The Role of Local Governments in Economic Development

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Contents

UCLG Policy Statement: The Role of Local Governments in Economic Development  4

UCLG Policy Paper: The Role of Local Governments in Economic Development  6

1. Introduction  6
  1.1 Purpose and context  6
  1.2 Characteristics of local economic development (LED)  6
  1.3 The limits and the potential of LED  7

2. LED Enabling Policies  11
  2.1 Introduction  11
  2.2 The role of local governments in support of local enterprise  11
  2.3 The role of local governments in workforce development  14
  2.4 Local government policy on the informal economy  15
  2.5 Local government policy on social economy  17
  2.6 Local governments foster innovation and sustainability in the green economy  18
  2.7 The role of local governments in agriculture  20
  2.8 Local government policy on culture  22

3. Tools for Local Economic Development  25
  3.1 Introduction  25
  3.2 LED as an alliance of partners  25
  3.3 Creating appropriate structures for governance and management of LED  26
  3.4 Integrated strategic planning for local economic development  27
  3.5 Financial tools  30
  3.6 Research and innovation  32
  3.7 Building the capacities of local actors  34

4. Conclusion  36

Bibliography  38
## Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CLD</td>
<td>Local Development Centre</td>
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<tr>
<td>FLI</td>
<td>Fonds Local d'Investissement</td>
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<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>IFI</td>
<td>International Financial Institution</td>
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<td>KM</td>
<td>Knowledge Management</td>
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<td>LED</td>
<td>Local Economic Development</td>
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<td>LRG</td>
<td>Local or Regional Government</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MFI</td>
<td>Microfinance Institution</td>
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<td>MNE</td>
<td>Multinational Enterprise</td>
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<td>MRC</td>
<td>Regional County Municipality</td>
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<td>MSME</td>
<td>Micro, Small, and Medium-sized Enterprises</td>
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<td>NGO</td>
<td>Nongovernmental Organization</td>
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<td>OED</td>
<td>Office of Economic Development</td>
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<td>PPP</td>
<td>Public-Private Partnership</td>
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UCLG Policy Statement: The Role of Local Governments in Economic Development

Local and regional governments (LRGs) play crucial roles in the economic development of their communities. As leaders of local economic development (LED), LRGs work with the people of their communities to develop strategic visions for the future of their cities, towns, and villages, and implement a wide variety of policies and measures to bring these visions to life.

At the most basic level, LRGs ensure a secure and stable environment in which economic development can take place. They provide physical infrastructure – roads, water supply, waste management, information and communication technologies – and promote public health, education, and environmental sustainability. Increasingly, however, LRGs go well beyond these traditional roles. As we describe in the accompanying paper, LRGs around the world are helping existing enterprises to survive and expand, fostering new enterprises, arranging workforce development programs, promoting research and development, and taking action to ensure that marginalized members of their communities have access to decent livelihoods.

Local economic development is a necessary complement to efforts at the national scale. National and supranational governments must address economic issues appropriate to their jurisdictions, such as fiscal and monetary policy, large infrastructural investments, and international trade agreements. Just as national and supranational governments are best positioned to deal with those issues, LRGs are ideally situated to ensure active participation in development by all stakeholders in their communities, to tackle the problems and barriers specific to their local economies, and to foster integrated development initiatives across multiple, complementary economic sectors. The strong, resilient communities that result are the building blocks of prosperous nations.

The UN-Habitat Agenda and Plan of Action adopted at the Habitat II Conference in Istanbul in 1996 recognized the key leadership role played by LRGs in economic development. Now, as we prepare for Habitat III in 2016 and the adoption of a New Urban Agenda for the 21st Century, we call upon national and supranational governments, international development partners, and local authorities to ensure that LRGs receive clear, legislated mandates, as well as all necessary human and financial resources, to perform their roles effectively as leaders of economic development in their communities.

The process of decentralization is already well underway in many countries. To be successful, it must be planned and implemented with the full commitment of all parties. It is not sufficient to download responsibilities without also establishing clear legal mandates, building institutional capacities, and extending access to adequate financial resources.
UCLG and its members are committed to raising awareness about the important contribution that local governments can make to local economic development. UCLG believes that:

1. The international community and national governments must recognize the important role played by local governments in economic development and support their engagement as partners in planning, implementing and coordinating strategies to promote sustainable economic development;

2. LRGs are ideally positioned to understand and respond to the economic needs and challenges facing citizens and their communities but frequently lack the resources to do so. National and supranational governments and the international community must ensure that adequate funding is directed to local governments to mobilize their skills, resources, and networks to support economic development;

3. Strong and effective LRGs are critical to ensuring economic development that is inclusive and sustainable, providing access to decent livelihoods for all members of their communities; and

4. The contribution of local governments and their associations to more effective and sustainable development can only be of value if they are strengthened to play this role.

A Call to Action

We call on national and supranational governments and international development partners to:

- Further recognize local and regional governments (LRGs) as key development actors and support their full-fledged participation, consultation and engagement in national and sectoral policy dialogues on economic development;

- Provide LRGs with access to sources of funding sufficient to play effective roles as initiators, catalysts and drivers of local economic development in their communities;

- Ensure that enabling legal frameworks are in place to allow LRGs to provide leadership in the economic development of their communities; and

- Provide LRGs with support to develop institutional capacities and skills to play their roles in economic development effectively.

We call on local and regional governments and their associations to:

- Engage in a dialogue with national and supranational governments to ensure that the needs and concerns of LRGs are clearly understood and supported by relevant policies and programs;

- Ensure that their local economic development strategies, plans, and initiatives are well coordinated and developed within the framework of country development strategies that take into account the local cultural context and national priorities;

- Ensure that the full range of the community voices is heard by promoting participatory processes in their approaches to economic development.
UCLG Policy Paper: The Role of Local Governments in Economic Development

1. Introduction

1.1 Purpose and context

This paper examines the crucial role of local and regional governments (LRGs) in economic development. Its purpose is to identify the policy directions urgently needed by national and supranational governments, international development partners, and LRGs themselves, to enable them to perform this role effectively for their citizens.

The need for such a discussion at this moment is evident. As we prepare for Habitat III in 2016 and the adoption of a New Urban Agenda for the 21st Century, cities, towns, rural municipalities, and their citizens face severe challenges. There is a widespread shortage of opportunities for decent work. The ILO has estimated that the number of unemployed people globally surpassed 200 million for the first time in 2013, up by nearly 5 million in one year. Young people face the greatest obstacles; in some places their rate of unemployment exceeds 50 per cent. There is increased poverty and homelessness and growing inequality between rich and poor. Displacement of rural people from the land is driving rapid urbanization in developing countries. Squatter settlements are proliferating and crime rates are increasing. At the same time, global climate change is intensifying the vulnerability of the world’s people to disastrous storms, floods, and droughts.

In this difficult period, many countries have carried out programs of decentralization, devolving responsibility for numerous governmental roles to LRGs. When this devolution is planned well, implemented efficiently, and managed competently, LRGs have shown themselves to be capable of taking on additional responsibilities and handling them well. In our focus in this paper on local economic development (LED), we highlight the many areas in which LRGs are in fact the most appropriate tier of government to provide leadership and coordination, complementing the efforts of national governments.

1.2. Characteristics of local economic development (LED)

Economic development is not an end in itself but one important means by which people strive to enhance their well-being. As Amartya Sen and others have argued, the meaning of development is the increasing capability of people to live the life they choose. The task of economic development practitioners is to help to make this possible.

This view of development has several important implications. Economic development is not only economic growth, important as that may be. To be developmental, it must be inclusive, providing supports and opportunities for those
who are typically marginalized, particularly women, youth, indigenous people, ethnic minorities, and people with disabilities. Economic development must also be environmentally sustainable, ensuring that future generations have the same opportunities as those alive today. And economic development must be informed by cultural policies that enhance the capacity of people to assign meaning and purpose to their participation in the social and economic life of their community.

An overview of the characteristics of LED as it is practised around the world shows that LRGs are the most aptly positioned agents to provide leadership and coordination of economic development in their communities. Definitions of LED vary, but all have these common elements:

*LED is participative.* It is based on partnerships between local authorities, the private sector, other public sector agents, and civil society, to foster local commercial activity. This can take many forms, including social economy enterprises responding to the needs of marginalized groups, as well as micro, small, and medium enterprises (MSMEs). LED initiatives are community-led and locally owned.

*Local governments provide leadership and coordination* in the planning and implementation of LED initiatives, either directly or through delegation to community-based agencies. LRGs build social capital, connecting local governments with their communities in a myriad of ways, generating innovative solutions to local needs.

*LED plans integrate efforts across sectors,* developing both the formal and informal economy, with a view to realizing community goals, such as better quality jobs, reduced poverty, environmental sustainability, and the inclusion of marginalized groups, notably women, youth, people with disabilities, and indigenous peoples.

*LED initiatives vary widely, depending on local needs and conditions.* They may include the development of infrastructure, research and innovation, skill training, attraction of new investment, technical and financial services to new and existing enterprises, supportive procurement policies, and support for marketing.

*LED is a long-term process,* aimed at developing inclusive, resilient communities. LED practitioners recognize that it takes time to build local capacities and include marginalized groups. They therefore use a diverse variety of indicators to measure success.

### 1.3 Why local governments matter to economic development

There are several reasons why local governments are indispensable to the process of economic development, beginning with their traditional roles. LRGs must provide a secure and stable environment in which enterprises can flourish. They are responsible for physical infrastructure – roads, water supply, waste management, information and communication technologies – all of which are necessary
prerequisites to economic activity. LRGs also address the needs of their citizens for public health, education, housing, local transportation services, cultural and recreational facilities, child care, and other public goods and services that are essential to the nurturing of a healthy, skilled, and reliable workforce.

In addition to these traditional roles, LRGs around the world are providing leadership in the economic development of their jurisdictions. As the public institutions closest to the people, with an immediate grasp of the assets, deficits, and issues of their communities, LRGs are the most appropriate agents to convene all of the local economy’s stakeholders: the chamber of commerce, the representatives of micro, small, and medium enterprises (MSMEs), trade and labour unions, primary producers, education and training institutions, agents of the departments and ministries of other levels of government, non-governmental organizations and international development partners active in the community, as well as the representatives of those who are unemployed, marginalized because of their youth, gender, disability, or ethnic origin, or who are struggling to survive in the informal economy. LRGs are the best-placed initiators, catalysts, and drivers of processes that engage these stakeholders in visioning the future, designing strategies, and implementing economic development initiatives.

Of course, local economic development is only one part of the total effort needed to create the conditions in which people enhance their capacities to live the life they choose. National development plans and policies are required for large infrastructural projects like energy grids, highways, railroads, and communications networks. National and supranational governments must also manage fiscal and monetary policies and negotiate international trade agreements. LRGs complement these national and supranational strategies, mobilizing the local stakeholders to generate action from the bottom up. Here, at the local scale, there is capacity to promote participation by all sectors of the society and to launch economic development initiatives that are inclusive, sustainable, and life-enhancing.

The local level is the scale at which people meet face to face, create partnerships and alliances, find synergies and complementarities for mutual support, and devise strategies relevant to the particular conditions of their community. It is in recognition of this that so many countries of the world have undertaken programs of decentralization, devolving to the local scale responsibility for economic development in their jurisdictions.

In many cases, however, this process of decentralization is incomplete, as it has not included clear, legislated mandates with defined roles for the various tiers of government, nor has it provided adequate human and financial resources to LRGs to meet their responsibilities. The consequences for many LRGs have been extremely stretched resources and barriers to their effectiveness as agents of development.
To achieve effective decentralization of responsibility for local economic development, upper-tier governments must establish legal frameworks that provide LRGs with clear mandates in the field of LED and ensure that local authorities and their staff have the training and the financial resources to carry out their roles.

Quebec's Law 170, described in the case reference below, is an example of such a legal framework in support of LED.

**Quebec's Law 170: A framework law mandating Local Development Centres**

In 1997, after extensive consultations with all sectors of society, Quebec's National Assembly passed Law 170 mandating the creation of a Local Development Centre (the acronym in French is CLD) in each of its 120 regional county municipalities (MRC). These came into existence in 1998.

Each CLD has a Board of Directors representing the leading economic actors in the MRC. Law 170 stated explicitly that no single sector, including the municipal government, was to have a majority on the Board. This law was amended in 2003 to allow municipal governments to have a majority if they wished to do so, but by then the model was working well and few municipalities felt they needed to have this kind of control. For example, in 2013, the Board of Directors of the CLD in Quebec City had 17 members, composed as follows:

**BUSINESS SECTOR**
1. Private businesses
2. Private business / self-employed
3. Social economy / non-profit
4. Food industry
5. Social economy / cooperatives
6. Culture
7. Tourism
8. Environment
9. High tech and information technologies

**SOCIAL GROUPS SECTOR**
1. Workers (unions) (2 members)
2. Ethnic groups
3. Women's organizations
4. Youth

**TERRITOIRES SECTOR**
1. Huron-Wendat Nation territory (Aboriginal nation)
2. Urban agglomeration (2 members of municipal councils)

The mandate of each CLD is to support the creation of new enterprises and the expansion of existing ones, both private and social economy businesses (on the social economy see Section 2.5 below). Employment creation is a central goal. Each CLD prepares a local action plan in consultation with the stakeholders in the MRC. This plan is an integral part of the MRC’s general plans for economic development, land use, and infrastructure. It provides the criteria for the CLD’s investment priorities. For example, if the CLD identifies tourism as a focus for development in the MRC, this sector has priority for investments. Each CLD provides front-line services, including business information and advice, support for entrepreneurship development, including collective entrepreneurship in social economy enterprises, and youth entrepreneurship.
CLD operations are funded by the Government of Quebec on the basis of a formula with three main criteria: population, number of low-income households, and the current unemployment rate in the MRC. The total annual operations budget for the 2012-2014 period was C$78.4 million divided among the 120 CLDs.

The Government of Quebec also provides an investment fund to each CLD for loans and loan guarantees to businesses. Called the Fonds Local d’Investissement (FLI), it totaled C$185 million in 2013. It comes in the form of a loan by the government to each CLD on the basis of a contract renewed every 3 to 5 years. Interest paid on the loans is reinvested in the fund. Given the level of capital available (for example, in 2013 the CLD in Quebec City had working capital of C$6.4 million), the loans go primarily to micro, small and medium-sized enterprises (MSMEs). Both private businesses and social economy enterprises are eligible for loans.

The CLDs have formed the Association des centres locaux de développement du Québec (ACLDQ) to represent their interests vis-à-vis the Government of Quebec, and to provide information and training to the members of CLD staff and Boards of Directors.

The ACLDQ has calculated that the CLDs handle 30,000 requests from entrepreneurs each year. For every C$1 invested by a CLD, a total of C$10 in total investment is generated. The survival rate after five years for enterprises supported by CLDs is twice the rate for all enterprises in Quebec. Each year, 18,000 jobs are created or saved by CLD support.

* Sources: Poirier (2013) and Fiset (2013) *

In Part 2 of this paper, we present a range of LED-enabling policies currently employed by LRGs in many countries. In Part 3 we give an overview of the tools and methods LRGs use to analyze their environments and to develop and implement their plans. We conclude in Part 4 with a brief summing up. The Bibliography provides the details on sources cited in the text.
2. LED Enabling Policies

2.1 Introduction

The policies, plans, and priorities adopted by any LRG for local economic development will depend on the conditions prevailing in the time and place concerned. In this section, we present a range of strategies widely adopted by LRGs to foster economic development in their communities.

2.2 The role of local governments in support of local enterprise

LRGs create the environment for enterprise to flourish in their communities in a variety of ways. The most basic is to provide an environment that is safe and stable, with sound physical infrastructure, including information and communication technologies (ICT), and with regulations that are transparent and managed efficiently with a minimum of bureaucratic red tape.

In addition, LRGs around the world are providing a wide variety of positive supports to the businesses in their communities. We highlight some of these in this section.

Business Retention and Expansion (BRE)

It makes sense to begin by retaining, strengthening, and expanding existing enterprises in the community. This is a low-risk initiative, since the businesses are already established and contributing in the form of jobs, income, and taxes. A planned BRE program can help to expand employment and income, or at least prevent their loss.

LRGs do BRE in various ways, depending on their circumstances. It begins with visits and consultations that keep the LRG informed of issues faced by local businesses. It might include establishment of a regular forum that brings local businesses together with public officials, educational institutions, and economic development agencies. This can lead in several directions, such as technical assistance with production and waste management issues, procurement and contracting policies favouring local businesses, improvements to infrastructure, export assistance, and training programs for workforce development.

In larger communities, the LRG may choose to focus BRE initiatives on particular sectors or neighbourhoods. One common approach is to establish business improvement districts (BIDs), or areas (BIAs) governed by local business owners with participation from the LRG. The businesses within a BIA pay an extra fee or tax and the BIA provides a range of services, including marketing and promotion, street and sidewalk improvements, recruitment of complementary businesses, and special events.
Clusters

Clusters are groups of businesses that locate together in a geographic area to benefit from "economies of agglomeration," the benefits accruing to each business from its proximity to the others. These benefits include easier access to necessary inputs and to a workforce with relevant skills, increased innovation and productivity, and thus increased competitiveness within their industry. They may include designers, manufacturers, suppliers, and associated institutions, notably universities. Perhaps the best-known example of a cluster is Silicon Valley in California, a high-tech cluster, but there are several other kinds. Some are based on their natural resource endowments, such as the wine growing regions of the Mediterranean countries, California, Chile, and Australia. Others may be based on access to a large population of relatively low-wage labour, even in skilled occupations, such as the ICT professionals in Bangalore and Shanghai.

LRGs have in the past facilitated the development of clusters through the creation of business parks and industrial zones, and through zoning regulations that assign land uses to different urban zones. Current practice tends to favour mixed-use neighbourhoods that allow for a blend of commercial, industrial, residential, and cultural uses. This allows people to live and work in the same neighbourhood, creating a stronger sense of community identity, giving easier access to retail shops and cultural facilities, and reducing traffic problems.

LRGs cannot create business clusters on their own. The role of the LRG is to coordinate the efforts of businesses and to provide policy direction. The business leaders themselves must drive the process of analysis, planning, and implementation. The advantages to the community arise from the economies of agglomeration: greater efficiency and competitiveness resulting in increased employment and income.

### Envicrack Energy Cluster, Czech Republic

There are numerous forms and formats of clusters. Cluster initiatives within the renewable energy sector have emerged in several European countries in recent years. One of these is the Envicrack cluster in the city of Ostrava in the eastern Czech Republic. The Envicrack cluster was founded in 2005 as an open syndicate of companies with the legal format of a cooperative. It consists of 25 companies, one university, and two private research institutions.

The region in which it was developed is characterized by: a skilled, low-cost labour force; R&D facilities and institutions, industrial zones, science-technological parks and business incubators; a high density of infrastructure; an advantageous location between Poland and Slovakìa; and, excellent transportation facilities, including an international airport with the potential for growth. The strategy of the cluster consists of two objectives: (1) The development of pyrolysis technology in the field of utilizing assorted waste and dry biomass for electricity and heat production; and, (2) strengthening the competitiveness of its members.

Synergies of the cluster aimed at improving its members’ competitiveness include the following:

- Common laboratory devices and facilities;
- Training activities and HR development;
· Joint PR and marketing activities;
· Educational programs and materials for teaching environmental issues;
· Benchmark studies of innovation performance and efficiency; and,
· An information system for cluster members, including coordination of common projects and joint procurement possibilities.

The success of the cluster seems to be a combination of its advantageous regional framework, cluster-friendly policies at both the national and regional level, and strong engagement from local SMEs.

*Source: Trelle (2013)*

**Value chains**

A value chain is the complete continuum of operations in an industry, from initial design through primary production, processing, manufacturing, distribution, marketing, retail sales and service, and related business services. Increasingly, industries, including individual firms, are organized into global value chains, with each link in the chain located where it is most advantageous. Some activities may be retained within the different departments and locations of a single multinational enterprise (MNE) while others may be outsourced. Complete value chains may also exist at the national and regional scales.

LRGs can support analysis and strategy by local enterprises in order to identify opportunities for entry into value chains and expansion of the value added in their community. For example, analysis could indicate that additional processing of a raw material before it is exported would give an enterprise in their community a stronger position within a value chain. The LRG can assist local firms to surmount entry barriers to a value chain, to meet the production standards it requires, and, most importantly, move up the value chain by increasing the value added in their community.

For an LRG to intervene effectively, it needs knowledgeable professionals who provide the necessary analysis to identify opportunities and to assess the resource requirements for participation in a value chain and upgrading within it.

The advantages to a community include increased local production, improvements in technology, and increases in employment and income. Moreover, participation in some global value chains requires adherence to high standards of labour and human rights, protection of the environment, and elimination of corruption.

**Entrepreneurial development**

LRGs in many countries have set up centres to foster entrepreneurship in their communities, especially by supporting people who wish to create a new MSME (micro, small, or medium-sized enterprise). Staffed by professional counsellors, they assist with such matters as feasibility studies, market surveys, business plans, licensing, and access to capital. They may also offer workshops and seminars, especially for young entrepreneurs.
The level and mode of support varies widely, depending on the size and circumstances of the LRG. Business service centres in larger municipalities may offer a full range of services, while smaller LRGs may only be able to provide basic advice and information. An LRG of any size may also choose to participate in a national online service, such as Canada’s BizPal (bizpal.ca), that provides information on the permits and licenses required to start a new business.

In some cases, special programs target potential entrepreneurs who face significant barriers to establishing a successful MSME, notably youth and people with disabilities. Where women, indigenous people, recent immigrants, or ethnic minorities face such barriers, LRGs may create special programs to assist them.

One widespread model for entrepreneurial development is the business incubator. Typically, it is located in a building that provides space to fledgling MSMEs at reduced cost, as well as a range of basic services such as bookkeeping, telephones, internet access, and secretarial support. Through its own staff or by referral to professional counsellors, the incubator assists with developing business plans, accessing start-up capital, training, marketing, networking with other MSMEs, and other forms of support. Although models vary, start-up MSMEs are generally expected to "graduate" to fully self-sustaining enterprises over a two- to three-year period.

Many LRGs support business incubators in their communities. When adequately resourced with physical facilities and access to professional counsellors, they are an effective way to promote economic development and diversification in the community. They are especially useful in assisting young entrepreneurs and others in the community who face barriers to starting a successful MSME.

Of course, not everyone wants to be an entrepreneur, considering the risks involved; a large percentage of new enterprises fail, often leaving the entrepreneur with large debts. It is important to recognize this risk when working with aspiring entrepreneurs. It is equally important to develop other sources of sustainable livelihood in the community. We turn next to these.

2.3 The role of local governments in workforce development

Workforce development is an approach to local economic development that has evolved over the past two decades (see Giguère 2008). The central feature of this approach is its recognition of the need for programs that address all significant barriers, and engage all available assets in a community or region, in order to achieve successful labour market outcomes – successful from the points of view both of employers and of employees. From the employer’s perspective, the aim is to recruit, develop, and retain a suitably skilled, reliable workforce. For the employee, success is defined as stable employment in an inclusive workplace with a living wage and opportunities for career advancement. Achieving these outcomes demands more than vocational training and/or job placement services, important as these elements of a strategy may be. Experience has shown that to be successful a
The Role of Local Governments in LED

program may also need to attend to a wide range of other needs and issues of prospective employees, notably personal supports such as child care and transportation, basic life skills, and mentors in the workplace.

LRGs are well-placed to provide leadership and coordination in workforce development programs that bring together employers, trainers, mentors, and social service providers with residents of their communities who are seeking employment. The approach usually aims to connect employers in need of workers with groups in the community who face specific barriers to employment: women, youth, indigenous people, ethnic minorities, or people with disabilities.

Workforce development programs typically have high initial costs with long-term payoffs, so LRGs usually arrange to engage the participation of agencies at higher tiers of government in any initiative, both for their expertise and for their financial support.

[A case study of a successful workforce development program would be useful here, or perhaps the case in Johannesburg in the following section would be an appropriate example.]

2.4 Local government policy on the informal economy

In many cities, towns, and villages of Asia, Africa, and Latin America, most people pursue their livelihoods in the informal economy, that is, by economic activity that is outside of government regulation, taxation, and observation. By definition, the extent of the informal economy is difficult to measure precisely, but estimates range from at least one-third to well over half of all economic activity in many countries of the Global South. It is, therefore, critically important for LRGs to attend to the informal economy in their LED plans and practices.

The informal economy comprises an extremely diverse set of activities, including such work as street food vending, small artisanal production, home-based garment work, pedicab driving, waste disposal, domestic service, and construction work paid "under the table." The term also includes primary producers – fishers and farmers – who produce primarily for subsistence and sell their surplus informally. Typically, people working in the informal economy have very low incomes, little or no protection from exploitation and unsafe working conditions, and no social safety net.

The growth of the informal economy in recent decades has a number of causes. Rapid urbanization, notably migration to cities by rural residents, has been coupled with slow growth, volatility, or decline in the formal economies of many countries. Rigid, bureaucratic, and complex processes for registering businesses contribute to the problem, as do the efforts of entrepreneurs to avoid, taxes, regulations, and minimum wage laws.
The informal economy does not provide a path out of poverty for the millions of people who must make their livelihood in it. The vast majority of occupations in the informal economy offer meagre incomes in highly competitive sectors with very low productivity. The first response of an LRG might be an attempt to drive out informal enterprises or force them into the formal sector, but experience has shown that it is better in many instances to tolerate the existence of the informal economy and find ways to support its enterprises, protect its workers, and engage with its entrepreneurs to enhance their productivity and incomes, with a view to integrating them gradually into the formal economy as more productive enterprises providing decent livelihoods.

LRGs can support and strengthen enterprises in the informal economy in many ways. The best method for determining which interventions will be most effective is to ask the informal economy participants themselves. This can be done most effectively by including its representatives in LED planning processes. LRGs and their community-based partners can extend technical services to informal enterprises, developing their skills, upgrading their technology, and assisting them to connect with other enterprises as upstream suppliers or downstream distributors, retailers, or waste processors. They can also provide direct support to workers in the informal economy through health and education services and by upgrading the physical infrastructure – roads, markets and other public spaces, water supply, sanitation – that facilitates informal enterprises.

LRGs can also strengthen the legal rights of producers in the informal economy, notably by providing for secure land tenure and by facilitating self-organization by workers in particular sub-sectors of the informal economy.

In devising its strategy vis-à-vis the informal economy, an LRG may choose to focus on one sector in which there is a significant amount of informal employment, or one district of the municipality where there is a concentration of informal economic activity. (See the case reference on Johannesburg below for an example of a set of interventions combining an area approach with a sector approach.)

The International Labour Organization has provided helpful guides for LRGs working with the informal economy in their jurisdiction (see Bibliography).

**Integration of the informal economy in Johannesburg, South Africa**

There are about 4.5 million residents of Johannesburg, a city with striking social and income inequality that has actually increased in the post-apartheid era. Two thirds of the population are poor, but there is also a significant middle and upper-middle class. The unemployment rate has been 25 per cent or more for the past decade.

The economy of Johannesburg has been going through major restructuring since the 1980s. Employment in the mining and manufacturing sectors has declined radically, while most growth has been in financial services, insurance, real estate, and business services, sectors that do not provide many jobs for semi-skilled workers. In this context, the informal economy has grown rapidly: street trading, informal transportation services, home-based manufacturing, and a wide variety of services.
Johannesburg's once-thriving garment industry declined steeply in the 1990s with the arrival of large quantities of low-priced clothing from overseas. By the first decade of this century, the sector consisted mainly of about 1000 informal micro-enterprises. Of these, most were women from the black townships of Johannesburg who worked individually producing a range of goods, especially women's clothing. There was also a significant number of males, mainly recent immigrants from West Africa, who produced embroidered clothing of high quality in African styles. There was very little contact between these two groups.

The City of Johannesburg's strategic plan aims to position the city as a world class centre of financial and business services while raising the standard of living of all residents: a vision of growth with equity. One component of this strategy is to establish Johannesburg as a centre of African fashion and to integrate informal clothing producers into the local fashion industry's value chain. The elements of this strategy include designation of 20 blocks on the eastern edge of the inner city as the fashion district and formation of a cluster of formal and informal clothing producers and suppliers within this district.

A survey of the producers in the sector found the most critical needs to be advanced technical and business training, better work premises and storage space, child care facilities, and micro-credit. Research also found that social capital was limited, especially in the lack of relationships and linkages among the clothing producers and their suppliers, and between the South African and immigrant entrepreneurs.

On the basis of this research, the City arranged a technical training program in 2001 with funding from the national and provincial Departments of Labour. In partnership with a private sector enterprise, SEWAfrica, which provided the premises and equipment, and the Clothing Technology Department of the local Technikon, which supplied the trainers, the City arranged structured training courses in enhanced sewing and design as well as individualized mentoring in business management and marketing. Over 400 informal clothing producers took advantage of the courses, and some organized themselves into networks to share their knowledge and experience. The City also facilitated organization of the Informal Garment Operators Association, which grouped the South African and immigrant entrepreneurs, to represent the interests of the enterprises in this sector.

The outcome of these efforts has been the creation of a sectoral cluster that groups approximately 1000 enterprises, primarily informal, including designers, producers, and material suppliers. They are located in the area of Johannesburg's inner city now branded the Fashion District. The emphasis has shifted from "clothing production" to "African fashion," with distinctively African styles and motifs. Johannesburg now has an international reputation for its preeminence in this niche market. Meanwhile, the City has also encouraged mixed commercial uses in the district, including live music clubs, restaurants, and shops featuring furniture and home decor. This mix of creative enterprises gives the district a distinctive character.

[It would be good to conclude this case with some recent quantitative data on improvements in income, but I haven't yet found any. - RM.]


2.5 Local government policy on social economy

The terms "social economy," "solidarity economy," and "third sector" refer to enterprises that use business methods to address social, economic, cultural, and health needs in a community or region. A social enterprise may take any one of a variety of forms, such as a producer cooperative, a credit union, or a non-profit corporation, but common features include democratic governance and an
orientation to serving community needs rather than private capital accumulation. Typical enterprises include childcare, elder care, waste recycling, cooperative housing, cultural production, food production and distribution, and financial services. These provide local employment as well as goods and services of direct use to the community.

LRGs in many countries include social economy enterprises in their planning processes and support them with start-up funding, technical assistance, skill training, and preferential treatment in procurement contracts. The enterprises themselves, once established, invest their surplus in training, quality improvements, and expansion of their services.

Some social enterprises may need to have financial support on an ongoing basis. They should not be forced into commercial self-sufficiency if this distorts their mission, undermining their original social purpose.

There is enormous potential in social economy enterprises for local economic development, particularly in situations that demand innovative solutions. We discuss this in the next section.

**Santropol Roulant, Montreal, Quebec, Canada**

Santropol Roulant (santropolroulant.org) is a Montreal-based not-for-profit organization founded in 1995 at a time of high youth unemployment and extensive downloading of responsibility for health care services from the federal government to the provincial government, and ultimately to the community. The enterprise brings people together across generations and cultures through an innovative meals-on-wheels service, food baskets produced in their own community gardens, intergenerational activities, a bicycle shop, and various volunteer programs that create an opportunity for diverse groups of people to interact and support each other in their common needs and concerns. At the same time it provides employment for young people desiring meaningful employment and work experience, and volunteer opportunities for those wishing stronger links with the community. The enterprise thus addresses issues of food security, social isolation, unemployment, and youth engagement. It is a membership-based organization, with over 1000 members who have received meals from Santropol Roulant, served as one of its volunteers or employees, or made a donation. Volunteers range from 4 to 101 years old and the range of ages who receive meals is large as well. It delivers over 22,000 meals a year, mostly to seniors, empowering them to continue living autonomously. Says Marc Nesbitt of Santropol Roulant, “We’re plugged into a network that’s not just a homecare model but a community care model...it’s an effort to engage a whole community network around [a person with need].”

*Source: CCEDNet Profiles of Youth in CED, 2006, and santropolroulant.org, 2014*

**2.6 Local government policy on innovation and sustainability in the green economy**

Innovation, in the context of LED, means to make improvements that add value. This can take various forms. It can mean a new or better product or service for the customer, or an improved process that increases the producer’s efficiency and lowers costs. In either case, the innovation improves the competitive advantage of the enterprise in the marketplace.
There is also social innovation, which is any new approach or product that has been developed to improve a social situation or solve a social problem. Not all social innovations are relevant to LED, but many are. An example is the approach to waste management adopted by the city of Dar es Salaam, Tanzania (described in the case study below). The initiative created employment for youth in neighbourhoods that previously had no waste disposal services. Innovation has continued in the decade since its inception, as composting and recycling have been added to basic waste disposal, reducing pressure on the city's landfills and adding to the revenue streams of the enterprises.

This innovation is an example of opportunities available in "green economy" sectors, that is, initiatives that promote employment, environmental sustainability, and social inclusion. The green economy comprises enterprises that result in "improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. It is low carbon, resource efficient and socially inclusive" (UNEP 2011).

LRGs in many countries are providing leadership in green economy initiatives, even where national governments lag behind: improving energy efficiency, developing sustainable public transportation systems, recycling waste, treating wastewater, reducing air pollution, and limiting greenhouse gas emissions.

These initiatives create many new opportunities for MSMEs. For example, simply retrofitting municipal buildings to make them more energy efficient can create opportunities for installing, operating, and maintaining renewable energy systems, such as solar panels and wind turbines. An initiative in Bangladesh trains local youth and women as certified solar technicians and as repair and maintenance specialists; it aims to create 100,000 jobs. In some cases, the new green technology can itself be produced locally; in Nairobi, the Kibera Community Youth Program (kcyp.net) has created jobs in the assembly of solar photovoltaic panels for the Kenyan market.

LRGs can support these new industries by adopting policies that link environmental sustainability with local economic development in their territories, for example by mandating increased use of renewable energy and green technology in their own facilities, and by favouring local enterprises in procuring green products and services.

Some sectors of the green economy are problematic. Worldwide, there are over one million jobs in the biofuel industry, growing, harvesting, and processing maize, sugarcane, and palm oil. In some countries, notably Brazil, Colombia, Malaysia, and Indonesia, these jobs pay poorly and have dangerous working conditions. There is also considerable controversy over their displacement of food production. Certain kinds of recycling work, particularly of used electronic products, is also hazardous and poorly paid. LRGs can play a role monitoring these industries and intervening.
where possible to improve the wages, working conditions, and the labour rights of their workers.

Community-based waste management in Dar es Salaam, Tanzania

Dar es Salaam is one of the fastest growing cities in Africa. Over 70 per cent of the city’s 4.3 million people live in unplanned, informal settlements, making provision of basic municipal services like water supply, transport, and waste disposal a major challenge. In 1997, with support from the ILO, the Dar es Salaam City Council (DCC) contracted with about 70 community-based enterprises for waste disposal services in the city’s neighbourhoods. The DCC conducted sensitization campaigns, staged neighbourhood meetings, and enlisted the support of local elected ward leaders to explain the arrangement to the residents and to ensure fee payment by the households and businesses served.

Despite some issues with fee payment, this arrangement has worked well. It provides a living wage to over 1500 workers, mostly women and youth, while also improving environmental sanitation and public health conditions. Over the years since that time, the enterprises have added composting and recycling to their operations, providing compost to the city’s urban gardeners and raw materials to local manufacturers, reducing pressure on the city’s landfill sites, thereby adding to their revenue streams. They have come together to form the Dar es Salaam Waste Management Association (DAWAMA) and have received assistance from several international organizations for training and equipment.

Source: UN-Habitat and Sustainable Cities International

2.7 The role of local governments in agriculture

Prospects for sustainable livelihoods in agriculture have been declining in recent decades. Low-input, sustainable, smallholder agriculture, a traditional source of livelihood around the world, is being squeezed by large-scale industrial agriculture, frequently supported by heavy state subsidies. Plantation agriculture, notably for biofuels and for exports of fruit, vegetables, and even cut flowers, is displacing food production for local consumption.

International organizations like the World Bank and the World Trade Organization claim that industrial agriculture and trade liberalization have lifted hundreds of millions of people from poverty, increased food production, and reduced its cost to consumers. Companies like Monsanto and BASF argue that their research and products have contributed significantly to increased productivity in an age of rapid population growth with limited quantities of soil and water.

On the other hand, smallholder organizations like Via Campesina, farm workers’ unions, and numerous NGOs argue that the fossil-fuel dependent industrial model is unsustainable, that the wages and working conditions it offers to its workers are typically poor, and that its displacement of rural people contributes to poverty and malnutrition, driving large numbers of them to the urban slums of large cities.

LRGs are uniquely situated to determine which of these points of view is the more valid for their communities, and to devise LED strategies appropriate to the needs of the local population. Where large-scale, industrial agriculture is established, the appropriate responses may be to monitor and regulate working conditions and to
foster ancillary MSMEs that add value in their community. LRGs can negotiate procurement policies with local large-scale producers to favour MSMEs in their community, building upstream and downstream linkages to the larger enterprise.

Even in such communities, however, it is also appropriate for LRGs to foster small-scale agriculture with an emphasis on food production for local consumption. Large, commercial monocultures, dependent on expensive chemicals and fossil fuels, producing goods for export, are susceptible to pests, diseases, climate change-induced droughts and floods, volatile prices, and rising transportation costs. Moreover, they are relatively capital intensive, providing far fewer jobs per unit of investment, and per hectare, than small-scale, low-input agriculture. In the best of times they are still unlikely to provide livelihoods for most of the population.

To foster local food production, LRGs in rural areas assist with investments in infrastructure. Irrigation schemes and other forms of water management – dams, dykes, embankments – are especially beneficial for improving the productivity of smallholder food production. LRGs can also assist with arranging support to smallholders from national ministries, extension staff, and micro-credit institutions. Providing advice, training, and study tours can be of significant long-term benefit to farmers (see the Cambodia case reference below).

### Promoting intensified rice production in Cambodia

Agriculture is the base of the Cambodian economy, providing livelihoods for the great majority of the population. Rice is the staple crop. The National League of Communes/Sangkats (NLCS), Cambodia’s association of local governments, is fostering a program to promote the role of local governments in local economic development, with a strong emphasis on boosting agricultural productivity in rural communities.

In Kampong Chan province, for example, the district government has been supporting a demonstration project, with technical support from the district agricultural staff, to promote agricultural productivity. The aim is to increase income levels and living standards for local farm families.

In 2011, as part of a demonstration project, twenty-two “champion farmers,” (11 men and 11 women) were selected and trained in new agricultural methods, including rice seed selection, better planting techniques, and the use of natural fertilizers in place of chemicals. They also participated in study tours to other parts of Cambodia to gain knowledge and skill in such areas as marketing and understanding of agricultural product supplies.

On returning to their communities, the champion farmers organized farmers’ groups and, with very modest financial assistance, demonstrated the use of the new methods of intensified rice cultivation on their own farms. The results for those using the new methods have been crop yield increases of up to 50 per cent. They have also reduced costs by replacing chemicals with natural fertilizers.

One of the champion farmers, Mrs Yorn Than, a 40-year-old widow with four children, found that she had not only increased her rice yield significantly but could now do rice cultivation twice a year, more than doubling her income.

Key success factors for this approach, identified by the district, are having a clear plan and a clear project structure, focusing on training rather than providing materials and equipment, selecting the
champion farmers using clear, impartial criteria, and supplementing the training with study visits to experience new ideas and practices.

Source: Federation of Canadian Municipalities

In urban areas, LRGs can zone land for community-based agriculture and support it with technical assistance. The Cuban experience (described in the case below) shows the enormous potential for rapidly expanding low-input organic food production, as well as employment, in urban areas. As noted in the case of Dar es Salaam, urban agriculture can also help to reduce waste through composting.

The Cuban experience

The Cuban experience illustrates the possibilities of both urban agriculture and small farm production systems. In 1989, Cuba’s agriculture was totally dependent on oil, fertilizers and pesticides from the Soviet Union and its allies; an estimated 57 percent of the island’s caloric intake was imported, as was 80 percent of all protein and fat. The collapse of the Soviet Union brought this system to an abrupt halt, forcing Cuba to transition from a conventional high-input, monocrop-intensive agricultural system to smaller organic and semi-organic farms.

To respond to the changing food supply, an Urban Agriculture Department was established in Havana to develop urban growing in a city that had relied on imports or rural production for decades. At first, per capita daily caloric intake dropped from 2,908 calories in 1989 to 1,863 calories in 1995, a decline of 36 percent. But by mid-2006, caloric intake had rebounded to 2,473 – a recovery due almost entirely to the changes in Cuban agricultural methods. Today, urban agriculture provides 50 percent of the caloric intake for Havana’s 2.5 million people.


2.8 Local government policy on culture

Cultural policy refers to the approaches taken by governments, including LRGs, to encourage and protect activities in their jurisdiction that are defined as cultural.

This can be confusing because the term "culture" has a range of meanings.¹ In a narrow sense, culture refers to artistic activities such as drama, literature, painting, sculpture, photography, music, and dance. Governments are one important source of support for culture in this sense. In a larger sense, culture includes the broader "cultural industries," including radio, television, film, music recording, book publishing, and new media. Governments typically play a major role in encouraging and regulating these industries in their jurisdictions, not only for economic reasons but also in order to defend and promote the identity of their people.

In its broadest sense, the term culture refers to the entire way of life of a society: not only its artistic activities and creative industries but also its values, beliefs, capabilities, customs, social relations, language, gender roles, and so on. Governments play a major role in shaping, defending, as well as in changing the

¹ This might be different in other languages. I would ask readers of this first draft to comment - RM.
culture in this sense, and must be conscious of the ways in which the existing culture both limits its options and presents it with opportunities.

LRGs play a major role in the culture of their communities, in all three senses of the term, and in each case this has implications for local economic development.

Most directly, many artistic activities are also economic activities, generating employment and income for those who take part in them. They provide content for the creative industries, including cinema, radio and television, book and magazine publishing, the internet, and video games. They also have indirect effects, attracting tourists and bringing customers to hotels, restaurants, and retail shops.

In places endowed with outstanding natural beauty or a compelling historical heritage, tourism can be a major economic sector. In such cases, artistic enterprises of all kinds can thrive from the patronage of tourists. In other cases, the reverse may be true: a community that becomes known for its publicly-funded festivals, live music, art galleries, or public art will attract visitors and contribute to the branding of the community, making it a desirable destination.

In recognition of this, many LRGs, as a matter of policy, allocate a proportion of their annual budgets to support artistic activities in their communities, and elicit contributions from the business sector as well.

But culture is far more than a commodity to be packaged and sold to tourists. Artistic productions of all kinds provide a community with a sense of identity, fostering social cohesion, and adding a sense of meaning and purpose to life in all its aspects, including its economic life. This contributes to the resilience of a community, something essential in a time of crisis brought on by natural or man-made disasters.

Young people who enter into cultural production develop self-confidence, creativity, and imagination – key aspects of entrepreneurship. These are especially important capabilities for members of vulnerable groups in a community; their participation in cultural activities can foster new, positive perspectives on their lives and futures.

Cultural activities are also ways to create dialogue across different segments of a community, building trust, the social capital that is so critical to the success of LED initiatives. They raise awareness of alternative ways of viewing an issue, and of collective responsibility for the well-being of the community, and thereby catalyse public action.

All of these activities affect the community’s culture in the broadest sense of the term, usually for the better. Taken together, they provide a compelling set of arguments for LRGs to support artistic activities and cultural enterprises. In cases where these cannot be self-supporting, they may be established as non-profit, social economy enterprises with financial support from the LRG as well as from foundations, businesses, and volunteers.
In their planning for local economic development, LRGs analyze the barriers and opportunities presented by the actual conditions of the local culture. What is the extent of social capital in the community? Is it extensive, or is there mistrust between different segments? How do the predominant values and beliefs limit the strategic options or open up opportunities for new initiatives? What are seen as acceptable roles for men and women respectively? What is the range of capabilities of the population, and how can it be extended? Answers to questions like these about the culture shape the LED strategies of an LRG.
3. Tools for Local Economic Development

3.1 Introduction

In this section we present an overview of tools and methods employed by LRGs to promote local economic development. This document is not a manual for the practice of LED; for detailed advice on LED tools and methods, please consult our Bibliography, where we list several useful LED manuals.

3.2 LED as an alliance of partners

Local economic development, to be effective, equitable, and sustainable, requires that LRGs build an alliance of partners in the community. All groups in a community who can affect LED, or who are affected by it, have a stake in the planning, implementation, and evaluation of LED initiatives.

The composition of this group of stakeholders will vary from one community to another, but in general it is important to include representatives of the following groups:

- The LRG itself, including the mayor, other elected officials, and the relevant staff, the group providing leadership in creating the conditions for successful LED;

- National and state/provincial governments, as sources of advice, technical assistance, and financial resources for LED;

- The local chamber of commerce and other business associations;

- Primary producer associations: farmers and fishers;

- Labour unions and trade unions;

- MSMEs and the informal sector, to the extent that they are organized separately from the larger businesses and associations in the community;

- Schools, universities, and other institutions of higher learning that have the capacity to provide analysis of the local economy, training in technical skills, and input to LED planning and evaluation;

- Financial institutions: banks, credit unions, and microfinance institutions (MFIs);

- NGOs and community organizations that are active in LED;

- International development partners that are working in the community;

- Newspapers and other media, to keep the public informed;
• Any social groups in the community with a strong stake in LED because of unemployment or other forms of exclusion, for example youth, indigenous people, or ethnic minorities;

• Other persons of influence in the community, such as traditional authorities and religious leaders, as well as groups representing the interests of women, to promote popular participation, to increase awareness of groups experiencing exclusion, and to strengthen the transparency and accountability of the LED process.

These alliances need to be created early in the process of developing a community-wide strategy for LED. They build trust and form the basis of long-term partnerships. The aim is to develop a plan that is backed by the commitment of the key actors in the community, to ensure that the strategy is more than just a plan on paper. Several of the LED manuals noted in the Bibliography provide advice on making these processes truly participatory and the stakeholder involvement substantive.

3.3 Creating appropriate structures for governance and management of LED

The specific methods and structures through which stakeholders participate in LED processes vary according to the size, resources, and complexity of the community and the capacities of its LRG. The normal practice is to establish a core planning group. This group convenes the stakeholders and launches the consultation process leading to the creation of a strategic plan for LED in the community. We discuss strategic planning in Section 3.4.

Let us call this core group the Office of Economic Development (OED), using the terminology proposed by VNG International (Budds et al. 2013). The OED may be a regular department of the LRG, a semi-autonomous agency overseen by the LRG, or an autonomous agency governed by a board of directors that includes the LRG, the Chamber of Commerce, and other community stakeholders. Each arrangement has distinct advantages. When the OED is a department of the LRG, it is likely to have stronger connections to the other branches of the municipal government and be better able to coordinate LRG action on LED. An autonomous or semi-autonomous agency may have more freedom to recruit appropriate staff and take initiatives without having to go through bureaucratic procedures.

The key functions of the OED are to:

• Convene the stakeholders and lead them in the planning process;

• Serve as the staff to the stakeholders;

• Conduct research and provide information to the stakeholders;
• Coordinate the action plan devised by the stakeholders;

• Monitor and evaluate progress and report to the stakeholders;

• In some cases, the OED itself may also implement LED projects in the community (as in the case reference below).

Although an action plan assigns tasks to a wide range of individuals and organizations, the OED is responsible for coordination, and it may take on many of these tasks itself. These include such matters as: market research and feasibility studies, promotion and branding of the community, liaison between the LRG and the business community, and raising funds for LED, especially for social enterprises that may not have access to normal commercial sources.

In addition to the core group, it is also critical to establish a forum for the participation of the stakeholders beyond the initial planning period. This may serve as the governing body of the OED, or it may be an advisory body or reference group; this decision will depend on local circumstances. The function of this forum is to give general direction to the OED, ensuring that the interests of all members of the community are represented and addressed.

[Case reference from Ukraine to go here.]

3.4 Integrated strategic planning for local economic development

To make progress in local economic development, a strategic plan is essential. Approaches to strategic planning vary, but all include these elements: preliminary research and analysis of actual conditions in the community, creation of a vision of a desired future state, development of a strategy for realizing that future state, coordination of the implementation process, monitoring and evaluation of progress, and course correction as required. Each of these elements should engage the stakeholders as active participants to the extent that is possible and practical. Here we discuss these elements briefly; for detailed treatments, see the resources listed in the Bibliography.

Strategic planning begins with research and analysis. One approach widely used is asset mapping, a participatory process designed to identify a community’s resources and strengths before focusing on its deficits. This positive approach involves stakeholders in identifying individual capacities and organizational resources already present in the community, the assets upon which to construct a strategy for development (see Kretzmann and McKnight, 1993, as well as the extensive resources on asset-based community development available at abcdinstitute.org).

There are many kinds of assets. A good baseline survey will include everything from physical infrastructure like roads, public utilities, and ICT, through current land use, the knowledge and skills of the people, and cultural resources – the customs, beliefs,
and practices that give economic development its meaning and purpose. The 'map' created will include a good picture of the business and investment community within the municipality, and it will identify the networks of connections and relationships within the community and the potential they hold for developing new LED initiatives.

An asset-based approach helps to avoid the error of constructing a plan without regard to the actual conditions and resources of the community. A good strategic plan must have a vision of a desired future state – a vision developed and shared by the stakeholders – but the strategy for achieving that vision begins with the assets already present and builds incrementally upon them.

Strategic planning must also include scanning the broader regional, national, and global environment for opportunities and threats, and it does not ignore the deficits in the community or the need for outside resources, but basing strategy upon actual existing assets ensures that the community has a sense of ownership of the plan and of its own economic development process.

Equipped with this research and analysis, the OED is in a position to convene the stakeholders to develop a vision of the future of their community and a strategy for achieving it. Depending on the size and complexity of the community, this could be a single event or a process stretched out over weeks or months. In either case, it is here that participation by all of the key stakeholders is critically important. The strategic plan belongs to the stakeholders, not to the OED. Without this sense of ownership and commitment, the plan will not come to life.

Developing a strategic plan in this way has the advantage of creating the potential for new forms of cooperation among different enterprises in the community, finding synergies in the reutilization of resources, such as energy, water, and waste materials, and through the mutualization of services by the sharing of equipment, materials, and personnel. Building the strategic plan in this way strengthens the social capital of the community and adds to the sense of community ownership of the LED process.

Depending on their conditions and geographical locations, LRGs themselves may enter into cooperative arrangements with neighbouring LRGs, for example through the mutualization of municipal services such as transportation, water treatment, or waste management. Such arrangements may even be made across national borders, or link urban and rural municipalities, facilitating economic development in both communities by means of cross-community planning.

Strategic planning has been found to be especially useful in a city or town that is facing the need for reconversion after the loss or decline of its major industry. It is the starting point for a process of recovery based upon the many assets present in the community. The reconversion experience underlines the importance of planning for the development of a diverse local economy, building new sectors, and
avoiding dependence on a single industry. Multi-specialization, the development of a number of sectors with complementary relationships among them, builds a much more sustainable local economy.

**Community engagement in Naga City, Republic of the Philippines**

Naga City in Bicol Region of the Philippines has a population of about 175,000 people which swells to an estimated daytime population of 300,000 to 400,000. The city is landlocked and not well-endowed in terms of resources or location. It is therefore economically disadvantaged compared to other cities, especially port cities.

Twenty years ago, the local economy was weak and employment was scarce. Business sector confidence was low and there was little cooperation among the various sectors of society. The Central Business District (CBD) was overcrowded and jammed with traffic in the daytime. The city was plagued with common social ills, notably poverty, homelessness, and crime, and the city’s weak tax base limited the availability of social services. These conditions discouraged investors, further reducing the prospects for economic development.

In 1987, a new municipal administration led by Mayor Jesse Robredo adopted an approach to local economic development based on the “principle of stakeholdership.” The model has three key elements: *Progressive development*, the promotion of economic growth combined with pro-poor initiatives to build prosperity for the whole community; *Functional partnerships* with organizations in the private sector and civil society that multiply the local government’s capacity; and *People participation* to give all sectors of the community - including the marginalized - a voice in government decision-making.

The City expanded the people’s role in government by establishing the Naga City People's Council (NCPC) with the participation of close to one hundred NGOs and people’s organizations, giving it direct involvement in policy-making, project implementation, monitoring and evaluation. For example, various civil society organizations are represented in the Development Council, the Bids and Awards Committee, the Peace and Order Council, the Environmental Management Board, and several other local bodies. At the same time, the City established accountability mechanisms to provide the citizenry with detailed information on the City budget and fiscal performance, as well as notices of bids, public offerings, and procurement activities.

Working in partnership with the private sector and civil society, the City has provided leadership in strategies to reduce traffic congestion in the CBD and to develop new business districts and satellite markets, encouraging new investment. The City fosters small enterprise development and has upgraded the infrastructure supporting several sectors, including agriculture, tourism, culture, and sports.

Naga City officials have demonstrated that good local governance matters. The city is now one of the fastest growing economies in the country. It is considered a livable city, with improved basic services, a much higher employment rate, and much less poverty. The city is now recognized as a centre of local innovation. It has developed its own City Governance Institute to share experience with other cities and municipalities from the Philippines and around the world. Nevertheless, Naga City authorities recognize that much remains to be done to sustain the gains achieved and to build upon them.

City authorities recognize the key factors in Naga City's success as the shared ownership of a wide variety of initiatives, collaboration across several sectors with business and civil society groups, development of a corps of highly competent, hard-working professional staff, and continuity of City leadership and management that has built a constructive rapport between the City administration and all sectors of the society.
Strategic plans require effective methods of monitoring and evaluation to provide regular feedback to the stakeholders on progress and difficulties encountered in the implementation process. The practice of developmental evaluation (Patton 2011) begins in the earliest stages of planning, with the collection of baseline data and the recording of theories used and assumptions made by the stakeholders as they fashion their plans. Using a range of evaluation tools, evaluators monitor progress in relation to the baseline data and test the validity of the theories and assumptions underlying the plan, and feed back their findings to the stakeholders. The purpose of developmental evaluation is to contribute to making local economic development a learning process. To be effective it must be continuous, not episodic or solely post hoc. The evaluator contributes to program decision-making on an on-going basis, providing analysis and advice to the staff of the OED.

### 3.5 Financial tools

Most LRGs have limited financial resources. Many even have difficulty finding the core funds for their OED. All face challenges finding program funds to seed a new start-up, to provide an incentive to encourage new investment, or to upgrade their infrastructure. As the potential of LED has become more evident in recent decades, the need for new, innovative sources of funds has become a crucial issue.

Perhaps the most important first step for both LRGs and local stakeholders is to develop their knowledge and skill regarding the financial tools available to them: what sources are available, and what are the implications of each. Many national governments and international financial institutions (IFIs) have come to recognize the potential of LED and provide grants or soft loans to encourage it. Support from these sources for the core operations of an LRG’s economic development department or agency is especially useful, as it helps LRGs to bring high quality leadership, planning, coordination, regulation, and technical expertise to local economic development efforts.

There are various tools available to an LRG for encouraging private capital investment in LED. Tax incentives of several kinds are widely used, but have their limits. Many LRGs have learned to avoid tax reductions that compete with the breaks offered by other LRGs to attract outside investors, and some higher-tier governments have introduced regulations that preclude this kind of inter-city competition as a "race to the bottom." In fact, a private investor with a long-term perspective and a commitment to the community is more likely to prefer an LRG that uses its tax revenue to provide excellent infrastructure, strong education and training institutions, and attractive cultural amenities for its citizens.

There are, however, alternative methods for leveraging private capital. Public-private partnerships, for example, can take the form of joint ventures, leases, or contracts, and hold much potential for eliciting private investment. They offer
benefits both to the LRG, in the form of new enterprises, employment, and tax revenue, and to the private investor, who gains a stable business partner and more reliable returns.

Municipal bonds, regional investment funds, loan guarantees, and grants from international development agencies are among the wide range of other sources. Private investors can also contribute to public goods and LRG revenue through such mechanisms as businesses improvement areas (BIAs), described in Section 2.2, as well as infrastructure levies, which are widely used in Asia.

LRGs can also introduce green taxes, such as the "congestion tax" charged on vehicles entering central Singapore, London, and Stockholm, and apply the revenue to improved infrastructure. LRGs can draw on these revenue sources to provide seed capital for social enterprises and to facilitate the transition of informal enterprises into the formal economy. In some cases, upper-tier government agencies and private charities also provide seed capital for these purposes.

An OECD publication has reviewed 50 methods in current use by LRGs, national governments, foundations, NGOs, IFIs, and commercial banks to provide finance capital for LED (Clark and Mountford, 2007). Many of these are relevant to LRGs in places well beyond the OECD.

LRGs can also launch their own microfinance institutions (MFIs), as they have done in Latin America with the cajas municipales (Jaramillo 2013). With public ownership and/or regulation, MFIs can be a valuable source of finance capital for MSMEs. Without proper regulation, however, MFIs can be problematic, diverting a large proportion of available finance capital into unproductive informal enterprises and individual consumer loans at exorbitant interest rates, and away from investment in more productive MSMEs in the formal economy (see Bateson 2010, 2013). Brazil’s Community Development Banks, which are community-owned, provide an example of local financial institutions offering loans at affordable interest rates to well-managed MSMEs with good business plans, long-range intentions to remain in the community, and good employment opportunities (see case reference below).

Brazil’s Community Development Banks: Making financial services accessible

Community Development Banks (CDBs) grew out of social movements in Brazil concerned with making financial services accessible to the 40 per cent of the population who had been excluded. The first CDB, Banco Palmas, was launched in 1998 by The Association of the Residents of Conjunto Palmeiras, a suburb of Fortaleza with a population of 32,000 people. The CDB is governed democratically by the neighbourhood association. Since that time, more than 50 CDBs have been created on the same model in other parts of Brazil.

CDBs provide a variety of financial services, including microcredit loans for MSME start-ups, loans for vocational training, consumer loans, life insurance, and banking services. Banco Palmas offers production loans in Brazilian currency and consumption loans in their own social currency, Palmas (P$). The Palmas can only be spent in the 250 shops accredited by Banco Palmas, and they only circulate in the Conjunto Palmeiras neighbourhood. The production and consumption loans thus
promote local enterprise on both the supply and the demand sides. Interest rates vary according to the period of the loan and the type of currency.

Banco Palmas makes its own loan appraisals through its community loan officers and a Credit Assessment Committee (CAC). Eligibility is dependent on assessment of the business plan, previous track record, and personal reputation.

In 2006, Banco Palmas made an agreement with the Banco Popular do Brazil, a public bank, to expand the banking services available to its members, such as payment of bills, withdrawals, and chequing accounts. Further partnerships between CDBs and other public banks have expanded the level of capital available to CDBs. Banco Palmas, for example, in 2011 granted loans worth over 2.6 million R$ (about US$1 million).

These arrangements with mainstream banks have had some effects on the practices of the CDBs, such as consulting credit protection agencies when making loan appraisals and reporting clients to these agencies in cases of default. Nevertheless, the basic principles of CDBs remain: democratic governance and a focus on endogenous development in the community in which its based.

Source: Meyer and Leal (2013)

### 3.6 Research and innovation

Innovation is the key to developing competitive advantage in the marketplace, and the key to innovation is research. LRGs foster research and innovation in support of LED, both directly and indirectly.

Through their OEDs, LRGs conduct research of value to their stakeholders. Of particular importance is market research, investigating opportunities and threats, analysing value chains, and determining how enterprises in their community can add value to their products. The OED also stays abreast of new technologies and best business practices, investigates sources of finance capital, and keeps stakeholders informed of the socioeconomic conditions and issues in the community.

LRGs also bring local institutions with a capacity for research – schools, colleges, universities, science and research parks – together with enterprises in the community that have the capacity to bring new innovations to market. Research capacity is one of the most important assets in a community; LRGs support these institutions and include them in their stakeholder forums.

Business clusters and incubators (described in Section 2.2) are methods used by LRGs to promote innovation through the synergies of enterprises working together, sharing resources, and learning from one another. Of particular interest currently are "green incubators," in which researchers and entrepreneurs work together to devise technologies that are more energy efficient and that reduce pollution and greenhouse gas emissions while also reducing production costs.

Innovations typically arise as solutions to problems faced by an enterprise. These problems may be technical, environmental, social, political, or some complex combination of several of these dimensions. In an age of increasing complexity,
more enterprises are looking outside of themselves for solutions through the use of open innovation methods. In the case below, Quebec Seeks Solutions, we describe the role played by one local economic development agency in fostering local open innovation.

*Quebec Seeks Solutions: A local economic development agency fosters local open innovation*

Open innovation is based on the recognition that business and technical solutions can flow into an enterprise from outside and do not always have to be generated internally, and that they can flow out of an enterprise to partners and clients, and do not have to be exploited solely by the enterprise. Many large corporations use open innovation methods, but it is not yet practised by many MSMEs due to expense, lack of awareness, and lack of knowledge about the management of intellectual property issues.

Beginning in 2010, Quebec International, the economic development agency for the Quebec City region in Canada, has contributed to the development of the Seeking Solutions approach to fostering local open innovation by means of a methodology that makes it accessible to MSMEs and fosters a wide range of productive connections between enterprises and researchers.

Seeking Solutions is a four-step, locally-based process that draws on the many talents and problem-solving skills available even in a small or medium-sized city. The first step is to put out a call for problems. The organizers – who may be the local economic development agency or any other entity with credibility in the community – ask the wider community to submit challenging business problems that they have been unable to solve by themselves. This is often the most difficult step, especially when there is lack of experience with open innovation methods. It is here that a local economic development agency can play a valuable role in making the case to local businesses for experimenting with open innovation methods.

Once a number of problems have been submitted, the second step is to select the problems to be addressed. This is necessary because there may be more than can be addressed at one time, or because some may not be of a type that can be solved through open innovation methods. In this step, the organizers assign "ambassadors" to work within the enterprise that has submitted a problem. An ambassador is someone with a good knowledge of the particular domain in which the problem resides. This person will work with the enterprise to help define the problem further before broadcasting it.

The third step is to broadcast the problem via a web-based platform to a diverse range of potential problem solvers. Here the organizers make use of their valuable pre-existing links with research centres, universities and colleges, science parks, and any other sources of innovation in the community. In addition to this wide broadcast, they may also approach known specialists with expertise that is relevant to the problem area.

The fourth step is to convene a conference that brings the problem solvers together with those seeking solutions. This may be as brief as one day. At the conference, participants work to define the problem further, possibly to reframe it, to explore a range of possible solutions and, if possible, identify which one is the best.

The first Seeking Solutions conference took place in Quebec City in 2010, a second in 2012, and a third in 2013. With each new round it becomes easier to elicit problems as participants, both solution seekers and problem solvers, recognize the value of open innovation. The process has increased the richness of networks in the Quebec City region that bring together enterprises, research centres, and universities and has led to many indirect benefits as a result.

*Local* open innovation is, in itself, a recent innovation, and especially relevant to the work of local and regional development departments and agencies. Its effectiveness springs from the fact that all
The actors are local: they share knowledge of their region, they speak the same language, and tend to have the same values. By meeting face-to-face at a conference, and continuing to live and work in the same vicinity, they are able to build productive relationships that endure for the long term.

Sources: Masson (2013) and Deutsch (2013)

Research can also serve to bridge the rural and urban economies, as local actors develop methods to add value (downstream) by processing local agricultural products, or (upstream) through new technologies and inputs to agricultural production.

Considering rapid innovations in technology, in business practices, in methods of financing LED, and in social enterprise, a global observatory on local economic development would perform a very useful service, aggregating and diffusing knowledge that is useful to LED practitioners around the world. This would be a useful contribution from international development partners.

3.7 Building the capacities of local actors

The most valuable assets in any community are the knowledge and skills of its people. In several of the sections above, we have described methods LRGs are using to build on the existing capacities in the community: business incubators for young entrepreneurs; the clustering of businesses to foster learning from one another; workforce development programs that benefit both employers and workers; and the extension of technical services to informal businesses, social enterprises, and agricultural producers.

Many LRGs make capacity development a central part of their strategic plans, and engage local schools, colleges, and universities to provide training in technical, professional, and management skills by designing new and innovative curricula that match actual needs in the local economy.

LRGs also recognize the critical importance of training their own elected officials, staff, and stakeholder groups in approaches to LED, in the governance of economic development, and in policy development. In some cases, there is a valuable role in this training function for technical assistance offered by international development partners. Working with a strong appreciation of local knowledge and skills, and with respect for local values and goals, international development partners are well-positioned to provide workshops and study tours for the key LED actors in a community or region.

Study tours are especially beneficial if timed early in the process of strategic planning or in the design of a new initiative. Elected officials, staff, and stakeholder groups can learn from similar efforts in other places, seeing first hand the actual approaches used and hearing from their counterparts the lessons they have learned.
Small-scale, short-term demonstration projects are another useful learning tool. Not only do they provide a practical display of a new method or product, they also generate a sense of momentum in the LED process.

Some LRGs have established knowledge management (KM) systems that capture the learning from their own experiences and also provide access to knowledge from outside their community. These might be simple devices such as fact sheets and regular knowledge-sharing events. When resources allow, they can also include more extensive databases and Internet sites and portals that open a vast range of knowledge to anyone who wishes to use them. Assistance with setting up and maintaining KM systems is another useful role for international development partners.
4. Conclusion

The economic challenges of the 21st century are daunting. Rapid urbanization resulting from large-scale displacements of populations, with attendant crises of mass poverty and unemployment, threaten to persist well into this century, especially in the Global South, driven by changing production systems in the countryside, soil depletion, water shortages, climate change, and population growth itself. Counterproductive policies imposed in recent decades on many developing countries by the IFIs have only exacerbated these forces, as has the instability in global financial systems. The dangers arising from the consequent social inequality and the erosion of social cohesion due to mass privation include homelessness, food insecurity, and widespread recourse to informal livelihoods and crime.

In the struggle to tackle these issues, to mitigate their worst effects and to move towards a world in which people may live the life they choose, the public institutions on the front lines are local and regional governments.

The elected officials and staff of LRGs work where the people live, meet them face to face every day, and know their capacities, their needs, and their aspirations. They are ideally situated to provide the leadership needed to generate inclusive, sustainable economic development in their communities. By working directly with all sectors of their local societies, mobilizing them to analyze their circumstances, devise strategies, and initiate solutions, LRGs can provide the necessary complement to national and supranational policies, plans, and programs.

But to say that LRGs are ideally situated is not to say that they are adequately resourced, quite the contrary. Too often an LRG’s experience of decentralization has been one of being required to bear responsibilities without the necessary legal mandate, institutional support, skill training, or financial resources.

The purpose of this paper has been to call attention to the vital role played by LRGs in economic development, to point out the kinds of policies and tools now in wide use by LRGs around the world, and, above all, to identify the policies urgently needed by national and supranational governments, international development partners, and LRGs themselves, to enable them to perform this role more effectively for their citizens.

National governments and, where appropriate, supranational governments must provide clear, legislated mandates to the local and regional governments in their jurisdictions, empowering them to play the role in economic development they are so well positioned to perform. Along with international development partners, they must also devote resources to building the institutional capacities of LRGs in the field of LED, providing skill training, mentoring, and other forms of support that LRGs themselves identify, such as knowledge management systems.
LRGs also need access to new sources of revenue to match the responsibilities transferred to them by national governments in their decentralization programs. Many LRGs lack even the resources to establish a suitably staffed office of economic development that is capable of conducting market research, mentoring young entrepreneurs, or monitoring and evaluating the progress of LED initiatives. National and supranational governments must provide, in some form, new reliable sources of revenue that allow LRGs to perform their roles in LED effectively.

To achieve these outcomes, LRGs and their national associations must work with national and supranational governments, engage them in dialogue about their capacities and needs, and demonstrate to national authorities that their local economic development initiatives are vitally necessary complements to their country’s development strategies.
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