

Local Economic Development

Manual on Private Sector Development

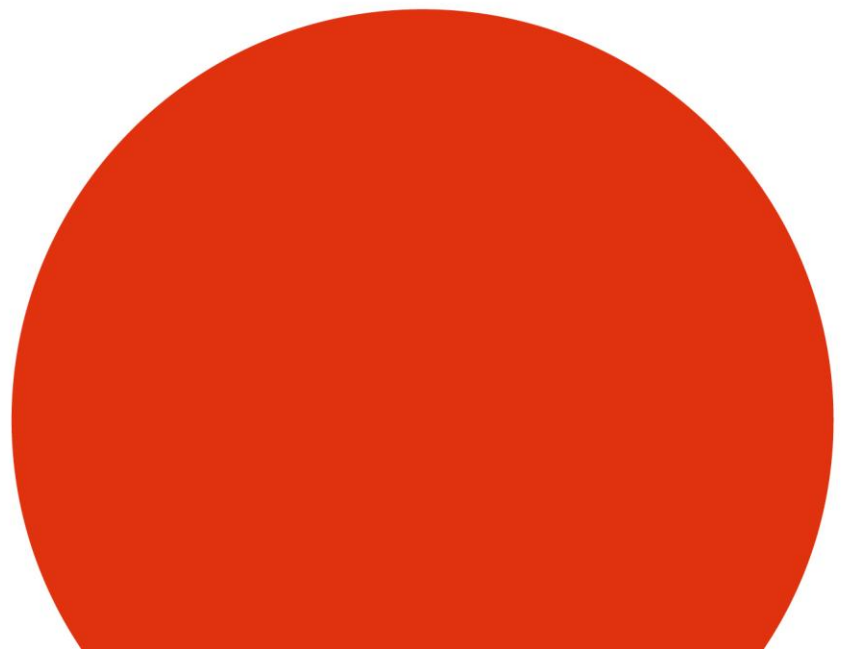


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Abbreviations

ADA	Austrian Development Agency
DC	Development Cooperation
DCED	Donor Committee for Enterprise Development
GIZ	Gesellschaft für Internationale Zusammenarbeit
ILO	International Labor Organization
LED	Local Economic Development
M+E	Monitoring and Evaluation
M4P	Making Markets Work for the Poor
MDG	Millennium Development Goals
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
PPG	Pro-Poor Growth
PSD	Private Sector Development
PS&D	Private Sector and Development
SMEs	Small and medium-sized enterprises
UNIDO	United Nations Industrial Development Organization

1 Introduction

"The donor community needs to overcome its distaste for the profit motive and realise that this is what drives the innovation and dynamism of the private sector. It can present benefits as well as costs, opportunities as well as threats and advantages as well as disadvantages. In development terms, the private sector is neither a good thing nor a bad thing; it is a necessary thing." (Peter Davis, Overseas Development Institute, Blog post on The Guardian, "The private sector must assume a central role in development")

The basic logic applicable to private sector development can be outlined as follows:
A business enabling environment, market development and partnerships with the private sector ensuring that

- new enterprises are established and
- existing enterprises enabled to work more efficiently and at a higher quality.

This allows the private sector to become more productive and/or grow and generate more jobs.

Result: Economic growth and regular incomes for larger sectors of the poor.

This paper deals with Local Economic Development (LED), a method that has frequently been used by ADA.

Complementing the paper on Inclusive Market Development and the Quality Criteria for Private Sector Development, this paper presents the "prototype" of private sector development in greater detail and addresses the challenges and opportunities arising in its application.

What is LED?

LED stands for local economic development.

The central idea of this approach is that each region and each local context have a relative economic advantage over others – either due to the very situation or thanks to the local business actors; such advantage can be utilised for the development of the region.

LED aims to create employment and opportunities for generating income at local level through

- an enabling framework that is conducive to the economy
- support to the competitiveness of enterprises
- creation of new business opportunities (for both external and local enterprises)

Case I: Nicaragua – Masaya

1964-00/2010 (Duration: 2010-2013, Project Value: € 1.7 million)

Goal: Poverty reduction by creating (1,500) qualified jobs and boosting beneficiaries' in-comes through local economic development.

Measures:

- Strengthening the partnership between public institutions and private enterprises in nine communities in the department of Masaya, approx. 30 km from Managua
- Strengthening capacities in communities
- Improving the competitiveness of local small and medium-sized enterprises
- Improving the integration of local small and medium-sized enterprises into national and international markets
- Connecting local plans and initiatives with national sector programmes and policies
- Implementing 12 strategic projects to stimulate the local economy in different sectors, such as tourism or furniture-making

Project Agency: CIDEL, an *inter-municipal consortium for local economic development*, comprising representatives from the communities and private enterprises.

Principal partners: Ministry of development, industry and trade (MIFIC); association of municipalities of Masaya (AMUDEMAS)

Beneficiaries: 1,700 small and medium-sized enterprises, their employees as well as municipal authorities in the nine communities of the department of Masaya

Why LED?

LED is the preferred approach adopted by donors such as the World Bank, GIZ, ILO (to promote its Decent Work Programme) and UNIDO. The approach also plays a major role in ADA (under different names) (see action case studies).

The principal benefit of this approach is physical closeness, consequently social coherence, among its actors. The direct impact on the region has a positive effect on the motivation of all actors, including local government representatives (see chapter III).

It might sound like a paradox, but globalisation has also contributed to a growing interest in local economic development:

- While national boundaries are becoming less important, many international firms have unlimited access to global markets, causing increased competitive pressure on local actors.

- In fragile situations, companies focus on core competencies and outsource other functions. This opens new business opportunities for local suppliers, service providers and other actors engaged in supportive activities.
- As the mobility of industry increases, companies might be interested in a variety of locations. As regions need jobs and taxpayers, they are interested in businesses settling in. Competitive pressure is on the rise - not only for enterprises, but for regions and cities as well

The principal goal of LED actions is to develop the endogenous (local) potential: by promoting cooperation within the region, by closing gaps in the local economic system and by creating new business opportunities, for example.

Case II: Ethiopia – North Gondar

2509-01/2011 (Duration: 2011 - 2013, Project Value: € 2.9 million; Follow-up: 2013 - 2016, € 6 mn.)

Goal: Sustainable rural development and improved food security by raising incomes in selected woredas (local administrative units) in North Gondar

Components:

- Resources Management (Integrated Watershed Development, Rural Land Administration, Tourism and Park Management)
- Improvement of the Living Situation (Crop Development, Marketing/Entrepreneurship & Livelihood Option, Livestock Development)
- Capacity Development and Programme Management (Capacity Development, Gender & Poverty, Knowledge Management & Communication, Planning/M&E)

Management by steering committees at regional, zonal and local (woreda) level, consisting of various stakeholders, such as local authorities and the national park management.

Activities are planned, implemented and supervised by involved communities, and supported by responsible local authority representatives.

LED and Private Sector & Development (PS&D)

This paper is complementary to the guidelines on PS&D (Leitlinien W&E) [German only], which continue to remain in effect. The guidelines describe the PS&D policy area based on three pillars: the enabling environment, business development services and cooperation with the Austrian private sector.

In fact, most of ADA's actions relating to private sector development combine elements from the first pillar with the second. The economic development of a country/region always depends on the enabling environment as well the services available to businesses.

Most LED actions also adopt this combination. Many ADA interventions (see Cases) are aimed at local or regional (economic) development. This paper seeks to present this approach in a concise and informative manner to provide guidance for new actions.

Case III: Burkina Faso – Boucle de Mouhoun

2414-00/2009 (Duration: 2009-2012, Project Value: € 2 mn.; Follow-up project 2013-2016, € 2.5 mn.)

Goal: Enhancing the quality of life of the population in the ADA priority region of Boucle de Mouhoun through sustainable improvement of living conditions and business environment by strengthening local ownership.

Measures:

- Establishing a regional development fund for the regional council and 13 regional communities, thus
- Providing funds for investing in local infrastructures and equipment, measures to protect natural resources, training and raising the awareness of local actors as well as
- Assistance in gaining access to microcredit for local manufacturers, small entrepreneurs and cooperatives.

Project Agency: Regional Council of the Boucle de Mouhoun Region

Support provided by local administrative units and technical assistance

All eligible measures are proposed by local councils, reviewed by a technical secretariat and selected by a commission consisting of representatives from all groups involved.

2 Methodology

The LED hexagon

The following figure shows the tools and methods available to LED. For this purpose, each heading below combines two triangles as follows:

- **Basic Components:** Beneficiaries and Local Factors represent the fundamentals, the core of local economic development processes.
- **Innovation and Broad Impact:** Political Focus & Synergies and Sustainability add innovation, another perspective and broader impact to the LED action.
- **Effective Coordination:** Governance, Planning and Monitoring & Evaluation address practical activities involved in implementing LED initiatives.

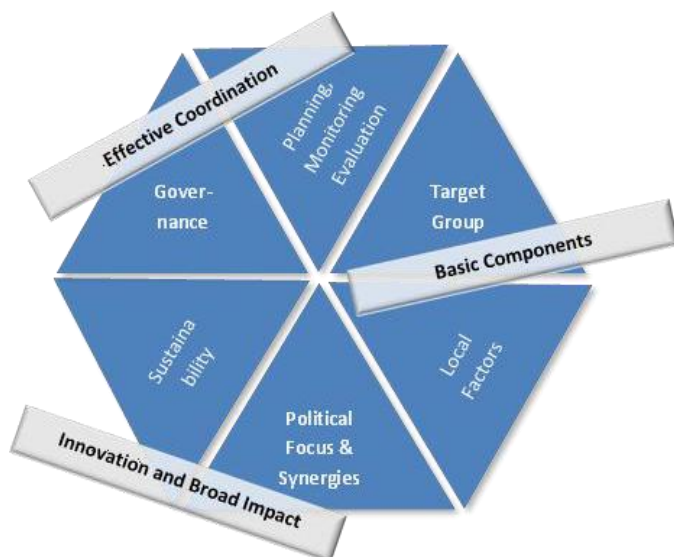


Figure 1: Source: <http://www.meso-nrw.de/toolkit/Hexagon/>

Beneficiary: Private Sector

LED focuses on (private) enterprises, its key target group. LED may address a variety of firms: external investors, local businesses or start-ups.

External investors are of key importance whenever the local basis is extremely weak and lacks momentum. If an economic basis exists, it is more important to strengthen that basis and invest in its competitiveness. In principle, measures should always address all three groups of enterprise and exploit a maximum of synergies.

Local factors of influence

Local factors of influence are further aspects determining the baseline situation of each LED initiative and the attractiveness of a region for business, including:

- **Material** factors such as location, infrastructure, real property, jobs, energy and the environment, taxes and incentives. These factors are the easiest to quantify.
- Immaterial factors of **relevance to enterprises** such as the State's administrative powers, the image of the region, the distance to related industries, universities, research & development and business associations.
- Immaterial factors of **relevance for individuals** such as quality of accommodation, environmental quality, quality of schools, social infrastructure, recreational facilities. These factors are crucial for questions such as: Are highly qualified persons willing to work in the region? Do women have a chance to work?

Political Focus and Synergies

LED is not only about business development, support to SMEs and microenterprises. The overarching goal of LED actions is to **create jobs and generate income**. For this reason, integrating measures and organisations aimed at job creation is crucial. These measures must be distinguished from community development initiatives, which are solely aimed at the reduction of poverty, preferably through social activities.

The success of LED actions depends crucially on the utilisation of **synergies between economic and social development** as well as urban design plans – for instance through demand-oriented provision of vocational training, by supporting entrepreneurship (even at school), applying commercial principles to social actions, leveraging infrastructure development and improving the local quality of life, especially in low-income regions.

Sustainability

Social, ecological and economic sustainability are also important at local level – for example, creating jobs by regional recycling of materials, or by extracting energy from local biomass.

LED initiatives often arise from a problematic situation that is converted into a business opportunity.

Governance

Successful LED initiatives are usually based on close cooperation between the public and private sectors (see Cases).

Planning, Monitoring & Evaluation

Key elements in formulating LED actions are as follows:

- Participatory diagnosis (motivation and mobilisation)
- Participatory planning (implementation)
- Participatory monitoring, evaluation and benchmarking (measurement of results and adaptation)

Further documentation on planning, monitoring and evaluation processes:
http://www.meso-nrw.de/toolkit/case_studies/case-studies-case-11.html

3 Opportunities & Challenges

The fact that LED initiatives are limited to a given geographical region has its pros and cons. The advantages are as follows:

- Actors benefit from planned improvements in the local business environment and conditions directly. Thus, they are expected to be highly motivated.
- Many interventions have an impact with not much lead time, i.e. improvements are quickly felt. This facilitates donors' measurement of results.
- Even if funding is relatively low, LED actions may have sustainable impact – limited to a given geographical area.
- Cooperation between various governmental and non-governmental actors may trigger ideas and proposals for more comprehensive economic change.
- LED actions may therefore serve as pilot actions and seek to develop replicable business models (e.g. clusters, public-private dialogue).

The challenges:

- LED actions follow the key principle of participation by local actors. In many cases, this narrows the view and bears the risk of fighting the symptoms of market failure rather than its causes.
- Geographical limitation may also increase the potential for conflicts, such as access to limited resources.
- The success of LED actions depends crucially on local actors' capacities of communication and cooperation. There is a certain dependence on a few decisionmakers in the action region and their personal attitude towards the action.

Case IV: Kosovo – Suhareka

8134-01/2007 (Duration: 2009-2012, Project Value: € 3.6 million)

Goal: Supporting integrated, autonomous and sustainable rural development in the community of Suharekë/Suva Reka by strengthening local structures and potentials.

Measures:

- Construction of a Municipal Development Centre (MDC) in the community
- Strengthening capacities and competencies of representatives from the municipality and the MDC as well as other actors concerning regional development issues
- Provision of funds for local development measures on a competitive basis within the scope of the MDC

Beneficiaries: Representatives of the municipality of Suharekë/Suva Reka, of the private sector and civil society, e.g. stakeholder organisations, cooperatives etc.

The indirect beneficiary of the project is the rural population of the community of Suharekë/Suva Reka (approx. 80,000 people).

4 LED and other Approaches to Economic Development

LED versus macroeconomic development

LED is based on the same principles as macroeconomic development, with a few differences as follows:

- **Instruments:** Changing the macroeconomic framework – such as exchange rates, tax rates or the legislative basis of employment - is definitely out of question for local initiatives.
- **Actors:** Macroeconomic development is controlled and implemented by national governments. While non-governmental organisations and the private sector might be involved in policymaking, for instance by lobbying or substantive input, they are more often the beneficiary than the policymaker. By contrast, LED initiatives are generally based on close cooperation between governmental and non-governmental organisations, such as chambers, unions, universities, research institutions, companies and NGOs, occasionally even without any involvement of government agencies.
- **Governance:** At macroeconomic level, legislative and executive powers are strictly separate. LED actions must often start out by defining and separating the actors' blurred roles first.

LED versus value chains

Value chains include all processes relating to the production and distribution of goods: their manufacture, logistics, services and sale; but they also include supportive processes such as procurement and personnel development, technological development and the corporate infrastructure.

Consequently, action measures to improve the development of value chains focus on the production of goods, without any geographical limitation.

By contrast, local economic development focuses on measures to support economic development in a given geographical region. Improvements generally benefit various sectors, without any specialisation in a given product or service. This notwithstanding, LED may also include elements of value chain development, provided these elements relate to the local context.

LED and inclusive market development

Inclusive market development approaches such as M4P have a great deal in common with LED and are therefore easy to combine.

- Market development actions assume a role of facilitator (see Focus on Inclusive Market Development). This also applies to good LED actions because they affect the development of local market systems.
- Supporting the performance, or improvement, of the functions assumed by market actors – no matter whether they are public or private – is a key strategy for both approaches.
- Accounting for the enabling environment as part of the market system is also crucial for both approaches. Both aim to improve the situation (through the relevant actors).

Yet there are differences:

- Market development actions work with a market system, no matter if it is limited to a given geographical region or not. In contrast, LED focuses on a given local situation and subsequently attempts to change the markets of importance for that region.
- One of the goals of inclusive market development is to include as many actors as possible. In principle, this also applies to LED, but its focus on a given area limits the effect a priori.
- When analysing the baseline, LED and inclusive market development adopt different approaches: While M4P, for example, attempts to identify the reasons for market failure on its own, LED actions focus on the participation of local actors. This approach may lead to very useful findings that contribute to direct effects. On the downside, however, such analysis remains superficial and means combating the symptoms rather than the causes of market failure.

Consequently, to better align LED actions to inclusive market development principles, these actions would have to

- strictly adhere to the role of facilitator
- be in a position to extend activities beyond the local context
- conduct a fundamental analysis of market systems, focusing on the causes of market failure and going beyond the local perspective
- develop interventions that address these causes, which is usually associated with a higher degree of innovation of the measures.

5 Conclusion

While it is possible to combine LED with inclusive market development, a combination of the two approaches is not a necessary requirement. LED also involves working with markets, analysing them and addressing their failure, but in that case the action usually goes beyond the role of facilitator, for instance by providing financial support to small actions in the form of non-repayable grants. Moreover, LED actions go without in-depth analysis as the local actors themselves decide on the measures to be taken.

LED actions aim to enable local actors to actively participate in the design of their immediate business environment.

If used in tandem, M4P, for example, forms the analytical framework for regional actions, whereas LED provides some of the necessary tools for implementation

Related Links

LED

<http://www.meso-nrw.de/toolkit/> - resources

<http://www.enterprise-development.org/page/ledclusters>

<http://www.ledknowledge.org/>

Case studies

<http://www.meso-nrw.de/toolkit/> - case studies