

Think Piece on Local Economic Development¹

Cities as engines of economic development

1. KEY ROLE OF LOCAL GOVERNMENTS IN ECONOMIC DEVELOPMENT

In the Istanbul Declaration, proclaimed at the conclusion of Habitat II in 1996, the member states of the United Nations said "we recognize cities and towns as centres of civilization, generating economic development and social, cultural, spiritual and scientific advancement" (para. 2). Accordingly, the declaration stated:

"Recognizing local authorities as our closest partners, and as essential, in the implementation of the Habitat Agenda, we must, within the legal framework of each country, promote decentralization through democratic local authorities and work to strengthen their financial and institutional capacities in accordance with the conditions of countries, while ensuring their transparency, accountability and responsiveness to the needs of people." (para. 12)

This note addresses the following:

1. The key role of local governments in economic development
2. Challenges
3. Critical questions

The accompanying Agenda and Plan of Action elaborated in detail on the essential role of municipal governments in "making human settlements viable, equitable and sustainable" by "providing services and empowering people to secure economic development, social welfare and environmental protection" (para. 102). It called upon the international community to help local authorities and their community partners – the private sector, cooperatives, trade unions, nongovernmental organizations, and community-based organizations – to develop their capacities to perform these essential roles (para. 178).

A key role identified for local authorities in the Plan of Action was leadership in fostering local economic development (LED) (para. 180i). Since 1996, there has been impressive progress in developing the theory and practice of LED. Definitions of LED vary, but all have these common elements:¹

- 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. LED initiatives 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.

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- 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, not just economic growth. 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.

The rationale for LED is by now well-established. LED places responsibility for initiative and coordination at the local level, close to the people, where plans can be tailored to the particular circumstances of the community, and where local human and financial resources can be mobilized to address local needs.

2. CHALLENGES

In the process towards HABITAT III and the definition of a New Urban Agenda for the XXI Century, many serious problems that cities and towns, along with its inhabitants face include inadequate financial resources, lack of opportunities decent work, increasing the number of homeless and squatter settlements, increased poverty and a widening gap between rich and poor, increasing insecurity and crime rates, poor and deteriorating services and infrastructure, lack of urban planning, the misuse of land, tenure insecurity, urban mobility, increased pollution, lack of green areas, poor water supply and sanitation, uncoordinated urban development and increasing vulnerability to disasters. All these factors have tested the ability of governments at all levels, particularly in developing countries, to achieve the goal of economic and social development and environmental protection as interdependent components of sustainable development mutually reinforcing and provide the framework for our efforts to improve the quality of life of all peoples

Since 1996, local governments and their citizens have experienced both challenges and new opportunities in their efforts to foster local economic development in their communities. Many national governments have carried out programs of decentralization, usually by devolving authority to local governments for a variety of services and functions, including LED.

In many cases, however, there is no clear national framework for the decentralization to local governments of legal and fiscal authority for economic development. Local authorities require clarity as to their mandate, roles, and responsibilities in LED. When the constitutional, legislative, and policy frameworks governing LED at the national level are weak or non-existent, local authorities cannot play an effective role.

Moreover, local governments need access to sufficient financial resources to fulfill these mandates. In developing countries, most local authorities are underfunded; their tax base is small and the resources transferred from other levels of government are inadequate. Local governments need reliable sources of revenue to be effective leaders of LED initiatives.

Even if they have clear mandates and adequate funding, local authorities and their staff need help to develop their capacities in planning, coordination, revenue generation, and the creation of economic development structures, programs, and services involving community partners. This help can come from many directions: local government associations (LGAs), international development partners, such as local governments and their associations from abroad (peer-to-peer exchanges), the private sector, NGOs, state agencies, and national ministries.

There is also considerable potential in peer-to-peer learning, including South-South and triangular cooperation for sharing and learning about effective methods of LED. . Local governments have worked together in partnerships and twining for over 60 years. Parting from

the idea that local governments have a key role in the development of a country, strategic planning for LED has been one of the most important themes of recent local government development cooperation programs and projects.

A further challenge for local authorities is to find ways in which LED can mitigate the rapid increase in income inequality and social and economic exclusion in urban communities. In many cities and towns of the world, income inequality has grown at an astonishing pace. Slums lacking basic services have continued to grow in the cities of many developing countries. Young people in many countries lack employment opportunities of any kind. Gender inequality persists, with women facing barriers to education, training, and decent employment. People with disabilities, indigenous people and other minority groups, people suffering from AIDS and HIV infections, and other marginalized groups encounter multiple barriers to social inclusion and decent livelihoods.

In many cities of the world, the informal sector provides the only means of survival for people suffering these kinds of social and economic exclusion. For local authorities, the informal sector is both a problem and an opportunity. It weakens the ability of public policies to improve the well-being of the most disadvantaged members of the community, for example by establishing minimum wages and employment standards. Nevertheless, it is the main source of employment, however precarious, in many cities and towns.

There is an opportunity here for local authorities to use LED methods and resources to improve conditions for marginalized groups in the informal sector. Some potential methods, depending on the circumstances, might include such things as the extension of technical services, protection from abusive employment practices, micro-credit, new social enterprises, or extension and protection of land rights.

In summary, local governments need formal recognition of their role as leaders of economic development in their communities, and they need access to reliable sources of revenue to fulfill this role. This requires the adoption of sound LED policy frameworks at the national level, and revenue sources for local governments adequate to this mandate. With these policies in place, and with support for capacity development, local governments will be positioned to play a strong leadership role in building inclusive, resilient communities.

LED is seen as a strategic and critical, necessary to achieve the expected results of development at local, national and global level instrument. Where better dialogue between the territories to address global challenges and give the opportunity to citizens, North and South of the world, to express their common interest in sustainable human development is necessary.

Local governments have been working together through the UCLG Working Group on Local Economic Development, the UCLG Working Group on Capacity and Institution building (CIB) as well as within the LED WORLD FORUM, workspaces to advance the global dialogue through participation and sharing of experiences and visions process of a wide variety of actors. Thus local governments are challenged to create alliances and joint for greater impact on global agenda and in particular to address the challenges of Agenda Post 2015 and the preparatory process for Habitat III.

3. CRITICAL QUESTIONS

What can national governments do to empower local authorities with clear mandates to lead and coordinate LED in their communities? What are examples of best practices in this regard?

What can local authorities do to enhance the financial resources available for LED in their communities?

What are examples of best practices in capacity development for LED?

How can local authorities use LED methods and resources to improve conditions for marginalized groups working in the informal sector?

Questions about Urban Economics, from the DRAFT GUIDELINES AND FORMAT FOR PREPARATION OF NATIONAL REPORTS in the preparatory process towards HABITAT III

- What public policies are needed to support the local economic development?
- What is the added value and unique LED to promote employment policies? Which processes and mechanisms are necessary for the creation of decent work and livelihoods?
- How to improve municipal / local finances? And what processes for the integration of the urban economy in the national development policy? (target: what % of PIB provide cities)
- How can cooperation between LG to learn more from each other's practices on LED be enhanced and promoted?

RELEVANT LINKS AND READINGS

Gwen Swinburn, Soraya Goga, and Fergus Murphy, *Local Economic Development: A Primer. Developing and Implementing Local Economic Development Strategies and Action Plans*. Bertelsmann Stiftung, Gutersloh and The World Bank, Washington, D.C., 2006.

Federation of Canadian Municipalities, *Local Economic Development (LED) Primer*. FCM International, 2010.

DEL World Forum: <http://www.foromundialdel.org/>

Fondo Andaluz de Municipios para la Solidaridad Internacional: www.andaluciasolidaria.org

Resolution of the 24th Session of the Governing Council of the United Nations' Programme for Human Settlements, held from 15 to 19 April 2013 in Nairobi, Kenya. Available at: <http://www.unhabitat.org/list.asp?typeid=18&catid=744>

- [*Contributions and support to the preparatory process of the 3rd Conference on Housing and Sustainable Urban Development from the United Nations \(Habitat III\)*](#)
- [*Inclusive and sustainable urban planning and development of international guidelines on urban and regional planning*](#)
- [*Urbanization and sustainable urban development in the post-2015 agenda*](#)
- [*Promoting sustainable urban development by creating better economic opportunities for all, with special reference to youth and gender issues*](#)