Business-Friendly and Investment-Ready Cities

City Government and the Local Business Growth and Investment Climate

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Greg Clark is Senior Fellow, ULI Europe. He combines this role with being a global adviser on urban development through roles that include the following: chairman of the OECD Development Agencies and Investment Strategies Forum; Global Fellow, Metropolitan Program, Brookings Institution; adviser on metropolitan strategies for the World Bank; member of the London Enterprise Partnership; member of the advisory board of the Oxford Future of Cities Programme; and visiting professor, city leadership, Cass Business School, City of London. Previously, he was a commissioner on the West End Commission (2012–2013) and a member of the Promote London Council (2010).

From 1988 to 2006, Clark held a variety of posts including: lead adviser on city and regional development, Office of the Deputy Prime Minister, U.K. Government; managing director, economic development, at Greater London Enterprise; and chief executive of the London Enterprise Agency.

Clark has been a strategy adviser to more than 20 cities on five continents and has led international city networks and projects on economic strategy, city leadership, openness and migration, urban investment, long-term strategic planning, and city branding.

Trained as an economist, a political scientist, and a facilitator, Clark was educated at Cambridge University, Columbia University, and the London School of Economics.

Section 1
Introduction: business-friendly and investment-ready cities

1.1 Why this report? What do we mean by 'business-friendliness' and 'investor-readiness'?

Cities across the world are adjusting to new economic realities. The 2008 financial crisis and consequent recession in the West and global economic slowdown carried serious implications for city economies. The initially sluggish but now increasing return to growth means that cities are focusing on the best ways to attract corporate and institutional investment anew. This has shone the spotlight on *the business and investment climate* as an increasingly important tool for economic development, new job creation and capital attraction.

Cities worldwide are adjusting their business strategies and investor propositions as part of new economic agendas with revised sector and trade-based growth and investment strategies. Simultaneously, firms and investors have revised their own commercial approaches to city locations.

A key new feature of the horizon for cities is the recognition that the crisis and recession has created a new 'normal' in changed global economic dynamics with continued growth in the middle income economies and a substantial increase in the global investment capital that they generate. The role of new and enhanced sources of investment capital in the global system has encouraged cities in Europe and other OECD 'developed' nations to consider how they can be more attractive to international investment.

At the same time, the channels of investment of previous cycles for European cities have changed substantially. Cities no longer have access to grant aid, transfer payments, tax revenues, or debt finance to the same degrees as they did before the crisis. They now have to navigate a new investment system that includes substantial increases in corporate and institutional investment, private equity and sovereign wealth funds. A new generation of Public-Private Partnerships is also emerging in some countries, whilst in others new public-private investment funds are materialising supported by either international financial institutions (IFIs) or global philanthropic organisations. In the European Union, a new round of the EU's Structural Funds is now underway and the European Investment Bank (EIB) remains very active in facilitating new investment tools and mechanisms.

For cities in Europe, the sources and systems of investment in real estate, infrastructure and other hard assets have been dramatically changed. The result is that cities must negotiate this new pattern of investment - which often requires the mobilisation of larger assets and projects - with different risk and return patterns from the past, and with investment cycles that have changed time frames and dynamics.

Europe's cities have recognised that these changes require them to become more focused on the conditions that will attract investment and secure business expansion and growth. They have to become both more investment-ready and more business-friendly and, if they can do so, then they can learn to use these new flows of investment to achieve wider social and other goals.

But despite much new activity at the local level, there is still no precise, widely shared understanding of what 'business-friendliness' and 'investment-readiness' really mean in a city context. A wide range of cities, including many across Europe, North America and Asia, are updating their economic strategies in consultation with business and investors. They include:

- Large established world cities such as London and New York that need to address the environment they offer to business, and their liveability, if they are to continue to lead.
- 'Emerging world cities' of faster growing markets such as Brazil, China, India, Russia and Turkey. These cities are aware of the need to turn their purchasing power into a more strategic advantage by becoming a robust platform for business and investment to flourish. As such, they acknowledge the benefits of becoming more open, attractive, transparent and efficient, to complement their growth surge.
- Competitive 'middleweight' cities that must address and adapt their business climates given their altered growth profile as well as new global markets and rivals.

In all cases, the direct and indirect costs of doing business, the efficiency of the local and national frameworks, and the ways that regulations are designed and enforced, together make an important difference to how effectively these cities can promote their considerable advantages.

In some major European cities - including Paris, Barcelona, Brussels, Hamburg, Stockholm and Vienna (four of which are the subject of case studies at the end of this report) - leaders are concerned to reverse job losses, promote business growth, foster infrastructure investment, address stalled office space take-up and retail investment, and grow promising but underdeveloped sectors. These cities, and others, have demographic, mobility and productivity opportunities that are potentially attractive to international firms. Economic circumstances have created the space for these cities to be more nimble and entrepreneurial in their pursuit of business and capital.

New Growth and Investment Strategies for cities

A recent OECD report identifies that in the aftermath of the global financial crisis, city governments and business leadership groups have reacted to make important adjustments to their economic development positioning. In particular, they have developed significant new approaches to **achieving growth, attracting investment and governing effectively**. These have been tracked and detailed in the OECD LEED (2013) study, *Delivering local development - New growth and investment strategies.* When viewed as a whole, the adjustments indicate that many internationalised cities are grasping key elements of what it means to be business-friendly and investment-ready.

Barcelona Global board members welcome new members. By Barcelona Global

Firstly, cities worldwide are using newly-agreed **growth strategies** to focus on growing their jobs base through new sector development and new growth markets. Spatially managed sector and cluster strategies have been brought forward to improve the productivity and expertise of core business networks in cities such as Zurich and Boston. Many are supporting an enhanced research base through the clustering of scientific and technology SMEs around their region's leading universities, thereby raising the culture of participation between their high value-added worker communities. Sectors benefiting from these changes often include life sciences, creative industries, software and clean technology. Meanwhile outreach to high-growth emerging export markets is a noticeable new focus, especially in European cities such as London, Hamburg and Amsterdam. Corporate executives, business tourists and international students are being presented with pathways (events, missions, new air routes) to become exposed to a city's offer, just as local businesses in places such as Barcelona or Brisbane have been mobilised to become international ambassadors and advocates for their home city.

Secondly, Western cities have responded to the decline in public capital investment capability with **new strategies for investment and finance.** Cities have pursued new arrangements with financing institutions, multilateral organisations and sovereign wealth funds to fast-track key bankable projects. Higher-performing cities have lobbied higher tiers of government to retain a greater proportion of locally generated revenues, with Manchester's 'City Deal' a prominent example in the infrastructure field. Another approach has been in the form of incentives for local and foreign entrepreneurs through tax-free zones, angel investment forums and improved visa regimes.
Research-proficient cities such as Lyon and Nanjing have also created bespoke office space for privately-backed funds to grow important science sectors.

The third adjustment that cities have made is to **leadership approaches and local development systems.** Leaders with a profoundly commercial approach based on real knowledge and awareness of the global economy are underpinning a new era of business-friendly city management. Despite constraints imposed by national governments, cities are working to create integrated metropolitan bodies in order to overcome political fragmentation at the city-regional level. Whether through expanded development partnerships or integrated public authority coverage, the likes of Lyon and Zurich are enhancing innovation capacity, sharing ideas about area identity and implementing projects that foster cross-border unity.

In cities with ambitious, can-do leadership, such as Manchester and Cape Town, new combined regional arrangements are a pathway for dedicated and evidence-led private sector input into economic development strategies. Local municipal leaders have convened to create joined-up solutions to regional skills deficits and to compete effectively for national funds. The character of this new era of metropolitan development governance is one of professionalism, leanness, self-management, synergy and unified vision. Even in cities, such as Boston, that have been unable to develop a wider governance framework, service delivery at the city level in areas such as housing, education and entrepreneurship has been adapted within the framework of active higher tiers of government.

London Skyline

In this new cycle, cities are increasingly recognised as the business and employment hubs of national economies. While macroeconomic frameworks are acknowledged as the shapers of national economic performance, local and regional ingredients are also seen as important to sub-national and national business success. Cities, themselves, can forge reputations and results based on their business climate or business-friendliness.

Local and regional economic outcomes both aggregate into national economic output and are influenced by conditions at local and regional levels. In larger cities, where the denser agglomerations of businesses occur, city and metropolitan factors play a role in the extent to which the platform for business performance is enabling, As such, they provide a unique 'business platform'. City and metropolitan economies are seen as more or less open to corporate investment, more or less efficient in their dealings with business, and more or less able to foster and promote entrepreneurship. Those that are seen to do these things well become recognised as being 'business-friendly'.

In many areas cities can, and do, take tangible and productive steps to be more business-friendly. They can reduce barriers to business investment and growth, and create a positive environment for entrepreneurial risk taking.

Furthermore, cities are adjusting to new trends in global investment. They not only recognise the importance of developing coherent strategies, and of turning a wish list of potential projects into a structured package of priority projects, but they are also responding to the financing gap and better identifying the requirements of potential financiers who demand robust and well-formulated investment projects. In this respect, cities are learning how to get their key development aspirations 'ready' for capitalisation.

Definitions

With specific reference to cities, this paper adopts the following basic definitions of 'business-friendliness' and 'investment-readiness':

Business-friendliness:

- "The level and quality of attention paid by city managers and leadership to improve upon national framework conditions at the local level to develop a positive and differentiated approach to attract and retain firms and corporate locators, and to support their trading needs."

Investment-readiness:

- "The demonstrated capacity of a city to prime itself towards the needs of external investors, by providing a credible and efficient framework and process for external investment, coupled with a development pipeline of bankable propositions and opportunities that meet the specific process, asset, scale, and risk management requirements of the investors".

1.2 Purpose of this report

This report examines the idea of business-friendly and investment-ready cities and explores how one city might be more business-friendly than another, given similar dynamics and contexts. How is business-friendliness designed and measured? What is the relationship between the investment climate and business-friendliness? What steps can a city government take to foster business-friendliness, and how might these fit within wider economic development agendas and programmes? We also consider how cities become more business-friendly, and to what extent technology can be utilised to support this objective.

As a result, the main aims of this report are to:

- clarify what is meant by 'business climate' and 'investment climate' with respect to the local, city scale;
- examine how business-friendliness and investment-readiness are emerging as the focus for cities across the world to describe their approach to private sector attraction, retention and growth;
- present a framework that describes cities' approaches to business-friendliness and investment-readiness;
- assess how far business-friendliness and investment-readiness can be applied to different kinds of firms in different industrial sectors, and to different kinds of investors; and
- illustrate how business-friendliness and investment-readiness is being addressed by several leading European cities.

Section 2
The business and investment climate in cities: what we already know

2.1 The business and investment climate

The business climate and the investment climate are well-established concepts in macroeconomics. They typically refer to national rather than regional and local dimensions, but in the absence of strong business-friendliness literature these concepts can be carefully applied to the city context.

The economic literature on why firms choose to locate in a given place and why mobile investors choose to supply capital into local assets, identifies three fundamental considerations:[1]

i. Access to markets
ii. Costs
iii. Access to resources.

The International Economic Development Council (IEDC) states that a sound business climate "allows businesses to conduct their affairs with minimal interference while accessing high-quality inputs and customers at low costs".[2] Meanwhile, the World Bank says that a healthy investment climate "provides private firms with opportunities and incentives to invest and grow".[3]

The success or failure of business and investment climates is one way that macroeconomists explain the disparities in socio-economic performance within and between nations. It is understood that because a vibrant private sector can create jobs and produce goods and services that enhance living standards and generate tax revenues to finance public service provision, then both the business climate and investment climate are key to sustaining growth and reducing poverty.[4] Accordingly, the search for the most effective institutional arrangements and interventions to nurture private sector investment and growth remains a constant preoccupation of government and is a focus of this paper.

Traditionally it was assumed that the factors that may influence location choices – taxes, tariffs, labour costs, skills and connectivity - were fairly even, or 'flat', within each national jurisdiction. This assumption has been shown to overlook the way economic activity clusters, and the ways cities deliberately and even unintentionally create their own conditions for business and investment.

2.2 Defining and measuring the business and investment climate

Business-friendliness at the city level has been the subject of interest and concern for over three decades[5], but only now is it becoming a significant area of international debate and action. There is increasing attention to the concept, driven by the desire of cities to be attractive for increasingly mobile activities and by the constraints on cities to use capital expenditure to drive economic development activities. We can look at business-friendliness from different interlocking angles:

i. There are business climate levers at national, regional and local levels, and therefore business-friendly cities can control some things but must try to influence others.
ii. Different types of firms are sensitive to different aspects of business-friendliness.
iii. Different industry sectors have particular business climate needs.

Although urban and intergovernmental practitioners are routinely engaged with questions of business-friendliness and investment-readiness, this has yet to translate into a well-defined grasp of what these terms mean for cities in practice. In order to build a clearer sense of what constitutes a business-friendly and investment-ready city, the sections that follow examine:

- research and policy work by international organisations; and
- city and national indices that examine and compare business and investment climates.

[1] O'Brien (2013)
[2] IEDC (2011)
[3] World Bank Group (2014)
[4] World Bank Group (2014)
[5] Fisher (2005)

We observe that the needs of the private sector mean that creating a healthy business and investment climate is a complex task that requires a targeted and nuanced approach if it is to succeed.

2.3 Defining the business and investment climate: the (inter)national level

Research, analysis and policy reform work by a range of international organisations has sought to establish the ingredients of business and investment climate success, and the extent to which these ingredients can be applied to cities within the framework of business-friendliness. These international organisations include the International Economic Development Council (IEDC), the Organisation for Economic Co-operation and Development (OECD), the UN and the World Bank. These international studies often prioritise the values of efficiency, dependability and security in global environments where many national frameworks are unfavourable to the mobile, flexible, skills-rich firms which operate today. The findings of the aforementioned organisations in relation to business climate are outlined here:

- The IEDC identifies several familiar core factors that determine the quality of a business climate. These include tax and incentive levels; skills availability; energy, real estate and living costs; market size; regulatory environment; financing access; and infrastructure.[6]
- The OECD's research, by contrast, highlights the role of SMEs in national and urban economies. It argues that cities need regulatory frameworks and systems of governance that promote genuine transparency, safety, property respect and predictability in the relationship between business and government. It also endorses the need to provide access for SMEs to finance, skills training, procurement, information and clustering, as well as to global market opportunities.[7]
- The UN's 'Roster of Good Practices' describes the importance for emerging economies to foster links between local SMEs and international firms. Policies to support clustered co-operation, full knowledge-sharing, technology transfer support and accessible markets for export have all been recommended.[8]

Cycle-friendly Amsterdam

- Among international organisations, the World Bank has the most advanced barometer of national business climates, found in its Doing Business Index.[9] The index focuses on business regulation and the protection of property rights with specific reference to SMEs. Business-friendly nations facilitate the fast start and closure of businesses, process construction permits and register property rapidly. They also protect investors and ensure contracts are enforced, and provide means of accessing credit. The 2011 index rates Singapore as the most business-friendly nation in the world.[10]

Many cities have historically understood business-friendliness to mean competitive tax breaks to attract foreign corporations, and their investment agencies advertising from-scratch greenfield investments. There are indications that a more complex picture is now emerging. ReD Associates Consultancy, which has worked with Copenhagen Capacity investment agency, is one of many to have identified that "the new trend is to sell a city on its people and their lifestyle".[11] Major firms are decentralising and spreading their business operations among multiple locations where they not just produce but also sell and market their products. This means that local culture, lifestyle, regulatory environment, productivity norms and specialised knowledge are critical.

[6] IEDC (2011)
[7] OECD (2004)
[8] UNCTAD (2004)
[9] World Bank and IFC (2011)
[10] World Bank and IFC (2011)
[11] Rasmussen (2014)

This reflects a growing consensus that local distinctiveness and local assets can be decisive in achieving business-friendliness. Indeed, a 2012 paper by the World Bank argued that:

"cities that are the most successful at attracting investment and businesses to meet the aspirations of their citizens…are those that harness all of their resources, including their heritage.. [H]eritage anchors people to their roots, builds self-esteem and restores dignity."[12]

2.4 Measuring the business and investment climate of cities

The measurement of business and investment climates by independent city and national ranking organisations helps identify the factors that contribute to the creation of attractive business and investment climates. These indices also provide strong indications as to which cities excel and underachieve in this area. Ranking methodologies and cities' overall positions in these benchmarks help clarify the key elements of business and investment climate success.

Hong Kong street scene

Among the keynote city indices which examine business climate are:

- 'Cities of Opportunity' by PwC and the Partnership for New York City;
- 'European Cities Entrepreneurship Ranking' by ECER-Banque Populaire;
- 'European Cities Monitor' by Cushman & Wakefield;
- 'European Cities and Regions of the Future' by fDi Magazine;
- 'People Risk Index' by AON Hewitt;
- 'Urban Investment Attraction Index' by the University of Rosario's Centre for Thought in Competitive Strategy (CEPEC); and
- 'Global Power City Index' by the Mori Memorial Foundation.

The range of indices shows how the concept of business climate now engages think tanks, universities, city development agencies, and property and consulting firms.

In the next section, we look at how two of these indices understand the concept of business-friendliness.

Findings from comparative indices on business climate

The influential 26-city Cities of Opportunity study includes perhaps the most complete elaboration of business climate in its 'Ease of Doing Business' metric. The report features nine variables associated with employment flexibility and rigidity, access for international workers, and the risks for firms in operating in a city and matching skills to jobs.

Hong Kong and Singapore have consistently been rated the two outstanding cities for business climate here. This is because of pro-business labour market regulations and an unparalleled degree of political stability. American cities, led by New York, also perform well despite visa restrictions, thanks to flexible working-hour regulations and a high level of political representation for international firms. The strong ratings of established world cities in this field led the report's authors to summarise that:

[12] Licciardi and Amirtahmasebi (2012)

Table 1: Top 10 cities in PwC Cities of Opportunity's Ease of Doing Business metric in 2014

		Ease of starting a business	Resolving insolvency	Employee regulations
30	Singapore	28	29	26
29	Hong Kong	27	21	24
28	New York	26	25	30
27	Toronto	29	28	15
26	London	22	27	1
25	Los Angeles	23	25	29
24	Chicago	25	25	28
24	San Francisco	25	25	27
22	Seoul	20	26	17
21	Stockholm	16	17	11

		Ease of entry: Number of countries with visa waiver	Foreign embassies or consulates	Level of shareholder protection	Operational risk climate	Workforce management risk
30	Singapore	30	17	30	30	29
29	Hong Kong	29	13	29	29	25
28	New York	9	24	26	24	30
27	Toronto	14	14	28	26	28
26	London	26	29	22	19	27
25	Los Angeles	9	10	26	24	26
24	Chicago	9	6	26	24	24
24	San Francisco	9	8	26	24	23
22	Seoul	27	21	18	15	16
21	Stockholm	21	23	19	29	22

"those cities that have created globally competitive business cultures understand what it takes to maintain their advantage".[13]

Other cities excel in particular categories. Sydney is the world's most seamless big city for starting a business, while Stockholm is 2nd only to Singapore for operational risk climate. By contrast, the emerging world cities of Shanghai, Mumbai and Moscow have very weak business climates, owing to high administrative burdens, a lack of shareholder protection, and concerns surrounding recruitment and retention of suitably skilled employees.

The quantitative work of Cities of Opportunity has been paralleled by other important perception surveys. Since 1990, Cushman & Wakefield has published a European Cities Monitor evaluating the best cities in which to locate a business each year. The Monitor surveys senior business executives on the factors they consider essential for business in a given location.

13 PwC and the Partnership for New York City (2012)

The Øresund bridge connecting Malmö and Copenhagen

Table 2: Top criteria for European firms when deciding location, based on Cushman & Wakefield's European Cities Monitor

Factor	% (2010)	% (2009)
Easy access to markets, customers or clients	60	61
Availability of qualified staff	58	57
The quality of telecommunications	55	54
Transport links with other cities and internationally	51	51
Value for money of office space	36	34
Cost of staff	33	35
Availability of office space	31	25
The climate governments create for business through tax policies or financial incentives	27	26
Languages spoken	27	24
Ease of travelling within the city	26	23
The quality of life for employees	20	21
Freedom from pollution	19	17

Table 2 details the factors that have been rated 'absolutely essential' for firms' successful operation in the post-crisis period.[14]

Meanwhile in the US, the Kauffman Foundation and online service provider Thumbtack have created one of the most comprehensive surveys of business-friendliness for the SME sector.[15] It has found that the most important determinants of city business-friendliness are, in order:

i. Complexity, time-cost and monetary cost of obtaining and keeping licenses and permits

ii. Aggregate taxes

iii. Availability of training and networking programmes

iv. Labour and hiring rules.

These quantitative and perception-led studies highlight that providing smooth access to regional and national markets through adequate regulation is a decisive factor. Business responses also indicate that softer areas of provision are also very important, despite their neglect in the literature. The availability of qualified and multilingual labour force, strong rail links with nearby cities, and all-round liveability attraction are all viewed as influential in business relocation decisions.

[14] Cushman & Wakefield (2010)

[15] Allen and Daniels (2013)

Although the focus and audience of these urban benchmark studies varies from entrepreneurs to established multinational services providers, their collective findings indicate an increasingly complex and multidimensional private sector, which in turn is demanding finely-tuned approaches to business location needs. Furthermore, the studies show that although national frameworks remain significant enablers and disablers of business activity, the majority of attributes required for business-friendliness success can and are regularly influenced by the action of local leaders at the city level.

Findings on investment-readiness

Most indices that touch on cities' capacity to meet investor needs tend to concentrate either on investment project figures or on the activity of investment promotion agencies. Although they by no means cover all aspects of what it may mean to be investment-ready, they provide some important indicators into how cities can and do prepare to host flows of cross-border capital.

In 2013, fDi Intelligence undertook an assessment of investment innovation strategies. It identified the importance not just of 'one stop shop' marketing to potential clients, but also the role of land use strategies and sector-specific approaches. For example, smart city development plans are able to leverage investment from both investors and service providers by tapping into the growing market for smart infrastructure. Furthermore, the provision of sites and upgraded telecommunications for growing tech start-up communities is now seen as a major precondition for investment since the global financial crisis.[16]

Several cities stand out for their efforts in this area according to fDi Intelligence. Lyon has provided a large district as an 'open lab' for smart city experiments, related to mobility, open data and smart grids, and has attracted investment from Japanese energy agency NEDO. Barcelona's Smart City campus and protocol provides assurances to technology firms about how solutions are to be managed and packaged. Other factors relevant to investment-readiness include:

- Job creation grant incentives
- Private sector-led policy advocacy
- Formation of regional cluster collaboration
- Creative workspace development.

2.5 Preliminary elements of effective city business and investment climates

Using the evidence from international organisations and indices, it is clear that successful business and investment climate management has a strategic character that, in multiple respects, is carefully nuanced to the requirements of the private sector. Consequently, good business and investment climates are:

- ***Scale-specific.*** International organisations and indices refer to business and investment climate success at national, regional and city scales. In the World Bank's Doing Business Index, for example, success is determined by processes and conditions that are international, national and sub-national in their scale. The value of intercity and international connectivity to private sector success and the extent of environmental regulations are usually national-level issues. Meanwhile, control over employee quality of life, office space costs or business mentoring, resides to at least some extent with city stakeholders.
- ***Sector-specific.*** While there are common attributes that influence private sector growth and attraction "no business climate is perfect for every kind of company".[17] Different companies will have different needs. Export businesses for instance will judge barriers to cross-border trade to be more important to the success of their business than an SME in the service sector.

[16] fDi Intelligence (2013)
[17] IEDC (2011)

- ***Business type-specific.*** Evidence from the OECD and the UN illustrates that SMEs and large international firms will have fundamentally different expectations of an enabling business environment. While there may be some overlap, large firms are less likely to consider timely access to advice and mentoring services to be important to their sustainable growth as, say, import and export support and rates of taxation.
- ***More than regulation and legal frameworks.*** Business regulation and property rights protection indicators can only determine one aspect of a successful business and investment climate. International and city-oriented studies are clear that the creation of a healthy and enabling environment for the private sector requires a far broader approach, taking into account connectivity, quality of life, cost, trade, human capital and market considerations.[18]
- ***More than FDI attraction.*** Foreign investment has been critical to the growth of most established and all emerging world cities in the past two decades. But evidence from the UN, OECD and other sources indicates that private sector vitality is governed as much by the establishment, growth and retention of existing business as it is by the attraction of new business to a city, region or nation.[19]


Historical city centre Vienna

For policymakers and practitioners, this picture of business and investment climate success as a complex and multidimensional phenomenon suggests that a more nuanced, local approach is required. Top-down, state-led interventions and strategies can lack the definition that is necessary to meet the disparate requirements of a diverse and variedly motivated private sector. There is now a consensus that central government cannot easily manage many of the factors that create an enabling environment for business growth and that local interventions are more effective.

To a large extent, this explains the increasing prevalence of city-led strategies and interventions that aim to retain, grow and attract businesses. A balanced approach is nevertheless required. The many-sided nature of business and investment climates means that strategies need to address all the ingredients that create and maintain an attractive environment for the private sector. Cities seek a complementary and comprehensive approach where national and sub-national activities are organised in a way that is seamless, coherent and co-ordinated.

[18] UNCTAD (2004); Cushman & Wakefield (2010); OECD (2004); IEDC (2011)
[19] UNCTAD (2004); OECD (2004)

Table 3: The characteristics of business-friendliness: an initial framework

Category	Drivers	Example Indicators
Local business climate – 'Product'	Economic potential	Demographic size and growth, per capita wealth, patents, R&D job creation.
	Cost effectiveness	Office and industrial space rents, energy prices, minimum wage, taxes on profits, imports and exports, infrastructure efficiency.
	Incentives and regulations	Business opening and closing times, incentives available, application speed.
	Quality of life	Unemployment rate, number of IB (International Baccalaurate) schools, average residential property price, number of hospital beds, death rate, health expenditure, life expectancy, international tourist arrivals.
	Human resources	Unemployment rate, number of universities in world top 500, number of students of world top 500 universities, number of business schools in world top 100, labour force with tertiary education, public education expenditure, economically active population.
	Infrastructure	Number of international destinations served, upload and download speed, airlines served, number of terminals, port ranking, major railway lines to the city, time to export and import, home Internet access, length of fibre-optic cabling, mobile phone subscribers.
Local business climate image – 'Promotion'	Business and investment climate promotion	Existence of an internal and external business climate promotion strategy, number of staff committed to inward investment promotion, number of inward investment promotion programmes, number of major infrastructure and urban planning projects, number of global events, number of business-orientated publications.
Delivery of local business services – 'Provision'	Networking and capacity building	Membership and turnover of business leadership and membership groups, frequency of networking events and business conferences, number of staff responsible for service signposting and business support, training provision, number of business improvement districts.
	Inward investment facilitation	Number of staff committed to site selection support, number of staff committed to new firm employee orientation.

2.6 Dimensions and priorities of local business-friendliness

What does business-friendliness mean at the local level? Cities and regions have promoted and adopted business climate initiatives in order to present a more attractive proposition to a range of commercial players.

City approaches to business climate:

- may not involve a formal strategy, but often require an all-inclusive approach to stimulate and support local business retention, local business growth and the attraction of new business to the local area;
- can be a shared activity, requiring the unified and co-ordinated action of a range of key players in the city and beyond from both the public and private sectors;
- often conceive of cities and regions as 'one stop shop' vehicles that are responsible for the overall approach to business-friendliness;
- may involve a targeted and mixed approach to reflect the requirements of a diverse private sector; and
- involve clear channels and platforms for communication between the private sector and public authorities.

The creation of vibrant private sector activity within urban areas has therefore been widely seen to demand explicit efforts from local governments and partnership bodies (chambers of commerce, development agencies, other tiers of government). These initiatives can help minimise regulatory and financial barriers to entry, and manage the risks associated with local commercial activity.

Effective approaches to city business-friendliness have usually addressed three key elements:

i. **Local business retention.** Ensuring that businesses remain in the local area and are not tempted to relocate to competitor cities because of the quality of the business environment on offer.

ii. **Local business growth.** Ensuring that both existing businesses and new entrepreneurs receive the support they need to succeed.

iii. **The attraction of new business to the local area.** Ensuring that the quality of the business environment is promoted effectively enough to attract investors and encourage non-local business to relocate.

Initiatives within these three remits target all forms of commercial activity from SMEs, large multinational companies and a wide range of specific business sectors. Business climate projects centre on these core elements – the growth, retention and attraction of business – but many more ingredients are involved besides.

Although the base of literature on the subject is not extensive, several frameworks can be used to characterise in greater detail the wider picture of business climate management. Using fDi Magazine's 'judgement criteria' from its Cities and Regions of the Future publication series, this report presents a conceptual framework for local business-friendliness.

The framework shown in Table 3 organises the factors that drive and determine local business-friendliness into three categories, nine drivers and numerous composite indicators.

2.7 City approaches to business-friendliness

There are three wide-ranging ways that cities seek to address business and investment retention, growth and attraction successfully:

i. **Enhancing the local business climate –** ***"Improving the product":*** The delivery of interventions that enhance the performance of its businesses. City leaders can both improve the quality of their city's commercial environment as well as the quality of its social and community environments.

ii. **Delivering services to local businesses and entrepreneurs –** ***"Providing targeted support":*** A city can deliver a number of activities directly to local businesses to support their growth, enhance their performance and facilitate their inward investment.

iii. **Enhancing the perception of the local business climate –** ***"Promoting the business experience":*** A city with a high-quality local business climate may fail to attract non-local businesses unless it communicates the advantages of its local business climate effectively. Similarly, local businesses may look to relocate if they perceive that the business climate elsewhere is more advantageous.

Within this wider framework there is scope for cities to craft and deliver effective business-friendliness initiatives. Further research is needed to better define and illustrate the nuances required for a comprehensive and effective business-friendliness approach in cities. Already, however, several preliminary observations can be made:

- **New investors are as much a priority as the existing business base.** Frequently such investors are attracted to the potential of clustering, and benefit from targeted policies to support and implement these links.
- **The wide mix of the private sector is gradually being acknowledged and adapted to.** Target groups include organisations from large multinationals to smaller, creative SMEs. For the latter, the reduction of red tape is especially important, given their comparative dearth of resources for non-core business activities.
- **Cities nurture home-grown business to provide fresh energy and ideas into their business environments,** through incubation, mentoring, finance and training mechanisms. 'One stop shop' organisations which connect small and medium-sized firms with key people and agencies, provide critical means for firms to navigate sometimes complex procedures and applications, and thereby to achieve optimal outcomes.
- **The provision of skilled labour (and the facilitation of skilled migrants) into a city is a key requirement** for the growth of many businesses, which comprises a significant element of business-friendly strategies.
- **The public sector can and does play a co-ordinating role between a growing number of partners** to build a comprehensive approach to business-friendliness stewardship. Horizontal and vertical collaboration across the public sector is required to build an effective approach to business-friendliness. Communication channels between business leaders and public leaders have opened up to give due representation for cities' businesses.
- **Socio-economic intelligence is increasingly acquired** and used to respond to the changing requirements of business.
- **Global events have played a role in motivating city governments** to think about the strategic long-term future of their city's relationship to the private sector, given the critical support required for physical regeneration.

The initial evidence indicates that more and more cities recognise the importance of a business-friendly strategy, led in a collaborative manner by and for a variety of stakeholders. This is particularly urgent for cities seeking to reach a global audience in the period after the global financial crisis, when firms in new and emerging markets represent valuable opportunities.

Yet many areas of business climate remain under-defined. In particular, the role of national government in local business-friendliness is a significant question that will be explored in the next section.

Section 3
Benchmarking business-friendliness and investment-readiness

3.1 National, regional and local dimensions of business climates

National business climates and economic conditions are inextricably linked with metropolitan commercial platforms and local business and investor services. Large cities depend on national tax, regulation and incentive frameworks, at the same time as they constitute the economic proposition and attractiveness of nation-states, especially for services and high-tech manufacturing industries.

Nations have distinctive aggregate market offerings. These are based on their demographic size, their links to nearby regional markets, linguistic and cultural affiliations, resource profiles and historic strengths in given industries. Furthermore, national legislatures establish the overall policy framework, which sets the tone for market dynamics and sector prioritisation over many electoral cycles. Each country therefore represents a different kind of opportunity to investors and firms, based on a complex set of risk and reward appraisals.

The three tiers of business climate

National/Regional Business and Economic Climate (Attractiveness and Openness)

Metropolitan/Regional Markets and Business Platform and Sector Focus (Platform and Clusters)

Local Business and Investor Services (Services and Incentives)

Source: Greg Clark

Metropolitan and regional drivers of inward business investment and organisation are typically linked to their unusual market size and density. These scale factors depend on a commensurate metropolitan-level infrastructure platform, a sound logistics system and critical institutional assets that have tended to cluster in cities during the twentieth century. Businesses rely on cities' capacity to host functional supply chains and provide deep pools of skills, supported by location incentives. As such, the city-level proposition to business and investors revolves around organisation and commercial energy; these actors require assurances that cities not only offer a dynamic market but also have a functional and co-ordinated platform for clusters to operate and succeed.

Finally, the business climate is not detached from a set of local business and investor services and processes. At the local level, the speed with which problems or conflicts are recognised and handled and changes authorised, has a large, cumulative impact on day-to-day operations. Relations with local officials, public sector bodies and civic organisations are significant for how businesses negotiate their local environment, administer investment and select locations. The reliability and long-term durability of procedures and planning regulations also affects business expectations and approaches to expansion.

3.2 The Six Cities

One of the aims of this report is to unearth the subtleties of how national, regional and local policies and provision impact on cities' business climates. In order to explore this more deeply, we have selected six leading European cities, operating in different national economic environments and institutional domains. Although not all six are covered in separate case studies, four are covered in greater detail in the second part of the report. The six are:

- Barcelona
- Brussels
- Hamburg
- Paris
- Stockholm
- Vienna

Table 4: Positions of six nations within global rankings of business friendliness

	General business-friendliness		Tax, incentives			Workforce availability and flexibility		Business setup		Business dynamism and support	
	World Bank and IFC	World Economic Forum	World Economic Forum	World Bank and IFC	Heritage Foundation	World Economic Forum	Heritage Foundation	World Economic Forum	World Bank and IFC	World Economic Forum	World Economic Forum
	Doing Business Index	Global Competitive-ness Index	Taxation*	Paying taxes	Fiscal freedom	Labour market efficiency	Labour freedom	Starting a business	Getting credit	Business innovation + sophistication	Institutions
Year	2014	2013-14	2013-14	2014	2014	2013-14	2014	2013-14	2014	2013-14	2013-14
Sweden	13	6	72	41	181	18	127	42	42	5	5
Belgium	36	17	119	76	180	64	56	9	73	15	24
Austria	30	16	94	79	176	42	26	93	28	12	21
Germany	21	4	76	89	166	41	152	87	28	4	15
France	38	23	136	52	178	71	132	28	55	18	31
Spain	52	35	96	67	174	115	129	111	55	32	58

*Taxation = measures 6.04 and 6.05 (effect of taxation on incentives to invest, total tax rate %)
*Starting a business = measures 6.06 and 6.07 (no. of procedures, no. of days)

Four of the six are capitals of EU nations and this therefore enables clear distinctions to be made between national and local business climate initiatives and environments. Each of the capital quartet have separate economic specialisations; Brussels and Vienna are intergovernmental centres, and attract a high proportion of their country's highest skilled workers; Stockholm is one of Europe's most advanced technology and life sciences cities, with a history of very high R&D expenditure; and Paris constitutes a world-class market for business and financial services, with associated competences in cultural and creative industries.

Barcelona and Hamburg, as the two non-capital cities, have become established as more diversified and innovative metropolitan economies since the 1980s, hosting a wider range of knowledge clusters to support their historic manufacturing competences. Both cities have sought to consolidate the role of the private sector and improve conditions for entrepreneurial activity. However, Barcelona and Hamburg have rather different business brands and function in different national market, employment and productivity contexts.

3.3 National policy frameworks shape city business climates

The business environment of these cities can be usefully analysed against an evaluation of their national frameworks in familiar global studies of business and competitiveness. Three leading studies stand out for their depth and complexity:

- World Bank and International Financial Corporation (IFC) Doing Business Index
- World Economic Forum Global Competitiveness Report
- Heritage Foundation Index of Economic Freedom

The World Economic Forum report is the most comprehensive of the three. It features over 90 measures through which each city is evaluated, producing an overall score. In Table 4 two elements of taxation have been selected for comparative purposes, alongside a classification of the dynamism and innovativeness of nations' commercial networks, the speed of business start-ups, the efficiency of market operations, and labour market rules. The selection of these metrics, along with the overall score, enables a more suitable comparison with the city-level indices discussed later on.

Stockholm City Centre

The World Bank has partnered with the IFC to create the Doing Business Index. The index is especially useful for its assessment of over 100 nations for taxation attractiveness and the availability of credit. Meanwhile, the free market-oriented Heritage Foundation Index of Economic Freedom has a more simplified but nevertheless rigorous approach to nations' business climates. The freedom of businesses to operate is assessed along a small number of variables, which include firms' labour freedom and fiscal freedom (shown in Table 4).

The metrics pertaining to similar areas of business-friendliness are laid out in Table 4:

A number of observations can be made:

i. **Sweden is the most business-friendly nation of the six, but Germany is making the fastest progress.** Sweden is near the top in each field and excels in a variety of areas: few procedures to start a business; a low burden of customs procedures; a highly professional management system; a fair legal framework; excellent technology uptake; and ease of access to loans and venture capital. One would therefore expect that Stockholm exhibits all these features and more. Germany has the most improved scores in 2013, especially in terms of its infrastructure, innovation capability and higher education.

ii. **By contrast, Spain has the weakest pro-business framework of the six countries.** It is the weakest nation at the general level of business competitive analysis, and also in the specific areas of market efficiency, productivity and labour practices. A favourable tax framework has not been supported by effective processing institutions. It would appear that Barcelona is unfavourably positioned vis-à-vis cost-conscious international businesses.

iii. **Belgium is a moderately pro-business nation in Europe,** with a strong business start-up record, low redundancy costs and a strong record for university-industry collaboration in R&D. However, the country has many areas that are potentially a deterrent to business, including a low-powered equity market, strict employment laws, very high taxation, onerous government regulation and what is perceived to be wasteful government spending, all of which would be expected to impact on Brussels.

iv. **Austria is rated as an upper-mid ranking European country for businesses.** The nation is evaluated as highly stable, with excellent internal infrastructure, a high degree of customer orientation and excellent labour-employer relations. Given Vienna's privileged position within Austria's urban hierarchy, these characteristics ought to be firmly embedded into the capital's business climate and perception.

v. **France has low labour market efficiency,** a burdensome regulatory system, a complex loan system and other rules which impact on the potential for foreign investment. Paris therefore exists within one of the least favourable national frameworks of any established world city.

3.4 City business climates versus national contexts: correlations and divergence

This section analyses the performance of the six cities for business climate factors, and compares it to assessments of national frameworks. City-level analysis exists in terms of both expert investor and executive perceptions, alongside quantitative measures of local skills development, fiscal autonomy and infrastructure. It is notable that business perception studies focus more clearly on market opportunities, skills, and infrastructure, than the national approach which is more narrowly focused on regulation and risk.

Table 5 (see p.21) incorporates performance across the range of fields, placing the cities in descending order of business-friendliness. Four main city indices from 2011-2012 are used: the European Cities Monitor, the Economist Intelligence Unit 'Hotspots' report, AON Hewitt's People Risk Index, and the European Cities and Regions of the Future series from fDi Magazine. These four indices provide a useful cross-section of material, from executive and investor opinion, to figures on workforce skill development and transport mobility, to the assessment of fiscal autonomy and the complexity of the city's tax regime.

The city-level analysis paints a rather different picture to the national context:

i. **Brussels is by a small margin the most business-friendly city of these six European centres.** The Belgian capital offers the strongest taxation and fiscal incentives for incoming firms, and has a consistent record of investment project attraction. The city also has a robust human capital base, especially in terms of multilingualism, and, significantly, has labour and office cost advantages over several other talent-rich cities. It has improved its human capital risk considerably to mobile international corporations, as evidenced by a strong rise in the AON Hewitt People Risk Index.

   Brussels' unusual human capital density and opportunities associated with its intergovernmental cluster mean it has clearly surpassed the Belgian national business environment. Because Brussels has become overwhelmingly dominant in the Belgian national hierarchy, it attracts the most able and proficient graduates, and experiences a low brain drain compared to cities of similar economic size. Moreover, air links and a quality postgraduate education system, especially in political and diplomatic fields, have provided incentives for firms seeking a multilingual base in the heart of Western Europe.

ii. **Stockholm and Paris are very evenly matched for business-friendliness despite their different scales and specialisations.** Paris on the one hand offers businesses a much larger regional market to access and a unique range of customers and clients in continental Europe. But Stockholm has greater fiscal autonomy to offer incentives and subsidies, and has what is widely measured as a more effective governance framework for businesses, which also helps limit the costs of hiring. The two cities have superior bases of talent across a range of services and high-tech manufacturing fields, and have very similar internal commercial infrastructures.

   As such, Paris understandably transcends constraints at a national level. Paris is rated more positively for tax and incentives, and its agglomerative scale – supported by transport - offers unusual benefits to business. As with Brussels, it appears that the clustering of talent around business services and advanced creative and technology firms has generated disproportionate location incentives and responsiveness among city policymakers.

   By contrast, Stockholm slightly underperforms in comparative terms given the strength of the Swedish business environment. Although the capital is recognised in the city-level analyses for its overall legal-regulatory framework and strong technology provision, it appears that high costs, limited market size and a lack of targeted incentives (in some areas) are limiting the city's commercial reputation and performance within Europe.

Table 5: Business-friendliness performance of six European cities in 2011-2014 benchmarks

	General business friendliness			Tax, incentives, policy framework			Workforce availability					Space and staff costs			Business infrastructure					
	fDi Business-Friendliness 2014 (position within city size category)	European Cities Monitor -2011- Access to Markets, Customers, Clients	Overall	ECM - 2011- tax and incentives climate	EIU- 2012- Institutional Effectiveness	Overall	ECM – 2011- Qualified Staff	ECM – 2011 - languages spoken	EIU - 2012 - Human Capital	AON People Risk Index 2012	Overall	ECM -2011- office space value for money	ECM -2011 - Staff costs	Overall	ECM- 2011- office space availability	ECM -2011- Internal Transport	ECM – 2011 - External Transport	ECM – 2011 - tele-communications	EIU-2012- Physical Capital	Overall
Brussels	8	4	19	12	27	13	7	2	43	27	30	14	26	10	11	17	5	9	24	40
Stockholm	11+	19	13	19	23	12	6	4	26	15	34	21	18	11	17	4	23	4	1	39
Paris	4	2	19	17	44	9	2	6	4	36	34	28	30	5	13	2	2	2	20	41
Barcelona	11+	19	6	16	50	9	12	17	29	49	19	11	11	14	6	6	12	20	9	39
Hamburg	11+	8	8	23	35	9	18	17	32	39*	23	24	27	7	26	17	16	13	1	32
Vienna	11+	23	5	33	39	5	28	27	30	37	17	31	25	6	32	20	21	24	9	26
Total cities	11+	36		36	62		36	36	63	68		36	36		36	36	36	36	64	

* Hamburg score in AON Index devised from average scores of German cities

^ Overall scores are calculated by assigning a score out of 10 for each index performance, based on which decile the city falls into among ranked developed cities. For example a city ranked 1st of 36 cities receives a score of 10, whereas a city ranked 34th is assigned a score of 1.

iii. **Barcelona is a clear 4th for overall corporate and investor-friendliness.** The Catalan city's excellent high-speed rail links and air connections are a particular attraction for firms from Europe, Latin America and China. It also has a high availability of quality, centrally-located office space compared to other pro-business cities such as Hamburg. Barcelona is not seen to have an especially attractive tax and incentives framework, and still has progress to make in improving institutional processes and ironing out employment rigidities. Despite disadvantages in regulations often set at the national level, the city has made important steps in the areas of human and physical capital to make it one of the Mediterranean's leading gateways for international business.

Barcelona outperforms Spain consistently in terms of attraction to foreign businesses and hosting dynamic synergistic networks, and the city has succeeded in leapfrogging its national context in some key respects. Infrastructure provision, cultural assets, and the concentration of regional talent at affordable costs have persuaded firms to the city despite structural shortcomings nationally.

Port of Hamburg

iv. **Hamburg has strong core infrastructure and talent assets but has a weak business environment in terms of taxation, employment regulations and cost rigidities.** The German port hub provides excellent access to northern and central European markets and clients, and has outstanding physical capacity to link goods into and out of the region. The city does not, however, offer a wide range of affordable office space and, despite a range of training support programmes for SMEs, it is not widely perceived as offering attractive corporation tax or flexible employment practices. Overall, Hamburg performs approximately in line with Germany's overall business environment, which might be surprising given its comparative autonomy as a city-state.

v. **Vienna's business attraction is much more frequently attributed to economic potential as a capital and gateway location than for specifically business-friendly measures.** The ease of doing business quickly and cost-effectively is not widely acknowledged about the Austrian capital, while the city is surprisingly also not seen as a particularly strong location for multilingual staff proficient in advanced knowledge sectors. High costs of renting space and modest bespoke infrastructure development for high-tech firm and SME needs are also deterrents to business set-up. Given its capital status, Vienna appears to be underperforming compared to its national framework. It seems to be set back by relatively weak air travel connections compared to some rival cities, a fairly low rate of technology transfer, inflexible wages and high taxes. Local sources of financing also appear as relatively underdeveloped.

Overall these cities illustrate that urban business climates are not straightforwardly coterminous with their nationally-inscribed frameworks. The spiky character of human capital and infrastructure within countries means that cities have, in different ways, developed some capacity to forge their own business environment and business brand, which is in turn distinguished and acknowledged by national and international commercial entities.

Section 4
The relationship between cities and business. How are businesses and investors impacted by different issues and measures?

4.1 Expert opinion on business-friendliness and investment-readiness

Looking at business-friendliness in a generic sense is helpful to establish the overall framework, but there is strong evidence that different firm types and different sectors have specific needs that are distinctive. As there have been very few careful studies of business-friendliness and investment-readiness, we undertook several expert level interviews to establish the needs of different sorts of firms, investors and cities in their relation with each other. The following experienced international urban and investment practitioners were interviewed:

Paul Bevan	Former Secretary General of Eurocities (2008-2014)
Lewis Dykstra	DG for Regional and Urban Policy, Economic Analysis Unit, European Commission
Brian Field	Senior Economist, European Investment Bank
Roger Cooke	Former Managing Director Spain, Cushman & Wakefield (1980-2013)
Graham Colclough	Vice President, Cap Gemini
Dr Martin Eichler	Chief Economist, BAK Basel Economics
Rosemary Feenan	International Director Global Research, JLL and Chair, ULI Europe Policy and Practice Committee
Michael Spies	Senior Managing Director Europe and India, Tishman Speyer and Chair, ULI Europe Sustainability Council
Sergey Riabokobylko	CEO, Cushman & Wakefield Russia and former Chair, ULI Russia
Abha Joshi Ghani	Director, Knowledge and Thematic Learning at The World Bank Institute
Dr Austin Kilroy	Private Sector Development Specialist, World Bank
Brian Moran	Managing Director, Hines Ireland and Chair, ULI Europe European Urban Regeneration Council
Brandon Sedloff	Global Head of Corporate Development, ULI

These interviews yielded a number of important finer-grained insights about the ingredients of business-friendliness and investor-readiness respectively.

Business-friendliness and investment-readiness are important and growing concepts. The content of the two concepts are not, by and large, new. But there has, however, been a huge surge of interest in these phenomena due to the urban-fuelled growth of the global economy, the rise of mobile firms and investors, and the change in mindset caused by the global financial crisis. Cities such as Hong Kong and Singapore have largely replaced Los Angeles and Paris as the models that other cities aspire to, especially in the emerging regions where their story of rapid success is highly compelling. These cities' reputation for being 'open for business' has prompted much closer attention to how their frameworks are replicable, in whole or in part.

Business-friendliness and investment-readiness are distinct concepts, and affect different types of firms and investors in distinct ways. Cities represent commercial opportunities for large numbers of different stakeholders. Within the real estate sector, for example, the occupier community has a fundamentally different set of priorities to the investor community. Occupiers look for cities that are *business-friendly,* that have the assets and ingredients to maintain strong private sector-led economic growth. Investors, on the other hand, seek *investment-readiness,* in that their potential to commit capital hinges much more on the availability of investible sites and on the regulatory and planning frameworks that support and enable such investment to take place.

In this respect business-friendliness is a broader concept, because it involves businesses assessing the complex angles of a city's liveability and economic potential. Investment-readiness, by contrast, refers more narrowly to the local regime that determines the scope for financing a given project.

Cities have a wide range of motivations for achieving business-friendliness and investment-readiness. Cities identify businesses and investments as:

- ***Sources of employment.*** New firms nearly always need to tap the local labour market, whether at the higher or lower value levels. At the same time, project investments can secure a cycle of employment in construction, design, architecture, logistics and a host of other sectors.
- ***Providers of choices for growth.*** If their framework is attractive to a wide range of firms and investors, they can host and guide the investments that are most suitable for the city's economic and social needs. Cities that lack the right platform for business or capital often have little space to choose which direction they wish to take, and can get stuck into negative path-dependencies.
- ***Generators of municipal revenues and national corporation taxes.*** In many cities corporation tax comprises over a quarter of total raised revenue. Furthermore, business rates are a significant portion of the local authority tax pot, and can be leveraged to part-fund key infrastructure and improvement projects. Business-friendly cities have a large pool of firms that contribute to the basic costs of running the city as well as the upgrade costs involved in regeneration and expansion.
- ***Creators of urban vibrancy.*** Dense corporate networks lend considerable vitality to inner-city districts and other areas besides. A large and assured business presence can create the environment for positive spin-offs in terms of entertainment, restaurants and nightlife, as well as the increased footfall, which all add extra buzz to a city. This can, over time, impact on a city's perceived liveability and create new tourist and student markets.
- ***Suppliers of opportunities for citizens.*** A dynamic business base provides a pool of job prospects for local workers, which can help address social cohesion. Businesses attracted by welcoming policies also offer opportunities for procurement, for suppliers and for other residents participating in the wider economy.

Cities were first servers of citizens, and only secondly servers of businesses or investors. The legitimacy of city governments has been founded on its relationship with citizens. Only recently have city governments recognised their role in serving corporations and investors. As such, cities lack a familiar administrative apparatus with which to serve this new demographic. Over the last three decades they have adapted to invent new approaches from scratch and build up capacity. This has led to a great deal of innovation, but errors have also been made along the way.

Air pollution in Beijing

Business-friendliness is not an easy or quick fix. The quest for cities to become friendly to business and ready for investment has invited concern that they are engaged either in a destructive race to the bottom, or in a pursuit of a quick windfall that does not protect business and investor interests over the longer term. There are certainly many instances where cities have inadvertently compromised their ability to compete across whole cycles or multiple cycles by impulsively accepting business investments of all types, in any requested location and at any time. Among these illustrations include:

- The failure by city governments to protect investments made by retailers and retail property sector companies. A number of emerging and developed cities have embraced multiple retail parks and shopping malls, but in many cases the rush to be open to retail investments has created an oversupply which ultimately has limited yields and led to investor frustration and withdrawal.
- Some cities that have adopted a pro-business stance have failed to understand the spatial character of economic clusters. In lowering the barriers for new businesses, they may have been too hasty in proposing or assigning locations that later become obsolete or detached from cluster synergies.
- Some cities overlook consideration of how commercial sites will evolve over a whole business cycle. The creation of new sector start-up spaces, without factoring in wider space to grow, can lead to firms or groups of firms leaving in favour of a more sustainable location.
- The unplanned drive in emerging cities for competitiveness has occasionally led to hasty reforms that have exposed them to lower environmental standards that have subsequently constrained future growth.

Such adverse cases, alongside a better grasp of economic processes and decision-making, have helped create a more informed and more judicious business-development approach in cities. The challenge for cities that wish to make steps towards becoming more sustainably business-friendly is to learn to be more discriminating about which kind of firms, investments and locations can support growth over a whole cycle. Cities therefore require medium-term economic strategies that look to anticipate how the city can grow in the longer term and respond to business needs accordingly.

Medium-term strategic planning, especially at the metropolitan level, can help manage how to be business-friendly and investment-ready over 20-30 years rather than 2-3 years. If clearly based on an integrated perspective on urban development, metropolitan planning can bring all stakeholders together to ensure that longer-term space, yield and expansion needs are factored in to all business attraction and location decisions. This planning creates the market confidence that can be essential for drawing institutional investors into housing or transport markets, for example.

Such strategies can also inform the setting of higher standards throughout the city in terms of negotiating strategically and productively with business around whole-cycle growth agendas. It can, for example, help lead to a code of practice that encourages businesses to adopt high standards in return for an effective commercially-oriented plan for development. Businesses and investors are responsive and supportive towards coherent city visions that provide a clear and evidence-led pathway for sector and spatial growth.

Credible leadership at the city level is almost always a key concern of business. Cities need to have not just a clear plan and vision but also a 'chief negotiator' who is able to reach a binding agreement with an investor or locator that produces durable benefits on both sides.

Table 6: Business climate priorities for different business types in different sectors

	Visitor	Life Sciences	Green	Creative Business Services	Financial and	IT and Telecoms
Start-Ups	Availability of marketing platforms	Availability of seed capital	Availability of larger sites	Availability of affordable premises	Availability of licenses to operate	Access to customers
Stable SMEs	Access to market and networks for joint campaigns	Ability to continue to innovate based on IP and knowledge base	Ability to compete for customers in rapidly growing market	Ability to compete for customers in rapidly growing market	Ability to compete for customers in rapidly growing market	Ability to compete for customers in rapidly growing market
High-Growth Firms	Ability to expand in best locations	Access to knowledge networks and VCs	Access to growth capital and quality sites	Access to talent and managerial skills	Access to growth markets	Access to major customers and growth capital
Large Corporates	Ability to acquire performing assets or to join other pioneers in a new location	Quality of local science and business base Incentives structure in tax, regulation and IP protection	Strength of domestic market to drive innovation	Ability to continue to innovate with supply chains and smaller firms in clusters	Ability to operate in tax and regulatory framework	Ability to restructure to remain competitive vis-a-vis smaller firms
New Cross-Investing Firms	Availability of the right locations and speed of planning	Availability of skilled staff	Availability of large enough sites and access to local customers	Openness of local clusters	Ability to access high-value local services	Ability to access local networks and markets
Institutional Investors	Investment in hotels and leisure subject to confidence about market, brand and accessibility	Investment in science facilities subject to confidence about sector assets and knowledge economy climate	Investment in green sectors subject to confidence in business models	Investment in creative facilities subject to how well organised the sector is and ability to overcome fragmentation	Investment in commercial real estate subject to confidence about the strength of clusters and growth potential	Investment in IT subject to confidence in digital platform and skilled staff availability

4.2 Segmentation by firm size, ownership and sector

Based on the series of expert interviews in tandem with targeted research, we have been able to examine business-friendliness and investment-readiness at the level of sector segmentation and firm types. Our approach here is to recognise and explore the different aspects of business climate that are relevant for different types of businesses using simple typologies.

The types of firms and investors that we address are:

- Start-ups
- Stable SMEs
- High-growth firms
- Foreign owned firms
- Larger corporates and HQs
- Institutional investors

It is possible to review these from the perspective of a selection of sectors:

- Tourism/Visitor
- Life Sciences
- Green
- Creative
- Finance and Business Services
- IT and Telecoms

This approach observes that there is a matrix of different business-friendliness issues that can be highlighted. These are illustrated in Table 6, which shows that there are a number of variables within firms that affect how cities can appear business-friendly and investment-ready.

- ***Firm size.*** Smaller firms are concerned about their ability to compete in growing markets, their access to capital and the affordability of an initial location. This requires a very different set of tools and interactions compared to large established firms, which may be searching for already performing assets, highly functioning clusters and cities with long-term growth potential.
- ***Sector segment.*** In each industry, the formula of production process, innovation focus, wage pattern, space requirement and operating cost, together defines what it considers to be a 'friendly' system in a given city. For expert sectors such as IT and life sciences, the availability of high-level bespoke skills and IP protection are critical factors, whereas for advanced financial and business services the tax and regulatory burdens are often more decisive. Others, such as manufacturing firms, prioritise the protection of stable energy and electricity pricing structures, while smooth transport links are key for logistics and goods trading firms. Cities need to take into account the kinds of production patterns (consumer, luxury, mass, hardware) and the kinds of customer orientations that exist in their main or preferred sectors when composing their offer to business.
- ***Markets.*** The geographical horizon of a firm's operations impacts considerably on its priorities for city investment and location. Those firms with a regional or domestic focus may be more concerned about local supply networks and market and customer access, rather than comparative tax or regulation structures. Those with international operations will be more mindful of local language capability, proximity to air infrastructure, and spatial cluster considerations. Equally, the position in the value chain influences the extent to which firms are sensitive to cost-based versus quality-based factors.
- ***Position in life cycle.*** Firms move through at least seven phases during their life cycle – seed, start-up, growth, established, expansion, mature and exit. Those in the earlier stages require cities to support them by facilitating a quick time to market, capital access and advice centres. During the growth and expansion phases, firms need cities to provide a broader range of skills, structures to support accounting and management systems, and nearby firms with whom partnerships and knowledge exchange can be forged to address a more intense competitive terrain. And in established corporate institutions, cities are providers of prime space, logistics that guarantee productivity, and outsourcing or back-office alternatives. The evolutionary position of a firm may also define the scale and time frames of urban investment, and the approach to setting and monitoring risk appetite.

4.3 Broader underpinnings

So far, we have established that for a city to be business-friendly, it needs to achieve three essential outcomes. It must:

- **be attractive for new businesses** by providing such essentials as market access, market confidence, tax and licensing frameworks, and a pool of qualified and diverse labour;
- **make it easy for companies to stay** as they grow, evolve and enter new relationships and supply chains; and
- **help companies to grow** by facilitating sites, knowledge, seed capital and customer access.

As such, business-friendliness depends on a broad approach to the business climate that considers the intricacies of different firm needs. Cities need to develop business-friendly policies for the sectors that they aspire to have. But because they must inevitably appeal to more than one kind of firm and sector, they need to maintain a consistent overall framework that does not unduly privilege one group at the expense of others. Such a framework is then capable of retaining firms through their own life cycles, as they evolve from start-ups, to aspiring medium-sized companies and into mature international businesses.

This framework, however, must be fundamentally engaged with and tied to wider processes taking place in the city. Business-friendliness only tends to be indexed to success if the city is also a place of local demand and liveability. Such policies are typically most successful in cities which are competently governed, with mature and diverse talent-oriented economies. These underlying dynamics of demand, appeal and liveability are sufficiently powerful to make or break accompanying policies towards attracting businesses and investors.

Table 7: Requirements of national level and local level business climate policies

	Business-friendly	Investment-ready	Underpinnings
Macro	Operating environment for firms Perceptions of macro market National business brand Simplification of rules and permits	Investment climate for capital Investment instruments, PPPs, etc Incentives Scale Able to meet investor appetite	Good government and transparency/legal frameworks Economic dynamism Population Trade and Investment Openness to cross-border capital and corporate investment
Local	Business inputs, support, finance. Sector knowledge, clusters Public Services Private opportunities	Clear long- term vision for spatial development of city Assets, project pipelines, planning, incentives	Ability to attract investment into assets that support broader economic development Local demand and growth Quality of life and liveability Skills Sites and connectivity
Combination Effects	Coherence between macro and local. Local services make sense of national frameworks	Clarity about who does what at different levels of government National incentives and objectives driven at local level	

On the other hand, for a city to have hard assets that are investment-ready, it needs:

- **a stable, predictable, transparent and consistent environment** for external investment, with planning that minimises the risk of oversupply, or firm cannibalisation;
- **a process for investment** characterised by low risks and predictable costs;
- **attractive risk-adjusted returns** for the different classes of investors; and
- **to be able to leverage its own assets,** including public land and contracts.

The framework and location factors that businesses and investors rely on signal that cities cannot divorce their business climate policies from their *overall* offer. New businesses clearly benefit from the agglomeration effects that cities can host and reproduce, because they can choose to locate production centres in areas where their associated industries are already established. While many of the more mature commercial cities have strong agglomeration economies achieved through long-term spatial and transport planning, others have more fragmented or fragile agglomerations. In some of these cases, cities have had to offer an incentivising short-term policy environment to compensate for its deficiencies in their economic geography, but such a response can cause as many problems as it solves.[20]

To kick-start and foster agglomeration, cities instead need industry-specific policies alongside broader urbanisation policies to promote the concentration of urban firms.[21] As scholar Professor Frank van Oort (2013) has noted, cities must develop both tailored business-friendly policies, as well as policies that generate wider urban demand, as one without the other will be ineffective:

"The specialisation (cluster) or diversity (urbanisation) strategies lose value on their own – it is their mutual interaction and the (cross-level) interaction with firms that determines future urban economic development."

Cities cannot achieve all of these policy outcomes by themselves. The national-level system remains pivotal, as we have noted. The overlap and friction between city-level and national-level policies can create serious regulatory complexity, especially if it is accompanied by governance misalignments. The challenge is for cities to distinguish themselves as being strategically open for business while maintaining consistency and coherence between the local and national environments.

[20] Lall and Mengistae (2005)
[21] Tripathi (2012)

Section 5
Summary and recommendations

The ideas of both business-friendly and investment-ready cities are gaining currency again. Both pick up on enduring commercial imperatives and express them in ways that respond to a global economy that is more based around intercity trade, investment and mobility than ever before.

This paper has indicated that ***business-friendly*** cities are able to attract, retain and grow firms, and in order to do so they:

- create an attractive and simple overall tax/cost framework;
- activate connectivity pathways to emerging markets;
- maintain a sustainable supply of graduate skills into key industries;
- build a well-financed entrepreneurial ecosystem;
- offer cost effectiveness compared to nearby competitors;
- develop urban cluster and diversification policies to foster agglomeration;
- demonstrate visible progress with quality of life initiatives; and
- create a shared vision of the economic future with city businesses.

The paper also indicates that ***investment-ready*** cities cultivate a reliable supply of opportunities for inbound capital, and to accomplish this they:

- prepare the opportunities and assets to meet investor funding demands and risk/scale appetites;
- understand how different forms of investment capital need to be structured;
- know who its prospective clients are, by sector and size;
- calibrate the financial/social return expectations;
- maintain conditions to ensure projects are bankable;
- be willing to deploy assets and adapt planning to achieve goals;
- have competent investment management teams; and
- gain a comprehensive understanding of the market and market evolution, and how it can be shaped over whole business cycles.

Business-friendliness and investment-readiness therefore require very precise and deliberate policies and programmes at the local level, but within broader strategies of planning for agglomeration and metropolitan growth. City governments need to be mindful of both the business *and* investment demands of today's firms, so that core framework attractiveness can be complemented with real channels for capital to find its way into the city. Underpinning both, however, are three indispensable elements:

i. **Skills and talent** – to meet sector-specific needs, but also to adapt to changing sector trends and cater for the evolution of firms as they grow and evolve.

ii. **Liveability** – to provide the basic vibrancy and accessibility that can build and manage demand among high-skill workers to locate in the city.

iii. **Opportunity** – to become synonymous with openness and potential among citizens, firms, entrepreneurs, immigrants, students and tourists, by integrating economic development into the city's enduring identity and affinities.

Both business-friendliness and investment-readiness have enough concrete features to be measured. So far, however, only piecemeal and incomplete efforts have been made to measure and compare cities for their approaches. This paper has shown that both national and local policies contribute to how open and friendly businesses and investors view cities. A rigorous assessment of cities readiness for investment and openness to firm (re)location would require proper study of national frameworks and local factors. These elements are not easily defined, and it would require methodological work and a period of testing the applicability of data in order to develop meaningful comparable measures. Any comparison would have to take into account the different systems of government, the varied local governance arrangements, the size of the national population and each city's position within national and regional systems of cities.

Of course the focus of this paper is on what cities can do to attract and retain business and investor interest. There is also considerable scope for an equivalent investigation that assesses what businesses could and should do to attract and retain interest from cities.

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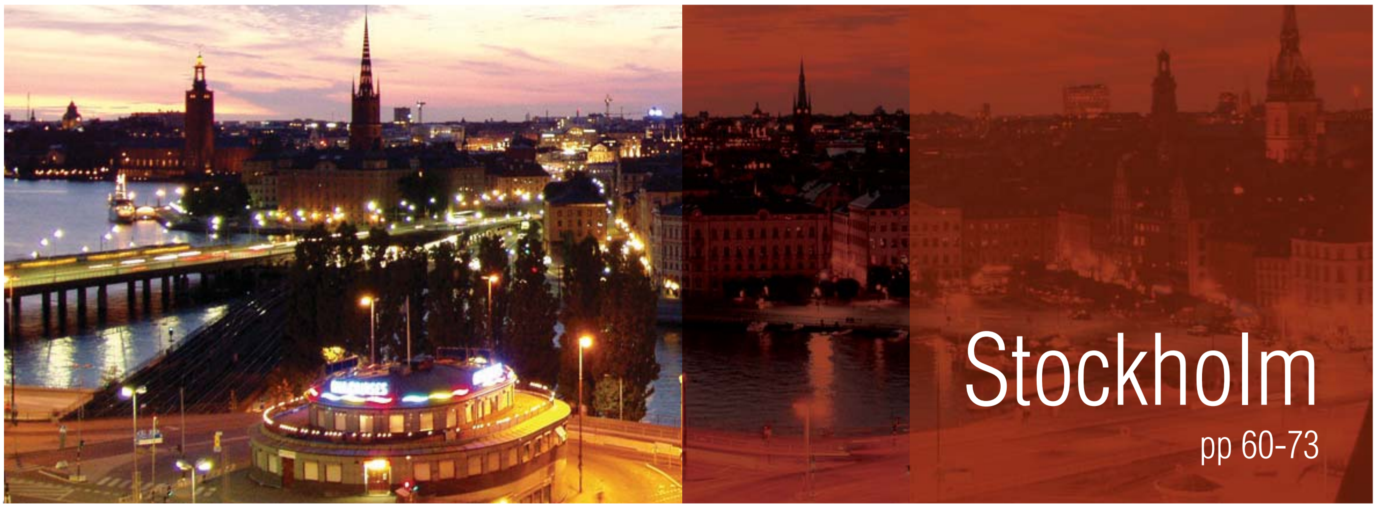
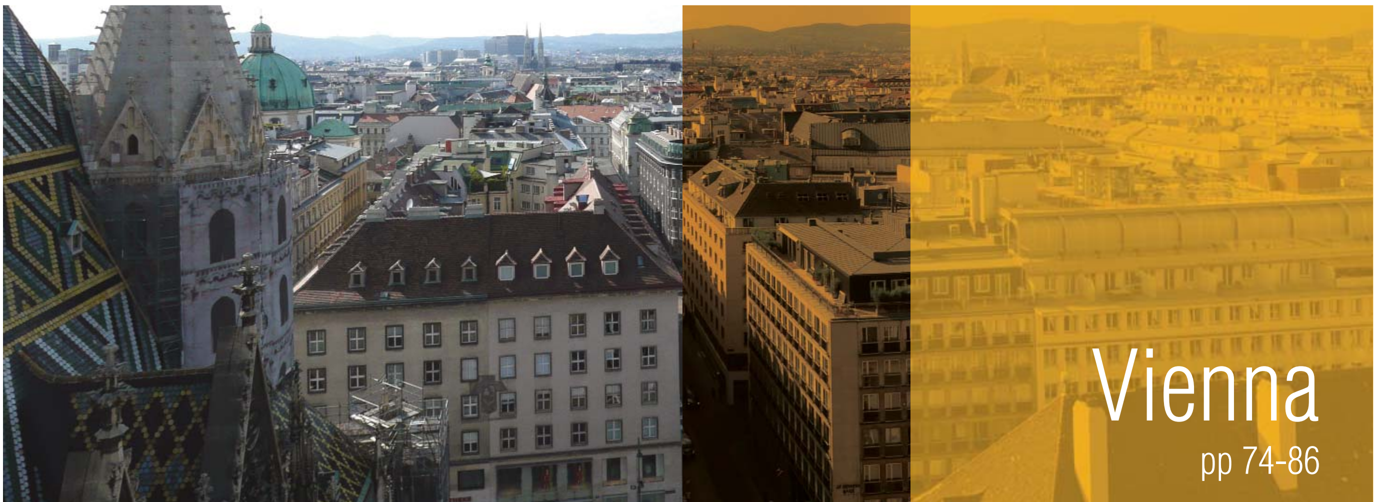
Case studies:





Case Study
Barcelona

Barcelona is the capital of Catalonia in Spain with 1.62 million inhabitants living within the 101 sq km central administrative region. The city is recognised as one of Europe's leading business, innovation and science locations with a vibrant culture, distinctive architecture, climate and lifestyle.

Much of the first phase of Barcelona's transformation and urban regeneration was attributed to the city being awarded the Olympics in 1986 and the subsequent hosting of the Games in 1992. The Olympics provided a catalyst for the city to modernise and develop, creating a collaborative ethos with public and private partnerships which remains core to the city's thinking today.

Economy

Barcelona is located within the Mediterranean economic corridor of Barcelona-Lyon, which has 25 million inhabitants and an annual output of nearly €1 billion.[1] The city's functional economic region extends beyond the administrative boundaries, covering an area of 803 sq km and a population of 4.5 million.[2]

Business services and real estate accounted for 19.9% of the region's GDP in 2010[3], down from 25.6% in 2008. However, real estate investment has experienced an impressive recovery since 2013.

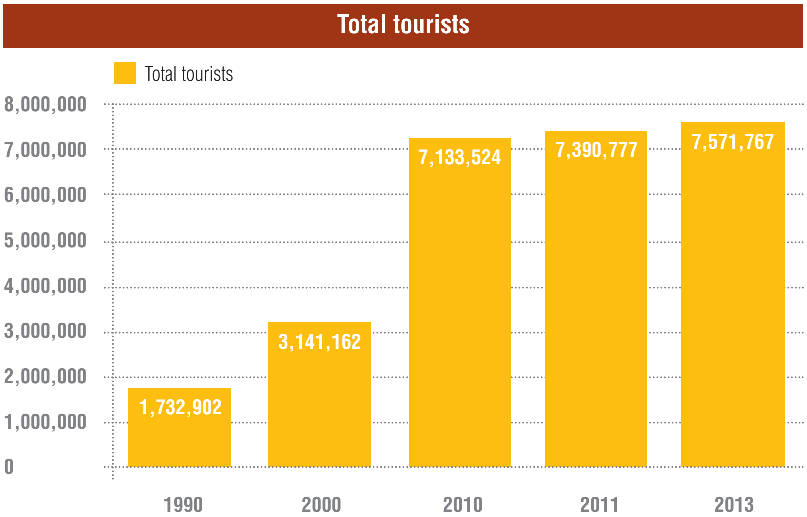
28.7% of businesses and 52.9% of employees in the city work in knowledge-intensive industries. Barcelona province generates about 15% of all patent applications in Spain, while Catalonia is the autonomous community with the highest number of innovative companies in the country (23% of the total)[4]. The city is also strong in the creative industries, with around 10% of all workers employed in the sector.

Industry and manufacturing still plays an important role in the metropolitan economy, employing around 15% of workers in the metropolitan region.[5] Leading sectors include car manufacturing, pharmaceuticals and chemicals, as well as food processing. Other regional strengths include trade and logistics, supported by excellent rail and port infrastructures and a modern airport ranked among the top 40 worldwide.[6] The strength of the local economy is also reflected in its export volume; the city generated about 20% of all Spanish exports in 2012.[7]

A legacy of the Olympic Games is the growth of the tourism sector. Since the Games put Barcelona on the map, visitor numbers have continued to increase steadily, culminating in 16.4 million overnights stays in 2013. As a leading destination for cruise passengers in the Mediterranean, the Port of Barcelona has contributed significantly to these numbers.[8]

[1] Barcelona City Council 2013
[2] European Commission 2013
[3] Barcelona City Council 2013
[4] INE (2012)
[5] Barcelona City Council 2014
[6] Skytrax 2014
[7] Barcelona City Council 2014
[8] 2.6 mil passengers in 2013, an increase of ca 8% from 2.4 mil in 2012 (Barcelona Port Authority)

Figure 1: Barcelona's Tourism Sector Growth



Source: Tourism statistics for Barcelona and province, 2012

Table 1: Barcelona's Key Figures

Population (2012)	1,620,943 (city)
	5,518,280 (Metroregion)
GDP €/inh	€27,298 (2013, Catalonia)*
	€38,500 (2010, Barcelona)
GDP growth	1.3% (2014Q2, Catalonia)*
Unemployment	17.2% (2014Q2, Barcelona)***
Share of workforce in science and technology	20.9% (2012)***
Share of workforce in knowledge-intensive services	35.5% (2012)***
	27.8% of businesses are in knowledge-intensive industries (source)
Higher education	8 universities in Barcelona
	35.9% share of active population with tertiary education (2012)***
Business Demography	496,104 active enterprises (2010)*
	41,377 New enterprises (2010)*
	28,662 New enterprises having survived 3 years (2010)*
Entrepreneurial activity rate	6.7% (2013, Barcelona)****
Broadband internet connection	71% of households (2012)
Tourism	16,485 million overnight stays
	2.6 million cruise passengers (2013)
Foreign investment	€3,511 billion (2013)
Total exports	€37.979 billion (2011)

Sources: ACCIO (2013); Barcelona City Council Statistics Department; Barcelona Data Sheet 2013;
Eurostat; European Cities Marketing Benchmarking Report (2013); INE Labour Force Survey; Turisme de Barcelona (2013).
* by NUTS 3 region ** Metropolitan region per Eurostat definition *** by NUTS 2 region

Barcelona City Hall

Governance

Barcelona's Municipal Council (Ajuntament de Barcelona) governs all matters relating to urban planning and development, public transport and housing, telecommunication infrastructure, economic promotion, education, health and welfare.

For administrative purposes the city is divided into 10 districts, each headed by a district council (whose make-up reflects the results of municipal elections) that delivers public services tailored to suit local needs. Several private companies under public ownership are tasked in areas such as urban development and design (Barcelona Gestió Urbanística), tourism promotion (Turisme de Barcelona) and economic and business promotion (Barcelona Activa).

The city is also subject to the Municipal Law (Carta Municipal) in recognition of Barcelona being one of the two largest cities in Spain. As a result, Barcelona's treasury has a special economic regime that gives the council a veto in issues decided by central government.

The Province of Barcelona is one of four such administrative subdivisions of Catalonia. Wielding little authority, it predominantly advises, funds and co-operates with the city councils in the province to improve overall operations. By contrast, the autonomous regional government of Catalonia, the Generalitat de Catalunya, has extensive powers in the areas of regional management, urban development, housing, infrastructure, economic development, education and health.

In 1997, three organisations were created to support the delivery of regional planning, transport and water infrastructure:

- AMB County Council (Mancomunitat de Municipis de l'AMB[9]) acts in the areas of planning and metropolitan infrastructures, public space, housing and land. Land and real estate are managed through the public company IMPSOL.
- AMB Metropolitan Transport Organisation (Entitat Metropolitana del Transport de l'AMB) has authority over the management and planning of the public transport system which includes the subway system in seven municipalities and road-network programming, amongst other responsibilities.
- AMB Organisation for the Environment (Entitat Metropolitana del Medi Ambient de l'AMB) is responsible for the construction and maintenance of water-related infrastructure including water supply, drainage, wastewater and treatment of urban and industrial waste.

Barcelona in City Rankings

Barcelona does well in quality-of-life ratings; In Cushman & Wakefield's European Cities Monitor the city held 1st place for quality of life for employees for more than 10 consecutive years. UN Habitat's recent report on the *State of the World's Cities* places Barcelona 3rd in its Quality of Life Index.

Destination branding is another area of success. Barcelona ranks as the 6th most visited city in Europe, behind London, Paris, Berlin, Rome and Madrid, and 4th for international tourists[10], while FORBES rates Barcelona as "the 10th most visited city in the world in 2013".[11] The municipal's efforts to promote the city led to an outstanding 3rd place in Europe's top city brands just behind Paris and London in a 2008 study.[12]

Because of its popularity, Barcelona is recognised as one of the most important destinations for global retailers. CBRE's annual study of retail presence in 2013 found it to be the 12th most sought-after city for global retailers.[13]

[9] Àrea Metropolitana de Barcelona
[10] Turisme de Barcelona 2013
[11] Forbes 2014
[12] City Mayors 2008
[13] CBRE 2013

The city also scores highly in business indicators. The rate of entrepreneurial activity in Barcelona and Catalonia is the highest in Spain and above countries such as Germany, Finland or France[14], and the 2011 European Cities Monitor placed Barcelona as the 6th best city in which to locate a business in Europe. Moreover, Barcelona is the only city in Europe that hosts two of the world's top 10 business schools.[15]

After 2009, international business confidence suffered a short-term dent, as highlighted in the 2013 AON Hewitt People Risk Index, which ranked the city behind Berlin and Dublin. Barcelona also temporarily lost importance in the European real estate market, ranking in the bottom five of European cities for three consecutive years.[16] This trend, however, was broken in 2013, with the city surging in the ranking and experiencing substantial investor interest.

It is important to consider not only the short-term performance reflected in annual rankings but the long-term improvements witnessed over the last decades. While recent rankings may reflect the challenges associated with the Spanish recession, the forward-looking measures taken by consecutive local administrations have put the city in a good position to recover and continue the long-term upward trend. In addition, the fiscal position and management of the city has put Barcelona in a favourable position. Rating agencies such as Moody's and S&P have attested Barcelona's 'robust budgetary management' and 'solid financial fundamentals' at the municipal level.

This assessment is backed up by the steady growth of international investment over recent years. In 2012, Barcelona was the 3rd European urban region for FDI attraction, with a 16% year-on-year increase[17], and it ranks among the top 10 world urban areas for FDI projects received over the 2008-2012 period.[18]

In 2012, Barcelona was, for the first time, included in the Mori Memorial Foundation 'Global Power City Index', which placed it 7th in Europe and 13th overall in the global competitiveness measure, ahead of Sydney and Shanghai.

Figure 2: FDI in European Urban Areas

Ranking	Urban region	Projects	
		2012	Variation 2012/11
1	Greater London (London)	313	-4.3%
2	Ile de France (Paris)	174	-14.7%
3	Catalonia (Barcelona)	116	16%
4	Madrid (Madrid)	93	-1.1%
5	Düsseldorf (Düsseldorf)	84	0%
6	Stuttgart	81	52.8%
7	Dublin (Dublin)	72	20%
8	Friburg	71	39.2%
9	Rhône-Alpes (Lyon)	70	6.1%
10	Northern Netherlands (Amsterdam)	68	38.8%
	Other	2655	-5.6%
	Total	**3797**	**-2.8%**

Sources: Ernst & Young. European investment monitor 2013.

Park Güell, designed by Antonio Gaudi

[14] Roland Xavier et al. 2012
[15] FT 2013
[16] PwC and ULI 2012
[17] E&Y 2013
[18] KPMG 2013

Business Climate: Spain

Spain ranks 44th in the World Bank Doing Business Index.[19] The effectiveness and overall quality of the public administration is considered to be lower than in many other EU States, and the burden of bureaucracy weighs particularly heavy; the legal and regulatory framework for businesses is seen as one of the most cumbersome in the European Union.

The time required to start a company is double the EU average, despite recent improvements which have reduced the number of days from 47 to 28. Obtaining an operating licence takes longer than anywhere else in the European Union, at around four months.

One of the greatest challenges for businesses operating in Spain is the often divergent regulations within the country that exist due to various local and regional levels of administration and their differing requirements. This increases the administrative burden and contributes to a fragmentation of the market, in turn reducing the scope for scale in the market.

Substantial efforts have been made in recent years to expand e-government services for citizens and businesses. The process of tax administration in Spain ranks higher than the EU average, where both the time required to file tax returns and the administrative costs incurred are lower than average. Moreover, the conditions for the enforcement of contracts and resolution of insolvency are better than in many other EU countries.

Other indicators of administrative performance show that there is room for improvement elsewhere. The use of evidence-based policy, for example, is less developed than the EU average.

One of the greatest issues for Spanish businesses, in particular SMEs, is access to finance. Bank lending is relatively costly and still difficult to attain, while other forms of finance are less developed.

In response, the government has embarked on a number of measures to improve the business environment, reduce red tape and facilitate access to financing. A key measure is the expansion of the principle of 'positive silence' (tacit consent) in licensing procedures across various activities and business types. Other measures include better access to public procurement, out-of court settlements of bankruptcies, and, significantly, efforts to resolve the regulatory fragmentation across regions and administrative levels.

Starting a business in Spain has also been made easier by reducing the cost and the minimum capital required, however, there remains room for improvement.[20]

Improving the local business environment

1. Policy push factor

The global financial crisis and consequent eurozone crisis hit Catalonia and Barcelona hard, with both experiencing negative and stagnant growth from 2009 to 2010.[21] While the local economy is gradually recovering, the unemployment rate of 18.2% remains high; however, it is closer to the EU average rate of 10.9% than the national rate of 27.3%.

This background provides the push factor for the current administration's efforts to improve the 'city's software', namely its interface with business, and to reposition Barcelona as a 'city for business'.

Barcelona seeks to differentiate itself from its regional context and demonstrate that its underlying fundamentals are sound and it is still an attractive location to do business and invest in. This strategy works on different levels: reducing the regulatory and administrative burden facing businesses, creating a more welcoming environment for international talent and investors, and establishing a reputation for effective and transparent city management.[22]

Overall, the strategic shift can best be described as a move from a focus on individual projects and programmes towards improvements at the systems level.

[19] World Bank and IFC 2013
[20] World Bank and IFC 2013
[21] CNA 2013; Eurostat
[22] EC 2013

2. The aspiration

- To reduce bureaucratic deadweight costs
- To establish greater clarity on 'rules of business'
- To increase trust and investor confidence
- To empower the city's strategic geographic location as a business hub
- To create a more welcoming environment for international businesses and talent.

3. Key players

Public Sector

Ajuntament de Barcelona: more than 1.6 million inhabitants live within the boundaries of Barcelona City Council, while the functional urban area comprises approximately 4.5 million people. The administration is looking to build on past achievements while Barcelona enters a new phase, shifting from 'excellence in city building' to 'excellence in city management'.

Barcelona Growth: a new agency established to implement the key elements of the current growth strategy and to promote business development. Barcelona Growth is most prominently tasked with managing the Barcelona brand and setting up the Business Service Bureau in collaboration with the Chamber of Commerce.

Barcelona Activa: founded in 1986, this is the executive agency of the city's economic development department. Its activities focus on fostering entrepreneurship, training and skills development, and promoting Barcelona as a business location. Barcelona Activa is internationally recognised as an example of best practice. In 2013 alone its business set-up service helped establish 408 companies.

ACCIÓ: set up by the Catalan Government's Department of Enterprise and Employment, this agency is tasked with supporting the competitiveness of Catalan businesses, in particular their internationalisation efforts. A network of 34 offices in Catalonia and worldwide serves to connect Catalan businesses with international markets. ACCIÓ also collaborates with business organisations to achieve synergies.

Private Sector

Barcelona Chamber of Commerce: a public statutory body, the Chamber of Commerce plays a key role in representing the interests of businesses in the region, and is an important partner in delivering some of Barcelona Growth's policies.

Port of Barcelona

Barcelona Global: an independent, private sector-led platform dedicated to ensuring the continued competitiveness and attractiveness of the city, and strengthening the Barcelona brand for business. It brings together citizens, business leaders and local institutions, encouraging dialogue across organisations and sectors. Barcelona Global's aim is to take a high-level strategic view of the city's future and position in a globalised world.

4. Instruments and policies

Reform of the internal management process

The 'Politics and Management Deal'

A key policy, the so-called 'Politics and Management Deal', aims to increase transparency in decision-making and policy implementation by establishing clearer boundaries between the political and the 'technical' administrative realms.

The main tools of this management model are the Strategic Framework and Executive Budget. The Strategic Framework is Barcelona's medium-term strategic plan, which lays out the vision, specifies the strategic goals and links them to the forecasted medium-term financial framework. The Executive Budget is the budgeting system oriented towards using strategic and performance information as a key reference to allocating the budgetary resources and managing their operational use.

To promote an internal culture geared to innovation and process improvement, a feedback loop is built in the model, which serves to inform ongoing efforts at increasing efficiency and effectiveness.

These efforts build on a solid foundation inherited from previous administrations. The City of Barcelona has demonstrated a long-standing commitment to budgetary discipline and keeping to financial targets, a fact acknowledged by rating agencies such as S&P (2012). This track record has resulted in a favourable fiscal position which allows the city room to manoeuvre in the current challenging environment.

To further promote transparency and high standards in financial management, the current administration has recently adopted European accounting standards and is leading efforts to promote mutual learning in the area of economic and financial governance and the harmonization of public sector accounting standards across major European cities in collaboration with EIPA and Eurostat.[23]

The 30-day customer payment commitment

The City Council has signed a commitment to settle all bills within 30 days, a target it is already undercutting by three days. While not exceptional in an international context, the 30-day payment rule represents a step change for Spanish local administration and serves to build trust in the efficiency and, not least, liquidity of Barcelona and other cities. This has wider implications beyond the immediate supplier-customer relationship, indicating fiscal discipline and sound management more broadly.

These actions are a major cultural change in the way the public administration works in Spain, and sets a clear message of how city hall is willing to be a role model in terms of efficiency. Not content with enforcing internal payment discipline, the City of Barcelona is using its position as largest single procurer of many services by requesting compliance with the same practice of all of its suppliers. It is thus creating a much larger ripple effect in the local economy, helping to reduce risk to local businesses.

Streamlining bureaucratic processes

The City of Barcelona has improved the performance of its administration by streamlining internal processes across departments, thus establishing a clear 'rule of business' shared across the board. This has ensured that client-facing processes are coherent and transparent and that processing times have been cut significantly.

[23] EIPA 2014

Expanding e-government services

The city is maintaining a comprehensive online presence tailored to both citizens and businesses. This service provides information about and access to the majority of municipal, regional and national government procedures, including an overview of taxes, fines and residential registration. It allows the administration to handle around 80% of the total service volume online, again increasing accessibility, transparency and speed.

Electronic business registration (PAIT)

The national government has recently introduced a system for online business registrations which may be implemented at the discretion of local institutions, either public or private, under a joint framework approved by the ministry. Barcelona Activa is offering this service for companies doing business in the Barcelona area. While the registration of a business took up to 40 days prior to the introduction of PAIT, it has now been reduced to 3-4 days on average. International businesses can use the service to fast-track other compulsory procedures such as obtaining a National Identification Number. It is estimated that the switch to electronic registration has halved the costs incurred to register a business.

Electronic processing of building permits

An electronic management system called 'eWorks building permits' has been introduced, which allows beginning-to-end electronic processing of construction permits and fee payments. As a result, in 2012 more than two-thirds of all procedures were fully managed online, while another half of the remaining procedures were processed electronically. This represents a radical change to the old system which required the applicant to physically visit the responsible department.

For its use of new technologies to provide 'smart services' and promote social innovation and economic growth the European Commission has awarded the 2014 European Capital of Innovation prize to Barcelona.[24]

Cutting red tape and reducing 'surplus regulation'

The local administration has implemented a range of measures to facilitate business activity by reducing red tape in certain areas, at the discretion of the City Council:

Environmental permits

To help businesses navigate the municipal regulations on Integrated Environmental Management (OMAI), the city has produced a detailed manual on time requirements, associated costs and the accredited institutions involved in processing applications.

More importantly, requirements have been relaxed for the majority of undertakings, allowing businesses to commence operations following a simple notification to the administration and providing proof of compliance while already operational.

Building permits

In October 2011 the city passed a bill targeted at the substantial simplification of obtaining construction permits. This was achieved by evaluating the existing classification of development projects and reassigning a significant proportion to the status of minor developments, which are subject to less bureaucratic scrutiny. In addition, the application process for minor developments was also simplified. Currently about 50% of these require only a notification to be sent to the administration before commencing works.

Establishment of local service points

To facilitate resident and business interaction with the local administration, 'one-stop shops' are being set up, service points which process all regulatory matters facing businesses and private citizens. These follow the principle of 'no wrong door' to present a seamless interface with clients and promote greater customer orientation.

[24] EC 2014

Media-TIC building, home of the Business Service Bureau and the Economic Showroom

The City Council and the Chamber of Commerce have jointly set up a Business Service Bureau to provide enhanced support to local and international companies. Not only is it a one-stop shop as described previously, but additional services are now being provided to businesses: advice on access to finance, mentoring services and market information. Its associated Economic Showroom also provides space to host international delegations and present information on local business opportunities.

Furthermore, a one-on-one service branded 'Barcelona Business Agent' is offering tailored support to companies in multiple languages.

Internationalisation

Efforts are being made to further open up the city to international professionals and entrepreneurs deciding to settle in Barcelona. Barcelona Global is engaging the local business community in an endeavour to foster a greater openness of local business elites and to facilitate access to business networks for international entrepreneurs. The organisation has also begun conducting an annual survey to understand the concerns of international residents and to give them a voice in the local policy debate, thereby installing a sense of ownership and inclusion.

Mechanisms for success

- **Adoption of a long-term strategic view to guide efforts**
- **Strengthening accountability and transparency by publishing the city budget online**
- **Implementing a feedback stage in the policy cycle to ensure learning and innovation**
- **Increasing credibility by giving technicians a public platform**
- **Using market power to reduce risk for local businesses**
- **Adopting 'no wrong door' principle and seamless interface with the public**
- **Establishing clear 'rules of business' across all city departments**
- **Providing direct business support and market information**
- **Improving the 'soft' location factors by promoting inclusion of international residents.**

How they do it

Public Sector Perspective	Private Sector Perspective
Sonia Recasens, Deputy Mayor for the Economy, Business and Employment: *"We are encouraging readiness to change, to constantly improve."*	Josep Maria Cervera, International Director, Barcelona Chamber of Commerce: *"The administration is ready to take hard decisions to reduce the institutional multiplicity which is a legacy of the boom years."* *"It's about giving businesses confidence, offering them the pathway to the right person in the administration (for their concern)"*
Jordi Joly, CEO, Economy, Finance, Business & Employment, City of Barcelona: *"You need strong leadership and a clear vision to guide you (beyond measuring targets and indicators). It is about leadership, motivation and trust."*	Mateu Hernandez, Chief Executive, Barcelona Global: *"What business needs is clarity and efficiency."* *"Be open to the world. Barcelona is rediscovering its roots as a port city, which is traditionally open."*

5. Challenges

Regulation and taxation

The city has little leverage to influence regulations emanating from the region or the national government, most notably the tax regime, which may have a significant impact on the attractiveness of Barcelona as a business location in the international context. To fully optimise the local business climate, both regional and national governments need to promote a business-friendly framework.

Potential mitigation strategy

In the first phase, City Council is implementing reforms in areas where it is directly in charge. Josep Maria Cervera of the Chamber of Commerce recommends that in the next phase the city government engages strategically in efforts to lobby central government to improve the existing regime.

Service delivery

A number of public services are delivered through consortia run jointly by the city administration and the Catalan government. Implementing any management reforms to these arms-length organisations requires separate agreements with the Generalitat.

Potential mitigation strategy

Given its stronger fiscal position and current political alignment between local and regional government, Barcelona is in a favourable position to push the business-friendly agenda at the regional level.

Regional governance

The functional economic region of Barcelona extends significantly beyond the reach of the City Council. Ensuring similarly high standards across the metro region requires the active participation of many smaller neighbouring municipalities.

Potential mitigation strategy

Barcelona can address this issue by promoting best practice and by sharing learnings and managerial capacity.

2013 Mobile World Congress Barcelona

Casa Solar - Smartcity Barcelona's provisional control centre and visitor hub

Brand management

Communicating the 'Barcelona business brand' requires careful management to shift the brand perception without damaging the visitor brand.

Mitigation strategy

In a landmark move, the city has trademarked the Barcelona brand and is embarking on a professional management strategy to move the brand to the next stage and share its dividend with local businesses.

Sector Focus: Mobile Telecommunications

The city government is pursuing the growth of the mobile telecommunications sector and Barcelona's status as a global mobile hub. To this end, the administration is employing classic cluster policies combined with wider initiatives to support the widespread adoption of mobile technologies and services and the growth of the industry.

This effort is not only a sector development strategy but part of a wider brand strategy. By promoting a highly visible sector, such as mobile telecommunications, Barcelona is deliberately leveraging its strong lifestyle brand of urban chic, design, and liveability to build a business brand that is driven by technology and advanced services.

Instruments and Policies

Bid for status of World Mobile Capital

Barcelona successfully competed for the status of first 'Mobile World Capital' awarded by GSMA, the association of mobile operators and companies, and for the duration of 2012-2018, Barcelona is hosting the annual Mobile World Congress. Other strategic initiatives include:

- The Mobile World Hub or industrial legacy project;
- Mobile World Festival; and
- Mobile World Centre, which has a social and civic orientation.

To manage the congress and associated wider programmes, the city and regional governments have set up the special delivery vehicle, Fundació Barcelona Mobile World Capital.

Establishment of a 'free zone' for mobile technology companies

Mobile technology companies locating within the Media-TIC building will benefit from temporary relief on local fees and taxes, on social security contributions for any new employees, and will be provided with affordable workspaces.

Provision of market information and a local/global meeting place

Also to be located in the Media-TIC building, the Data Resource Centre and Economic Showroom will provide market intelligence on Barcelona and showcase local business opportunities to foreign delegations. Shared conference and meeting spaces will be made available to facilitate meetings with local businesses.

Barcelona WiFi

The City Council has made free Internet access available throughout the city, creating one of the biggest public networks in Europe. The ubiquitous provision supports the fast technology adoption rates across the population and is aimed at encouraging user created mobile applications.

Open Data initiative

The city has launched the OpenDataBCN project to support the growth of the mobile applications sector. Regular competitions are held to encourage prototype designs for mobile products or services that help to improve services for residents, businesses or the public administration.

'Smart City' agenda

Barcelona is seeking to position itself at the forefront of the 'Smart City' debate, both in theory and practice. The city has signed agreements with companies such as Cisco Systems and Schneider Electric to implement various 'Smart City' pilot projects, using the city as a testing ground. Hosting the first 'City Protocol' meetings has placed the city at the centre of the efforts to develop a global standard for cities in the information age.

Mechanisms for success

- **Lowering operating costs for start-ups**
- **Provision of shared workspaces to encourage spillover effects**
- **Provision of market information to international investors**
- **Encouragement of early technology adoption in the population**
- **Using the city as a testing ground for pioneering technologies and applications**
- **Linking mobile applications with existing regional strengths; e.g., in the health sector.**

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Jordi Mabras	Gerente Instituciones, Banco Santander
Jordi Marin	Director of Public Administration and Health, Catalonia and Balearic Islands, Indra
Antonio Muñoz	Intervenor General, Barcelona City Council
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Jordi Sacristan	Director Marketing and Communications, Barcelona Activa
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Anna Tarrach	Barcelona City Council
Angels Santigosa	Barcelona City Council
Xavier Sellares	Barcelona City Council
Inmaculada Turu	Treasurer, Barcelona City Council

Case Study
Paris

(For the purpose of this case study, the term 'Paris' largely refers to the region and its related governance unless stated otherwise.)

Paris is the capital of France and its largest city. Paris-IDF (Île-de-France) Region is home to some 12 million residents or nearly 20% of the country's population. It is one of the most densely populated among OECD metropolitan regions and is characterised by a relatively young and growing demographic. The city is strategically located in close proximity to major business centres such as Brussels, London, Frankfurt, Amsterdam and Madrid, and this location advantage has made Paris a hub for international high-speed rail, air connectivity and freight transport.

The population is highly educated, with more than 40% having completed a tertiary education. Nearly 40% of French R&D personnel work in the Paris Region, which is the leading European region for research and innovation, and home to 17 universities and over 300 research institutions. More than 2.1 million jobs are in knowledge-intensive sectors.[1]

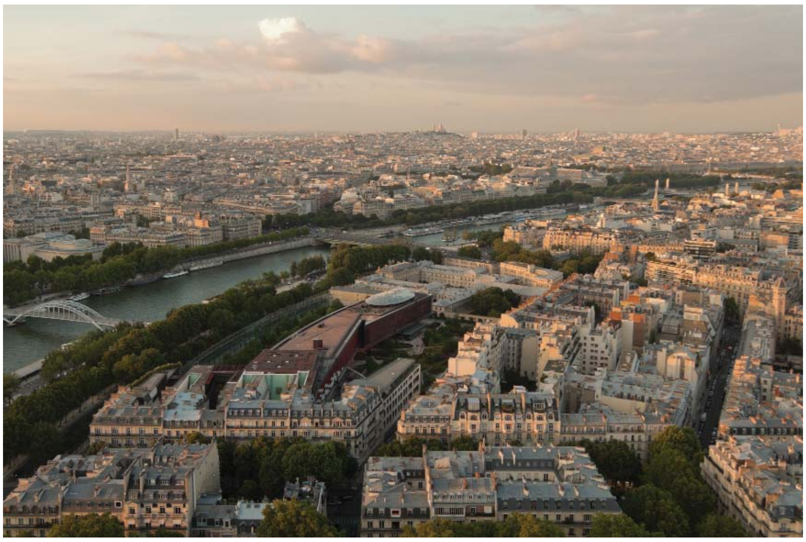


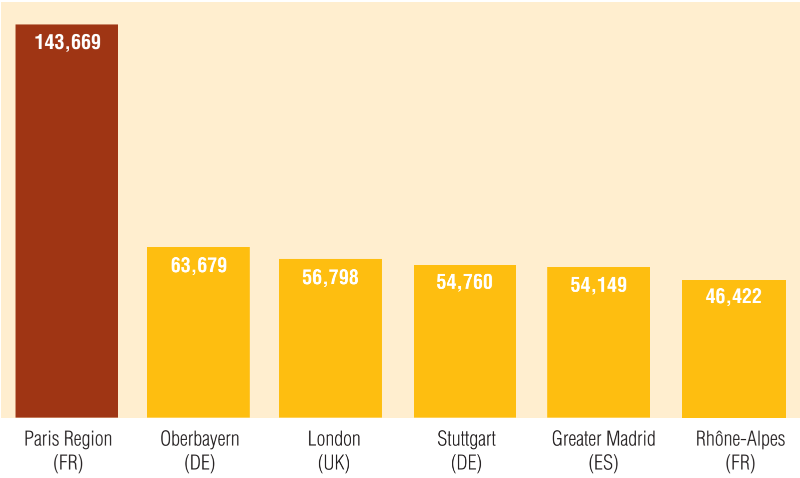
Table 1: Paris Key Figures

Population (2013)	2,257,981 (City, 2012) 11,978,363 (Metroregion)
GDP €/inh	€85,100 (2011)* €49,832.9 (2010) **
GDP growth	5.4% (2010)
Unemployment	8.7% (2013)***
Share of workforce in science and technology	39.6% (2012)***
Share of workforce in knowledge-intensive services	52.5% (2012)***
Higher education	17 universities 42.7% share of active population with tertiary education (2012)***
Business Demography	350,082 active enterprises (2010)* 40,907 New enterprises (2010)* 20,840 New enterprises having survived 3 years (2010)*
Broadband internet connection	82% of households (2012)
Tourism	36,679 million overnight stays
Total Exports	€75.2 billion (2011)

Sources: Eurostat; European Cities Marketing Benchmarking Report (2013); Paris Region Economic Development Agency (2013).
* by NUTS 3 region ** Metropolitan region per Eurostat definition *** by NUTS 2 region

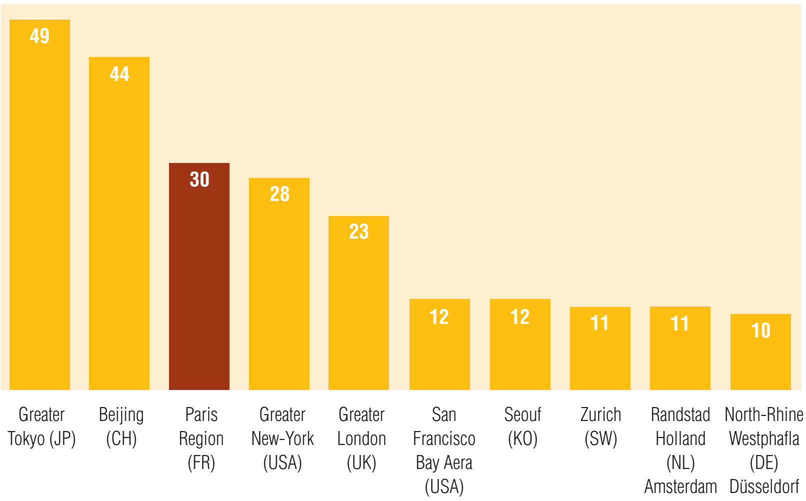
1 Kamal-Chaoui and Plouin (2012)

Figure 1: Top EU regions in terms of total R&D personnel in 2009 (full-time employment)



Sources: Paris Region Key Figures (2013)

Figure 2: Number of Fortune 500 head offices by metropolitan region in 2012



Sources: Fortune Magazine – Global 500 companies

Economy

The Paris Region accounts for around 30% of France's total GDP and nearly 5% of Europe's, making it one of the most significant economic hubs on the continent.[2] While remaining the country's primary industrial centre, the service economy dominates, employing around 80% of the workforce[3], with business and financial services generating nearly half of the Paris Region's GDP. The region is characterised by an above-average concentration of senior management and administrative and research personnel. More recently, the manufacturing sector has developed principally in the capital's outer ring and particularly in strategic sites such as the Roissy area around Paris–Charles de Gaulle international airport. Key industries include aeronautics, electronics, automotives, rail rolling-stock, telecommunications, pharmaceutical, chemical and processed food. The pharmaceutical and aerospace industries are amongst the biggest contributors to exports from the region.

Paris is a preferred base for many multinational corporations. About one-third of Fortune 500 companies have their headquarters in Paris, which is 2nd only to Tokyo in global rankings.[4] This is also reflected in Paris's leading position as a European real estate market, 2nd behind London and attracting almost 40% of all foreign real estate investment in the country.

With about 42 million tourists per year, Paris is the 2nd most visited city in the world by international visitors after London[5]; nearly 400,000 people work in the visitor sector. Paris has for a long time been one of the world's most popular sites for international business conferences and tradeshows, and recently climbed to first place in the ICCA's global ranking.[6]

Despite solid economic performance, unemployment, in particular among young people, is persistently high.[7] The global financial crisis has only amplified what has become a quasi-structural phenomenon: in the last 30 years the youth unemployment rate in France has never dropped below 15% and has regularly exceeded 20%.

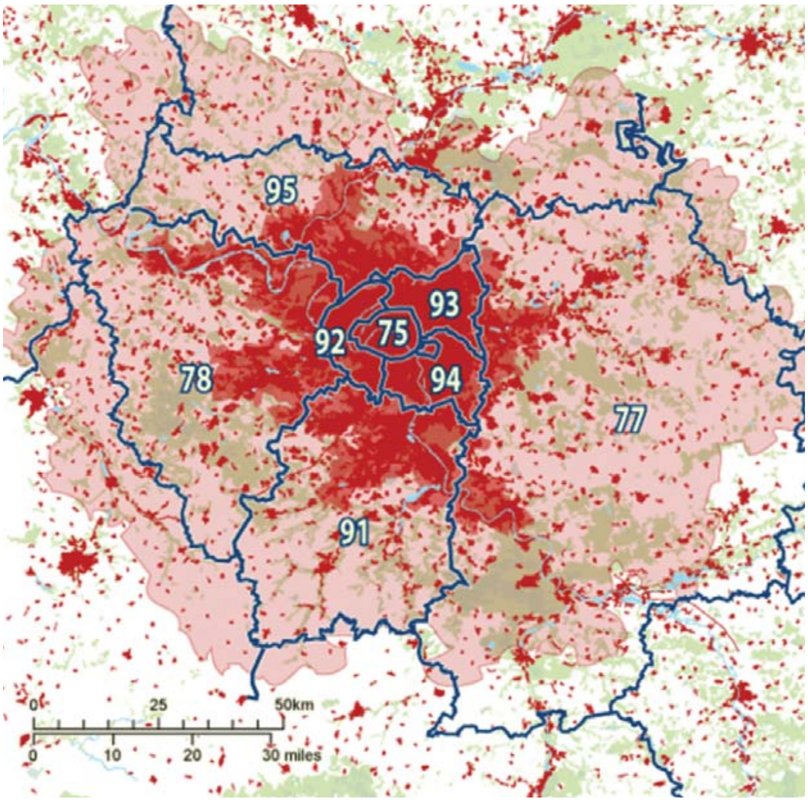
2 Paris Region Economic Development Agency (2013)
3 EY and JLL (2012)
4 EY and JLL (2012)
5 Hedrick-Wong (2012)
6 ICCA 2014
7 Kamal-Chaoui and Plouin (2012)

Governance

The Paris agglomeration is governed by a multitude of administrative units at national, regional and municipal levels. Only around 2.2 million people live in the City of Paris. The city also has the status of a département, one of 8 comprising the Île-de-France Region (also known as IDF or Paris Region). The three départements surrounding the City of Paris are home to a further 4.3 million inhabitants, while the urbanised areas of the remaining four have a population of nearly 4 million. The municipalities or communes add a further level of governance. More than 400 independent municipalities in the Paris agglomeration (including the City of Paris) make metropolitan governance a significant challenge. Inter-communal co-ordination in the form of intercommunalités is used as an instrument to achieve more effective public service delivery, but falls short of delivering effective strategic governance across the urban region.[8]

Départements are responsible for health care provision and social services, as well as certain transport infrastructure, amongst others. The remit of the Regions includes adult education and training, and higher education; public transport and roads; housing and the environment; and economic development. At the local level, municipalities are responsible for urban planning, water and waste management, public space and policing.

Figure 3: The Departements of Ile de France and the Paris Urban Area [9]



'Grand Paris': Redefining the 'city'

To address its fragmented system of governance and strengthen metropolitan governance, Paris is undergoing a significant administrative reform known as 'Métropole du Grand Paris', which will establish another layer of governance covering an area larger than the city but smaller than Paris-IDF. The 'Grand Paris' plan aims to improve both the regional business environment and the city's global position by pursuing a strategy of greater metropolitan integration, expansion of the regional transport network, increased housing provision and regional economic development.

The national government has initiated plans to build a series of new Metro lines connecting the suburbs of Paris, the so-called 'Grand Paris Express', and to develop secondary business districts and research centres around Paris to accommodate the expansion of strategic sectors such as finance, aviation and R&D. Rail and air transport hubs are to be more effectively linked up with the outer city districts, and connectivity within the suburbs is to be improved. The prospect of improved regional cohesion has been highlighted as a reason for the Paris Region improving its international business attractiveness from 6th to 4th place in the 2013 Global Cities Investment Monitor.[11]

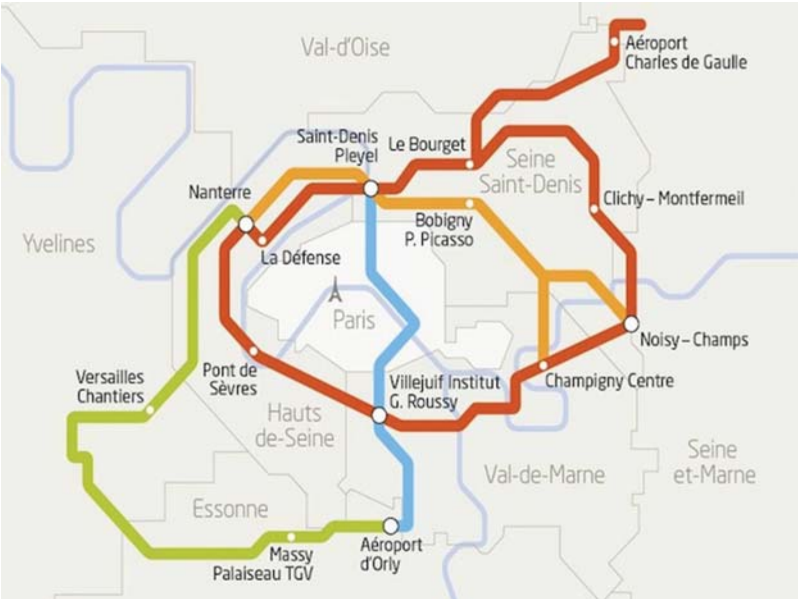
[8] Datu (2012)

[9] Map showing the extent of the Paris metropolitan area at the 1999 census, when it included 1,584 communes and covered 14,518 km^2. Since then, the Paris metropolitan area has absorbed 214 further communes. http://upload.wikimedia.org/wikipedia/commons/thumb/f/f0/Paris_uu_ua_jms.png/549px-Paris_uu_ua_jms.png Ask Peter if usable

[10] http://en.wikipedia.org/wiki/%C3%8Ele-de-France#mediaviewer/File:Paris_and_inner_ring.svg

[11] Greater Paris Investment Agency and KPMG (2013)

Figure 4: Map of the proposed 'Grand Paris Express'



Source: Société du Grand Paris Express

City Rankings: Paris

Paris features in the top ratings of many of the world's benchmark reports due to the size of its economy, its role as a leading location for corporate headquarters and financial services, and its international population. Global benchmarks often rank Paris within the top three to four cities in the world, while business indices highlight its performance as steady or improving (table ??). According to the UN Human Development Indicator it ranks 2nd for 'quality of life'.[12]

However, Paris appears to underperform in the global environmental indices. Impacts from infrastructure development and air pollution have been cited as reasons for some of the city's lower performances in these rankings.

The city has long been recognised as a world leader in retail; it has one of the highest density of retailers in Europe, and demand for prime locations regularly outstrips supply. This consistent demand has supported strong investor interest throughout the global financial crisis.[13]

Table 2: Paris in City Benchmarks

City Benchmarks	Overall performance range per indices	Performance pattern between indices
Comprehensive benchmarks (2009-2012)	3rd - 4th	→
Business, finance and investment (2008-2013)	3rd – 7th (except a downward trend for retail)	↗
Transport and infrastructure (2010-2011)	1st – 6th (except a downward trend for travel experience)	→
Knowledge economy (2010-2013)	5th – 8th	↙
Image and brand (2008-2012)	1st – 3rd	→
Environment (2010-2012)	8th – 15th	↗
Quality of life (2010-2013)	1st – 8th	↑
Destination power (2010-2013)	2nd -12th (except a downward trend for lifestyle assets)	→

[12] IAU-Insee (2011)
[13] EY and JLL (2013)

Business Climate: France

France performs well on indicators related to starting up a business. Costs are 20% of the EU average and, thanks to recent reforms, the time required to start a business is only half of the EU average. However, the overall regulatory and administrative burden on businesses is considered to be very high, as is the tax burden at 20% above EU average and 30% above high-income economies globally.

Overall, the public administration performs better than the EU average, with tax administration and compliance also ranking above the EU average. The time required to pay taxes and file tax returns is significantly lower than the average, 132 hours against 208 hours yearly. Elsewhere, service provision and the civil justice system are regarded as effective. Enforcing contracts in France requires 331 days compared to the EU average of 556, and various services for businesses are provided online. In 2012 a range of measures to reduce the administrative burden on businesses were implemented, including simplification of the payroll.

However, there remains plenty of scope for improvement including more comprehensive provision of online services as well as faster payments by the public administration, currently standing at over 60 days on average. Globally, the very high public spending and tax burden is not perceived to result in correspondingly greater administrative effectiveness or significantly better services for businesses.

Access to equity financing for SMEs is limited in France, and has been further compounded by the tightening of credit conditions in the wake of the global financial crisis, although the availability of credit has improved of late. With regards to labour costs, the French government has implemented various reforms to halt further increases in costs in recent years. Nonetheless, the overall tax burden on labour remains very high and is considered to be a limiting factor for companies' capacity to invest in research and development activities. This, in turn, is putting downward pressure on exports in knowledge-intensive industries.

La Defense business district, Paris

In the 'ease of getting electricity' ranking of the World Bank (2014), France lags significantly behind Germany (42 versus 3 days) yet performs better than the UK (74 days). On the upside, electricity for SMEs remains amongst the least expensive in the European Union. In other indicators, by introducing an electronic customs declaration and streamlining administrative procedures, France achieved 27th in the World Bank's Doing Business Index ranking on 'trading across borders'.[14] The city also benefits from France's comprehensive broadband penetration, ranked 6th globally by the OECD in 2012.

Paris IDF has been grappling for some time with a significant shortage of affordable housing for working and middle-class residents in the central area. Supply does not satisfy demand, which threatens to undermine the region's competitiveness.[15] Residential property prices are also some of the highest in Europe.

The increase in population outside of the central city (which now houses only about 20% of the region's inhabitants) has until recently not been matched by significant investments in the transit network. Most new lines have been built either within the central city or radially out from it. The ambitious transport master plan for 'Grand Paris' seeks to address the gap by building new metro lines outside the city centre and improving suburb-to-suburb connections.

[14] World Bank (2013); EC (2013)

[15] Kamal-Chaoui and Plouin (2012)

Charles de Gaulle (Roissy) (CDG - LFPG)

Improving the local business environment

1. Policy push factor

In the face of growing global competition, Paris is being challenged to maintain its position as one of the world's leading urban regions. And while Paris-IDF remains the leading industrial region in France, it is confronted by increasing global competition, particularly from emerging countries, and this has resulted in the loss of hundreds of thousands of jobs in the industrial sector over recent decades.[16] The region is therefore seeking new sources of growth, and has identified eco-technology as a key new sector with high growth potential.

2. The aspiration

Paris has a target of becoming one of the top five world cities. 'Métropole du Grand Paris' is aimed at improving regional leadership, reducing red tape and improving public services to businesses, and developing the Paris region into a diversified, globally connected business hub with a strong global brand. The city is also looking to take advantage of the healthy position of French firms in the cleantech sector to further drive the internationalisation of the regional economy and to position Paris as a green technology leader.

3. Key players

There are a number of agencies and initiatives in the Paris Region that support and foster the development of clean technology enterprises. Key city and national initiatives include:

Local level

Agence Parisienne du Climat (APC) (Paris Climate Agency; est. 2011): an agency developed in partnership with the City of Paris (Mairie de Paris), Île-de-France, Meteo France (French Meteorology), CPCU (district heating company), EDF, ADME and RATP to promote energy conservation, develop renewable energy and deliver climate change solutions across Paris. APC also facilitates collaborations to develop new technology, supports solution providers and assists in developing business models.

Chambre de commerce et d'industrie de Paris (CCIP) (Paris Chambre of Commerce): covers the Paris region, including the Hauts-de-Seine, Seine-Saint-Denis and Val-de-Marne departments. The 310,000 member companies generate ca. 20% of France's GDP.

Hubstart Paris: a network of public and private sector organisations that promote international investment and business location in the 'Greater Roissy' area near Paris-Charles de Gaulle international airport. Several leading cleantech companies are located in the area and two dedicated cleantech industry networks operate here.

[16] OECD (2007)

Regional level

Paris Region Economic Development Agency (PREDA): founded and predominantly funded by the Île-de-France Regional Council, PREDA has the backing of other key regional stakeholders, including the chambers of commerce, departmental and local councils, and other regional institutions. PREDA works at boosting the region's global profile by attracting foreign direct investment, supporting international businesses that want to establish in the Paris Region, and fostering international business partnerships and the internationalisation of local businesses more broadly.

Conseil régional d'Île-de-France (Regional Council): PREDA reports to the council's development unit in order to align the initiatives of both organisations.

Paris Region's departmental economic development agencies and boards: The departmental Agences de Développement (economic development agencies) and Comités d'Expansion (economic growth boards) are not-for-profit associations that bring together all the players involved in the economic development of a given area. In the Paris Region, besides advising local authorities, the agencies work with PREDA on joint marketing campaigns and provide support for businesses.

Paris- Île -de-France Capitale Economique (Greater Paris Investment Agency; est. 1998): an independent not-for-profit organisation founded by the Paris Chamber of Commerce and Industry to promote foreign investment in Greater Paris.

Chambre régionale de commerce et d'industrie Paris- Île-de-France (CRCI) (Regional Chamber of Commerce and Industry): co-ordinates the four chambers of commerce and industry (CCI) that cover IDF's eight departments. They also support business start-ups, and offer local and international development assistance. As founder members of PREDA, the Chambers of Commerce are closely involved in its governance.

Laboratoire Paris Region Innovation (Paris Innovation Laboratory; Est. 2009): set up by the City of Paris and Île de France, Laboratoire Paris supports innovative service concepts for the region, utilising the Paris area for experimenting and showcasing its three key missions:

i. to find innovative solutions to support services across the Paris region;
ii. to support and co-ordinate innovative experiments; and
iii. to promote and link projects with professional support, reaching audiences across France and internationally.

ARENE Île -de-France (Regional Agency for the Environment and New Energies; est.1994): the agency works in partnership with Île de France Regional Council to integrate environmental and energy initiatives across the region. ARENE delivers operational and strategic information to local authorities and regional players; it also organises site visits, workshops, forums and events publications, and disseminates best practice and promotes pilot projects through its website.

Durapole is a cleantech SME membership group developed by Île-de-France and ADEME (Agency for Environment and Energy Management) to initiate and support collaboration and improve the competitiveness of member companies. The activities of the cluster cover 10 areas in environmental business including water, air, soil, waste, sustainable agriculture, risks, and 'IT for green'. Other partner organisations include the City of Paris and a network of academic partners.

National level

Agence Nationale de la Recherche (National Research Agency, est. 2005): an organisation dedicated to supporting R&D and fostering public-private collaboration.

OSEO (est. 2005): its mission is to provide financial assistance for SMEs and VSEs (Very Small Enterprises) through innovation support, investor funding and direct loans. It also works with businesses to develop their international offering and guarantees up to 60% of financing and, at times, co-finances investments alongside banks.

INNOV'ECO (est. 2009): a forum that links members of the French cleantech community and aims to provide market insight. It hosts regular meetings for cleantech professionals and decision-makers on key issues for the 'clean economy'.

4. The cleantech sector in Paris

Paris has a dynamic cleantech sector with particular strengths in the water, waste and renewable energy sectors.[17] While the region is less prominent in eco-design, clean transport, fuel cells or environmental engineering, it is dominant in water management, air pollution control and geothermal science. Eco-industrial establishments are diversified and encompass the headquarters of major environmental companies. Cleantech activities in the Paris Region employ 110,000 people, generate around €17 billion in turnover and registered a growth of 18-20% between 2000 and 2008.[18]

The industry and its research capabilities are centred around several large companies, including government-owned utilities and associated service organisations. Many of these have grown into multinational enterprises and leaders in the cleantech sector. Global firms such as EDF, GDF Suez, Suez Environnement, Alstom, Véolia Environnement are all headquartered in Paris and are the anchor organisations in the cleantech cluster, with the potential to drive innovation, supply emerging markets and address the city's climate-change agenda. The City of Paris also partly owns various service companies; for example, it has a 30% share in the recently founded district heating company Compagnie Parisienne de Chauffage Urbain (CPCU), which operates the largest district heat network in France, servicing 13 cities and towns including Paris.

Key statistics:

- 128,000 jobs in the environment sector
- Turnover of €17 billion
- 35,000 jobs in core sector direct employment.

5. Instruments and policies

Cluster programmes

The French government has and continues to pursue cluster development as a mechanism to facilitate the expansion of businesses and innovation in the regions, including Paris.

Two policies introduced in 1998 and 2005 respectively were the key drivers to promoting competitive clusters by better linking R&D, educational institutions and private industry:

i. Systèmes Productifs Locaux (SPL) initiated to foster cluster development and to provide support through direct financing; and

ii. Pôle de Compétitivité programme, a cluster support programme encouraging collaboration across companies and educational institutions and covering a range of sectors and markets, including cleantech.

In its 2008 draft regional plan, Paris-IDF set out to become Europe's first eco-region. In 2007 the Paris city government had already adopted the Climate Protection Plan which targets:

- 25% reduction in greenhouse gas (GHG) emissions by 2020
- 25% reduction in energy consumption in the country by 2020
- 25% renewable energy or recovery in energy consumption by 2020
- 75% reduction in GHG emissions by 2050.

The regional plan seeks to deliver its targets by developing citywide clean technology through clusters.[19]

Of particular importance for Paris-IDF's regional innovation system has been the promotion of seven competitive clusters by DATAR (the Inter-ministerial Delegation for Territorial Planning and Regional Attractiveness), supported by the regional government. The clusters create formal links between research and training centres, businesses (SMEs to global organisations) and business associations. They are:

- **Advancity** – Green technology and sustainable cities cluster;
- **ASTech Paris Region** – Space transport, business aviation and propulsion;
- **Cap Digital** – Business cluster for digital content;
- **Finance Innovation** – European centre for financial expertise;
- **Medicen Paris Region** – Innovative therapies and advanced technologies in healthcare;
- **Movéo** – Private cars and public transport R&D; and
- **System@tic Paris Region** – Paris Regional System and ICT.

17 Kamal-Chaoui and Plouin (2012)
18 Hubstart Paris (n.d.); Kamal-Chaoui and Plouin (2012)
19 Interview with Louis-Marie Le Feuch, CPCU

Table 3: Paris Region Competitiveness clusters in 2011

Cluster name	Sector	Website	Members	Number of projects financed	Total investments (€ million)	Total public sector funding (€ million)
Advancity	Sustainable urban development, housing and construction, mobility, eco-technologies	www.advancity.eu	247	107	230	100
ASTech	Business aviation, space transporation. propulsion system and equipment.	www.pole-astech.org	200	28	144	66
Cap Digital Paris Region	ICT, digital content technologies	en.capdigital.com/	650	350	650	325
Cosmetic Valley	Perfumes and cosmetics	www.cosmetic-valley.com	252	73	120	25
Elastopole	Rubber and polymers	www.elastopole.com	94	14	30	13
Finance Innovation	Banks and investment companies insurance, investment management, services to th finance sector	www.finance-innovation.org	244	28	26	11
Medicen	Innovative therapies and advanced technologies in healthcare	www.medicen.org	200	163	372	176
Mov'eo	Automotive sector, public transport, road safety and environment	www.pole-moveo.org	315	128	485	214
Systematic Paris Region	Systems ans ICT	www.systematic-paris-region.org	601	317	1,400	520
TOTAL			**2,803**	**1,208**	**3,457**	**1,450**

Sources: Advancity, ASTech, Cap Digital, Cosmetic Valley, Elastopole, Finance Innovation, Medicen, Mov'ev and Systematic

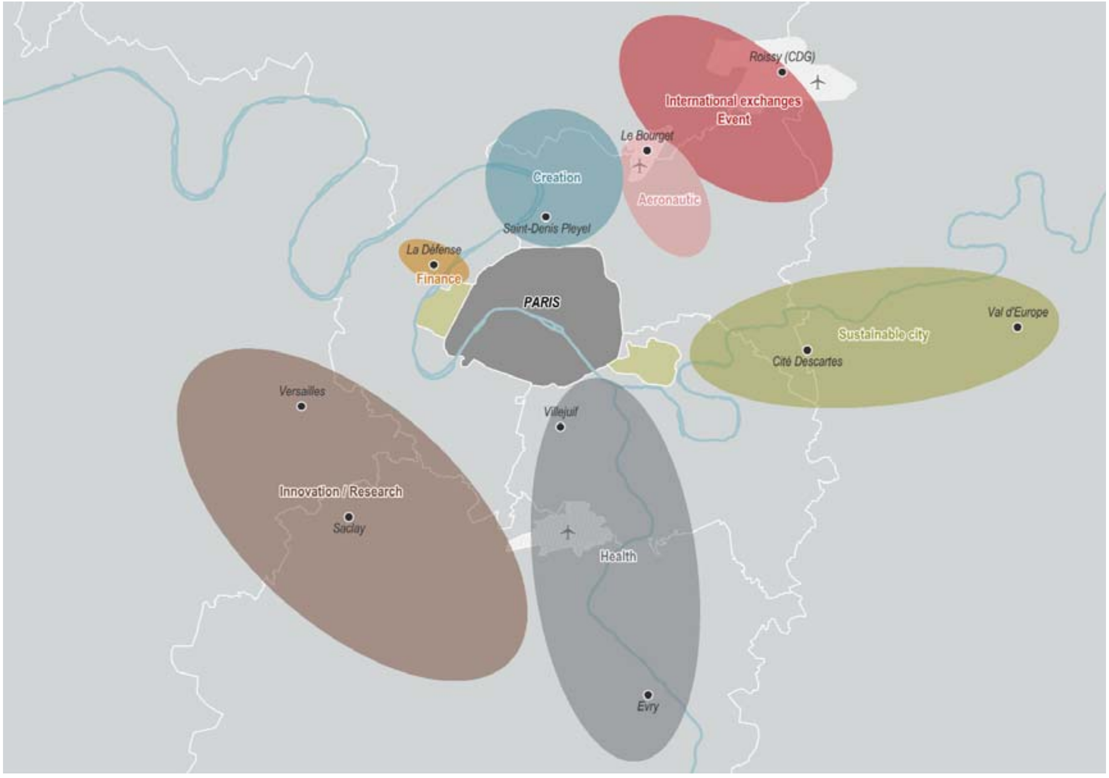
Advancity is the clean technology and sustainable cities cluster for the Paris Region, linking stakeholders from the public and private sector as well as academia that are involved in the planning, development and management of the city. Advancity also supports incubators (pépinières). The cluster focuses on four distinct areas: urban technologies (water, waste, air) and renewable energies; sustainable buildings and infrastructures; transport and mobility; and city governance and management. More than 30 higher education and research institutions representing 200 laboratories and 3000 researchers are members. Other members include 18 international corporations, around 150 SMEs ranging from architecture and engineering companies to technology suppliers including urban utilities, energy, mobility and construction services. More than 20 local governments participate to facilitate innovative solutions for urban areas. Since 2006, Advancity has assisted its 240 members in launching and obtaining financing for 130 collaborative R&D projects amounting to approximately €350 million to date.[20]

Mov'eo, the automotive cluster, is focused on sustainable mobility through the development of electric and hybrid vehicles.

While Advancity and Moveo are the clusters most directly associated with cleantech, the OECD has found that innovation in the sector can often come from other industries[21], such as aerospace or ICT.

Business support and public sector investment for clusters across Paris has increased from 2010 to 2012, amounting to €3.947 billion in total (Figure 6). The ICT (System@tic) and Health service (Medicen) clusters received the highest investment in 2012, with Mov'eo a close third.

[20] Paris Region Enterprises (n.d.)
[21] Kamal-Chaoui and Plouin (2012)



Competitiveness Clusters, Grand Paris. Credit: Jones Lang LaSalle

In addition, clusters in Paris benefit from regional incentives and targeted funding which include the help of Laboratoire Paris, R&D tax incentives and funding from OSEO. Credit pour Recherche (est. 1983) is a tax incentive for investing in R&D for up to 30% of R&D expenses. This tax credit is the highest incentive for innovation in Europe. Financial support has also come from Fonds Unique Interministériel (2009-2012), a €490 million fund provided across France that supported R&D projects bringing products to market. Further support is being provided by the Banque Publique d'Investissement (est. 2012), a €12 billion French government investment initiative aimed at scaling innovative businesses (2012-2017).

As well as the national and regional governments, the City of Paris is also dedicated to supporting local clusters. It pledged €1 billion for innovation and research cluster support between 2008 and 2014.[22] The funding supports five of the region's innovation clusters - among them the cleantech cluster Advancity (for the development of pre start-ups and early-stage incubators), whose aim is promoting rapid business growth.

While public funding for clusters amounted to €3.947 billion from 2010 to 2012, a total investment of €9.775 billion has been made in the same time frame, which may indicate that public funding has contributed to driving substantial private sector investment in strategic sectors across Paris.

6. Mechanisms for success

Paris has developed clear policies and strategies to support strategic sectors such as the cleantech sector. The city is capitalising on the presence of internationally leading French firms to develop the sector and to help deliver the city's ambitious climate change agenda. Regional and national policies play an important role in the growth of innovative clusters and networks. Furthermore, national R&D tax credits are encouraging private sector investment in the cleantech sector. The regional drive to promote a globally competitive and connected economy, as reflected in the 'Grand Paris' projects, can play a significant role in improving business sentiment if plans – such as developing new business nodes near large railway stations with adaptable businesses spaces, housing and green spaces to meet future demand – are implemented successfully.

[22] Invest in Paris (2013)

7. Challenges

Insufficient involvement of SMEs

"Large companies in the system are one of the weaknesses of the collective game as their trajectory is hard to follow with so many leaders in the field." Vincent Cousin, Charge de Mission Communication et International at Advancity.

Organisations such as EDF, Suez Environnement and Veolia Environnement lead many clean technology initiatives due to their government ownership and strong relationship with the city. These organisations also pioneer PPPs (Public-Private Partnerships) across the city, France and globally, which further supports their ability to inject finance into initiatives that drive market growth. The direct relationship of these organisations with the government has also been noted as a reason for cleantech clusters in cities like Lyon to be more favourable for SMEs.

Commercial real estate

Real estate costs are higher in Paris compared to other regions in Europe, however the value of proximity to intellectual capital, good infrastructure provision and higher visibility still outweighs the premium paid. Of concern though is that 80% of existing commercial office space is deemed inadequate to meet increasingly stringent environmental building regulations.

Complex system of governance

The fragmented governance of the economic city region is seen to be a burden to the development of successful PPPs; effective spatial planning also affects a number of green tech activities. While the 'Métropole du Grand Paris' project aims at addressing this issue, critics are concerned that it may not be sufficient.

Education/skills

While the population is generally highly skilled, there appears to be an insufficient supply of relevant training for the cleantech sector.

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Interviews were conducted with:

Karine Bidard	Managing Director, Invest in Paris
Arthur Cornez	Directeur Audit, Innov'evo Hub
Anne Ged	Directrice, Agence Parisienne du Climat
Cedric de Lestrange	Directeur Central Utilsateur, Bouygues Immobilier
Louis Marie Le Feuch	Compagnie Parisienne de Chauffage Urbain (CPCU)
Fabien Reppel	Charge de Mission Communication, Advancity

Case Study
Stockholm

Stockholm is the capital of Sweden and located on the country's south-eastern coast. Built on 14 islands, water is a defining feature of the city and makes up around 30% of the urban area. The urban area has around 1.2 million inhabitants and the Stockholm Capital Region around 3.5 million, which is close to 40% of the Swedish population. The Stockholm Region covers a substantial part of southern Sweden and includes Uppsala, the fourth largest municipality in Sweden. In the past 10 years the number of inhabitants in the region has grown by 312,000[1], placing it among the fastest growing metropolitan areas in the European Union.

Economy

The Stockholm Region accounts for 42% of the GDP of Sweden and, of this, 29% comes from Stockholm County alone. Stockholm has experienced impressive growth rates in the period from 2000 to 2008, totalling around 35%. GDP per capita in the County is 72% above EU average and the 8th highest of any region in Europe.[2] While Sweden suffered negative growth rates of -5% in 2009, the economy rebounded the following year, growing at 6.6%.[3]

Although manufacturing remains important as a generator of process and product innovation, export income and prosperity in Sweden, the Swedish economy (and Stockholm's, in particular) is shifting away from manufacturing towards services. Real estate and corporate services contribute most to the County's GRP followed by commerce and financial services; many banks and insurance companies are headquartered in the area.[4]

The region has a strong position in knowledge-intensive sectors such as ICT (information and communications technology), life sciences, and financial and business services. Leading clusters include ICT in Kista Science City, dominated by Sony Ericsson, and life sciences around AstraZeneca and Karolinska Institutet. At the same time, cleantech is playing an increasingly important role, drawing on the region's environmental credentials. In 2010, the European Commission named Stockholm the first 'European Green Capital'.

The city retains some industry and manufacturing, most notably metal and machine manufacturing, paper and printing, foodstuffs and chemicals, and Stockholm is also the second largest port in Sweden. Prominent companies include Ericsson (electronic products), Scania (trucks) and AstraZeneca (pharmaceuticals). Foreign-owned companies account for more than 28% of employment in the private sector.

1 Stockholm Business Region Development (2012)
2 Stockholm Business Region Development (2012)
3 Eurostat, Annual National Accounts
4 Stockholm Business Region Development (2012)

Table 1: Stockholm's Key Figures

Population (2013)	897,700 (Core city) 2,127,006 (Metroregion)
Population growth (2000-2013)	19.64% (City)
GDP €/inh	€56,200 (2011)* 50,725.2 (2010) **
GDP growth	3.7% (2010)
Unemployment	5.6% (2013)***
Share of workforce in science and technology	47.2% (2012)***
Share of workforce in knowledge-intensive services	59.9% (2012)***
Higher education	41.3% share of active population with tertiary education (2012)***
Business Demography	Newly-registered businesses per 1,000 inhabitants (2011) 16 (city)
Broadband internet connection	89% of households (2012)
Tourism (2012)	10,987 million overnight stays
Office vacancy rate Q4 13 (BNP Paribas*)	8.9%

Sources: Eurostat; European Cities Marketing Benchmarking Report (2013).
* by NUTS 3 region ** Metropolitan region per Eurostat definition *** by NUTS 2 region

Governance

Local government is traditionally strong in Sweden. Municipalities provide primary and secondary education, childcare and homes for the elderly, and manage water, waste and municipal roads; they also have extensive powers in the area of urban planning and housing. Each municipality has an elected assembly and the right to levy income taxes and charge fees for various services.

Between the national and municipal government sits a regional tier of 21 counties, each headed by a county governor who is appointed by the national government. For each county the elected county councils levy income taxes and provide healthcare (ca. 80% of the county budget), certain educational and vocational training, and, in the case of Stockholm County, regional transport. Responsibility for regional development in Stockholm is shared between the County Administrative Board of Stockholm and the Stockholm County Council. The County Administrative Board implements the Regional Development Programme, which steers the development of the county in line with national policy.

Stockholm County comprises only 26 municipalities and does not cover today's functional economic zone. This raises issues around strategic infrastructure planning and housing development..

Effective regional governance and co-ordination was found to be one of the major weaknesses of the Stockholm Region in the 2006 OECD Territorial Review of Stockholm, having drawbacks for housing, infrastructure provision and effective regional economic promotion. In particular, transport capacity had failed to keep up with population growth and the changing requirements of the local economy. While steps are being taken to address investment backlogs, the fragmentation of powers between local and national levels of government constitutes a barrier to a comprehensive regional transport strategy.[5]

Despite the fact that the County's regional development plan integrates economic development and physical planning, it lacks sufficient effectiveness. In the absence of a strong regional player, voluntary inter-municipal co-operation has sought to fill the strategic gap, operating through a range of alliances and joint service providers. However, the multitude of stakeholders involved resulted in a lack of impact and scale.

In response to the OECD study, Stockholm Business Region was founded, a company fully owned by the City of Stockholm. It runs Stockholm Business Region Development (SBRD), the business and investment promotion agency of the city and wider region, which works with the regional business company and provides market information for prospective investors.

[5] OECD (2006)

Business Climate: Sweden

Sweden ranks highly in the World Bank Doing Business Index 2013, achieving 13th in the overall score, placing it 5th best in the European Union. It ranks near the top across a range of measures in the report, including the number of procedures required to get electricity or to register property. Sweden is also amongst those countries that are highlighted for the transparency of business regulation and fees. Fees related to registering companies and property are all available online, as are the fees of building departments and power utilities.[6]

The Swedish public administration provides better services and achieves higher user-satisfaction ratings than those of most other EU member states.[7] All business-facing processes and applications are available online and the government is striving to further expand e-government services. The administration performs particularly well in government effectiveness, administrative modernisation, low levels of corruption and fraud, and tax compliance and tax administration.

The country also has one of the most efficient tax administrations in the world, with high compliance rates and low collection costs. The average time needed to pay taxes and prepare tax returns is 122 hours per year compared to the EU average of 208 hours. The cost of the tax administration is only 0.4 % of tax revenues, whereas the EU average is 1.3 %.

The overall tax burden is very high at an average of 48.2% of GDP. However, recent reforms have reduced the corporate tax rate from 28% to 26.3%, the social contribution rate to just 1%, and the wealth tax was abolished in 2007. The VAT rate is low, with a fixed rate of 7.6% for general items.[8]

Both available literature and our own interviews relate the ongoing efforts of the government to increase private provision of goods and services, from municipal services to education and healthcare, in order to increase choice and to reduce market distortions. In addition, the national government has been implementing a series of reforms that began in 2006 to significantly reduce the administrative burden for businesses, including further simplifications of tax procedures for firms and individuals. Other measures include the requirement (since 2008) of government

Aula Medica, Karolinska Institutet. Credit: designdiffusion

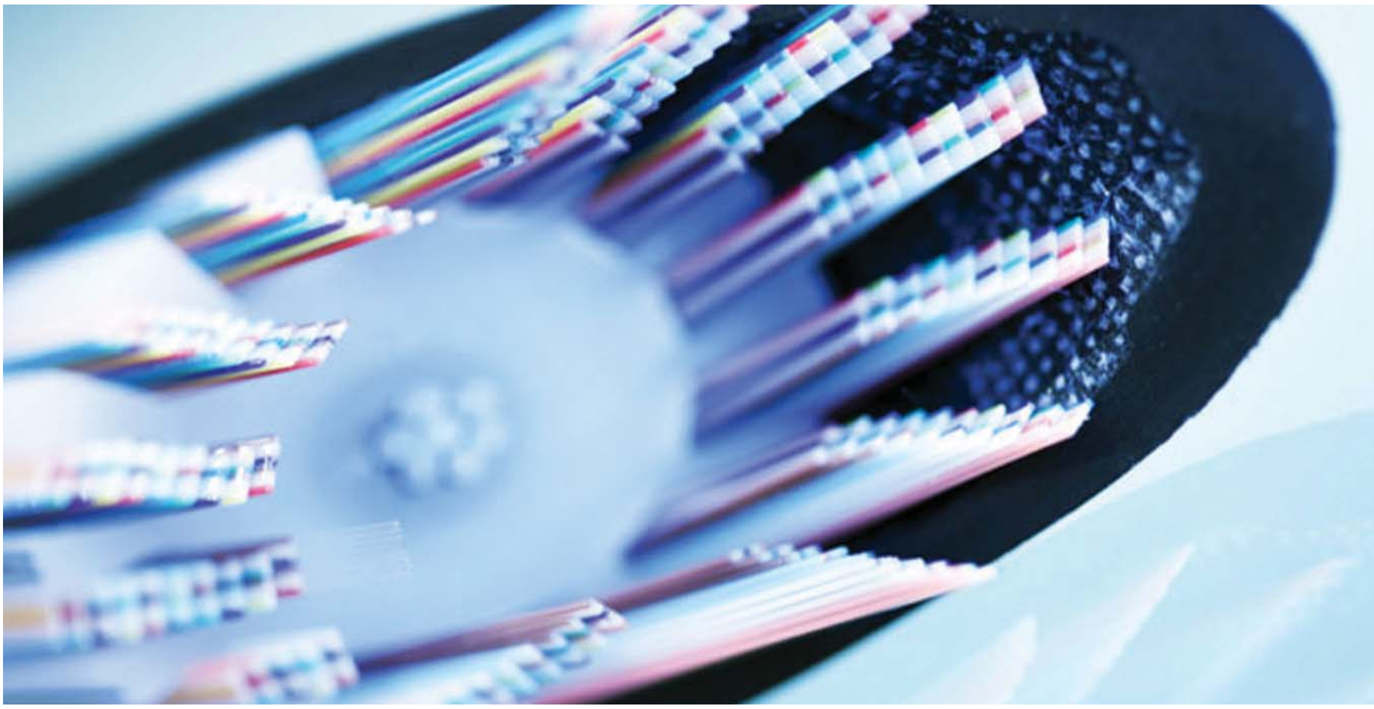
agencies to consult the so-called 'Better Regulation Council' before adopting any regulations that have a potential impact on the business environment or the competitiveness of companies.

An area of average or below-average performance is the efficiency of the civil justice system. The time required to resolve insolvency or to enforce contracts is around the EU average, yet a comparative weakness is the cost of enforcing contracts, which is significantly higher in Sweden (31.2 % of the claim) than on average in the European Union (20.6 %).

Sweden is in the bottom half of EU member states for the time needed to set up a business: 16 days is longer than the EU average and far behind the target of 3 days agreed in the European Commission's 'Small Business Act'. Meanwhile, the cost of setting up a company is lower than the EU average (0.5% of income per capita) but still nearly twice as high as the agreed EU target of €100.[9] The minimum capital required (13.2% in Sweden, 0% in the UK) is an additional drawback.

On the other hand, Swedish businesses have sufficient access to private and public risk capital compared to other countries, while SMEs have better chances than in other EU member states to receive applied-for bank loans. It appears, however, that early stage financing is less prolific in Sweden than elsewhere.

6 World Bank (2013)
7 World Bank (2013)
8 The Times (n.d).
9 World Bank (2013)



The fibre optic communication network provided by the city-owned company Stokab has generated significant benefits for the local economy, according to Acreo Swedish ICT. Credit: Stockholm Business Region

Business Climate: Stockholm

Companies are, on the whole, satisfied with the City of Stockholm's service, according to a local annual survey; the city was rated 68 on a scale of 1 to 100 in the last Stockholm Business Alliance customer satisfaction index.

The city improved from 132nd (2006) to 22nd place (2013) in the Confederation of Swedish Enterprise's ranking of local business climates. According to the City of Stockholm's Annual Report, Stockholm's businesses are most satisfied with fire inspection, followed by environmental inspection. The lowest relative approval rating was given to building permits. Max Barclay, Managing Director, Newsec Sweden, confirms the positive trend: "In recent years the municipality has done a lot to improve communication with the business community and civil society. There is a much more proactive attitude on the side of the politicians."

Various institutions and initiatives have been put in place to ensure regular communication with the business community about their needs and also the strategic development of the city. Stockholm Business Region, the city's business agency, conducts hundreds of meetings with companies each year to understand their requirements. The agency also conducts the annual survey mentioned previously, which includes all 51 municipalities united in the Stockholm Business Alliance. This allows municipalities to share best practice.

The so-called 'Stockholm Meeting' is an annual event involving the mayor, private sector leaders and delegates from academia. It serves as a platform for discussing the priorities in the future development of the city. Similarly, 'Development Stockholm' is designed to promote exchange between city agencies tasked with planning, housing and development and property owners and developers. In addition, the annual Business Arena Stockholm event, an initiative of the property industry, offers a platform for all stakeholders in real estate and the built environment.

The city has also been pushing to become a '24-hour municipality' by providing many administrative services on the Internet. Stockholm was one of the first cities to install a comprehensive e-government service when in 2007 the city council invested SEK 650 million in the development. The public fibre-optic network, installed and managed by the city's IT-infrastructure company Stokab, is widely credited with having substantially enhanced Stockholm's business environment in the past two decades; it combines excellent connectivity with low prices.

In other areas the city has pursued a transition from public to private service provision, thereby reducing public monopolies and opening up opportunities to private providers. Another significant and effective policy has been strict budget discipline, which was introduced about 15 years ago. Prudent financial management resulted in a significant surplus which allowed the city to invest in a stimulus package when the global financial crisis hit.

Real estate, both commercial and residential, poses a substantial cost to businesses, both directly and implicitly. Even so, it remains comparatively cheaper than a number of other European cities such as London, Zurich and Paris.[10]

Sufficient housing supply in the city is a pressing issue, driven by steady population increases. In particular, a lack of affordable housing and adequate regional infrastructure might threaten to impair the attractiveness of the region for skilled workers.[11] Increasing housing supply is therefore one of the most critical concerns of the city government.

Another issue raised by our interviewees concerns flight connectivity. Stockholm offers relatively few direct international flights, due to the Scandinavian Airlines hub being based in Copenhagen.

Finally, as a medium-sized city in a sparsely populated country and wider region, limited market size is an issue for those sectors which require market scale. Swedish companies have long embraced an export-orientated strategy to compensate for the lack of scale at home. Government support for export-promoting measures therefore remains crucial, as does the need to embrace wider alliances across Scandinavia.

Stockholm in City Rankings

Stockholm is well recognised across the world as a benchmark for quality of life and sustainability performance. In 2010 the city received the EU's first 'European Green Capital' award and, in the European Green Cities Index, Stockholm is consistently amongst the very top tier of cities. A key underlying factor to this success is that the city has a long-term urban planning policy that has been in place since the 1950s.

The Global Power City Index, which assesses cities based on their economic performance, R&D, cultural interaction, liveability, environment and accessibility, ranks Stockholm 16th behind Barcelona, Shanghai and Sydney but ahead of Zurich, Copenhagen and Brussels, and places it 2nd in the 'Environment' category.[12]

Interestingly, global business opportunity indices rate Stockholm in the same league as cities over four times its size, including New York, London, Toronto, Paris and San Francisco. Cushman & Wakefield's European Cities Monitor 2011 judged Stockholm to be the 13th best to locate a business in, a significant improvement since 1990. More recently, fDi Magazine named the Greater Stockholm region the European Region of the Future in 2012/2013, beating London and the wider South-East of the UK.

Quality of life underpins the city's high standing in business indices, however increasing leadership within the technology, communications and innovation fields has also improved Stockholm's performance globally. PwC's 2012 Cities of Opportunity ranking rated Stockholm as the number 1 city in terms of 'intellectual capital and innovation', with its closest rivals being Toronto, Paris and New York. In the 2013 ranking it topped the listing for 'infrastructure provision'.

European Green Capital Award

[10] The Times (n.d.)
[11] Lindqvist and Baltzopoulos (2011)
[12] The Mori Memorial Foundation (2013)

Stockholm also shines in benchmarks related to the knowledge economy. Underlying the city's leadership within this sector is its long-term collaboration with the ICT industry to further develop knowledge and technology, while at the same time improving the local quality of life. The local administration sees ICT as an enabler for environmental management, infrastructure provision, public security, improved healthcare and education.

The city's strengths in advanced technology are also reflected in technology indices such as Buck Consultants' Tech Cities Ranking which placed Stockholm 5th overall.[13] Equally impressive, nearly 60% of the economically active population has either been educated or is employed in a science related field.

Despite Stockholm's strong performance across many indices, brand recognition is an area in which it and other Scandinavian cities lag behind other medium-sized cities around the world. While Stockholm is performing better than its Scandinavian neighbours, it ranks lower than many other cities in recent Anholt-GfK Roper City Brands Indices, including Vienna and Melbourne.

The region has been making strides to address this issue in recent years and it shows. The recently adopted 'Capital of Scandinavia' brand is seen to have contributed to increasing recognition amongst business visitors and tourists, and as an attractive location for investment.

Improving the local business environment

1. Policy push factor

- Increased levels of international competition for talent and investment
- Regional competition amongst the Nordic capitals for predominance in the region
- Climate-change-driven consensus on reducing energy intensity in the economy.

2. The aspiration

- To achieve international recognition as the 'Capital of Scandinavia'
- To become the 'world's most innovation-driven economy'
- To position Stockholm as a leading city for quality of life and wellbeing, both to attract talent and to export as a skill set.
- To become a leader in green technology and transition to a 'green economy'.

Hammarby Sjöstad

[13] Buck Consultants International (2012)

3. Key players

Public Sector

Stockholm City Council: the City Council decides on tax rates, tariffs and fees, and determines budgets and performance requirements as well as goals and visions for the city's administrations and limited companies.

Stockholms Stadshus AB: the group's operations include housing, water and sewage management, harbour operations, administration of school and care service buildings, as well as parking, tourism, culture and other services.

Stockholm Business Region: Stockholm Business Region is a company wholly owned by the City of Stockholm and is part of Stockholms Stadshus AB. It is striving to make Stockholm the leading sustainable growth region in Europe.

Stockholm Business Region Development (SBRD): SBRD is a subsidiary of Stockholm Business Region and the official investment promotion agency of the city. SBRD promotes the strategic development and marketing of the Stockholm region as a business destination. Reflecting existing strengths and political priorities, tailored advice is offered to businesses and investors in ICT, life sciences, cleantech, automation and other regional clusters.

Stockholm Business Alliance: a partnership of 51 municipalities, including Stockholm, that covers a population of 3.5 million. Its goal is to market the region effectively and to better co-ordinate infrastructure provision. Staff also survey and meet with local companies to understand their needs and improve public services.

VINNOVA (Swedish Governmental Agency for Innovation Systems): as the country's innovation agency, VINNOVA invests around SEK 2 billion per year in 11 strategic areas, including health and healthcare, transportation and the environment, services and ICT.

Public-private co-operation

Electrum Foundation: The Foundation was jointly conceived by representatives of the ICT sector, academic and research institutions, and the Stockholm Municipality.

Hotelli Park Inn by Radisson Stockholm Hammarby Sjöstad

Its task is to stimulate growth in the sector through initiating, supporting and developing close co-operation with business, research and academia. The foundation has two subsidaries: Kista Science City AB and Stockholm Innovation & Growth AB.

Stockholm Innovation & Growth (STING): a business incubator, STING provides business development and financing to export-oriented technology start-ups.

SymbioCity: a marketing platform run by Business Sweden and dedicated to exporting Swedish knowledge in environmental technology and sustainable urban planning.

4. Instruments and Policies

Stockholm's long-term strategy to position itself as a green and clean city - with a high quality of life and leadership in innovation-intensive growth sectors such as ICT, cleantech and life sciences - is reflected in its approach to urban planning and city building. Several new city districts are being developed to cope with the population growth, and the city is using the opportunity to promote the implementation of 'smart' technology and to jointly market public and private expertise in sustainable urban development abroad.

New urban developments are being used both to test innovative technology and to implement existing technology in scale. Strategic planning also allows for the integration of technology in new ways. Two developments stand out from the rest in this respect – Hammarby Sjöstad and Stockholm Royal Seaport.

The clean or greentech sector

The System of Environmental-Economic Accounting Central Framework, adopted by the UN Statistical Commission in 2012, defines environmental activities as "those economic activities whose primary purpose is to reduce or eliminate pressures on the environment or to make more efficient use of natural resources", i.e. "products that are produced, designed and manufactured for purposes of environmental protection and resource management".[14]

There are also 'adapted goods': goods that have been modified to be more 'environmentally friendly' or 'cleaner' and whose use is therefore less detrimental to the environment or consumes less resources. Adapted goods are different from environmental-specific services as they do not have a primary purpose of environmental protection or resource management. An accurate definition of the boundaries of the 'cleantech' or 'greentech' sector is therefore difficult and often context dependent: a technology, product or service that produces less pollution or a smaller environmental footprint relative to what is standard today.

Clean energy technologies, which include most renewable energy and energy efficiency products, are considered a future growth sector, and clean energy technology manufacturing is a fast-growing global industry. Consultancy Roland Berger estimates that the global value of cleantech manufacturing almost doubled from 2008 to 2011, reaching €198 billion.[15]

Sweden has a strong environmental performance reputation, which is based on a proactive approach (including an active environmental policy) to address environmental challenges. Sweden has also developed a high competence in the area of technical innovation including eco-innovations. High-level academic research and a long tradition of energy technologies give Sweden a competitive edge.[16] The Swedish approach not only includes technologies and technical systems in themselves; it also involves holistic ideas on integrated systems solutions.[17]

LSE Cities (2013) estimates that Stockholm County had the highest turnover in the green sector within Sweden in 2010, at around US$5.3 billion. A survey by SBRD puts the number of companies in the primary and secondary cleantech industries at 3,000, employing approximately 25,000 people. Their activities focus on:

- Renewable energy
- Water purification
- Conversion of wastewater to energy
- Alternative fuels
- Systems for environmentally-friendly infrastructure.

Sweden, and in particular the Stockholm region, has a high competency in the ICT sector at the business level as well as within academia. ICTs can therefore act as an enabler and driver of sustainable environmental solutions in a number of areas, including:

- Energy (energy production and distribution, energy use and energy efficiency)
- Transportation (logistics, intelligent transportation systems, virtual meetings)
- Buildings and construction (IT in buildings, smart houses, property management)
- Process and industry (process optimisation, control systems).[18]

However, despite Stockholm's relative strength in the green sector within Sweden, the sector only plays a small role within the regional economy.[19]

[14] UN (2014), p.96 and p.111
[15] Van der Slot and van den Berg (2012)
[16] Repinski (2011)
[17] Repinski (2011)
[18] SWENTEC (2010) in Repinski (2011)
[19] LSE Cities (2013)

Challenges

Producers of innovative technologies or services may find it difficult to introduce their products to the market because they are awaiting demand, while potential buyers may not signal interest before new products are brought to market.

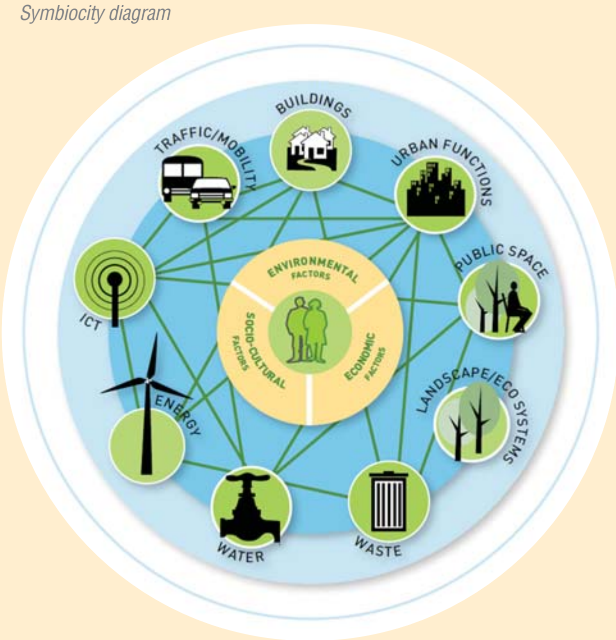
Market size more generally is an issue, particularly in a country like Sweden, where the domestic market is relatively small. Swedish companies have a long tradition of following an export-oriented strategy to compensate for that. At the moment the Swedish environmental technology export value is still at a comparatively small scale,[20] which suggests that government support of internationalisation strategies to tap into foreign markets will be beneficial to local companies.

A particular characteristic of green and cleantech solutions is the often interdependent, systemic nature of their application; for example, waste systems, energy generation and distribution, and smart grids. The optimal integration of these systems requires strategic planning and a high level of interdisciplinary collaboration, beginning at the earliest planning stages.

Innovative green products often incur higher procurement costs, which are not always offset by lower life cycle costs. In other instances, the incentives to implement these solutions may be aligned with the final user (e.g., a resident) but not with the procurer (e.g., a developer).

The public sector can support the adoption of these technologies or services, either by setting regulatory standards that encourage or require the use of innovative (environmental) products, or by using their market power in their procurement policies. Due to the relative large market share of the public sector, in particular in Scandinavian countries, so-called Green Public Procurement (GPP) can help businesses to move from the demonstration phase to the scale-up phase, and to lower risk.[21]

Symbiocity diagram



Hammarby Sjöstad

Hammarby Sjöstad is a former brownfield site, planned and built to sustainable standards. Energy and water consumption, for example, is around half the Swedish average. Amongst other measures, strict restrictions were put in place regarding waste, which conventional waste treatment was not able to comply with. At the same time, joined-up planning at the infrastructure level has enabled integrated solutions for energy, waste and water, such as the production of biogas from household sewage and waste.

From the beginning, the city collaborated with technology companies, academia and developers to implement effective solutions. The city leveraged its position as one of the biggest landowners to demand compliance from developers on ambitious targets. The level of political support was very high and enabled substantial public investment in the development, not least in the decontamination of the site. The city has since been able to recoup a substantial amount of the investment through land sales and leasing.[22]

20 Repinski (2011)
21 Bauer et al. (2009)
22 LSE Cities (2013)

Royal Seaport plan. Credit: Aaro Design System

One of the key objectives of the city had been the dissemination of local technology and knowledge.[23] As a consequence of this, Hammarby has since gained the reputation as a best practice example of a sustainable city district. A large number of international delegations visit each year to learn about the planning and the technologies behind it. The success of the development and the branding strategy of Stockholm as a 'clean and liveable city' has created 'image spillover effects' from which private companies have benefited as well.

Interviews conducted with city officials and private sector representatives confirm the importance of Hammarby as a showcase for environmental technologies and expertise. Envac for example, the company behind Hammarby's waste collection and treatment system, has since been commissioned extensively outside of Sweden (including projects in London and China) based on its expertise demonstrated in Hammarby. Other beneficiaries include planning consultancies, which export their expertise in integrated planning for sustainable districts, or infrastructure companies such as Skanska.[24]

Stockholm Royal Seaport

Another strategic initiative is the regeneration of the Stockholm Royal Seaport area into a mixed-use development with a target of 12,000 new housing units and 35,000 office spaces to be completed by 2025. The goal of the City Council is to build an "international prototype for sustainable and high-quality urban environments" and to "support the marketing of Swedish environmental technology". The planned infrastructure includes biogas buses, biofuelled district heating, an automated waste collection system, and a smart grid.

Supported by the city and by the national innovation agency INNOVA, the development is being used as a platform for developing and testing various innovations in energy and resource-efficient building technology and smart infrastructure. The aim is to encourage collaboration between technology companies, researchers, the city administration and developers to trial innovative technology and to develop it into viable products for the market, using the Stockholm Royal Seaport Innovation Centre as the vehicle.

[23] City of Stockholm (1996) in LSE Cities (2013)

[24] Interview with Irena Lundberg, Stockholm Business Region

Royal Seaport Innovation runs four R&D projects together with some of the biggest local companies, including Fortum, Ericsson, Envac and Swedish ICT. The projects are closely connected to the environmental targets for Royal Seaport and focus on energy, transport and life cycle solutions. ICT plays an important role in most of these projects, for example around Smart Communication, Smart Grid and Smart ICT for living and working in Stockholm Royal Seaport. The latter project aims to develop a generic ICT infrastructure that helps to reduce investment, climate and environmental costs.

The goal of implementing a shared information and communication infrastructure is seen as providing additional business opportunities beyond the immediate benefits for the companies involved in its development. Markets that may have been limited due to high costs or proprietary networks or technologies can be opened up by a shared infrastructure.

However, interviewees from city-owned firms as well as technology companies involved in Royal Seaport voice concerns about achieving the challenging goals for Royal Seaport. While political support in favour of the development continues to be strong, the current local centre-right government believes in a more hands-off approach and private sector-led delivery, based on the promotion of voluntary co-operation rather than regulations or the provision of financial support. The issue herewith appears to be one of insufficient or misaligned incentives: with the cost of land already very high in Stockholm, developers are little inclined to incur additional costs on expensive technology, in particular where it is uncertain if these costs can be recouped through later sales. In the meantime, technology companies naturally have a greater incentive to engage in R&D projects in the area. It therefore remains to be seen whether all of the ambitious targets for the Royal Seaport development will be achieved.

Gasklockan by Herzog & de Meuron. Credit: SymbioCity

Mechanisms for success

- **Bipartisan commitment to sustainable development**
- **Long-term political support and clear vision**
- **Strategic planning process**
- **Effective public-private partnerships and extensive collaboration with partners from academia, business and the public sector**
- **Strategic leverage of public landownership to enforce high development standards**
- **Strong brand positioning**
- **Joint marketing of private and public expertise.**

How they do it

Public Sector Perspective	Private Sector Perspective
"The city owns much of the land. This allows it to set strategic goals and to demand certain standards from developers." *"The city's strict budget discipline put it in a good position when the WFC hit. It had the possibility to invest 20 billion Swedish Crowns over five years."* Marie Wallhammar, Managing Director, Stockholms Stadshus AB	*"There are three types of cities: innovative cities, followers, and lastly the lagging ones. Stockholm is in the first category. The city has a clear ambition.* *"In Hammarby the cost (of implementing innovative technology) was shared between city and developers. That was a good vehicle."* *"The city made specific requirements how waste should be handled and put in place restrictions that conventional waste processing could not handle. That in turn made Envac's solutions interesting."* Jonas Toernblom, Director of Marketing, Envac AB
"(Hammarby) was driven by close collaboration with developers and (technology) companies and significant political will." Irena Lundberg, Business Development Manager Cleantech, Stockholm Business Region Development	*"Working together to achieve growth is key: business, academia and public institutions."* Thomas Andersson, CEO, Kista Science City

5. Challenges

Lack of national regulation for feed-in tariffs and independent energy sources

This is an issue which was raised in various interviews. A representative of Envac pointed to the barrier this poses to expanding energy-from-waste technology, amongst other renewable energy sources.

Potential mitigation strategy

The city has no means of introducing this type of regulation at the local level. Several interviewees suggested that the city could do more to lobby the national government on the issue.

National building regulations

Swedish building regulations set relatively low standards in regards to green buildings. While this lowers development costs, it makes it more difficult to promote the widespread adoption of advanced green building standards.

Mitigation strategy

In order to stimulate the construction of green(er) buildings, the city negotiates voluntary agreements with developers or sets higher standards on publicly-owned land.

Misaligned incentives

Developers have little incentive to pay a premium for high environmental building standards or innovative infrastructure, which increases financial risks. Implementing smart grid technology at an industrial scale is very expensive, and construction companies have no incentives to take on these costs.

Potential mitigation strategy

Consecutive city governments have adopted different strategies to respond to this challenge, from financial incentives to voluntary agreements. Most important is to provide consistent signals and certainty to the market, which allows for long-term business planning.

Average growth of the cleantech sector

An EIO (Environmental Investment Organisation) report confirms that existing pilot efforts, while important, have not been sufficient in growing the sector substantially. The organisation believes that this is at least partially due to a lack of large-scale public and/or private investment schemes in cleantech.

Potential mitigation strategy

One possible avenue for supporting the growth of the sector locally is suggested by LSE Cities (2013): The City of Stockholm should look into ways for rolling out innovative and green procurement, trialled in districts such as Hammarby, more widely. The authors find that, contrary to some other cities, Stockholm currently lacks a comprehensive green procurement policy.

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Interviews were conducted with:

Thomas Andersson	CEO, Electrum Foundation and Kista Science City AB, Stockholm
Max Barclay	Managing Director, Newsec Sweden
Torbjörn Bengtsson	Project Manager, ICT, Automation and Cleantech, Stockholm Business Region
Maria Kaaman	Project Manager Communications, SwedenBIO
Irena Lundberg	Business Development Manager Cleantech, Stockholm Business Region
Jonas Toernblom	Director of Marketing, Envac AB
Marie Walhammar	Managing Director, Stadshus AB, Stockholm
Ylva Williams	CEO, Stockholm Science City Foundation

Case Study
Vienna

Vienna is the cultural, economic and political centre of Austria. It is also the capital of the wealthy central European country and one of its nine federal states. The city of approximately 1.7 million inhabitants has seen substantial population growth of just below 10% from 2003 to 2013.[1] Most of this growth has been due to immigration, both from within Austria as well as neighbouring Slovakia, Hungary and the Czech Republic. As the former capital of the Habsburg Empire, Vienna has a long tradition of accommodating a multitude of cultures, languages and faith groups.

Consistently praised for its high quality of life, the city has retained the top position in the Mercer 'Quality of Living' ranking for four consecutive years. The seat of many international institutions, including branches of the UN, Vienna has been the leading global conference location over the best part of the last decade.

Economy

In 2010, Vienna's GRP was about €75 billion, more than a quarter of Austria's GDP.[2] Vienna is a service-driven region, due to its role as the seat of local and federal administration, its research and science base, and the strong presence of knowledge-intensive business services; the tertiary sector constituted around 83% of gross value added in 2010.[3] Vienna is not only Austria's economic centre but, since the fall of the Iron Curtain, has also laid claim to being 'the gateway to Eastern Europe'. Besides local businesses benefiting from the expanded market, the city has attracted a substantial number of regional corporate headquarters.

The visitor economy plays a significant role in Vienna's success, with over 12 million overnight stays in 2012. Its status as a hub for international congresses further drives visitor numbers; a total of 707 congresses were counted in 2012 alone.

[1] Vienna City Administration (2013)
[2] Vienna City Administration (2013)
[3] Wirtschaftskammer Wien (2013)

Vienna DC Donaucity

Governance

Political power in Austria is distributed between the federal government, the nine state governments called Länder and the municipalities.

Among other things, the federal government is responsible for higher education, vocational training, labour legislation, most public pensions, and health care. *Länder* responsibilities include regional infrastructure and transport, building legislation, environmental protection, primary education and social welfare, while municipal responsibilities include urban planning and development, local infrastructure, health provision and social services.

Compared to other federal states such as Germany, the Austrian government retains substantially more powers and finance than its states. In addition to their limited discretion over expenditure, sub-national governments have weak fiscal autonomy. About 95% of all taxes are raised at the federal level, while the remainder is collected by the states and municipalities; for example the municipal tax.[4] Vienna has a special statute being a federal State of its own as well as a municipality. The Mayor of Vienna therefore acts simultaneously as State Governor. Vienna is subdivided into 23 municipal districts, which have their own district parliaments with limited powers.

Vienna in City Rankings

With a population of only 1.73 million, Vienna places well ahead of many cities of a similar size in global rankings. The presence of the UN, OPEC and leading international aid agencies creates a level of gravitas, however the city is not currently represented in top global business, finance and investment indices. The development of Vienna DC Donaucity, a 18.5 hectare commercial centre with and 550,000 sq m of floor space, is likely to attract global attention and could improve the city's performance within business indices.

Smart-city policies and leading educational institutions have led to Vienna being recognised as a top European city for innovation. The city has significantly improved its rating from 5th to 3rd behind Boston and New York and ahead of San Francisco, Paris, Munich and London.[5] Smart-city targets with tracked progress for city-wide programmes such as Roadmap 2020, Action Plan 2012-2015 and Smart Energy Vision 2050 have been cited as reasons for the city's leadership within this category.

Vienna also excels in image and brand indices. The city's rich culture, architecture, music and strategic marketing, along with its 'world heritage' status, place it ahead of Madrid and within the same league as iconic cities like Paris, London, Sydney, London, Rome, New York and Barcelona.

[4] Republik Oesterreich Parlament (n.d.)
[5] 2thinknow (2014)

Benchmarks for 'quality of life' rank Vienna consistently among the world's top cities. It has retained the number 1 spot in the Mercer 'Quality of Living' survey since 2009, and in the 2013 Monocle 'Quality of Life' Index secured 5th position ahead of Stockholm and Zurich.

Destination power indices also rate the city well. Vienna climbed to a very respectable 13th place in the 2012 AT Kearney Global Cities Index and 1st in the 2012 ICCA Rankings (global conferences and meetings), ahead of Paris, Barcelona, Berlin and London.

Business Climate Austria

Austria has a favourable business environment, ranking 29 out of 185 countries for overall performance in the World Bank's Doing Business Index 2013. It boasts good infrastructure, a stable political and banking environment, and a favourable location as a gateway to Central and Eastern Europe.

The country is managed by an effective public administration, with Austria scoring particularly highly for its provision of e-government services, which is well above the EU average. It has laid claim to being the first European country providing full coverage by e-government services.

This, in no small measure, contributes to the low administrative cost of taxation at around 0.85% of total revenue, less than 70% of the EU average.[6] However, the overall burden imposed on businesses by the country's tax regime is significant in comparison to other EU countries, mainly driven by the total tax rate.[7]

The efficiency of the civil justice system scores better than average, with the time required to enforce contracts at 71% of the EU mean.[8] This secures Austria a place amongst the top performers in the World Bank's Doing Business Index.[9]

The workforce is highly skilled and the Austrian education system is well regarded, in particular the widely practised 'dual system' of vocational training and education as an alternative to academic study. Labour laws are sufficiently flexible and labour productivity is very high, which results in relatively low comparative costs of labour.[10] Relationships and conflicts of interest between workers and employers are managed within a 'social partnership' model,[11] resulting in relative social harmony and an exceptionally low strike rate.

Table 1: Vienna's Key Figures

Population (2013)	1,741,246 (City) 2,649,427 (Metroregion)
GDP €/inh	45,600 (2011)* 39,192.6 (2010) **
GDP growth	2.4% (2011)
Unemployment	8.2% (2013)***
Share of workforce in science and technology	39.2% (2012)***
Share of workforce in knowledge-intensive services	48.0% (2012)***
Higher education	27.3% share of active population with tertiary education (2012)***
Business Demography	105,387 active enterprises (2010)* 6,941 new enterprises (2010)* 5,433 new enterprises having survived 3 years (2010)*
Broadband internet connection	82% of households (2012)
Tourism (2012)	13,545 million overnight stays
International congresses	707 (2012)

Sources: Eurostat; Müllner et al. (2012);Vienna City Administration (2013); European Cities Marketing Benchmarking Report (2013)
* by NUTS 3 region ** Metropolitan region per Eurostat definition *** by NUTS 2 region

Despite its above-average performance across the aforementioned indicators, licensing procedures in Austria negatively affect the average time required to start a business, which at 25 days is significantly higher than the EU average of about 14 days.[12] This is also reflected in a low 134th place for the 'ease of starting a business' category in the Doing Business Index,[13] which measures four component indicators: procedures, time, cost and paid-in minimum capital requirement. Regarding the latter, huge variations exist within the European Union (49% paid-in minimum capital in Austria versus 0% in the UK). The overall cost of starting a business, however, is average and on par with a country like Germany.

6 EC (2012)
7 World Bank (2013)
8 EC (2012)
9 World Bank (2013)
10 Müllner et al. (2012); EC (2013a)
11 Simonian (2011)
12 World Bank (2013)
13 World Bank (2013)

Vienna University of Technology

Access to finance in Austria is above average, in particular SME access to debt financing. This indicator has slightly improved since 2009, despite the woes of the financial markets.[14] A comparatively weak venture capital and stock market, however, has resulted in a scarce supply of equity finance.

The country ranks highly for its efficiency in resolving insolvency. To further improve the business environment, the federal government has been pursuing a programme aimed at reducing the administrative burden to businesses in recent years. An important measure for achieving its target is the implementation of a one-stop e-government portal for businesses called 'Unternehmensserviceportal' ('business service portal'), offering an interface for all important federal administrative and social insurance procedures, e-billing and the like. At the same time the administration is working on reducing the administrative burden on citizens, which in turn should further contribute to business-friendliness, in particular where start-ups and micro enterprises are concerned.

While as a nation Austrians show less entrepreneurial inclination, the survival rate of new businesses is one of the highest in the European Union.

Dr. Helmut Naumann, Head of Department for Economic Policy at the Vienna Chamber of Commerce, assesses the business climate of Vienna as generally positive, and attests that the city has a critical market mass and a sufficiently diversified business 'ecosystem'. Education levels are adequately high, and housing and commercial property prices relatively affordable compared to other cities of equivalent size and economic prosperity. Annual gross office rents are on a par with Budapest and were less than 60% of Stockholm prices in 2010.[15] Low levels of economic disparity and a high quality of life contribute to highly stable social relations. At the same time, Naumann identifies a distinct lack of venture capital for smaller faster-growing companies within Vienna; however, on the upside, the local finance sector is actively engaged in Central and Eastern Europe, which has helped to build the customer base and trade development with these markets.

On the downside, Naumann believes that Austria has an "inherent inclination for bureaucracy", which he considers is not yet being effectively addressed. Nevertheless, he does concede that the City of Vienna is collaborating with the Chamber of Commerce to streamline local administrative procedures, with initial progress being achieved around the handling of permits.

Improving the local business environment

1. Policy push factor

While Vienna's proximity to Eastern European markets offers great economic potential, the fall of the Iron Curtain has also created significant adaptation pressures for the local economy, forcing rapid rationalisation, productivity increases and further specialisation in knowledge-intensive services in order to stay competitive with the low-cost labour markets at its doorstep.

Vienna has adapted highly successfully, as evident in its thriving economy and positive growth rates. The process of 'tertiarisation' is still ongoing, with around 84% of employees currently employed in this sector.[16]

However, employment rates have not performed equally well, due to the rapid structural changes in the economy as well as ongoing immigration, predominantly from Eastern Europe. Ever since the mid-1990s the unemployment rate has been growing slowly but continuously,[17] and in the spring of 2012 it stood at 9.4%.[18]

[14] EC (2013a)
[15] Müllner et al. (2012)
[16] EC (2013b)
[17] Müllner et al. (2012)
[18] Mayerhofer et al. (2012)

2. The aspiration

- To position Vienna as a recognised hub for research, technology and innovation
- To increase the attractiveness of the city to international talent, and to develop local innovation potential
- To maintain a competitive edge in high-value-added industries and services
- To strengthen a labour-intensive sector to reduce the unemployment rate.

This case study focuses on the specific challenges experienced by creative businesses and on the city government's efforts to promote the growth of the sector in Vienna.

Collaboration between designers taliaYsebastian and lighting technology company Osram

3. Key players

Public Sector

Economic Development Department, Vienna City Council: as the capital city and a federal state, Vienna has substantial financial and decision-making powers to shape the local business environment. The city has traditionally taken a proactive approach to economic development.

Vienna Business Agency (VBA) (Est. 1982): VBA is predominantly funded by the City of Vienna, with some additional funding from the European Union. The agency also generates its own revenues by managing and developing commercial and industrial real estate, which, in itself, is an important strategic instrument. VBA provides business support services and direct grants, mainly to SMEs and start-ups. Its real estate activities are aimed at supporting companies of all sizes and sectors, from start-ups to established industry and research institutes.

***departure* - the Creative Agency of the City of Vienna (Est. 2003):** a subsidiary of VBA, departure is funded solely by the city. Targeted at all creative enterprises, the agency supports the sustained economic growth of the sector. It operates independently of the arts and culture department, both in scope and funding.

ZIT - the Technology Agency of the City of Vienna (Est. 2000): another subsidiary of VBA, ZIT offers direct financial assistance to businesses, provides a range of advisory services, and develops and manages real estate suitable for tech companies.

Private Sector

Vienna Chamber of Commerce: an institution under public law, it represents the interests of all registered businesses in the city region, provides education to its members and acts as a policy think tank. The Chamber of Commerce is closely involved in informing local economic policy, its president sitting on the board of the VBA.

The creative industries

The so-called 'creative industries' have received much attention in local economic development circles over the last decade. They are perceived as an important driver of local economic growth as well as assets for enhancing the overall attractiveness of cities.

Used as early as 1997 by the British Department of Culture, Media and Sport, the definition of 'creative industries' varies and no single globally accepted description exists.[19] 'Creative industries' are seen as using culture as a production input while aiming at a predominantly functional output. This definition encompasses design, fashion, advertising and architecture.[20] Most cities embrace a broad notion of 'cultural and creative industries' (CCIs), including media, music, publishing and the fine arts in addition to the above.

A study by Ratzenböck (2004) of the economic potential of creative industries in Vienna uses a systemic definition, encompassing not only the core creative activities but also the adjacent value chains of reproduction and mass distribution. This definition frames the creative industries as an interlinked production system, spilling over into and stimulating 'traditional' industries.[21]

Among the attributes assigned to cultural and creative industries, they are credited with 'boosting local economies in decline, contributing to the emergence of new economic activities, creating new and sustainable jobs and enhancing the attractiveness of European regions and cities'.[22] Most studies recognise the sector's role as catalyst/mediator between technological innovation and user application, creating significant spillover effects in the wider economy.[23]

The sector's growth rate has been found to exceed the average growth rate of Western European economies by up to 50%.[24] The nexus between creativity, innovation and advanced industries is considered to be of key importance in maintaining a developed economy's competitive advantage.

The creative sector in Europe is characterised by an overwhelming majority of micro enterprises employing less than 10 people, with 60% only employing up to 3 workers in 2009. Altogether, they contribute only around 18% of total turnover, while the smaller number of medium to large enterprises and MNCs contribute a disproportionate share of turnover. Relatively few enterprises fall into the mid-sized range, a phenomenon commonly known as the 'missing middle'. The small number of large enterprises wields disproportionate market power and development capacity, while micro enterprises have to adopt a highly flexible approach to remain competitive. While this may represent an advantage under certain circumstances, micro enterprises suffer from serious barriers to sustained growth, which in turn has implications for public policy.[25]

Project at Vienna Design Week. Credit: designboom

Sector-specific challenges

Finance

The difficulty in accessing finance is regularly mentioned as one of the greatest challenges for creative enterprises.[26] Difficulties on the demand side include insufficient knowledge about financing sources and how to access them, and gaps in business expertise, as well as insufficient assets/securities to back up loans.

On the supply side we observe a relative lack of investment products (both public and private) targeted at creative industries. Investors encounter substantial difficulties in assessing both risk and commercial potential associated with such intangible assets as 'creative talent'.[27] Furthermore, the 'cultural' market is highly volatile in nature, further compounding investment risks.

19 Mayerhofer and Huber (2005)
20 KEA European Affairs (2006)
21 Mayerhofer and Huber (2005)
22 EC (2010)
23 HKU (2010)
24 Haefele et al. (2005)
25 HKU (2010)
26 KEA European Affairs (2010); EC (2010)
27 EC (2010); and KEA European Affairs (2010)

Business skills/capacity building

Many creative entrepreneurs lack basic business skills due to the almost exclusive emphasis on core artistic and design skills in their education. Helmut Naumann of the Chamber of Commerce also observes insufficient awareness "that [they] are learning a new profession which requires specific skills and knowledge".

The dynamic changes in creative industries require constant learning and the attraction of new talent, both to adapt to new technologies and to 'stay ahead' of other cultural innovators. This necessitates both time and financial resources, which are often scarce.

Considerable time pressures during project implementation frequently result in the inability to take advantage of other business opportunities, thus stunting growth potential.[28] Not surprisingly, creative enterprises and freelancers frequently generate additional capacity by engaging in temporary collaboration with each other. This clearly demonstrates the advantages of cluster formation, networking platforms and shared workspaces.

Collaboration with traditional industries

Co-operation between creative and 'traditional' industries is seen as highly pertinent for both sides to exploit synergies and spillover effects, yet is often subject to barriers for engagement, which are predominantly based on 'cultural' differences and value systems. Local institutions, both public and private, have an important role to play to facilitate mutual understanding and build trust.

Sektor 5 coworking space, Vienna. Credit: dostup.dp.ua

Internationalisation/brand building

CCIs in Europe face the problem of market fragmentation which, in particular, affects media, publishing and the performing arts. Special efforts are therefore required to support the internationalisation of businesses.

[28] Georgieff et al. (2009)

Vienna Art Week. Credit: Florian Rainer

4. Instruments and policies

Vienna has developed a multi-faceted landscape of support programmes which heavily target project-based support and promote networking structures. departure, the business support agency for creative industries, is the city's main tool for improving the conditions for the creative sector.

Finance

departure is unique in specifically targeting creative businesses, and tailors its financial products to suit their needs. A range of grant programmes cater to different stages in the businesses cycle, from start-up to expansion, and market adaptation to new product development. Individual project funding ranges from a few thousand to €200,000, and to a maximum funding rate of 70%. All project funding is awarded by an independent expert jury.

The evaluation process involves detailed assessment of the validity of a business idea and plan, thus introducing checks similar to those made by a bank or private investor. Applicants receive detailed feedback on their proposals and the opportunity to revise their strategy if necessary.

The spectrum of eligible entrepreneurs and projects is broad and includes products seen to deliver a public benefit. This extensive remit can capture innovative products and services which do not fit the selection criteria of other, often more technology-oriented innovation funds.

Each year a different theme is chosen for the so-called 'departure focus' call which, as mentioned, can attract up to €200,000 of funding for select headline projects. The annual theme is also reflected in the event calendar and departure publications.

Business skills/capacity building

'departure experts' is a programme offering coaching in all areas of business planning, including finance, sales and marketing. Experts are recruited from outside the agency, and entrepreneurs can choose from a list of preselected advisors or suggest consultants of their own. This approach ensures a broad knowledge base and up-to-date expertise.

Some grants require that part of the funding is used for such consulting services. This helps to ensure that budding enterprises build up crucial business skills.

In addition to project-based support departure fosters networking and learning by building links between local institutions; for example, art and business schools. In this case, art or design students have the opportunity to collaborate with business students on the development of commercial strategies.

The agency also nurtures a lively calendar of events, including seminars, workshops and public talks, offering both networking and learning opportunities. An example includes 'we - workshops for entrepreneurs', which covers core business knowledge.

Support at the local level is complemented by national initiatives such as the provision of free business planning software for all Austrian start-ups.

Expert speed dating. Credit: departure

Private landlords are often little inclined to rent to a multitude of creative entrepreneurs. Dealing with several, sometimes short-term, contracts within one building generates costs and involves a greater risk of individual occupants failing to pay rent. In this situation, a public agency can play a crucial role as mediator, rent guarantor or manager of such workspaces. departure's CEO, Bettina Leidl, therefore plans to support the provision of shared workspaces for creatives in the city.

A prominent example of a creative cluster building is the development of the Media Quarter Marx. Here, the technology agency ZIT is developing a total of 40,000 sq m of office and studio space in partnership with a private investor. The development's technical equipment, infrastructure and space is being designed to accommodate the needs of the media sector.

Collaboration with traditional industries

departure's CEO is keenly aware of the potential benefits as well as the barriers to cross-sector collaboration and actively promotes closer co-operation. The agency does so by acting as a mediator, engaging prominent representatives of both traditional and creative industries as advisors, and supporting cross-sector collaboration financially, thus reducing project risks.

'Co-operation' was departure's annual theme of 2012, with a budget of ca. €1.5 million made available for the focus programme alone. Amongst other funding, young product designers taliaYsebastian were enabled to embark on a two-year collaboration with lighting manufacturer Osram to develop applications for innovative OLED lighting technology. While Osram provides longstanding technical and business expertise and a professional test laboratory, taliaYsebastian contribute their design and artistic skills. departure has assisted and advised the designers on all aspects of the collaboration, including the legal framework and intellectual property.

Internationalisation/brand building

departure increasingly supports local businesses in finding partners for the international marketing and distribution of their products or services. For example, for the event 'curated by_vienna', the agency promoted collaboration between Vienna's leading contemporary art galleries and internationally-renowned curators.

departure events and publications also help to promote local talent and the 'creative city' Vienna to a city as well as an international audience, promoting local culture and creativity while generating demand. Events particularly geared towards this goal include 'departure fashion night' (showcasing collections sponsored by departure) and 'Vienna Art Week' (co-sponsored by departure and the VBA).

Mechanisms for success

- **long-term commitment by the local government (VBA operating since 1982, ZIT since 2000, departure since 2003) which enables 'learning' organisations, the development of strong partnerships and a growing reputation among businesses and start-ups**
- **substantial and stable funding (€26 million in direct funding to businesses since 2003)**
- **relatively long budgeting horizon (grants for three-year periods) which provides sufficient stability and enables management to plan ahead**
- **deep links to institutions outside the city administration (the Chamber of Commerce sits on the board of the VBA) and recruitment of external expertise**
- **strong leadership: departure's chief executive has substantial discretion to shape the agency's priorities and develop collaborations with external partners**

- **tailored support for all phases of business development, including start-up, expansion and market adaptation**
- **responsiveness and flexibility to respond to changing circumstances**
- **credibility: agency leadership recruited from the cultural sector; visually attractive web presence and creative print media products; events and publications address not only business issues but also cultural added value**

6. Challenges

The interviews with businesses and the city pointed to a number of challenges and limitations. These are select examples:.

Red tape and regulations

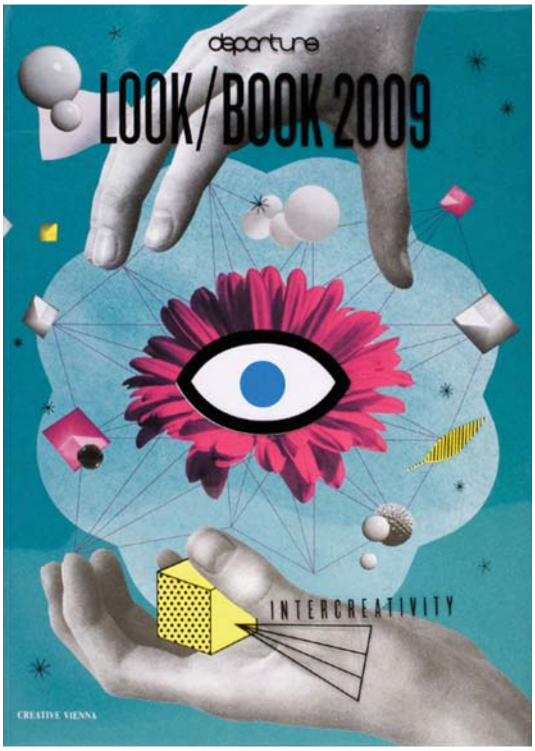
Building regulations in Austria vary between states, making it a time consuming and challenging affair to comply with reportedly ever-tightening regulations. The potential implications of a new requirement for the seismic assessment of existing buildings and the lack of clarity around its implementation within the local administration threatens to undermine the viability of a business concept previously sponsored by departure. No centralised guidance exists at the city level, leaving interpretation to staff in the Municipal Districts, which adds to the uncertainty.

Potential mitigation strategy

The city administration should provide clear guidance on the application and implications of building regulations to the planning departments in the Boroughs. Architects and citizens would benefit from a central point of reference for consultations on the building code.

Localised character of creative industries

Networking and collaboration within the city's creative industries is often characterised by its highly local nature. A media company that we interviewed cited this as a key barrier to breaking into new markets such as Germany.



Potential mitigation strategy

This issue cannot be completely resolved. Vienna is already supporting internationalisation strategies by fostering cross-border collaborations and by hosting events targeted at attracting international visitors.

Reputation/brand

There appears to be a mismatch between the local and the external perception of Vienna as a 'creative city'. Local creatives speak of a young and dynamic city with lots to offer in regard to contemporary culture. External perception of Vienna, however, is still predominantly one of a conservative city lacking 'edge'.

Potential mitigation strategy

departure is already working to change this perception through its events and publications. It is likely that the success of the visitor brand 'Vienna', which draws a lot of its strength from the city's rich cultural heritage, is eclipsing these efforts to a degree. The challenge will be to strengthen the 'creative Vienna' brand without compromising the success of 'heritage Vienna'.

How they do it

Public Sector Perspective	Private Sector Perspective
"We used to try to push everyone into becoming entrepreneurs. We now understand that this is not suitable for everyone. Instead, we now help creatives embark on collaborations with companies if this appears to be a better alternative." Bettina Leidl, Chief Executive, departure	*"You have to constantly re-evaluate what you are doing; if you do the same thing 10 years on, you are doing something wrong."* Helmut Naumann, Head of Department for Economic Policy, Vienna Chamber of Commerce
"We always try to think and act like a joint organisation rather than isolated agencies. We make information available and refer clients to our sister agencies such as departure and ZIT where appropriate. That means we often have more than one (support programme) for entrepreneurs." Gabriele Tatzberger, Head of Department, Mingo Start-up (VBA)	*"departure (...) has understood perfectly how to create an engaging and visually attractive user interface" .* Andreas Miedaner, Founder and Managing Director, Büro X

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Interviews were conducted with:

Sia Kermani	Partner, femme maison.
Bettina Leidl	Chief Executive, departure the creative agency, Vienna Business Agency.
Clemens Mayer	Co-founder, Easybalkon.
Andreas Miedaner	Founder and Managing Director, Buero X.
Dr. Helmut Naumann	Head of Department Economic Policy, Vienna Chamber of Commerce.
Talia Elena Radford	Co-founder, taliaYsebastian.
Dr. Gabriele Tatzberger	Director, Mingo Start-up, Vienna Business Agency.

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Urban Land Institute

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ULI – the Urban Land Institute – is a non-profit research and education organisation supported by its members. Founded in Chicago in 1936, the institute now has over 30,000 members in 95 countries worldwide, representing the entire spectrum of land use and real estate development disciplines and working in private enterprise and public service. In Europe, we have over 2,000 members supported by a regional office in London and a small team in Frankfurt.

ULI brings together leaders with a common commitment to improving professional standards, seeking the best use of land and following excellent practices.

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For more information on ULI Advisory Panels, Research and Publications please contact Peter Walker, Director of Communications. peter.walker@uli.org

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