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 ddlgn Democratisation, Decentralisation
and Local Governance

Local Economic Development

An overview

May 2018



What is “Local Economic Development”?

... takes place in a defined territory

... is a participatory and inclusive process that involves a range of stakeholders

... encompasses the pursuit or facilitation of economic competitiveness

... is undertaken for the purpose of fostering economic well-being

“Territorial Economic Development”

TED is not a firmly established concept and difficult to separate from LED.

Often mentioned additional aspects are inclusiveness and environmental sustainability.



What is LED? For example: Honduras

Inclusive territorial economic development in the Muskitia region (2016-2021)

- An integrated approach bringing together the Municipalities, Territorial Councils who hold the property titles granted by the government to the indigenous population, Value Chain Committees, and other relevant players.
 - Aims to stimulate shared governance and public private investment strategies in the region and increased productivity and competitiveness of selected sectors.
 - Intervention strategy aims at strengthening key players in the institutional set-up, stimulate public-private alliances, support business climate improvement, link the regional priorities to national players and improve their response, etc.
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- Strengthens economic inclusiveness and sustainability by focusing on indigenous world view, rules and customs, role of indigenous women, and disaster risk reduction and adaptation to climate change.
 - Expected results: Public-private alliances generate 3,000 new jobs and increase the income of 1,500 indigenous families by 10-30%.



For example: Honduras and Nicaragua

PymeRural (2007-2014)

- The project successfully combined a sectoral focus following the M4P approach with a territorial focus in selected regions and selected sectors.
- Value chain actors from three sectors were facilitated to improve dialogue and planning to strengthen the overall value chain competitiveness.
- Municipalities were supported to guide a participatory process to develop plans to improve their services and the competitiveness of the companies in their territory.
- TED emerged in the project's strategy over time through the insight that the policies and services in the places where the growers of the crops in the chosen sectors live can make a big difference on the growers livelihoods.

Results:

- Systemic changes such as strengthened economic and regulatory organisations, a broader and better qualified offer of business development services, more integrated value chains; policies and regulations more conducive to business development.
- Directly and indirectly generated 14,984 full time jobs, 8.8 million dollars in additional net incomes for 10,039 small and medium-sizes companies and producers and 4.2 million dollars for 9,262 indirect beneficiaries of the value chains supported.



For example: Bangladesh

Project Promoting Local Economic Development in Bangladesh (2018-2030)

- A pilot initiative to test the feasibility of LED in the context of smaller urban centres and connected functional economic areas in Bangladesh.
- A dual approach that builds capabilities for LED locally and promotes LED on a national level through sensitisation of key stakeholders, the fostering of a public dialogue, and by establishing a knowledge base and expert pool on LED.
- Aims to involve private and public actors on the local level and on the national level engage with government actors, private sector bodies, think tanks, research outfits and other key players.





For example: Mali

Various projects in the Sikasso region (2002-)

- SDC supports decentralization in Mali since 2002. All projects take a territorial approach and intend to contribute to each other's results.
- For example, in the Sikasso region in Southern Mali, SDC has both economic/rural development projects (PAFA, OPF, ADER...) as well as governance projects (PACUM, PDSU, ...). The latter strengthen capacities of the local government to lift obstacles in value chains promoted by the former (e.g. improving road infrastructure, reducing trade barriers, etc.).
- A main lesson from LED efforts in Mali is the importance of working with multiple actors: not only public entities, but also associations and the private sector. However, collaboration with the private sector is still a challenge and needs further strengthening





For example: Georgia

Fostering Regional and Local Development

- The goal of the project is to ensure that people in the selected regions benefit from stronger local self-government institutions for better economic development and employment generation.
- The project combines strengthening decentralization efforts on a national level specifically focused on strengthening LED with improved municipal service and incentive provision to attract investments, and the strengthening of the participation of the civil society and businesses in LED processes through capacity building and a small grants scheme.





Why LED?

Interesting scale

- Small donors like SDC can achieve significant and visible impacts
- Donor can choose areas with a track record of collaboration and willingness for change
- Working outside major cities can lead to lower migration pressure
- Territories provide clear boundaries for monitoring and evaluation

Integrated approach

- LED allows integration of economic development and governance issues
- LED strengthens local governance functions and processes
- Economic scope brings the private sector on board
- LED processes foster inclusion of women and marginalised groups
- Local political and economic reality is intimately considered as priorities are set locally and participatively

Relevance of place

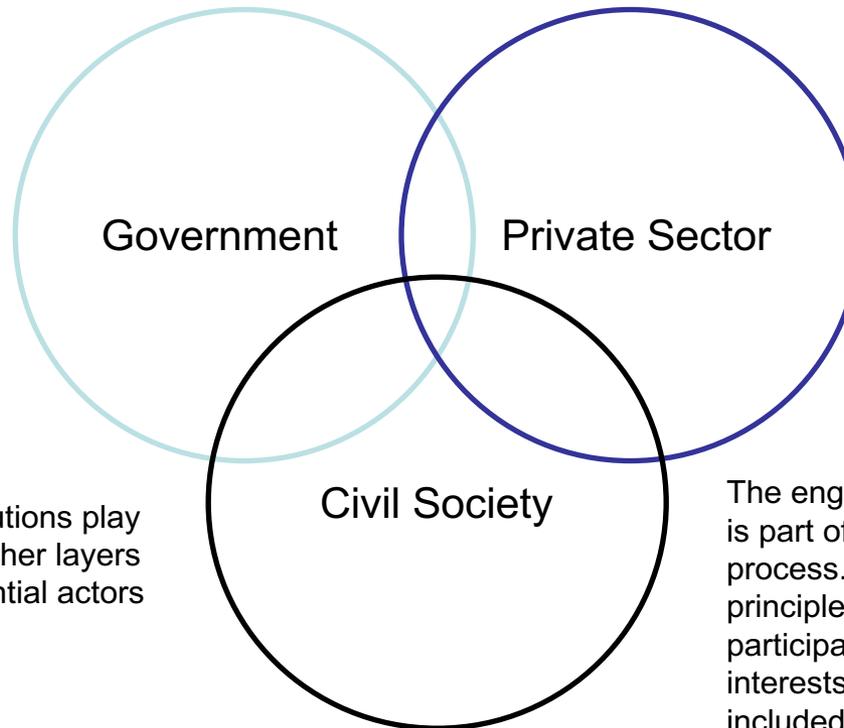
- Places differ from each other and territorial context matters
- There is no spaceless development and territories can serve as an anchor for development interventions
- Different interventions from different projects come together and their results become visible in specific places
- Linking dynamic urban areas and lagging rural areas can lead to interesting dynamics



Central actors in LED

From an LED perspective, the **government** actors involved are not only providers of services and regulations to build a conducive business environment but can be the facilitators of an overall development process in a location.

Local government institutions play a central role but also other layers of government are potential actors in LED processes.



The private sector needs to be willing to not only complain and ask for services from the government, but also contribute their part to the prosperity of the location, for example by engaging and investing in collaboration and change initiatives

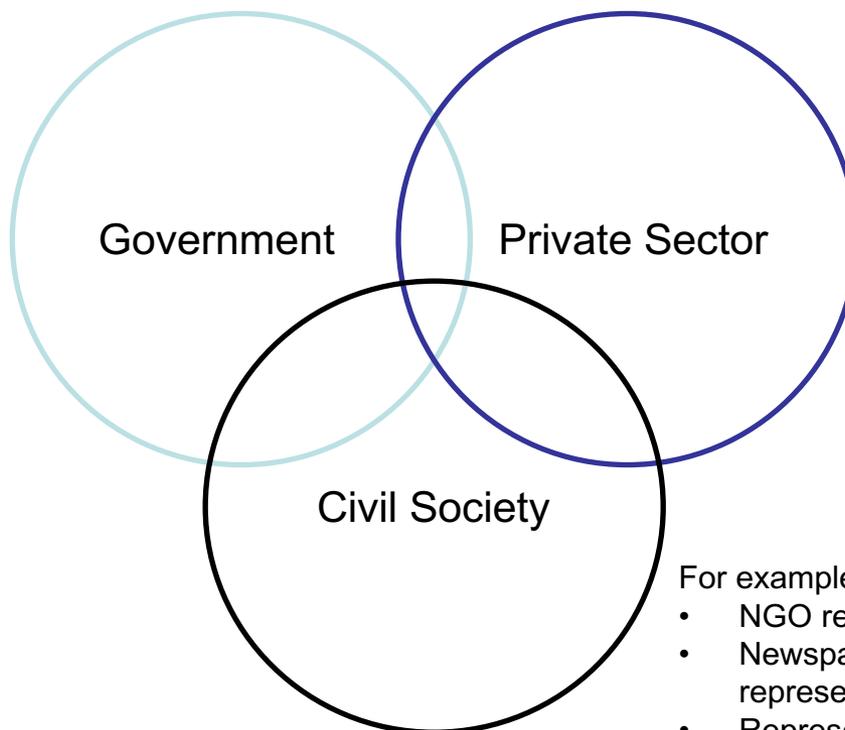
The engagement of the civil society is part of any good governance process. It ensures that democratic principles like transparency and participation are upheld and interests of all layers of society are included.



Central actors in LED

For example:

- Elected and senior appointed public officials
- Representatives of regional or local governments
- Directors of major public utilities
- Representatives of local schools and universities



For example:

- Senior managers of large businesses
- SME owners and managers
- Individual entrepreneurs
- Representatives of financial institutions
- Representatives of local chambers of commerce and other business associations

For example:

- NGO representatives
- Newspaper and other media representatives
- Representatives of local religious communities
- Representatives of labor unions



Features of LED processes

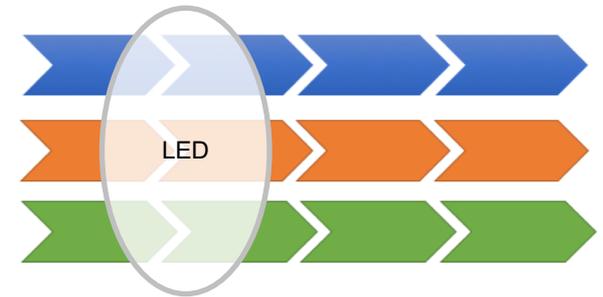
LED is a continuous process of common strategy development and agenda setting, adapting to the dynamic local, national and international market economy

Trust

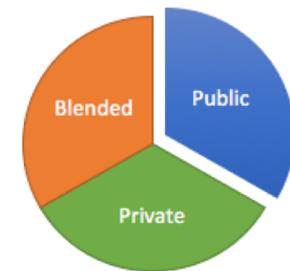
LED aims to build trust between stakeholders



LED involves integrated interventions across multiple sectors



LED strives to connect fragmented policy approaches at the local level



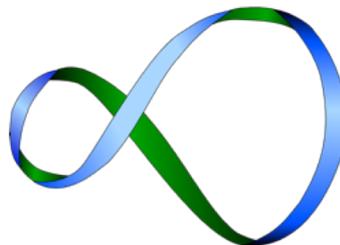
LED activities are funded through a mix of public, private and blended finance



In addition, LED can make economic development ...



more inclusive and
democratic ...



... resilient ...



... and
environmentally
sustainable



Three types of LED processes

Strategic planning

- Main champions: World Bank, UNHABITAT, and USAID
- Emphasises that LED should always begin with a strategy
- LED is driven by government, yet needs the involvement of the private sector and civil society
- Usually based on a step-by-step guidance to perform the strategic planning process
- Weakness of the approach is the prevalent lack of capacity of the public sector to deliver

Institutional

- Main champion: ILO
- Puts an emphasis on the establishment of local implementation structures in the form of local forums or LED Agencies (LEDAs)
- LEDAs are formal agencies with a legal structure and mixed public private governance structures
- Weakness of the approach is that LEDAs often have an unclear mandate and create inconsistent and unrealistic expectations

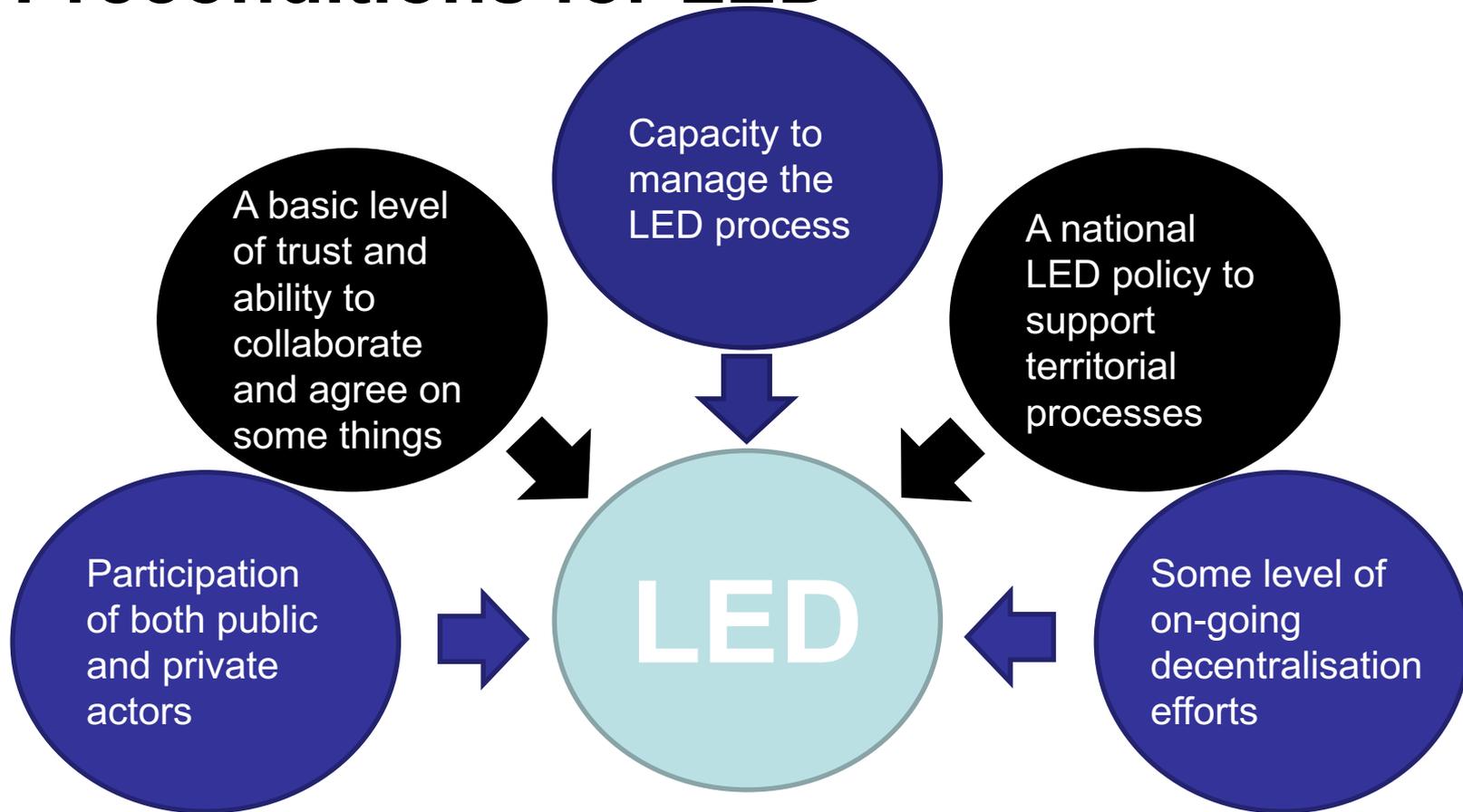
Organic

- Main champion: GIZ
- Assumes that economic development evolves along trajectories shaped by learning-by-doing and learning-by-interacting
- Rather than following a step-by-step approach, the process is based on an open-minded learning process
- This approach is often used to prepare for any of the other two approaches, building social capital and capabilities for engaging in more strategic planning activities

In an e-discussion on LED within SDC in March 2018, most participants who assessed these three types thought that an organic approach best fits the reality SDC projects face.



Preconditions for LED





Challenges with LED

- In practice, LED projects are often either too focused on strategic planning of the public sector or participation and bottom up processes.
 - Strategic planning is based on expert analyses and solutions, which might be sensible, but not rooted in local realities and not taking the locality to the ‘adjacent possible’
 - Participatory processes come up with good and interesting suggestions but it is often not clear if these are strategic for the long-term development of the region.
- The evidence base for facilitative / participatory approaches has not been systematically established. What results can be generated through locally led participatory processes?
- There is often not a big overlap between administrative areas and functional economic space, which makes it difficult to locate a project and recruit the right stakeholders.
- A project approach to LED can result in a gap between LED initiatives and the wider local government service delivery at the local level.
- There can be a gap between a project focus and targets and what emerges as local priorities in a participatory LED process.
- It is hard to see long-term LED at scale function in crises or failed states.



Current trends in LED



LED to support the localisation of the SDGs



Looking beyond economic aspects to make territories attractive to live in



Application of LED in fragile contexts

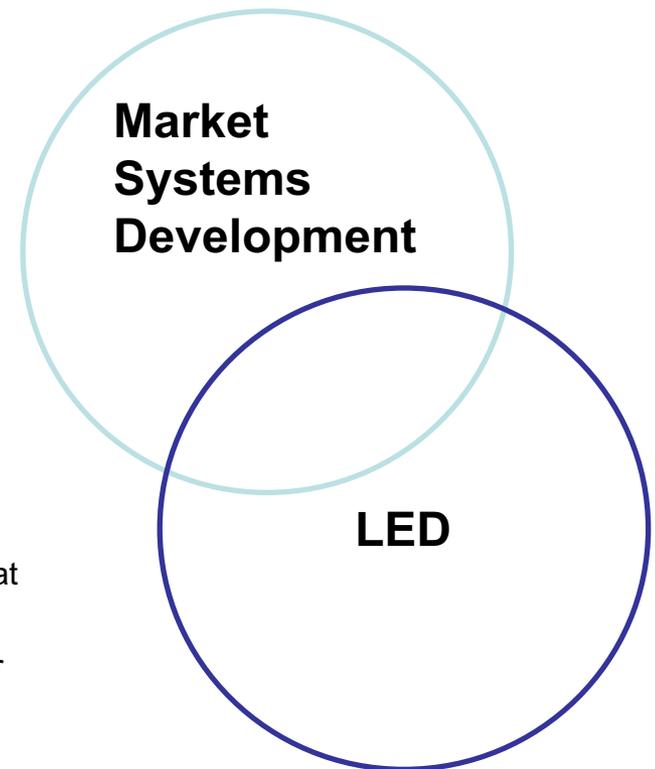


Combining LED with innovation promotion/ innovation systems approaches



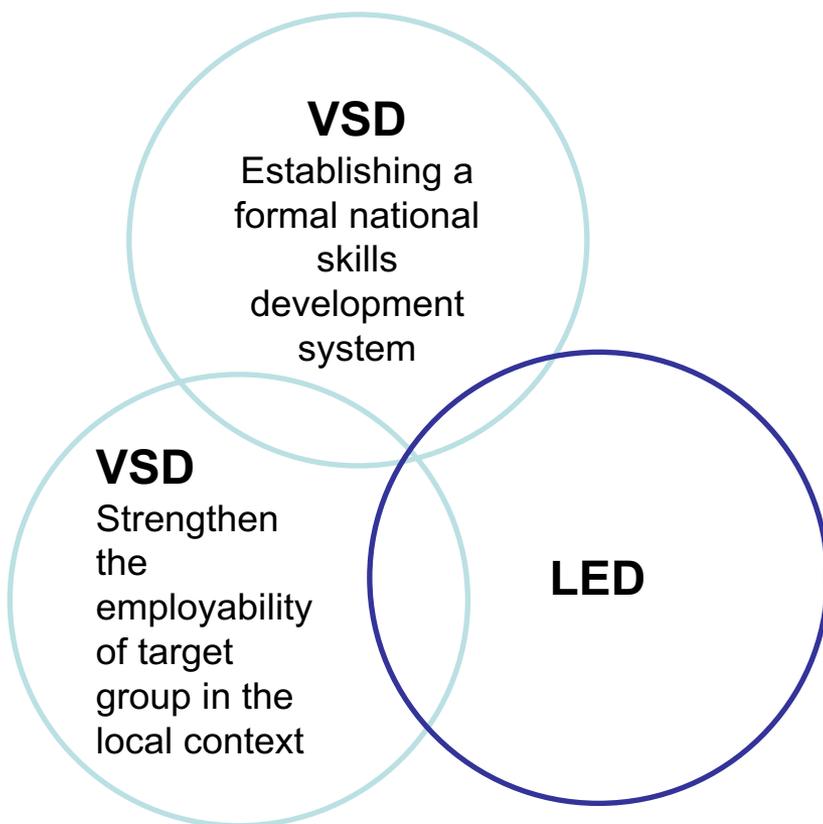
LED and MSD

- MSD and LED share facilitation as main intervention strategy and projects avoid taking up functions that need to remain locally implemented.
 - Local ownership is central to both MSD and LED
 - MSD looks beyond administrative or territorial boundaries and includes national and even international stakeholders.
 - LED anchors interventions in a locality and makes the results more visible
 - LED provides entry points based on local priorities
 - LED widens the sector-focused lens to better understand the institutional, political, social and cultural context in a locality that shapes economic development
 - LED focuses on establishing problem-solving processes rather than solving problems by removing constraints for markets to work, improving the resilience of the economy
- **LED and MSD initiatives can complement each other**





LED and VSD

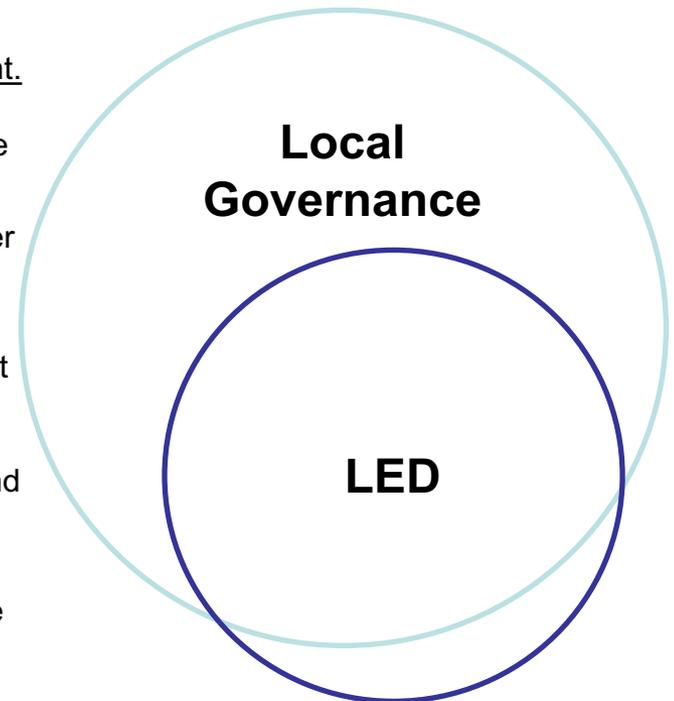


- LED processes and social capital generated through LED processes can help to anchor national systems in the local context
 - Creating local jobs and providing matching skills are interdependent processes and both essential for the competitiveness of a territory.
 - Skills development is often an activity in an LED process – VSD toolkits can support that process. In turn, LED can define local priorities that can be responded to by skills development projects
- **LED and skills development initiatives can enhance each other.**



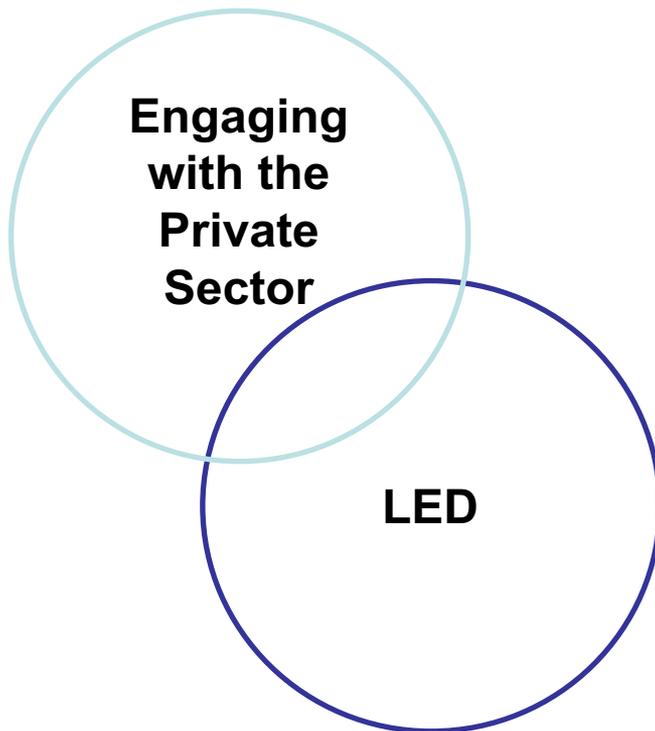
LED and Local Governance

- LED is essentially a part of local governance and in a decentralised context the responsibility of the local government. LED focuses on improving the competitiveness and economic situation of a territory, together with the other local governance processes contributing to improving life in a specific territory.
 - LED and governance programmes can complement each other as they both depend on but also build participatory local governance capability and local social capital
 - Governance projects often struggle to establish processes that include the private sector while economic development processes often struggle to include the local government structures – LED and LG depend on but also build capacity and capability of local government institutions
 - Decentralisation, a capable local government, and democratic principles to allow for inclusive and participative processes are preconditions for successful LED.
- **LED and LG projects can enhance each other**





LED and Engaging with the Private Sector

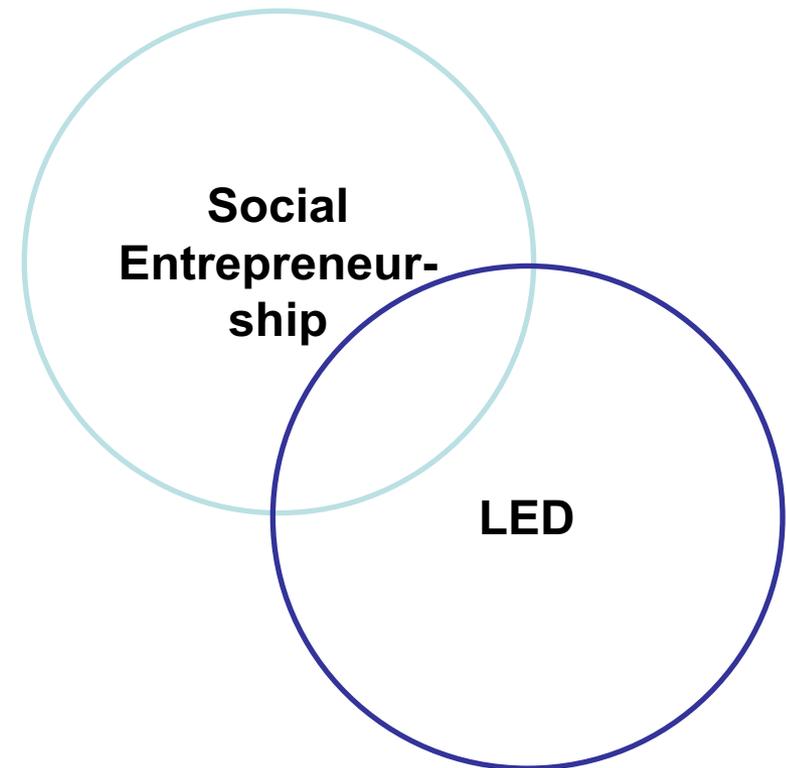


- LED builds on the participation of both the public and private sectors, hence, EPS is a central element of LED.
 - In situations where there is a good working relationship between the local government and the local private sector, this happens organically. If this relationship is not established, it can be the task of an LED project to establish a working relationship.
 - In PPDP initiatives, contracts are often between donors and private firms; in MSD, contracts are often between the project and private firms. In LED, agreements on collaboration and funding should always happen between local actors, i.e. the local government and the private sector.
- **PPDP principles apply to contracts between local governments and the private sector**



LED and Social Entrepreneurship

- Social entrepreneurs address socio-economic challenges through inclusive business plans with reduced profit expectations. These business plans are not usually targeted at contributing to LED.
- Yet social entrepreneurship can have a positive influence on a territory, either by improving the quality of life and attractiveness of a territory, or by generally contributing to the economic dynamism in a territory.
- Inclusive business models can be harnessed by LED processes to make the local economy more inclusive and reach the poor and marginalised groups. For example, policies can support setting up social enterprises or stakeholders in an LED process can collectively engage in setting up such enterprises.
- **LED processes can support the establishment of social businesses.**





Who is doing LED?



Large share of LED-type projects in the Private Sector Development, Agriculture and Governance portfolios. Focus is on rural areas with an increasing focus on fragile contexts.



LED not an actively used approach any more, but LED principles are still applied in various contexts, such as Rural Development and Social Economy. The ILO is still involved in the global dialogue on LED, for example through the World Forum on LED.



LED not an actively used approach, but LED principles are still applied for example in the frame of their global practices of Community Driven Development or Urban Development.



UN-Habitat assists local governments in generating and implementing LED strategies.



Further resources

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- UNHABITAT. *Promoting Local Economic Development through Strategic Planning*. 2005.
- VNG International. *The Role of Local Government in Local Economic Development. A step-by-step approach*. 2007.



Annex: current or recently finished LED-like projects identified within SDC (April 2018)

Albania	Regional Development Programme
Albania	Programme for Local Development and Decentralization
Bangladesh	LED in Bangladesh
Bosnia	Municipal Environmental and Economic Governance (MEG)
Cambodia	CHAIN
Cambodia	RED III
Cambodia	PaFF
Georgia	Fostering Regional and Local Development
Honduras & Nicaragua	Pymerural
Honduras	Inclusive territorial economic development in the Muskitia region
Macedonia	Sustainable and Inclusive Balanced Regional Development

Mali	Programme d'Appui aux Filières Agropastorales de Sikasso (PAFA)
Mali	Accompagnement des Organisations Paysannes et développement de systèmes de marchés durables
Mali	Programme d'appui aux communes urbaines du Mali (PACUM)
Mali	Programme de développement social en milieu urbain (PDSU)
Mali	Programme de Soutien aux Economies Locales du Delta intérieur du Niger (PSEL-DELTA)
Mali	Contribution aux programmes d'investissement des collectivités territoriales pour le développement régional et local au Mali
Mali	ADER
Mekong region	Regional and Local Economic Development – East West Economic Corridor (RLED-EWEC)
Myanmar	Community-Led Coastal Management in the Gulf of Mottama (CLCMGoMP)
Nicaragua	Ciudades Inclusivas



Annex: examples of LED definitions

- The purpose of LED is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and nongovernmental sector partners work collectively to create better conditions for economic growth and employment generation. (The World Bank)
- Local and Regional Economic Development (LRED) is an ongoing process by which key stakeholders and institutions from all spheres of society, the public and private sector as well as civil society, work jointly to create a unique advantage for the locality and its firms, tackle market failures, remove bureaucratic obstacles for local businesses and strengthen the competitiveness of local firms. (GIZ South Africa)
- LRED is a process to mobilise stakeholders from the public and private sectors as well as from civil society, to become partners in a joint effort to improve the economy of a defined subnational territory and thus increase its competitiveness. (GIZ Asia)
- Local economic development (LED) is a participatory process in which local people from all sectors work together to stimulate local commercial activity, resulting in a resilient and sustainable economy. It is a way to help create decent jobs and improve the quality of life for everyone, including the poor and marginalised. (UNHABITAT)
- LED is a participatory development process that encourages partnership arrangements between the main private and public stakeholders in a defined territory, enabling the joint design and implementation of a common development strategy, by making use of local resources and competitive advantages in a global context with the final objective of creating decent jobs and stimulating economic activity. (ILO)



Annex: collected principles of LED

- **Territorial focus:** LED can be undertaken at different geographic scales but is generally happening on subnational level.
- **Participation:** Effective LED can only work if a variety of societal actors engage and collaborate voluntarily. This includes local government, the private and not-for-profit sectors, and local communities. It is important to avoid 'fake participation' and elite/power capture of the process.
- **Local ownership:** LED is a locally owned approach that aims to empower local actors in order to shape the future of the locality they live in. LED is premised on strong local leadership.
- **Market driven:** LED is based on business principles and includes an effort to make markets work effectively. LED interventions address market failures and state failures.
- **Opportunity driven:** LED interventions are designed in such a way that entrepreneurs can identify market opportunities and turn them into profitable businesses.
- **Transparency:** LED processes have to be transparent, starting from the selection of target areas and stakeholders right through to the monitoring of impacts.
- **Learning, creativity, flexibility:** LED is not a blueprint approach or a bureaucratic planning exercise. It emphasises creativity and flexibility.
- **Building local capacity:** LED is focused on building up the capacities of relevant local stakeholders and enables the joint formulation and implementation of development strategies.
- **Impact orientation:** LED is focused on achieving some sort of development impact (poverty reduction, employment creation, decent jobs, sustainability, etc.)
- **Inclusiveness:** LED enhancing inclusion of marginalised groups and fosters gender equality