthening of the capacity of local government units.

The importance of introducing the concept of local economic development is that it expands the circle of actors of economic life, introducing local governments, municipalities and local communities in economic activities. The positive sides are that within the bounda-

ries of one state there takes place a competition between its territorial units with the aim of achieving the best economic results. In addition to mutual competition, bearing in mind the achievement of better economic results, possibilities of mutual cooperation of several local governments are also open in the implementation of various projects in the field of local economic development, resulting in better quality of life for the population in the local communities.

## HISTORICAL MOVEMENT OF THE LOCAL ECONOMIC DEVELOPMENT

The concept of local economic development is among relatively new concepts whose use became common only in the 20th century. Many authors associated this term with the first recorded organized efforts of local decision-makers to, with various incentives and policy support, motivate domestic and foreign investors to invest in their community. However, the precise determination of the time when the concept of local economic development was conceived can not be determined, because each author has his own starting point and the arguments for the same.

For example, Bartik claims that the first wave of local-economic development occurs in the thirties of the 20th century in the United States [8]. Other authors as the onset of the concept of local economic development take the postwar period of forties of the 20th century, which was a developmental and dynamic period in many fields. Furthermore, there are also claims that the concept of local economic development, most similar to the concept that is practiced today, first appeared in the United States, and that only in the beginning of the seventies of the 20th century. This is connected with the changes with which the local practices met. Namely, the bigger businesses have begun to practice the relocation of their operations from one city to another and even from one federal state to another. This was affected by the current economic conditions most suitable for the business that were offered by different environments. The precise time of the creation of the concept of local economic development, concerning the activities of implementation of decisions at the local level and other stakeholders in order to encourage economic development, is not possible to express through the analysis of available sources.

Until the early nineties of the 20th century, the state authorities were not inclined towards involvement of local governments in economic development planning process. As unemployment grew, and hence poverty, local economic development began to gain importance, primarily in developing countries.

Initially, local economic development was introduced into practice for some of the following reasons [9]:

- decision-makers at the local level were trying to promote local development, and thus contribute to their legitimacy in the local electorate and, possibly, improve the revenue stream for their local authorities;
- decision-makers at the state level have begun to encourage local initiatives because they ran out of the information and skills, and the necessary resources for the promotion of economic development;
- In some countries, local economic development has become a mandatory task of local governments, as part of the decentralization policy;
- from the perspective of foreign donor organizations, local economic development

is an established practice with a long tradition in their countries, and there can be no reasonable doubt that local economic development is an important task of the responsible local authorities.

The reasons why today the national and local authorities encourage local economic development, each in accordance with available resources, are in the understanding that this is a good way to increase revenue and profits. Given that local actors know best local developments and potential opportunities for business improvement, they can more easily engage private funds for public affairs. If we go back through history, we can see that all the big cities and states sought to use all the existing potentials and advantages that they had at their disposal, in order to improve economic and trade activities, and thus provide the status of safer places for the existence of their citizens, in the material sense, in relation to the environment. Compared to that period, today it is not enough that a community has a good geographical position, access to the sea and the like, but it must operate through various forms of modified social and economic activities, innovation at all levels, and emphasizing and promoting of public-private partnerships in communities.

From the above discussion it can be concluded that the economy for the citizens in all communities is a major issue because it determines their existence. Therefore we emphasize the fact that the citizens should not accept the argument that some important economic issues are not under the jurisdiction of local governments.

Local economic development is usually present and practiced in those communities that are affected by some form of economic crisis, which first affects the economy, and then the state itself in the form of reduced revenue, increased costs, etc. This, for example, can be observed through a more frequent need for social transfers to vulnerable population. Local economic units, through their activities and powers should be engaged in the realization of reducing these and similar problems at the optimum level. In crisis conditions all affected stakeholders should make efforts to initiate all relevant local community capacities to help economic activity, and therefore the recovery of society. These first steps of LED may be marked as the first wave.

In Serbia, the period of economic crisis and difficulties in economic development takes quite a long time, so that the condition for activation of the capacity of local economic development is fulfilled, but it is certainly not sufficient for local economic development to come to life at full capacity. It is a recent phenomenon, which currently represents more a tendency than a well-defined economic doctrine [10].

In order to enhance and improve the functioning of local economic development, theorists have the task to allocate the best designed models of practical examples of functioning of local governments and to systematize them, but also to detect weaknesses that should be eliminated in the future.

The number of businesses and economic activities that were covered by LER in the seventies and eighties of the 20<sup>th</sup> century has increased significantly, and in the second wave programs were launched aimed at supporting existing companies, particularly medium sized companies [11]. The second wave continued the funding programs from the first wave, but also reduced budgets for local governments that have had financial problems until the early 90s of the 20<sup>th</sup> century in the United States.

The third wave of incentives local economic development is linked to the end of the 90s of the 20<sup>th</sup> century. In the third wave the emphasis is on private sector development, in

relation to the state sector. In this way an attempt was made to involve the private sector in the creation and implementation of activities in order to reduce costs and increase revenues, which makes the relations of economic programs that are more adapted to the real needs of the private sector. This wave has contributed to the fact that the political decision-making has been reduced only to the issues of industry and what types of business entities will be supported by programmes, and decisions on financing the projects are no longer influenced by politics, but decided on the basis of economic criteria. The third wave first began to be practiced in Europe, and later in the United States. The contents of each wave can be seen in Table 1.

**Table 1:** Focus and LED instruments through its historical development phases

Wave	Focus	Instruments
First: from the 60s to the 80s	<ul style="list-style-type: none"> <li>- Attracting production capacities, specially in the form of direct foreign investmens</li> <li>- Investment into basic infrastrucure</li> </ul>	<ul style="list-style-type: none"> <li>- Large subventions</li> <li>- Loans with subventions for the producers</li> <li>- Tax reliefs</li> <li>- Subventions for investments into infrastructure</li> <li>- Certain 'shady' promises in order to attract important investors</li> </ul>
Second: From the 80s to the middle of the 90s	<ul style="list-style-type: none"> <li>- Keeping and attracting business that are already present</li> <li>- More selective policy of attracting investments, with emphasis on certain economy sectors</li> </ul>	<ul style="list-style-type: none"> <li>- Direct subventions to individual businesses</li> <li>- Business incubators</li> <li>- Consulting and training of SME</li> <li>- Expert support for business men</li> <li>- Support for opening of businesses</li> <li>- Investments into basic infrastructure but also into advance technologies</li> </ul>
Third: From the end of the 90s until today	<ul style="list-style-type: none"> <li>- Investments into high technology infrastructure</li> <li>- Public-private partnerships</li> <li>- Networking of the private sector and mobilization of private sector's funds for public projects</li> <li>- Careful selection process of attracting investment in line with the LED policy</li> </ul>	<ul style="list-style-type: none"> <li>- Making of overall strategies aimed at growth of local businesses</li> <li>- Development of more concurrent environment for business</li> <li>- Encouragement of networking and cooperation in private sector</li> <li>- Support for organization of business unions and associations</li> <li>- Encouragement of training and education of work force</li> <li>- Support for activities that improve the quality of life</li> </ul>

Source. World Bank, A Brief History of LED

## FACTORS OF LOCAL ECONOMIC DEVELOPMENT

A smaller or greater success in application of local economic development is influenced by numerous factors, some are common to all environments in which the LED is applied, while others are specific to a particular community, and the territory in which they are administered. In order to present the main factors affecting the LED, we shall use the research efforts and results of the local academic community.

First of all, the primary factors affecting local economic development can be divided into two groups:

- natural and
- social

Natural factors of LED are:

- location and
- natural resources

The basic social factors of LED are:

- degree of decentralization i.e. autonomy of local authorities,
- entrepreneurial capacity of local governments
- sectoral structure of the economy,
- existing state of the economy, or the existence of the market competitiveness of local businesses,
- level of development of physical infrastructure,
- unemployment rate of local residents,
- educational structure and technical capacity of the local workforce,
- macroeconomic and political stability,
- existence of the rule of law and the efficiency and impartiality of the judicial power [12].

Each of these factors, be they natural or social, carry great weight, and the absence of any of these factors, significantly hinders and slows down the local economic development of a community or society as a whole. For example, if a local community has an enviable natural resources, but the educational structure and technical capacity of the local workforce is not satisfactory, the logical consequence is that it will not be possible to take maximum advantage of the natural resources for the general good of all the citizens of the given community.

To maximize the potential of the concept of local economic development it is necessary to all of these factors, particularly the social factors, bring to the highest possible level.

## CONCLUSION

All the experts who have dealt with or are still dealing with the analysis of the concept of local economic development concluded that there is a number of benefits of the introduction and practice of LED. Lowering the decision-making and practice in economic matters to the local level that is much closer and more accessible to the citizens than remote central level decision-making, is the incentive measure of economic development based on the assumption that the people at the local level are more qualified and better versed in the local

economic fact than the remote state governments. They all agree that the direct involvement of citizens in economic activity, through the concept of local economic development brings developmental benefits for the whole society and the state. In fact, the very aim of LER is that a local community becomes a sustainable economic entity.

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