Local Economic Development

New generations of actors, policies and instruments

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By A.H.J. (Bert) Helmsing
Institute of Social Studies, The Hague

1. Introduction: why is local economic development important?

The context of local economic development has radically changed since the nineteen eighties in low-income countries. Up till the nineties, local development conditions were shaped by central government agencies, the lives of peasant farmers depended on parastatal agencies that provided or were supposed to provide key inputs (such as seeds, fertilizers and extension). Government determined prices of crops and bought up cash crops through marketing boards. Little was left to the market and to individual peasant decision-making. What cash crops to grow was largely a 'dictate' shaped by government agricultural policy and by the local presence of government buying depots etc. The farmer's micro economic question centred on how much to grow and how to raise yields. The peasant's autonomy was limited. He or she could respond by growing more or less cash or subsistence crops. Small enterprises in urban areas, after being discovered as 'informal sector' continued to be partially repressed by the (local) state and were rather inadequately served by central government Small Industries Development Organisations (SIDOs). The small and micro enterprises served primarily local markets and faced intense competition. As many people moved into self-employment, more SME became survival based, sharing poverty rather than generating economic growth.

Economic development outside agriculture and outside the indigenous small and micro enterprise sector was largely a matter of central government parastatal enterprises and mostly foreign investors or transnational corporations. These enterprises were generally large and vertically integrated.

That is to say, they internalised the production of inputs and of allied services and thereby they minimised their demand for inputs and services from other local producers. Foreign exchange to buy essential raw materials and inputs was scarce and heavily rationed. The few firms that were 'lucky' to get access to foreign exchange could easily sell their products. There was little competition in these product markets.

Basic services were in most Sub-Saharan countries provided free of charge by public sector agencies. In a number of countries, pre-existing private and NGO initiatives had been curtailed in the wake of Independence. Official Development Assistance (grants and soft loans) funds became increasingly important to finance and organise the investments in basic services and physical infrastructure. Infrastructural investment depended on ad-hoc central government decision-making and on the availability of project based donor finance.

In the above situation, the economic development of particular localities and regions critically depended on central government interventions. However, many of these interventions were implicit and discrete rather than based on an explicit policy of local area development. For example, decisions on budgetary allocations to parastatal agencies in agriculture were largely based on sectoral or on general budget considerations (cuts!). Aid agencies and aid programmes were 'assigned to areas' based on general criteria and on the politics of aid. Government decisions on large-scale industrial investments were also largely discretionary and ad-hoc. Policies of regional development served only as indicative guidelines for the spatial allocation of public investment. The dominance of central government in all spheres of economic life contributed to the underdevelopment of the local social and economic fabric. Internal dependency on central government increased and central government bureaucracies became the 'glue' that held it all together. The quality of the 'glue' however declined over time for a number of reasons.

For the purpose of this paper, I distinguish two sets of forces of change. The first set refers to fundamental changes in development policy. These are i) structural adjustment and liberalisation policies; ii) ideological disenchantment with the state and state-led development, marked by the fall of the Soviet empire. This created a vacuum that other actors needed to fill; iii) aid fatigue and decline of ODA necessitated the search for alternatives. Below we will briefly review these and consider the implications for local economic development.

Structural adjustment and market liberalisation (which actually means liberating markets from public intervention) changed this general local economic context. Central government ceased to be the main organising agency. The business environment changed from being heavily regulated by central government and run by public institutions to one in which there is very little regulation but where market supporting institutions were lacking. One of the sad lessons of structural adjustment is that the private sector investment response, about which central de-regulators had high expectations, was not spontaneously forthcoming. As Birgegaard said: 'getting the prices right is not enough. You also need to get the institutions right'. Key economic institutions help to reduce the cost of doing business (which economist call transaction costs). If the costs of doing business are very high, very few people will be interested in starting or expanding a business[1]. The rule of law and the respect for property rights are

1 In stead they may be tempted to go into other illegal business (Baumol, 1990) institutions that are fundamental to the functioning of a market economy. These are enshrined in national and international legislation. However, there are also important local institutions that shape markets. These refer to practices and norms and standards that are specific to particular products, industries or occupations. These institutions spread information, reduce risks and in general contribute to lower transaction costs.

Markets do not emerge spontaneously either. Investment opportunities do not reveal themselves so easily. Information is hard to come by and risks may be very high. Investment by one economic actor is dependent on simultaneous and parallel investments by other actors. So, a peasant farmer who wants to innovate in cash crops could spend a lot of time and effort to introduce a new crop and built his/her competence in production. (S)he then would find out that there are few local buyers, or that packaging, transport and finance trade are a bottleneck. Success by the peasant farmer is critically dependent on the simultaneous complementary investments by other economic agents. In our example, complementary investments would need to take place in packaging plants, transport equipment and/or need to be undertaken by banks or by traders. The opportunities and constraints for a local producer are embedded in the opportunities and constraints of the *entire* industry. Certainly at early stages of the development of an industry, market and market supporting institutions are insufficiently developed. These institutions need to be crafted and built up over time, and often from scratch. Local action to build such economic institutions is an important factor determining economic performance.

The success of the innovating peasant farmer or small entrepreneur depends also on the presence, efficiency of 'related and supporting' services. For example, are extension services able to answer his queries on technical aspects? Can relevant training be provided? The local organisation of support systems can remove barriers to innovation. Peasant farmers in areas where these systems are in existence have a better chance of economic survival than peasant farmers in areas where these do not exist. The local business environment matters in so far as basic infrastructure conditions are concerned. Without electricity, electrical appliances, tools and equipment can't function. If the ferry that provides transport services on the river that separates the farmer from the urban market cannot accommodate trucks, the competitive advantage that the peasant farmer may have in producing a particular crop, cannot be exploited. It is important to remind ourselves that support services and infrastructure have the economic characteristics of (semi-)collective or public goods. Hence collective and public action for their programming and delivery constitute a core ingredient of local economic development. Development aid is declining in relative and in some countries in absolute terms. Local resource mobilisation becomes crucial to finance these public and collective investments. As opportunity costs are very high, it is in everyone's interest that these complementary investments targeted as accurately as possible and have the highest rate of social return. Convergence in investment programming between public, private and non-profit actors becomes crucial. Local economic development is a means to achieve this. Last but not least, and much along similar lines, decentralisation has transferred considerable responsibilities to local governments, often without adequate revenue assignment. Local governments are encouraged to develop their own local fiscal base. That requires above all that the local economy should flourish. As a result local governments take an increasing interest in local economic development.

The second set of changes in the context of local development refers to what Dicken (1998) called the new 'geo-economy'. This consist of three factors, namely: a) space reducing technologies in transport and communication; b) the technological and managerial changes in production of goods and services and, last but not least, c) the growing volume of people, capital, and firms that are mobile across (parts of) the globe.

New technologies in transport and communication have 'space shrinking' effects. Thanks to these it is easier to move products and inputs across the globe. This means that geographical distance offers much less protection to local producers from competing products than it ever did in the past. When protectionist walls were removed in the wake of structural adjustment, competing imports started flooding individual countries. Local producers had rapidly to adjust in a relatively short period from zero competition to intense quality and cost competition.

In the 1980s and 90s new flexible production technologies came to the fore, which radically altered manufacturing and service production landscapes. Large and vertically integrated firms transformed into flexible production networks, in which core firms are surrounded by layers of subcontractors, each responsible for particular components or parts. The same technology also created opportunities for clusters of small and medium sized firms, which together could form new industrial districts. Such clusters and districts are found in both developed and developing countries (successful ones have been documented in Brasil, Pakistan, India, Mexico) and have shown to be able to compete in international niche markets[2] . Disadvantages of small scale of individual enterprises can be compensated by advancing the division of labour among firms in a cluster and by creating supporting institutions through joint action among producers (see below). These experiences have shown that (local) governments can contribute to such cluster development. The new technologies and organisational innovations at the level of the firm and at the level of a cluster are critical to enable local producers to seize opportunities arising from globalisation.

Finally, globalisation exemplifies the growing mobility of firms, capital and people. There is ample evidence (e.g. from UNCTAD) that the flow of foreign direct investment has grown substantially over the last decades[3] . Mobility has increased and so has competition to attract firms, capital and (certain) people, especially professionals. There are two reasons for this increased competition. One is that firms, capital and people have *more* alternative opportunities. They are better informed and can more easily switch to alternative places. Secondly, territories (countries and municipalities) increasingly compete with each other to attract these in order to create local employment and income. Territories intensify their efforts to attract foreign investment, capital and people. One reason is that getting a small share of a large volume of international mobile investment may make a big contribution to local employment and income. The other is that selective attraction of inward investment may assist in bridging the local-

[2] See Schmitz (1995a) and the 1995 and 1999 World Development special issues on clusters and industrial districts

[3] According to UNCTAD more than 5000 billion US $ in 1995. Figures quoted in Dicken (1998.)

global gap. And may help to resolve crucial bottlenecks in the local production system and improve access to new external markets (see below).

In conclusions, conditions for local economic development have changed dramatically. There are three main facets. First of all, central governments have lost their central economic coordinating role; other actors have to come in to make the market economy work. Investments and improvements plans of local producers critically depend on complementary investments by other producers and other economic agents (traders, banks) as well as government. This interdependence may produce a deadlock or 'catch 22' situation. Particular in situations where potential markets are small and information networks poorly developed such 'catch 22' may be enduring and lock an area into isolation and underdevelopment. Local economic development can contribute to reduce such deadlock.

Secondly, the new 'geo-economy' context creates winners and losers. Some localities are able to export goods and services to larger domestic and to international markets and to attract external firms, capital and expertise to enable them to grow further, others are unable to benefit from the opportunities offered by new geo-economy and are loosing their own local resources (capital, firms and educated people) that look for 'greener pastures' elsewhere. Furthermore, central governments, after structural adjustment, pay less attention to equalisation of conditions across regions and localities. Therefore socio-economic gaps between localities and regions are likely to rise. Simplifying, one can distinguish three types of situations: 1) cities and regions which are integrating in the new geo-economy; 2) localities and regions which have the resources and potential to integrate and 3) localities and regions which have been unable (or unwilling) to link up.

Thirdly, localities are increasingly thrown onto themselves to create 'place prosperity', to create the right conditions for the economic advancement of its population: i.e. that entrepreneurs can seize business opportunities, that households can improve their livelihood and that workers can find jobs that match their capacities. Local government have an important role to play in creating place prosperity. However, local governments must realise that they are not in the driving seat when it comes to local economic development. Much depends on private enterprise and their associations, CBOs, unions and support agencies (incl. NGOs) and on convergence on the direction of local economic development.

Fourthly, local economic development is about new roles for the public sector. This applies not only to central government but also to local governments. Firstly, (local) government is to provide the right mix of local public goods and secondly to facilitate or *enable* other actors, communities, private firms, workers and NGOs, to make their most productive contribution. There is growing recognition in this connection that the public sector can be a source of private sector and of community economic growth.

This leads us to define the principal characteristics of a new generation of local economic development promotion: a) It is multi-actor. Its success depends on its ability to mobilise public, private and non-profit actors; b) It is multi-sector. It refers to public, private and community sectors of the economy; c) It is multi-level. Globalisation, both as a competitive threat and a resource opportunity, forces local initiatives to be framed by an analysis of global changes. Local economic development is increasingly: think globally and act locally.

2. New generations of local economic development initiatives

Local economic development (LED) is defined as a process in which partnerships between local governments, community-based groups and the private sector are established to manage existing resources to create jobs and stimulate the economy of a well-defined territory. It emphasises local control, using the potentials of human, institutional and physical resources. Local economic development initiatives mobilise actors, organisations and resources, develop new institutions and local systems through dialogue and strategic actions.

For the purpose of this paper a distinction is made between three main categories of local economic development initiatives. The first set refers to actions that may be broadly described as community based economic development. Community based economic development may be applied to both rural and urban settings, though a number of characteristics would necessarily change. The second category refers to business or enterprise development. This broad category consists of initiatives that directly target and involve (cluster of) enterprises. A number of the principles of enterprise development policies apply differentially to small, medium and larger enterprises. Survival based activity is examined under community based initiatives. The third category refers to locality development. This refers to overall planning and management of economic and physical development of the area.

Referring back to the classification of types of localities and regions made earlier, one could argue that community economic development would apply to all types of localities and regions, while enterprise development initiatives have their greatest relevance in those localities and regions which have an economic or export base and which by implication are participating and/or seek to increase their participation in the new geo-economy. Lastly, issues of locality development policies have their greatest relevance in the more urbanised areas though in principle at applies to all types.

2.1 Community based economic development

Although evidence is fragmented, there are indications that, especially in Africa, rural households depend on a greater range of activities for their livelihood. Some even speak of 'de-agrarianisation'[4]. This means that agricultural activities become less importance as a source of livelihood while non-agricultural and non-farm activities, including (temporary and especially male) rural-urban migration, have become more important. Diversification of rural economies has always existed. After all, it is grounded in the seasonality and the risky nature of agricultural activities; it is also a way to cope with other causes of vulnerability and crises. Population pressure on the land may also push people out of agriculture and into other activities. In all, diversification is seen as a livelihood coping strategy of the rural poor[5]. It should be added that it also is an accumulation strategy of the rural rich who invest agricultural surplus in trade, industry or property or vice versa.

[4] *Bryceson (1996)*

[5] *Ellis (1998) for a good survey article*

The reduced role of the state in agriculture, has given households more options for livelihood diversification. At the same time the 'catch 22' situation signalled earlier, also pushes rural households to maintain a diversified portfolio of activities, something which in itself complicates local economic development. Heightened insecurity and vulnerability and poverty of resources will prevent households to specialise in their most rewarding activities unless measures can be devised to address the root causes of diversification.

Most low-income countries in Africa and Asia are in the midst of an urban transition. The share of urban population in the total is rapidly rising. Most of Latin America the majority of the population and of the poor population already lives in cities. Also in urban areas diversification is key to livelihood.

Communities in many poor rural areas and urban slum settlements have in the past decades experienced i) feminisation of poverty; ii) many communities face poor settlement conditions which in urban areas generally imply overcrowded settlement; iii) housing conditions are deficient and in urban areas often not very suitable for income generating activities; iv) communities lack of access to basic services; and v) they face insecurity of income and work as well as serious physical insecurity. Local development initiatives would have to take the interdependencies of these issues into account. There are immense obstacles. One is institutional insecurity, not only in respect to land and property, but also in economic transactions and economic and environmental legislation[6]. A second constraint is lack of appropriate planning. Planners have often ignored the economic function of settlements as if only residential use matters. New approaches are needed that recognise that self-employment and household-based economic activity is the predominant form of livelihood rather than wage employment in distant industrial areas. Community economic development will inevitably suffer from resource inadequacy. There are always more needs than resources. This implies however also that every investment made should the highest possible level of local impact. Finally, community based economic development rarely enjoyed substantial political attention. Political crises have often helped to place the issue on the agenda (e.g. like the social funds in response to SAPs). Decentralisation offers new political opportunities that also can be exploited for economic development of local communities.

Community based economic development has a number of broad aims[7]: i) to stimulate a sense of community; ii) to promote self-help and empowerment; iii) to contribute to the generation of (self-)employment; iv) to improve living and working conditions in settlements; and v) to create public and community services.

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[6] *In the early 80s Hernan de Soto made an elaborate argument about institutional insecurity and how this affects growth and accumulation of the 'popular economy' in Latin America. Some years later Mamadou Dia (1996) made a similar argument for Africa. See also Mumvuma (2000).*

[7] *Blakely (1994)*

Components of community economic programmes

It is almost impossible to generalise about development policy prescriptions and to formulate universally applicable ones. What follows below is not more that a general repertoire of practices and experiences that have demonstrated to have relevance in terms of community based economic development. By the same token it is not pretended to be a complete nor exhaustive listing. Below we will concentrate on the following components:

a) *creating local safety nets*. One of the key features of poverty is the inability to withstand economic shocks of any kind. Creating local safety nets and reducing insecurity is fundamental for creating better conditions for local economic development. Day care centres run by women groups can be the basis of local mutual support networks at neighbourhood level. Financial safety nets can be created through the formation of savings and credit groups to meet income emergencies. Examples are the 'Savings & Thrift Co-operative Societies' in Sri Lanka and the municipal savings and loan banks in Peru[8]. Physical security is often a serious economic problem. Village and neighbourhood watch committees have been organised by communities can have some impact especially in relation to theft, but their effectiveness depends on backup and support from formal law enforcement.

b) *housing improvement and settlement upgrading*; Settlement upgrading usually involves a package of activities. One is improving the design of the settlement by creating space for basic services, such as water, sanitation, roads, community facilities for health and education as well as to improve homesteads and housing quality. It has been increasingly realised that settlement upgrading should allow for home based economic activities and incorporate provisions of small enterprise plots while commercial redevelopment of central locations of the settlement may complement the whole. A good example is the Community Development Programme of UNCHS (Habitat), which with local partners in 7 countries has developed a participatory planning methodology for settlement upgrading.

c) *basic service delivery*; The restructuring of the delivery of basic services has been set in motion in the nineteen nineties and that is likely to be extended well into the next century. A pragmatic approach would be needed that takes into account the 'unbundling of service delivery' within specific sectors. Unbundling can help to determine which components in the service delivery process can be privatised (either commercially or on a non-profit basis), which can be brought into the realm of community enterprise and which continue to require public sector direct responsibility. In Quito, Ecuador the municipal solid waste removal company has contracted in 1995 33 micro enterprises, which are now collecting weekly some 32 tons of waste from an estimated 80 thousand persons (Ordoñez, 1998). Public sanitation in Accra, Ghana is another example, where public latrines have been contracted to 51 MSEs. Solid waste collection is

[8] *see Lepp (1996)*

privatised to a large international contractor, which subcontracted 11 local small enterprises[9].

d) *stimulating community economy*; Households act in the local economy in three ways: as consumers, as micro-entrepreneurs and as workers[10]. They act individually and as organised (functional) groups that have a community of interest, for example as a consumer cooperative, user associations of basic services, workers unions and producer associations. It should be noted that poor people are weak market parties. Their very limited and insecure resource base (e.g. because of a poor capital asset base or because of low productive or technical/professional skills) cause low productivity. This, often in combination with intense competition (because of large numbers of poor people in similar positions), yields very low incomes and makes poor people vulnerable to unequal market exchange. Policies that aim to increase the reliance on markets to allocate resources and to provide goods and services therefore may put poor people at more and greater risks. Market regulatory policies should therefore also 'level the playing field' for the poor and their enterprises, i.e. reduce barriers arising from informality. *Micro-enterprise programmes* would constitute the core of community economic development programmes. Such programmes could consist of three or more components, i.e. credit, training and technical assistance and marketing. A special category of training concerns training of MSE's as contractors of basic public services. As local governments also increasingly move towards out contracting of public services, there is also scope for out contracting to MSE's and community enterprises. In the *labour market* some measure of success can be achieved in improving the employability, for example via training and skills programmes associated for example with construction in settlement upgrading and with the delivery of basic services (e.g. health and other community services). One of the key sectors for community based economic development is the *construction industry*. The industry is labour intensive. Furthermore, construction materials usually have a high local content. Local employment and income multiplier can therefore be quite considerable. In addition skill training contributes to employability of the poor. In order to ensure that construction activities that are part of settlement upgrading have such multi-pronged impacts, the *community construction contract* system (CCC) have been developed initially in the Sri Lankan Community Development Programme[11].

[9] *Personal communication Nicholas Awortwi, PhD researcher into partnerships at ISS*

[10] *Wils & Helmsing (2001)*

[11] *See CityNet (1997)*

2.2 Enterprise and business development

One of the central guiding ideas of LED is its concern for the development of the *local economic base* of an area. The local economic base refers to the activities that involve exporting their products and services to outside the area concerned. For that reason it is often also called the export base of an area, district or town. The destination of these exports is for all practical purposes anywhere, in other parts of the same country or abroad. The economic base of a district may consist of one or several agricultural products, or of manufacturing or service activities (e.g. trading or tourism). Other local economic activity mainly supplies the local market and hence depends for its demand ultimately on the growth of the export base[12]. The export or economic base normally consists of one or more geographical concentrations (clusters) of local producers. Firms and clusters may grow and specialise in their activity. This *specialisation* itself is an important growth mechanism. Thanks to specialisation local producers may achieve internal economies of scale, which in their turn may generate increasing returns. That is to say as volume of production increases the unit costs decline. This results in enhancing the competitive position of these producers.

Clustering and specialisation may contribute to the emergence of *agglomeration economies*. These are advantages that accrue to local producers and that arise from the geographical concentration of particular activities. In theory three agglomeration economies are identified (a pool of (specialised) labour; availability of specialised inputs and knowledge spill-overs). Once a cluster has come into existence a new phase may of local economic development set in, namely that of 'active collective efficiency'. There are three components here. One is that local producers, especially when there are of a medium or small size, may find it advantageous to specialise[13]. A second component is the creation of private regulatory and support institutions by joint action among local producers. Local producers, if clustered, are likely to develop their own local production practices, norms and standards. The creation of a local producer or business association is often indicative of such the potential for 'private governance'. The third component refers to local collective action of local producers towards both central and local government to lobby for public support institutions and infrastructure, e.g. in the area of vocational training, technology development or a local transport terminal[14]. An area that has developed these three types of 'active local efficiency' in its economic base would enhance its cumulative advantage vis-à-vis producers in other areas who are dispersed and who lack the development of local institutions and joint action.

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[12] This is in essence the theory of the 'export base' that was formulated by Douglass North may years ago.

[13] This has been at the basis of the success of new industrial districts (Schmitz, 1999; Helmsing, 2001)

[14] Some of these components of active collective efficiency accrue only to a specific cluster or industry (localisation economies), while other benefits (urbanisation economies) of active collective efficiency may accrue to all firms in the areas (e.g. improvements in infrastructure).

By being part of an agglomeration local producers can greatly expand their capacity to learn. It provides additional signalling and articulates needs of firms and facilitates co-ordination of actions. Learning takes place via supply chain linkages (i.e. supplier and customer relations), via mobility of skilled labour between the firms, and, last but not least, via spin-off activity (creation of new start-ups). It also may involve i) imitation and reverse engineering. ii) informal knowledge exchange, and, iii) specialist services. In short, an agglomeration facilitates group based and collective learning. Chile is a country where such group based learning approaches have been successfully applied.

One of the key challenges in local economic development is the 'catch 22' situation elaborated in the initial section: local producers do not invest or innovate because the outcomes are too much dependent on complementary investment in other parts, upstream or downstream in the same commodity chain. This may either be a problem of economic information that can be addressed by improving the scope for (collective) learning or it may require the selective attraction of external investment, attraction of outside firms that hold operate in the relevant part of the chain or to attract expertise held by specialists. Many countries and municipalities in SSA have made efforts to attract foreign direct investment. Few have made targeted efforts, after have had identified key areas of complementary investment.

Components of enterprise and business development

The core of a local economic development programme would be the expansion, re-structuring or creation of the economic base of the area. The economic base may consist of one single or various concentrations or clusters of local producers in particular industries. Initiatives to be developed by local producers can develop in two directions: a) Strengthening the cluster formation process along the lines depicted above. The may give rise to the creation of enterprises and employment in allied services; b) Advancing the local participation in the corresponding commodity chains, either by new investment of existing local firms, or by selective attraction of external firms, or a combination of both.

An important issue is enterprise and business development is the *target group*. i) attracting new firms; ii) new firm formation; iii) existing firms; and, iv) innovation and graduation of MSE. Should *fiscal incentives or real services* be provided? Many local governments are nowadays offering local financial incentives. Financial incentives seek to compensate for locational disadvantage but real services support local enterprise to create competitive advantages. The problem is complicated by the fact that local governments may feel themselves facing a prisoner's dilemma.

For local producers to gain access to more remunerative external markets, they generally require specialist *business development services* (BDS) to enable them to acquire knowledge about these markets. They also need these services in order to prepare their own manufacturing operations financially, technologically and organizationally for internationally competitive production. Large firms may be able to marshal the resources to engage in required market development and associated product development efforts. Small and medium enterprises, however, often have to gain access to external resources and rely on specialist business service providers to obtain market and product information, tools and technologies, skills etc. There is some evidence about the relative importance of the different modalities of BDS in different circumstances. Research on export marketing, technological support services and financial support systems in Korea, Japan, Indonesia and Colombia concluded that in all cases private sources (buyer-trader, similar firms, subcontracting principals and own business associations) are preferred over collective public sources. Benefits vary between SMEs in function of their own resource endowments and capabilities. Public and collective support mechanisms are important in *early* stages of export growth and function particularly if decentralised to and supporting private support channels (incl. own business associations).

There is a great range of types of *special programmes*. They seek different levels of achievement in relation to agglomeration. The first type of programmes basically seeks to generate 'passive' agglomeration economies'. A *growth point* or growth centre would be a good example. Government concentrates public infrastructure investment in particular places, possibly in combination with other incentives to attract new firms into an area. Geographical concentration may generate specialisation. A second type of programme goes further and seeks to promote the *formation of clusters* of enterprises[15]. These programmes assume that geographical concentrations of local producers are already in existence and that through joint action among local producers a new range of advantages can be created, strengthening the competitiveness of the clusters. Business support services and inter-firm cooperation are principal avenues of action. A third avenue of action is to focus on *group learning* for local producers to acquire new competencies. The rapid introduction of new agro-exports (e.g. vegetables and fruits and flowers in Guatemala, Chile and Kenya respectively) is based on the existence of group based learning of the norms and standards for the products and of associated production practices and techniques (especially quality control). Often an actor, playing a key role in the governance of the chain, contributes to the spread of new knowledge to the local producers. This may be foreign buyers[16], a local business association[17] or a local enterprise agency.[18] The most advanced type of programme seeks to generate collective learning whereby the latter extends itself to the enterprise support network. This is called a *local milieu*[19]. There must be a collection of players consisting of firms, research and training institutes, and local authorities, which must have relative decision-making independence and relative autonomy in making strategic choices. Local producers have to develop associational capacities, at the level of the firm, at the level of inter-firm cooperation and the commodity chain and at the level of enterprise support systems[20]. The main challenge is to get the interaction right between these three

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[15] This line of policy may be based either on the work by Michael Porter or on the research on new industrial districts (e.g. Hubert Schmitz)

[16] Schmitz and Knorringa, (1999) examining the role of global buyers for the shoe industry in India, China and Brasil.

[17] Meyer-Stamer (1998) on the role of business associations in the ceramics industry

[18] Maldonado (2000) on the role of a local enterprise foundation for the artisan based design furniture industry in the rural municipality of Pensylvania, Colombia

[19] Maillat (1995)

[20] Cook and Morgan (1998)

elements. The locality or region can perform strategic enterprise support functions that cannot easily be done centrally. The national level is too high to cope with complexity and detail, while the local regional level allows for an appropriate incorporation of local diversity and specificity. Local network must be forged which facilitate coordination and convergence across these three elements.

2.3 Locality development

When a local economy develops a certain export base, this gets reflected in its built up of these infrastructures geared to serve it. For example when an area is specialised in particular agricultural production or manufacturing sector, specialised physical and socio-economic infrastructure will be built to serve it. For example a technical training centre to form skills in related trades and occupations. Warehousing facilities and freight infrastructure expands in response to demand. A tourist area is likely to develop different training institutions offering different skills and passenger rather than freight transport infrastructure facilities. Part of this infrastructure is public sector and timely planning and development of these infrastructures will stimulate complementary private infrastructure services. Together they enable a locality to improve the basic conditions for the economic activities to stay competitive and expand. Locality development is about the planning and realisation of these infrastructures and of relevant economic and social overhead capital in the locality.

Locality development is not restricted to the export base of an area. It also has to address the orderly development of the non-basic sector of the local economy. Many large cities in low-income countries are characterised by what the World Bank called declining ‘urban productivity’. The rapid growth, rising density and geographical expansion of the cities give rise to complex and deep going restructuring processes in land use and of urban spatial organisation. Cities have been unable to meet the rapidly rising demand for basic services and utilities and the lack of urban planning contributed to more congestion and internal maladjustments. These problems have contributed to increase production and transaction costs for local producers. Furthermore, the growth of urban population has intensified the ‘struggle for urban space’, in terms of illegal squatter settlements and conflicts between the commercial sector and the street or informal sector activity.

Locality development corresponds to the management of the entire local territory[21] . That is to say, built up physical infrastructure and economic and social overhead capital of the locality in such a manner that it generates the balanced development of all land uses, resolving land use conflicts, minimising negative (congestion, pollution) and maximising positive externalities (agglomeration economies). Localities that succeed in better management of their territories contribute to enhance the competitiveness of their economic activities. It may also improve the local quality of life. Together these may make the locality more attractive to external investment, firms and people.

[21] *Something which in French is called ‘l’amenagement du territoire’*

Components of locality development

The 'management of the territory' would involve several components. *Participatory local economic development planning:* LED is a multi-actor affair. Rarely one single stakeholder holds all the stakes and has all the resources to achieve LED goals. There are important investment complementarities within the private and community sectors and between the public and private agents, which when properly managed, can result in important economic gains and external benefits that otherwise would not be forthcoming. Local government can make an important contribution by properly coordinating its own public sector investment programme with needs and investment priorities of communities and the private firms and through its physical planning. Local convergence among actors is central to local economic development initiatives. This needs for a to exchange information and procedures for decision-making. The participatory formulation of a local development strategy plays an integrating role. It identifies the overall local development priorities; defines a set strategic issues and related action programmes, both for public and private sectors and in doing so, provides a basis for coordination of complementary investment programmes.

Physical planning and development controls*:* Zoning and regulations can be an important tool if it is carried out with flexibility and with a developmental attitude rather than for the purpose of any rigid master plan control. Regulations, if appropriate, should be kept, but if different agencies can co-ordinate and simplify their procedures, e.g. by setting up a 'one-stop' service, permits and licensing can be obtained at low costs in money and in time.

Urban planning and design*:* Economic performance can be improved if commercial centres are upgraded through improvement of commercial streets and premises. 'Townscaping' include actions geared towards the improvement of the town or city central areas and make them more attractive for residents and prospective investors. The policy requires a physical planning process supported by a co-operative attitude of both the local authority and the potential beneficiaries, e.g. local businesses and local community organisations are ready to discuss existing problems and to set in motion actions to implement action plans.

Infrastructure and socio-economic overhead capital*:* Land is more attractive to potential users if it has already been developed or it can be done at lower costs. Available infrastructure shortens the time between acquisition and operations and saves them the cost of building the infrastructure themselves. The basic services to be provided are water and sewer, electricity and street lightning, access roads and sidewalks. Public private partnerships can increase the capacity of local governments to provide infrastructure.

One of the important challenges of locality development is the creation and expansion of economic and social overhead capital. This refers to public, non-profit and private institutions in the areas of education and training, research and technology, information and communication serving the locality as a whole as well as institutions dedicated to its specialised industries. One of the roles of local government, together with other private sector and civil actors, is to contribute to create and or to attract to the locality (branches of) specialist providers of such overhead capital.

3. Actors in local economic development

The context for local economic development has enormously changed in the last two decades and so has the thinking about policies. Central governments have considerably reduced their responsibility for place prosperity. Localities and regions have been thrown onto themselves to take responsibility for their own development. Mostly by default and occasionally by design, local actors have been given the frameworks and have themselves developed the full range of processes to do so. Developing competence for local development policy is a slow and difficult collective learning process.

The range of actors has increased, including governments, communities and their organisations, non-governmental organisations and now also private enterprises. The debate on enablement has made clear that governments continue to play a role, albeit a different one, alongside communities[22] . Communities and their community-based organizations (CBO's) continue to be principal actors but are themselves undergoing changes. Government enablement concerns a fundamentally different way in which government conducts its affairs. Instead of self-contained, hierarchical bureaucratic processes, mediated by more or less democratically elected politicians, enabling governments seek to involve other actors in the formulation and/or implementation of government policies and programmes.

As regards *community organisations*, it is important to make a distinction between grassroots territorial community based organisations (CBO's) and 'self selected' grassroots groups. The former type is all encompassing and broadly representative and multi-purpose organisations. Often, territorial CBO's are framed by local tradition and custom and increasingly also by local or national government legislation. A women's savings club is an example of a 'self selected' grassroots group. Such groups are mostly single purpose oriented, more homogeneous and are less hierarchical. Every member participates by virtue of its accepted membership. Whereas territorial CBO's have been the main focus of community development efforts in view of their public character, in the context of markets, self selected community groups become more important. In order to strengthen the position of community groups the formation of second and third level community organisations is important: i.e. associations of grassroots groups and federations of associations. The establishment of associations and federations has several important advantages. Firstly, numbers raise voice. Apex organisations can yield a more than proportional influence. Secondly, associations can facilitate sharing of information and experiences and contribute to learning. Thirdly, thanks to their larger size and scale of operation, associations can undertake functions, which are not feasible at CBO level. Second and third tier organization can strengthen the au-

22 Helmsing (1997) in Locality, State and Development tonomy of CBO's vis a vis the state as well as the market.

Local producers and their association: Clearly local producers themselves are key actors in enterprise and local business development. Inter-firm cooperation and joint action plays a central role. However, local producers are very often individualistic and find it difficult to combine competition with cooperation. Several commentators have indicated that joint action and inter-firm co-operation, of the kind enumerated above, does not come easily. Some argue that such collaboration requires a kind of external catalyst or brokerage role[23]. The multiple roles of business associations (BAs) in economic development are increasingly recognized. Associations may take a variety of forms[24]. Traditionally, they represent their members in their dealings with government and lobby for more favourable economic policies. They also often negotiate collective wage agreements with trade unions. Their other traditional function is a social one. An association provides a reference group for individual entrepreneurs. More recently, the emphasis shifted to two other functions, the provision of real services and what some have called 'private interest governance'[25]. The experiences with new industrial districts provide ample evidence of services, such as information, training, technology and marketing[26]. Private interest governance refers to regulatory functions performed by associations, especially establishment of norms and standards products, best practices and codes of conduct. The associations can also resolve conflicts of interest between firms.

Local government: Several factors have contributed to a more prominent role for local government in local economic development. Much in contrast to past practices at national level, local governments generally realise that they are but one of many players involved in local economic development. Most local authorities, also in relatively affluent countries, spend a relatively minor fraction of their budgets on direct economic development support. More important, however, are the manner in which they discharge their main functions and realize their economic significance as a) a source of economic opportunity and b) a service enhancing or inhibiting enterprise development and competitiveness. New industrial district studies have confirmed the role of local governments but also stress that local government initiatives rarely play a decisive role in the economic development of the clusters.

It is important to stress here that LED does not refer only to local institutions but also to decentralized sector and national agencies. The participation of key stakeholders may generate new forms of local economic governance. These may consist of public or private ones, as well as partnerships. In many countries there has been a veritable explosion of differently constituted local economic development

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[23] *See for example Barzelay (1991), on the case of the marble industry of Macael, Andalucia; Meyer-Stamer, (1998) stressing the role of individual leaders and business associations and the existence of role models to stimulate firms to co-operate in the case of the ceramics industry in Santa Catarina, Brasil; and, lastly, Schmitz (1999) documenting the failure of joint action by Brazilian shoemaking firms to the inability of the regional government to play the much needed brokerage role.*

[24] *Levitzky (1993, 1994)*

[25] *Streeck and Schmitter (1985)*

[26] *Helmsing (2001)*

agencies, fora, platforms, commissions etc, that play a role in coordination, promotion and support. Specialization and localized learning may thus lead to the development of new tailor-made institutions, which in their turn enhance local capabilities. The broadening of the local institutional base is one of the central messages on local economic development.

Questions for Discussion

1) Local producers can overcome the disadvantages of small scale and raise their competitiveness by engaging in joint action. What are ‘typical’ barriers to generating collective efficiency and how can these be overcome?
2) Poor households maintain diversified sets of activities to cope with (different types of) insecurity. Many poverty reduction strategies are based on reducing constraints that households face to maintain or increase such diversified livelihood. There is a danger that this also ‘locks’ households into micro activities. How can upgrading of economic activities be achieved without exposing households to higher levels of insecurity?
3) Local economic development action is about creating consensus about the direction of local development, convergence in programmes of the various actors and about partnerships between (local) government, private sector and civil society. Can such cooperation be achieved in a local context marked by hierarchy, conflicts and low social trust?
4) What roles do local business associations play in local economic development and how can these be strengthened?
5) How can central governments (through regulatory, financial or other means) stimulate the emergence of local economic development networks?
6) Donor agencies are increasingly committing their aid allocations, through sector wide approaches, to selected sectors, thereby ensuring that sectoral programmes are properly integrated within these sectors. Area based (horizontal) coordination and integration of programmes is likely to get insufficient attention. How can donors contribute to better local economic development coordination?

About the Author

A.H.J. (Bert) Helmsing is a professor of local and regional development at the Institute of Social Studies (ISS) in The Hague and professor of local and regional planning at the Faculty of Geographical Sciences at the University of Utrecht. He has taught a variety of subjects, such as rural and regional planning, rural and regional economics, local government finance, decentralized planning and management and small enterprise development. He is the author for the workshop's theme paper on Local Economic Development and Poverty Reduction.

Helmsing is the head of the Staff Group Human Resources and Local Development at the ISS and has directed projects in international co-operation with the Institute Latino Americano de Planificacion Economic y Social in Santiago, Universidad de Los Andes in Bogota, and University of Zimbabwe in Harare. He also has served as a consultant and researcher for various international organisations and governmental agencies, including Japan International Cooperation Agency, World Bank Institute, United Nations Centre for Human Settlements (Habitat), Bolivia Ministry of Finance and Zimbabwe National Economic Planning Commission of the President's Office.

Helmsing is a member of editorial board of *Revista Territorios* and International Advisory Board of *Revista Estudios Urbanos y Regionales*. He has published many reports and articles on decentralisation, governance, local economic development, and South Africa intergovernmental fiscal relations.

Helmsing has a bachelor and a doctoral degree in economics from Catholic University of Tilburg and a masters in social sciences from the Institute of Social Studies in The Hague.

Contact:
A.H.J. Helmsing
Institute of Social Studies
P.O. Box 29776
2502 LT, The Hague, Netherlands
Phone: 31 70 4260460
Fax: 31 70 4260799
E-mail: HELMSING@iss.nl

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