

The Effect of Municipal Strategic Planning on Urban Growth in Ukraine

Denys Nizalov and Olena Nizalova
Kyiv Economics Institute (KEI)
March, 2012

In a downturn, the pressure is especially high on governments to produce sensible and effective development strategies to generate needed jobs and increased earnings. A large number of economic development tools were used in the past by local and national governments around the world, designed to facilitate regional and local economic growth. This brief presents the preliminary results from the evaluation of a program implemented in Ukraine.

Bradshaw and Blakely (1999) distinguish three historical waves of popularity for different tools used in economic development, with reference to the US states' development policy:

- 1st wave – Incentive-based competition for industrial location, so called *smokestack chasing* (direct incentives to firms, reimbursement of relocation and infrastructure costs, tax-breaks);
- 2nd wave, from the early 80s – Cost-benefit-based assistance, focusing on internal growth (business incubators, start-up funds, trainings);
- 3rd wave, over the last two decades – Building of a “soft infrastructure” (institutions) conducive to economic growth (strategic planning, marketing, public-private partnerships, financing, regulation, intergovernmental collaboration).

While the effect of the first two waves on various growth outcomes was studied extensively (for reviews, see Bartik 1991; Fisher 1997; Wasylenko 1997; Goss and Phillips 1999; Buss 2001) the effect of the policies representing the third wave is less known. There are several reasons for that. These policies were developed relatively recently, they are hard to measure and

compare and are most likely to have a long run effect.

A unique example of a third-wave policy was recently evaluated in Ukraine. The Local Economic Development (LED) Project in Ukraine, started by the USAID in 2004, introduced a process of municipal strategic planning into the practice of local government decision making. This Strategic Planning process involves setting goals and priorities for community economic development and coordination of activities in different areas of community life. It also allows the establishment of partnerships among various stakeholders and interest groups, and the mobilization of public and private resources to facilitate economic development.

Until recently, the effect of municipal strategic planning has been assessed exclusively by case-studies. See for example, the cases of Randstad (Priemus, 1994), Lisbon (Alden and Pires, 1996), London (Newman and Thornley, 1997), Hong Kong (Jessop and Sum, 2000), Guangzhou (Li, Yeung, Seabrooke, 2005; Wu and Zhang, 2007), and Hangzhou (Wu and Zhang, 2007). Although the above mentioned cases describe the planning process and the perceived benefits in great detail, they do not address the question of whether the Strategic Planning causes a higher rate of community economic growth or not. There are several

reasons for these limitations. The procedure of planning, beyond general similarities, **differs** greatly in the implementation details from case to case, which makes any comparisons complicated. Moreover, the decision to start the planning process in those cases is thought to be **endogenous** since cities that are more likely to benefit from strategic planning are also more likely to get involved in this.

The LED example is much more suitable for evaluation. The implementation of the strategic planning system in the participating cities has been performed using a standardized procedure with the help of LED advisors. With one exception, the implementation took from 4 to 12 months. Also, the selection of the participating cities was done by LED personnel based on clear participation rules. Altogether, the LED activities targeted the same goal in each city – FDI growth and creation of new jobs. Moreover, a relatively large number of communities – 74 cities from all regions of Ukraine – were involved in the project by mid-2008.

Internal reports point to a great success of the project. More than 30 cities had by mid-2008 reported an increase in FDI. Collectively, the partner cities reported \$700 million of inflowing investment and an addition of about 12,000 jobs.

The impact of the LED project on the following outcomes was evaluated using more rigorous statistical procedures:

- Number of businesses per capita;
- Fixed capital investment per capita;
- Number of jobs per capita;
- Unemployment rate; and
- FDI per capita.

It was found that the LED project had a positive overall effect on the number of businesses, fixed capital investment, and the number of jobs. In absolute values, the introduction of strategic planning lead to **6 to 12** new jobs per 1,000 of population, **18 to 50** new businesses per 100,000 of population, and **5 to 7** million USD of investments in fixed capital per 100,000 (controlling for other factors of influence). However, differences in the project effect among the cities were found.

The reasons for these differences in impact include:

- the effect was observed at different points of time after the implementation of planning (1 to 45 month by Dec. 2008);
- the cities had different implementation teams (composed of 6 advisors); and
- the municipalities had different administrative subordination (58 cities and 16 small towns of rayon subordination);

The project effects on the number of businesses, fixed capital investment, number of jobs, and the unemployment rate increased each month. The administrative subordination affects only the effectiveness of investments and job creation: the effect is larger for cities than for rural towns. Team-specific differences are evident on all outcomes. This confirms that the implementation have a significant impact on the success of this intervention.

Finally, the effect of LED was compared to the effect of a similar project implemented in Ukraine by UNDP. Provided that the results presented above are robust, it turns out that the effects of the two projects introducing strategic planning are very similar in magnitude and significance.

References

- Bartik, T.J., 1991. *Who Benefits from State and Local Economic Development Policies?* Upjohn Institute for Employment Research: Kalamazoo, MI.
- Buss, T.F., 2001. "The Effect of State Tax Incentives on Economic Growth and Firm Location Decisions: An Overview of the Literature," *Economic Development Quarterly* 15(1), 90-105.
- Fisher, R.C., 1997. "The Effect of State and Local Public Services on Economic Development," *New England Economic Review* March/April, 53-67.
- Goss, E. and J. Phillips, 1999. "Do Business Tax Incentives Contribute to a Divergence in Economic Growth?" *Economic Development Quarterly* 13(3), 217-228.
- Wasylenko, M., 1997. "Taxation and Economic Development," *New England Economic Review* March/April, 37-52.

Denys Nizalov

Kyiv Economics Institute (KEI)

Kyiv School of Economics

Nizalov@kse.org.ua

www.kei.org.ua/en



Denys Nizalov is the Academic Director of Kyiv Economics Institute (KEI) and the Kyiv School of Economics (KSE). He joined the Institute and the School in July 2006 and till May of 2010 held positions of Senior Economist and Assistant Professor. After completing a PhD program in Agricultural Economics at Michigan State University, Denys held a post-doc position at the Global Urban Studies Program, Michigan State University. Besides his administrative position, Denys is teaching graduate courses in Econometrics, Information Economics and Policy Evaluation at the KSE.

Denys has an active research and outreach agenda in the fields of regional economic development, policy and program evaluation, and poverty analysis. His recent papers have been published in the *International Regional Science Review*, *Economic Development Quarterly*, *The Journal of Regional Analysis and Policy*, and *The Review of Regional Studies*. He is an editor of the online book "Municipal Economic Development Tool Kit" that is available at www.municipaltoolkit.org.

Olena Nizalova

Kyiv Economics Institute (KEI)

Kyiv School of Economics

Nizalova@kse.org.ua

www.kei.org.ua/en



Olena Nizalova joined KEI in August 2005 as a Senior Economist after completing a PhD program in Economics at Michigan State University. Beside her position at KEI, Olena is teaching graduate courses in Microeconomics, Labor Economics and Policy Evaluation at Kyiv School of Economics.

Nizalova's research interests lie in the fields of Labor and Health Economics, Economic Demography, and Economics of Aging. Her recent works include an investigation of the long-run effects of minimum wages in the United States, several studies of the behavior of near elderly with respect to the labor supply and informal care for their elderly parents throughout the world, as well as the education-health gradient research in the countries of the Former Soviet.

She is also actively engaged in several policy impact evaluation studies in Ukraine: the evaluation of the impact of Mother and Infant Health Program funded by the Global Development Network on maternal and infant health and mortality, the evaluation of the impact of Free Economic Zones on local wages and employment, and the impact evaluation of the Social Assistance System Modernization Project for the Ministry of Labor and Social Policies of Ukraine and the World Bank.