Appendix A. Livelihood

A1. BUSINESS CLIMATE

A1.1 Incentives Offered by the Local Jurisdiction

Some incentives are wasteful. For example, business service firms are more sensitive to personal income tax rates that help them retain and attract talent, whereas manufacturing firms are more sensitive to land costs and tariff structures (obviously a national function). The CDS assessment would critically examine incentives offered to businesses to relocate to the locale, stay there, and expand, to ensure that the most cost-effective approaches are being taken. Location incentive programmes are expensive and have to be targeted carefully to be effective; furthermore, World Trade Organization (WTO) rules may limit the types of location incentives that can be offered.

A1.2 Nuisance Taxation

Decentralisation, a trend in most developing countries, results in local governments having more latitude to tax, but such powers are often abused or applied counterproductively. Nuisance taxation (frequently bordering on illegal) will discourage firms from relocating to the city, will drive others away, and will discourage people from starting up new businesses. Properly designed systems of local taxation and user fees that improve the business environment will have the opposite effect.

A1.3 Ease of Starting a Business

The World Bank and analysts such as Hernando de Soto (2000, chap. 2) have done a considerable amount of work on business start-ups. Although much of the red tape involved in business start-ups is imposed by national governments (and is thus not under local control), a big problem lies with local governments that add their own bureaucratic hassles (for local permits, for example), local taxes with a low cost–benefit value, and so on. There appears to be a direct correlation between urban economic success and the amount of time required to start a business: it is generally more difficult to officially start businesses in poor cities (in many industrialised cities, a company can be legally established in a day, or even a few hours). In poor cities, particularly in Africa, the decline in formal employment can be partly attributed to difficulties in formalising a business: if the barriers to formally creating a business are substantial, there will be few business start-ups. CDS assessment should document the time it takes to start a business (de Soto has done this in his research, thus, a methodology does exist), the number of steps involved, and the cost (including costs of corruption). CDS analysts can work through the process with a local start-up case study to obtain accurate information.

A1.4 Investment Approval Processes for Foreign Firms and Joint Ventures

Investment approval processes vary widely among cities worldwide. For example, in some Chinese economic zones one-stop service can result in approvals in less than a day. In other cities of the world such processes can take over a year, to the point where multinational corporations give up and go elsewhere.

A1.5 Operating Environment of Informal Sector

What laws and regulations affect the operations of small informal businesses (street vendors, repair services operating in residential areas, and so on)?.

A1.6 Government Attitudes towards the Informal Sector

Is the local government supportive of the informal sector and livelihood expansion within it? Or does the local government view the informal sector as a problem? Wuzhou, China, for example, has encouraged informal sector activities while introducing human resource and small-business development programmes to upgrade those activities. Cities following this approach have often experienced positive results.

A2. COMPETITIVENESS

A2.1 Basic Economic Trends

Are there any available time-series data on employment and output by key sectors and clusters? What are the income trends (per capita and household)?

A2.2 Diversity versus Specialisation

In general, smaller cities benefit from diversity because they are more vulnerable. Larger cities, on the other hand, strive to specialise in activities in which they are globally competitive.

A2.3 National and World-class Economic Activities

Is the urban area a national or global leader in any activities? Often cities with low profiles will be a world or national leader in a given activity. Such activities may show up as clusters, which become learning systems.

A2.4 Productivity Gains

What is the city's labour and capital productivity record (returns to labour and capital)?

A2.5 Economic Mix and Change

Is the city's mix of economic activity associated with fast-growing national and international activity? Simple measures such as shift–share can be used to measure a city's economic mix if data are available. How fast is the economy changing? Is it moving towards a higher value mix? In turn, controlling for mix, is the economy performing better or worse than expected relative to national and regional norms?

A2.6 Movement up the Value Chain and Cluster Deepening

Are local firms and clusters moving up the value change? How? Are clusters deepening—that is, are more suppliers and more sophisticated suppliers emerging? Is the local, national, or provincial (state) government attempting to recruit firms to deepen local clusters?

A2.7 Rate of Start-ups and Business Deaths

At what rate are new businesses, formal or informal, being created? How conducive is the environment to new firm creation?

A2.8 Foreign Direct Investment

What is the track record for foreign investment (FDI) over the last 10 years? To what activities is FDI flowing: manufacturing? real estate? trade?

A2.9 Innovation

What types of innovation are occurring in the city? Innovation assessment would not be limited to so-called high-tech firms. A garment industry can display innovation as easily as a software cluster; for example, high-value fashion clusters have developed in Milan and Bangkok. Without innovation, leading to productivity increases, a city cannot increase its competitiveness. Gains from additional application of labour and capital in isolation will not translate into greater competitiveness in the long run. Total factor productivity needs to improve.

A2.10 Performance of Anchor Firms

Are leading firms that anchor clusters growing quickly? Or are they stable? Are they moving up the value chain? Are they encouraging growth of suppliers? Are anchor firms in industries and clusters growing faster or slower than the international and national norms (shift–share)? Are any anchor firms threatened by oversupply of the product they produce? Might they soon be technologically obsolete (for example, firms producing chemical photographic films)? In such cases, are new product lines being introduced to substitute for obsolescence in other product areas?

A2.11 Labour Market Efficiency

How is information concerning labour opportunities disseminated? Does the local or national government operate efficient labour information centres? Do private labour matching services operate? How efficient are these services, both public and private? How many people do they place annually in absolute terms and as a percentage of the labour force?

A2.12 Marketing and Promotion

How does the city market and promote itself, given that about 10 percent of advertising expenditure in middle-income and industrialised jurisdictions is for place marketing? What attributes, clusters, or activities are at the centre of marketing efforts—Tourism? Manufacturing investment opportunities? Locational incentives? To what extent is this marketing targeting, for example, cold-climate tourist markets if the city has a subtropical or tropical climate? What media are used for place marketing? Marketing to whom? How successful is this marketing?

A2.13 Attracting Talent

What policies are in place to attract talent? Have many talented individuals have these policies attracted to the city? Are national immigration policies conducive to attracting international talent, or do they constrain such flows?

A3. HUMAN RESOURCE DEVELOPMENT

A3.1 Educational quality and quantity (enrolment at various levels).

Educational quality and quantity are measured using key indicators. Quality is as important as quantity.

A3.2 Education–Economic Alignment

To what extent are local educational curricula, particularly technical, aligned with emerging economic activities and clusters?

A3.3 Access to Education

Do the poor and migrants have access to education? Do financial problems, admissions procedures, lack of information, or local registration requirements create barriers that make it difficult for children of migrants to enrol in schools (a common problem in peri-urban areas in some countries)?

A3.4 Financial Support to Students

Is financial support, including student loans, available to lower income children to attend school?

A3.5 Access to Entry-level Jobs

Are there courses, with few entry barriers, to respond to increasing consumer demand for drivers and barbers, for example? What are the conditions of access (cost, information, location) to these courses?

A3.6 Geographic Accessibility to Labour Market

What are the mean (average) time and financial costs of travelling from home to employment, particularly for lower income residents?