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Swiss Agency for Development and Cooperation SDC
Agencia Suiza para el desarrollo y la cooperación COSUDE

Argumentation and Reference Paper on Local Economic Development

Author: Mrs Gwen Swinburn
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Employment and Income Division
Freiburgstrasse 130, CH – 3003 Bern
Tel. ++41 31 322 10 65, Fax ++41 31 323 08 49
e-i@deza.admin.ch
www.deza.admin.ch/ei

Governance Division
Freiburgstrasse 130, CH – 3003 Bern
Tel. ++41 31 322 33 30, Fax ++41 31 324 87 41
governance@deza.admin.ch

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Disclaimer

The usual disclaimer applies; errors and omissions are the responsibility of the author alone.

Views and Comments on this discussion draft paper are invited and may be addressed to:

Peter Beez, Economist, SDC peter.beez@deza.admin.ch

Alexandra Sagarra, Economist, SDC alexandra.sagarra@deza.admin.ch

Gwen Swinburn, LED External Adviser, MDP gwen.swinburn@gmail.com

Local Economic Development

A way forward to accelerate development at the sub-national level

Introduction

The purpose of this paper is to present to SDC staff and partners the context and background of local economic development (LED). Having read this, readers will be positioned to clearly articulate the problems associated with traditional development policies and be able to describe the benefits, opportunities as well as problems associated with adopting a strategically planned LED approach as part of efforts to facilitate and accelerate sub-national economic development, and ultimately contributing to the reduction of poverty.

This paper will define LED; look at the development policy context and operating environments and address how donors are responding within a rapidly changing global environment. In terms of LED policy and practice the paper will address what is understood to work and not work. It will summarize the arguments for and against undertaking strategically planned LED as operational approach for employment creation, improvements in governance processes and poverty reduction. Finally, it will suggest why SDC is well placed to take a leadership role in this growing agenda and propose some next steps for both policy and operational teams.

Readers Guide

This paper has been written for multiple audiences, some of whom will want simply an overview; others will want more detailed information. To this end the paper has been heavily annotated and referenced through reader friendly footnotes. Here can be found explanatory comments as well as references. Finally at the end of this paper a series of more detailed appendices can be found.

Definition of Local Economic Development

Before addressing contextual issues of where and how LED fits into national and international development it is first necessary to develop a common understanding of what LED is. Whilst definitions of LED vary, they all broadly reflect the following:

Local economic development is a strategically planned, locally driven partnership approach to enabling employment growth, poverty reduction and quality of life gains through improved local economic governance.

Related and complementary definitions are found from the World Bank, the ILO, and UN Habitat.¹ In common with high income country (HIC) practices all these approaches involve local governments working in partnership with the private and community sectors using strategic planning as the defining principle. Usual aims are to enable improved conditions for economic and employment growth (primarily), well being and poverty reduction.² Improving local governance and governments is another important aim, as well as outcome process.³

¹ www.worldbank.org/urban/led, <http://www.ilo.org>, www.unhabitat.org/programmes/tcbb/LEd.asp

ILO focuses on 'decent work', World Bank on the 'business enabling environment' and UN Habitat on 'pro-poor interventions'.

² Normally, in HIC countries, communities' first start undertaking LED respond to economic crisis (e.g. large unemployment, low levels of trade or investment), only later moving towards gender and targeted poverty interventions. In South Africa there has been more emphasis on poverty alleviation and gender issues, from which there is much to learn. Recent work on this www.sacities.net and www.worldbank.org/urban/led

³ Hereinafter we will use the term LED but it will always relate to strategically planned LED.

The Bigger Picture: The International Context - Policy and Practice ⁴

Standard Washington Consensus style remedies are not enough – For much of the last fifteen-twenty years, remedies to address slow economic growth in HIC and non-HIC countries have been addressed at the national level through sectoral, top-down, supply-side, economic management ‘Washington Consensus’ style remedies. It has become clear that although it is necessary to have many of these policies, they are not sufficient to address the economic development needs of either advanced or developing countries, in leading or lagging regions.⁵ More recent approaches to stimulating economic development at national levels such as improving national investment climates are seen to be more encouraging than some of the more traditional approaches. Here, governments together with businesses and stakeholders, seek to establish and **resolve specific binding constraints to business growth in the institutional and infrastructure** environments.⁶ This national approach to improving the investment climate is now beginning to be replicated at local levels in developing countries, as has been done in several countries with promising results.⁷ In Albania, for example, this has been done within the context of LED strategic planning; in this case the binding constraints as well as economic opportunities were investigated.⁸

Community/CDD -responses are often not sustainable -Traditional remedies at this level have also failed to bring the traction that was hoped for. These micro-level interventions have normally been planned and managed at the national level, often top-down and supply-side, then implemented at small community or neighborhood levels.⁹ They suffer from some key ailments; for national schemes, there is a tendency to not adapt to local conditions misdiagnosing the problems, priorities and then solutions. These community driven development (CDD) schemes are rarely tied into local governance systems with consequent sustainability issues. Recent World Bank reports accept that CDD approaches would be more sustainable if embedded within local government and governance systems.¹⁰ Even if CDD approaches met all expectations, they normally address only sectoral programs, such as school building rather than strategic systemic improvements to local economies for the benefit of the whole population. They may respond to specific ad hoc immediate community basic infrastructure needs but not to the broader needs of the local economy and its people, the discussion of this paper.

⁴ For the purpose of this paper, reference to macro-level means national level, meso-level refers to regional or local government levels and micro-level refers to community, wards or parishes or individual businesses.

⁵ There is a major debate on the efficacy of the “Consensus” e.g. <http://www.cid.harvard.edu/cidtrade/issues/washington.html> For a synopsis of this discussion see Rethinking Growth, Finance and Development March 2006; 43, 1 : <http://www.imf.org/external/pubs/ft/fandd/2006/03/zagha.htm#author> A short report written by World Bank and IMF staff. A key recommendation of this report which was addressed at country level was the need to focus on economic growth AND that Governments should be made accountable and not by-passed. This author believes that these recommendations are equally relevant to sub-national areas.

⁶ These current national programs focus rather on the binding constraints than opportunities, LED addresses both. Although little formal discussion has taken place, there is increasing evidence from “third wave” LED programs practice that similar approaches have great potential at the sub-national level http://lgi.osi.hu/documents.php?m_id=58. The three “waves of economic development are explained in table 1. This national approach addresses binding constraints, however the LED approach addresses both binding constraints as well as taking advantage of opportunities and strategic local assets. Investment Climate Assessments- example http://info.worldbank.org/etools/docs/library/86439/ses1.2_easteuropesurvey.pdf and Dani Rodrik Industrial Policy for the 21st Century 2004 <http://ksghome.harvard.edu/~drodrrik/UNIDOSep.pdf>

⁷ As part of a 5 city LED program a modest business enabling environment survey was undertaken and analyzed ahead of the cities designing their LED strategies. The survey focused on three key dimensions, business perceptions of infrastructure constraints, red-tape constraints and their perceptions on the problems and possibilities for the local economy, this was fed into the SWOT analysis. These were very useful in designing LED strategies: http://lgi.osi.hu/cimg/0/0/5/6/0/21_BAS_report.pdf

⁸ In Vietnam USAID has sponsored a sub-national regional benchmarking program that is encouraging significant action in improving the local business enabling environment. <http://www.vnci.org/?act=News>

⁹ Examples of these latter interventions include, at the business level, small grants and loan schemes and at the household level, community driven public sector ‘make-work’ development approaches.

¹⁰ <http://siteresources.worldbank.org/INTECAREGTOPCOMDRIDEV/Resources/notesfrombbl.pdf>

Meso-level responses, at local and regional government levels, are few and far between - So neither the macro-level supply-side, top-down, sectoral approaches, nor the micro-level approaches yielded the economic dividends donors and recipients had hoped; therefore the meso-level became the focus of policy makers endeavors and the focus moved from sectoral to territorial approaches. At the **meso-level**, few approaches to stimulate systemic and pro-poor economic growth in developing countries have yet been undertaken; those that have are attempting to avoid the traditional approaches, but they are embryonic and experimental; this paper will highlight some of the lessons learned from these experiments.¹¹ This is the focus of the rest of the paper, how to address systemic and pro-poor economic growth issues at the sub-national levels.

Meanwhile... in High Income Countries (HIC) meso-level responses proliferate

The near silence at the meso level in developing countries becomes more interesting when one takes even a cursory glance at the growing multitude of policy approaches to stimulating sub-national economic growth in HIC countries.¹² These countries, invest heavily, and increasingly so, in stimulating sub-national economic growth, both in leading and lagging regions. This is usual now, and it is normally done through public sector driven strategic planning partnerships which design and implement individual, context specific and tailor-made holistic, regional and/or local economic development strategies or comprehensive city development strategies.¹³

Almost every town, city and region in HIC countries now undertakes strategic economic development planning, in one form or another. This approach avoids the traditional top-down, supply-side, sectoral approach as well as so-called 'project led' economic development.

¹¹ There are of course exceptions to this; including various pilot programs in Latin America and South Africa <http://www.lednetupdate.org/IMG/pdf/0154.pdf> and various LED programs undertaken by USAID, ILO, the World Bank, Soros and EU can be seen, especially in Eastern Europe, the Balkans, Baltics and former Soviet Union. www.sacn.net

¹² Although not the subject of this paper, reference here should be made to the many efforts underway in HIC countries to stimulating other forms of sub-national economic growth, these include as just one example the development and enhancement of existing industrial clusters, using Michael Porter's methodologies... Cluster strategies have and continue to be part of the toolkit of interventions available to economic developers, although as with most development issues there are competing views over the efficacy of such programs the following is a link to Michael Porter's site <http://www.isc.hbs.edu/econ-clusters.htm> and this article puts up a robust argument against clusters: <http://www.regional-studies-assoc.ac.uk/events/aalborg05/taylor.pdf>

¹³ There is much debate about the best scale at which to undertake strategically planned local economic development. Increasing consensus is that the best scale for designing and implementing sub-national economic growth strategies is at the 'city-region' level, i.e. the functional economic space, both urban and rural surrounding cities. Pragmatically however, there is some sense when addressing strategic planning for the first time in developing countries, to focus on political boundaries not economic boundaries, at least for the first pilots. <http://www.odpm.gov.uk/index.asp?id=1163579>

Table 1
A comparison of strategically Planned and Project Led LED and Pragmatic and Practical Realities

Strategically Planned LED	Project Led LED
<p>Before project selection occurs, good practice dictates, the local economy is analyzed, constraints and potentials identified and this process is undertaken collaboratively by public, private & community sectors.</p> <p>Once an understanding of the competitiveness of the local economy is known, a vision, objectives, goals, programs, project selection and prioritization process occurs. This is good practice third wave LED and good governance.</p> <p>This process however can be time consuming and involves significant effort from stakeholders; the time frame makes it hard for elected officials to make quick impacts for their electorate.</p> <p>Whilst not perfect, strategically planned LED positions communities themselves to address their needs and priorities rather than responding to the needs/wishes/wants of others, it is however time consuming, involves communities in new ways of doing business and takes capacity.</p>	<p>In project led local economic development there is generally not a strategic planning process rather individual projects are supported to address perceived local economy's needs or priorities. Communities respond to donor or Government programs or priorities, which may or may not be seen as important locally. In project led LED there is more risk that leaders force their own 'pet' projects onto the table.</p> <p>It is also likely that project led LED activities may not be those programs that would have been selected through a locally driven, strategically planned process and there are consequent risks than resource use will not be optimized (either domestic or donor) .</p> <p>Project led LED is no longer considered to be good practice as it often lacks transparency, does not necessarily reflect community needs, is supply driven from funders, risks elite capture and is not "good practice third wave" LED.</p>
Pragmatic and Practical Realities	
<p>In reality what really happens is pragmatic solutions according to local frame conditions: What normally happens is that communities select some form of combination of these two approaches. Often as they first start looking at their local economy, they opt for individual projects; they may then identify targets/sectors to focus upon e.g. small and medium sized businesses, a specific cluster, a marginalized group or a run down area. These latter approaches start using third wave techniques and then over time they develop full LED strategic plans. Donors play a key role in providing incentives (through investment support and technical assistance) to move communities from public sector driven first wave modalities to third wave.</p>	

This newer development approach focuses not on sectors but territories, it focuses on both hard and soft infrastructure, it needs inputs from public, private and community sectors, and necessarily, each local economic development strategy is unique. These strategies address fundamental structural problems and opportunities in local economies which necessarily require long term perspectives, as well as short, medium and long term actions. This is precisely why LED strategic planning is led by the public sector, with heavy involvement from business and community sectors.

The complexity of LED strategic planning makes it difficult to measure, not least because it is almost impossible to establish counterfactuals. In fact in all strategies have programs and projects that are successful and others that are less so. Even in HIC evaluation of LED strategies is in very early stages, Precisely because strategically planned LED is such a new area for developing countries we need to look carefully also to HIC countries that have been undertaking this approach for successful approaches.¹⁴

In HIC countries examples of cities that have successfully implemented LED strategies range from the famous examples of 'turn-around' cities such as Glasgow and Leeds in the United Kingdom,

¹⁴ Having said that, a recent external evaluation of the Albania and Kosovo city network LED program gave very encouraging results: See http://lgi.osi.hu/publications_datasheet.php?id=301

Lyon in France, Boston in the USA and Toronto in Canada. Other less well known success stories include White Plains New York, Serra do Caledrao in Portugal, Jerez de la Frontera in Spain, Stuttgart in Germany and Ballyhoura in Ireland.¹⁵ However it is hard to prove scientifically, even in these 'turn-around' cities the correlation between their success and the success of the LED strategic plan.

The Donor Situation and Client Demand

From the donor perspective the challenges of working at meso/sub-national levels and within the new paradigm of territorial not sectoral longer-term development are varied and considerable. Unlike SDC, large donors and International Financial Institutions **face severe institutional and organizational constraints** working on these issues at this meso-level. These institutions have departmental stove-pipes that militate against cross sectoral action as well as working across urban and rural space, both essential for strategically planned local and regional development.¹⁶ Unlike SDC it is also hard for these larger organizations to undertake discrete, sustained, more experimental and innovative strategic pilot programs.

Notwithstanding these internal 'supply' constraints there is a **clear growing demand from** developing countries to address sub-national growth issues, 'the jobs agenda'.¹⁷ This new demand results from many reasons including: civic leaders being pressed to address unemployment and poverty issues;¹⁸ national governments and donors being concerned with growing inequalities between leading and lagging regions; traditional sectoral approaches have not brought hoped for economic dividends and because of continuing pressures to decentralize and devolve government. This is also a response to trying to understand why HIC countries are doing so much on this agenda, whilst developing countries are doing so little; meanwhile most donors still remain wedded to focusing on traditional sectoral interventions And National Governments are now beginning to think about sub-national growth more strategically.

A key opportunity for SDC and its clients is that strategically planned LED is a relatively new policy arena, it offers hope, is optimistic and it involves acquiring a wide range of new skills, competencies as well as governance arrangements. Cities deal collaboratively with the common problem of jobs whilst overall governance gains are an inevitable, a 'win-win' for donors and clients. SDC can develop a range of incentives to encourage local communities to address employment and governance issues through pragmatically moving towards strategic LED.

Donors meanwhile are increasingly trying to understand these issues, partly as a response to client demand but also as they see successful sub-national economic development occurring in HIC countries. But in the broader development community LED (and regional economic development) remains to be mainstreamed in current development thinking, unlike in HIC countries. The combination of economists still enamored with Washington consensus style thinking, the need to prioritize investments with clients, the supremacy of rural over urban agendas instead of rural-urban agendas, together with perceived and actual concerns about the abilities of national and local government capabilities to address the challenges of LED are amongst just some of the issues that militate against the adoption of this agenda, so widely and voraciously pursued in HIC countries.

¹⁵ For a detailed examination of these cases please refer to OECD Best practices in Local Development from lagging regions. http://ec.europa.eu/regional_policy/innovation/innovating/pacts/pdf/leed_en.pdf The city of White Plains can clearly draw on more resources than most, but their strategy exhibits many of the good practices currently proposed in the third wave. <http://www.cityofwhiteplains.com/economic/eco/phaseiii.pdf>

¹⁶ Again, taking the World Bank as an example, until September 2006 the urban staff addressing urban issues were located in the Infrastructure Vice Presidency whilst Rural staff had their own Vice Presidency; there were few incentives for them to work together, despite the proven need for sub-national economic development to be addressed simultaneously in urban and rural space. As at time of writing there is discussion in the World Bank to join together, at least in part these two groups.

¹⁷ The importance of the job agenda is reflected in this year's Report of the UN-Secretary-General to the ECOSOC High Level Segment 2006: "Creating an environment at the national and international levels conducive to generating full and productive employment and decent work for all, and its impact on sustainable development", although the meso-level is as usual neglected.

¹⁸ For example, at a recent donor briefing of the Africa Chapter of the UCLG (the United Cities and Local Government Association) at the World Urban Forum, they presented their top six priorities for support and local economic development together with city strategic planning was one of those six!

There is however a growing number of strategically planned local and regional economic development programs from capacity building to extensive investment programs that are either completed or in the process of implementation in both developing countries and countries in transition. Donors and bi-laterals are starting to address these issues in a more significant way, key players in this include the World Bank, EU, IDB (inter American Development Bank) USAID, ILO, UN Habitat, DFID, GTZ, CIDA, the Polish International Development effort and increasingly SDC. These programs, as well as HIC experiences give some evidence and experience on how to take the agenda forward. They are increasingly moving from supply driven project led programs and moving up the LED strategic planning continuum, towards demand driven LED strategic planning.

Substance, Rationale and Process of Strategically Planned Local Economic Development

It is increasingly recognized that just as command and control economies do not work, nor do economies left completely to the market.¹⁹ HIC Governments, national, regional and local accept unequivocally, through both policy and practice, that there is a key role for the public sector to play in addressing (local and regional) economic development constraints and opportunities. The nature of those interventions has changed and matured over the years. Table 2 gives a summary of strategies, institutional architecture, participation and funding approaches in LED since the 1960's.

Table 2
The Three Waves of Local Economic Development: A comparison of Organization, Strategies, Implementation Methodologies, Funding and Tools used in LED. ²⁰

FOCUS	TACTICS
1960s to early 1980s: First Wave	
Key Strategies § Manufacturing investment attraction from outside local area. ²¹ § Attraction of foreign direct investment. § Making hard infrastructure investments. Organization - Public sector only, few partners Strategy - Project led, not strategy led Implementation - Almost universally public sector, very little monitoring and evaluation Funding - Almost all public sector, for firm grants/loans matching investments needed. Very little monitoring and evaluation (M&E)	§ Large grants, tax breaks, subsidized loans for (big) manufacturing firms § Subsidized hard infrastructure investment. § Industrial site servicing § Promotion of cheap labor, cheap land, cheap everything § Foreign Direct Investment marketing strategies
1980s to mid 1990s: Second Wave	

¹⁹ This paper is well worth reading for anyone interested in understanding the third wave of economic development; even though Rodrik is discussing national level issues, it is quite easy to see how this could work as well at the local level.

<http://ksghome.harvard.edu/~drodrik/UNIDOSep.pdf>

²⁰ Adapted from Gwen Swinburn, World Bank, Quick Reference Guide 2006 www.worldbank.org/urban/led

²¹ All three waves are still practiced but the focus in the 21st century is on the third wave, moving away from individual firm support towards broader business enabling environment improvements, collaborative working and skills and development ...?

<p>Key Strategies</p> <ul style="list-style-type: none"> § Retention and growing of existing local businesses. § Continued emphasis on inward investment attraction but usually more targeted at specific sectors or areas. § Beginning to focus on area regeneration programs <p>Organization</p> <ul style="list-style-type: none"> - Public sector driven, increasing consultation <p>Strategy</p> <ul style="list-style-type: none"> - First steps in strategy development, but still much project led. <p>Implementation</p> <ul style="list-style-type: none"> - Mainly public sector, some contracting to private sector or agencies <p>Funding</p> <ul style="list-style-type: none"> - Mainly public sector with some focus on private sector contributions & embryonic M&E 	<ul style="list-style-type: none"> § Direct payments to individual large and small local businesses. § More targeted investment attraction methods § Business incubators/workspace provision § Industrial site and premises provision § Technical advice, and training for SMEs § Vocational skills training especially for the disadvantaged § Business start-up support. § Specialist business support e.g. exports services, marketing. § Hard and increased emphasis on soft infrastructure investment.
<p>Late 1990s onwards: Third Wave²²</p>	
<p>Key Strategies</p> <ul style="list-style-type: none"> § Making whole business environments favorable. § 'Soft' infrastructure investments (e.g., human resource development, regulatory rationalization). § Public/private partnerships & Leveraging private sector investments § Improving quality of life and security. § Highly targeted inward investment attraction, building competitive not just comparative advantage. <p>Organization</p> <ul style="list-style-type: none"> - Public sector-led integrated partnerships <p>Strategy</p> <ul style="list-style-type: none"> - Holistic, building competitive advantage - more sophisticated, transparent competitive project selection and prioritization processes - Most universally strategy led, except donor & government sectoral programs <p>Implementation</p> <ul style="list-style-type: none"> - Much broader implementation done by, public, private, community sectors, agencies; more use of contracting & performance measures; considerable effort to monitor and evaluate <p>Funding</p> <ul style="list-style-type: none"> - Wider funding options, much still public sector, increasing private sector and community funding 	<ul style="list-style-type: none"> § Integrated local and regional development strategies. § Focus on territorial not sectoral development § Horizontal local government collaborative working § -community/municipality networking/collaboration. § Knowledge gap and IT service support for businesses § Demand led workforce development programs § Strategic planning, benchmarking, SWOT § Much more emphasis on understanding and measuring the local economy ahead of strategic planning § More targeting in all program areas (human development, business development, infrastructure & area development) § Facilitative business red tape reduction programs. § Grants, loans, venture capital to businesses with potential § Business support comprehensive and capacity building tied to grants and loan provision § Quality of place and life investment programs § Targeted skills upgrading for the disadvantaged § Provision of tailored business development services § Targeted support for businesses with potential § Highly targeted area regeneration programs § Facilitation of economically linked business clusters.

Much has been learned in these 50 years and it is the donors' responsibility to ensure these lessons are passed on to clients.²³ The range and number of public sector interventions to address market failures and knowledge gaps to enable employment and private sector growth have risen inextricably in every continent, especially so in HIC countries.²⁴

²² It is the information externalities generated by ignorance in the private sector that creates a useful public role- Dani Rodik 2004

²³ An example of bad practice is 'incentive wars' where local governments compete with each other by offering large grants to mobile investors. This is proven to be both ineffective and wasteful of public sector resources.

²⁴ See also a casebook of HIC and non HIC LED strategies at www.worldbank.org/urban/led

LED interventions can be broadly classified into ten typical program areas addressed in standard LED strategies as outlined in Appendix 1.²⁵ Each strategy is necessarily different as it addresses local economic conditions but these ten program areas give an overview of the types of interventions possible. Appendices 2, 3, 4 give examples of how these various program elements have been articulated, (using in Appendices 3 and 4) a municipality in Albania as a case study.²⁶

Whilst all strategies rightly vary in detail they all have common core fundamentals and components, which include enhancing the local investment or business enabling environment and governance. They all engage stakeholders in the strategic planning as well as implementation processes.

Looking at the appropriate spatial scale in which these strategies should be developed; in HIC countries the newest trends are to address sub-national economic development at city/regional levels (functional economic space).²⁷ But the core fundamentals are that whatever types of LED interventions are implemented, wherever in the development cycle, that they should have been selected using a strategically planned process. Sadly, there is still evidence, from the developed but especially in the developing world that international donors, state and local actors, still undertake project led interventions outside of a strategic framework, with little reference to or understanding of the needs of the local economy and its people. There is also evidence that even when comprehensive local economy assessments are undertaken, that strategies do not reflect the assessment.²⁸

It is becoming increasingly apparent however that macro economic improvements and market reforms are necessary but not sufficient to enable both economic growth and employment growth to occur at a speed that is sufficient to avoid major employment and even economic dislocation within countries. This issue is, of course, already well known to national and local government policy makers and practitioners in HIC countries. They have been addressing this issue through (amongst others) developing local and regional economic development strategies for many years.

Arguments For and Against LED

The arguments both for and against LED are summarized in Tables 3 and 4. Introducing LED is challenging, but the potential benefits lie well beyond any likely employment gains, or improvements in the local economy. These programs, managed well, change the very way municipalities do business, they build trust between sectors and actors, and they join all levels of government and sectors together in a common endeavor, important for the public, private and community actors.²⁹ Benefits in local governance and confidence normally come ahead of the resulting incremental, and hard to measure, economic improvements and poverty reduction. LED is a step in the right direction that will enable communities to take their futures in their hands, rather than standing idly by whilst others influence and make decisions.

²⁵ This is not the only classification, but it serves to show in some detail the broad range of interventions that are typically found in LED strategies. For readers wishing to understand more about these program areas please visit www.worldbank.org/urban/led

²⁶ See www.worldbank.org/urban/led for many other examples as well as links to other knowledge resources

²⁷ There is much debate about the best scale at which to undertake strategically planned local economic development. Increasing consensus is that the best scale for designing and implementing sub-national economic growth strategies is at the 'city-region' level, i.e. the functional economic space, both urban and rural surrounding cities. Pragmatically however, there is some sense when addressing strategic planning for the first time in developing countries, to focus on political boundaries not economic boundaries, at least for the first pilots. <http://www.odpm.gov.uk/index.asp?id=1163579>. Increasingly also in HIC cities are designing integrated strategic plans with economic, environmental as well as social components. These are augmented by various related and connected strategies to address specific issues such as regeneration of particular places.

²⁸ Cities Alliance and World Bank forthcoming (October 2006) See www.citiesalliance.org and www.worldbank.org/urban/led

²⁹ Municipalities in Kosovo and Albania that have designed their own LED strategies have just undergone an evaluation. The consultant running the evaluation was pleased to report that the comment most frequently made from the municipal teams was "it has changed the way we do business" <http://www.worldbank.org/urban/led>

Local Economic Development from the City and SDC's Perspective

Tables 3 and 4 contain a brief SWOT analysis of the pros and cons of undertaking LED strategic planning, firstly from the client, or city perspective and then from SDC's perspective.

From the client perspective, LED gives communities a chance to identify their problems and opportunities and manage their way to a better future. From SDC's perspective, its goals of better governance, employment and income generation are both achievable within one program. An essential key to success is to build capacity, especially, but not only, local government capacity. Having consultants flown in to write strategies for these communities is a recipe for inaction (if not worse). If SDC on the other hand used the same resource persons to guide, train, mentor and correct course as these strategies are designed; everyone has a chance to reach their goals.

Table 3
Local Economic Development from the City Perspective

Strengths/Opportunities	Weaknesses/Risks
§ It brings hope and confidence to local communities as they take hold of their own destiny	§ May raise unrealistic expectations amongst stakeholders
§ It gives communities the tools and confidence to address their own destiny rather than rely on others. ³⁰	§ It is a medium and long term strategy, inserted into short term political timescales.
§ It brings multiple opportunities to develop public/private collaboration and networks	§ Process takes some time itself.
§ It opens opportunities for collaboration across horizontal and vertical governments to address a common goal	§ Process can be complicated.
§ Governance and transparency gains as all contribute to a common "jobs agenda"	§ A risk that, unless appropriate capacity building and training is in place, old style, first wave LED techniques may be tempting.
§ It brings constructive approaches to transparently address municipal capital and operational budgeting	§ Early years of strategic planning are likely to marginalize the interests of the neediest, in the interests of the wider economy.
§ It enables better short and long term financial planning in local government, particularly capital investment planning	§ Risk of not including marginalized groups.
§ It reduces the pressure to adopt donor programs, as communities may approach donors with programs	§ Risk of not getting projects funded.
§ It enables pro poor growth	§ May cause conflict as priorities are decided.
§ It builds sustainable capacity	§ Risks of elite capture.

³⁰ Experience shows us that to ensure sustainability, municipal teams and stakeholders need to develop capacities themselves to be able to both design and implement strategies themselves. It is also clear that once cities have designed their strategies, donors are keen to support them in implementation. Many donors have said that "it is not a matter of too little money being available, but too few good projects".

Table 4
Local Economic Development from SDC's Perspective

Strengths/Opportunities	Weaknesses/ Risks
<ul style="list-style-type: none"> § Empowers local communities to manage their futures § Builds sustainable capacity § Encourages constructive public private partnerships § Enables better governance and improved economies in one program § Adopts best HIC practices § Introduces competition (this is not a charity program, it is a program to enable performing communities) § Gives opportunities for specific and targeted programs aimed at marginalized groups, areas or sectors § SDC's flexibility, compared with other donors, positions it well to design & deliver tailored programs § Takes advantage of SDC's presence in country to design and deliver tailored programs § Addresses SDC concerns about imposing donor programs § Addresses opportunities for SDC to harmonize, collaboratively donor approaches § Enables opportunities for city networks, peer to peer learning and collaborative as well as competitive city to city working § SDC can immediately go to scale by developing a city networked program, not individual city programs. § These are not necessarily expensive programs 	<ul style="list-style-type: none"> § Takes time to design and deliver programs : donors and recipients need to have patience § Involves effort to design and ensure appropriate delivery standards § Ideally TA programs should be supported with grants to implement some projects § Works well when governance and employment and income divisions are well aligned § Sustainability only possible with full capacity building programs within municipalities and stakeholders, this must be designed in from the outset. § Consultant led approaches will no doubt deliver fine documents, which are unlikely to be sustainable for lack of local capacity and engagement.

Proposed next Steps for SDC

Assuming we accept that HIC good practice in this field should be exploited and adapted and that strategically planned LED is an appropriate use of SDC resources, there are now proven methodologies that can be applied and further developed. This strategic approach meets very well the SDC 2010 strategic agendas for both the Governance as well as the Employment and Income (E+I) agendas. SDC, having been active in local economic development projects and some strategically planned local economic development work, is in an excellent position to capitalize on the work it, and others, have done to date. SDC is small and nimble enough to be able to take the lead where others find it impossible.

The demand from clients is clear, and just keeps growing, but the international community has not been able to respond easily. SDC's experience to date, the alignment of its Governance and E+I divisions, as well as its flexibility and agility position it well to become a specialist provider in this field. It is therefore suggested that SDC reflects on the possibility to undertaking a series of pieces of policy and operational work as follows:

- At the policy level, SDC should complete its internal review of LED type operations across its portfolio (documentation of experience), highlighting lessons learned.
- Based on this documentation a process of capitalization of this experience should be pursued, with headquarters facilitating the exchange of experience of knowledge holders in the field and international resource persons.
- SDC should absorb lessons learned from its own LED style projects (e.g. stress on connection between city and hinterland) as well as lessons from donor and HIC programs.
- Operationally, a country could be identified to run a pilot competitive process where, for example, 8 of the largest second tier city/city regions would compete for a place in an SDC (5 city and hinterland) LED program.³¹ Harmonization and integration with other donors from the outset of the program would bring maximum benefits upon implementation for the clients, whilst also positioning SDC within a niche and leadership position amongst the donors.³²
- Incentive programs should be designed that encourage the usage of third wave modalities whilst at the same time ensuring activities happen on the ground. SDC could develop a three part program as an example: a technical assistance programme to build capacity to design LED strategies and then in parallel two quick impact LED funds: one for the public sector (one stop shop support/LED team backstopping/Research support for the strategy etc) and one to address private sector collaborative programs (cluster development or value chain programs, as SDC does now). This should give the right incentives to encourage full engagement with the strategic planning process.
- As identified in this and other research, there needs to be an effort made to understand better monitoring and evaluation of LED projects and strategies to enable strategy design to be better calibrated.
- Capacity building and training programs for SDC and Partners staff would need to be designed and delivered ahead of doing the same for clients.

³¹ Experience to date, as seen in donor programs, shows that there are many mutually reinforcing benefits from working with networks with 5 or 6 second-tier cities in one country. It has been the case that the issues, challenges and complementarities of working with cities in the same hierarchy is the most viable (for example work with second tier cities separately from the capital city). Project examples include the Latvia CDS, DELTA program and the Cities of Change program; www.citiesofchange.net.

³² It is highly likely that appropriately designed SDC LED network programs would benefit from partner funding, as has been the evidence to date in similar programs. The DELTA LED program in Albania and Kosovo (and now just starting in Mongolia) run jointly by the Soros Foundation (LGI) and the World Bank is evidence of this: www.worldbank.org/urban/led for the evaluation of the program and http://lgi.osi.hu/documents.php?m_id=58 for details of the design of the program

Appendix 1 LED Program Options

A community will need to decide upon the key programs that will become the core of its strategy. Many options are in use by communities today. The following programs are typical core choices and selection will be dependent on local circumstances:

Business Enabling Environment and Infrastructure Provision
Improving the Local Business Investment Climate. Measures to improve the local climate for businesses include improving processes and procedures for business registration, taxation, etc., within City Hall. These efforts should also complement and ensure consistency with reforms or measures that may be taken at the national/state level to improve the investment climate.
Investment in Hard Strategic Infrastructure. Improving the built environment for businesses including: § Transport infrastructure: roads, rail, air and sea § Utilities: industrial and potable water, waste disposal, gas and electricity, telecommunication systems
Investment in Sites and Premises for Business. ³³ Improving the provision and availability of land and sites, premises and units for productive economic and business development: § Sites and premises: commercial and industrial sites and premises § Managed workspace and business units
Investment in Soft Infrastructure. Improving the commercial environment for businesses through, for example: regulatory reform, skills training and business-focused education, research and development, “one-stop shop” advisory services, business networking, guidance to accessing capital and finance sources.
Direct and Indirect Business Support
Encouraging Local Business Growth. Enabling and/or providing advice, support and resources to enable existing local business to grow with the goal of retaining and strengthening existing local business.
Encouraging New Enterprise. Enabling the provision of advice, technical support, information and resources to support individuals set up new businesses.
Promoting Inward Investment. Attracting business to a community from elsewhere in the country or from other countries. This option needs careful weighing of the costs and benefits. It can be risky and at most should only form a targeted part of a broader LED strategy.
Targeted Strategies at sectors/places or people
Sector (and business cluster) Development. Focuses on facilitating linkages and interdependence amongst firms (including suppliers and buyers), supporting services (including training institutions and banks) in a network of production (and sale) of products and services. Local governments can collaborate locally and regionally to become facilitators of industry networking and catalysts/brokers to bring the actors together.
Area Targeting/Regeneration Strategies. Addressing specific area-based problems such as regenerating a run-down town center, a declining commercial zone or neighborhood. Fostering promising growth opportunities where market potential is already demonstrated by emerging private investment (e.g., along area transport corridors).
Integrating Low Income or Hard-to-Employ Workers. Programs to mainstream the poor and disadvantaged populations into the economy. Ensuring that new growth industry extends employment opportunities to low-income workers (including those in the “informal sector”) and that such workers have access to, and can take advantage of, opportunities for advancement.

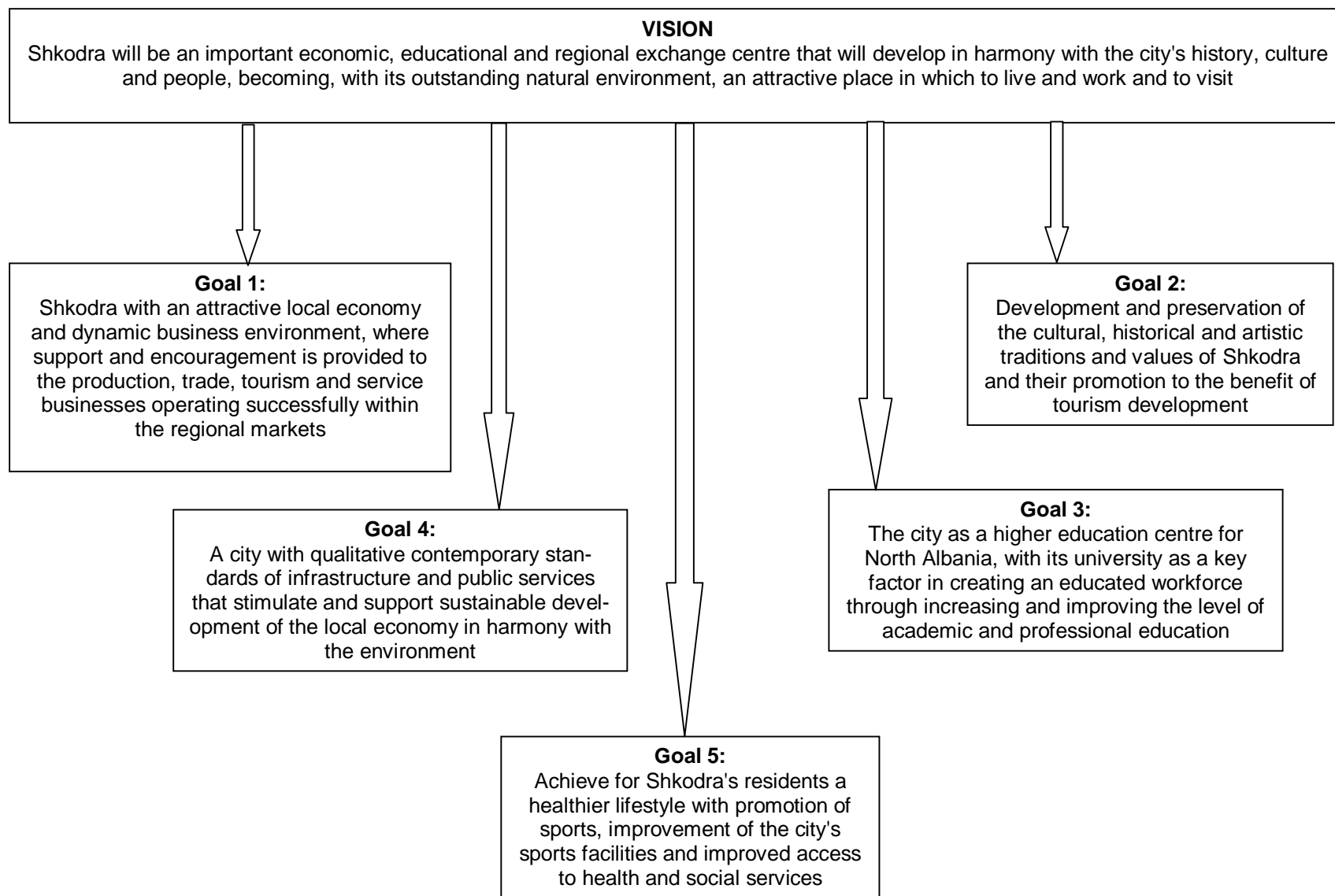
³³ One benefit of undertaking collaborative LED is to harmonize capital investments that serve the community’s priorities for business development and income generation as well as basic services, in order to maximize investment returns.

Appendix 2

An Example to Show the Different Elements of a LED Strategic Plan

VISION: THIS MUNICIPALITY WILL BECOME GLOBALLY COMPETITIVE BY 2020
GOALS: <ol style="list-style-type: none">1. To diversify the economic base of the municipality.2. To become a tourism center.3. To improve the built environment of the municipality.4. To become the most attractive municipality in the region for foreign direct investment.5. To become a more equal society through improved access to work for all the community. <p><i>(For each goal a series of objectives is formulated. Consider Goal 3 as an example)</i></p>
GOAL 3: To improve the built environment of the municipality. Objective 1: To utilize and develop all brownfield sites over one quarter of an acre by 2010. Objective 2: To adopt, within the next six months, planning policy guidelines to ensure that historic buildings more than 100 years old may not be altered or demolished without prior local authority consent. Objective 3: To ensure that all new applications to build industrial and commercial office space meet local, national and international standards for safety, environment and so on. These objectives should be time bound and quantifiable. Some should be short term (for early wins), some longer term. Then, for each objective, there should be a program of projects and activities. These need to be selected carefully using selection criteria. <i>The result could look like this, for example:</i>
§ OBJECTIVE 1: To eliminate all Brownfield sites over one quarter of an acre in size by 2010. Program: Brownfield Remediation Program Project 1.1: To develop a register of derelict Brownfield sites in the municipality and establish ownership. Project 1.2: To initiate a lobbying effort for national government and other funding to remediate the sites. Project 1.3: To prioritize sites according to the severity of their pollution/prominence in the municipality. Project 1.4: To review local and national legislation to ensure 'polluter pays' legislation is in place. Project 1.5: To develop and implement a strategy to ensure landowners remediate their sites, and that they be encouraged to bring them into beneficial use. <i>Once the projects have been identified, prioritized, financed and a responsible person/group identified, detailed action planning and implementation can take place.</i>
§ PROJECT 1.1: To develop a register of Brownfield sites in the municipality and determine ownership. Action Plan: Ideally, these will be produced on a standard pro-forma including the following information: <ol style="list-style-type: none">1. Name of project2. Short description of project3. Itemized actions by date4. Cost and budget profile5. Responsible project manager, and responsible person for the whole objective/program6. Expected outcomes7. Monitoring process

Appendix 3 An Example of the Visions and Goals for Shkodra Municipality Albania



Appendix 4 An Example of the Vision to projects matrix for the Municipality of Shkodra Albania, taking one goal as an example

Vision: Shkodra will be an important economic, educational and regional exchange centre that will develop in harmony with the city's history, culture and people, becoming, with its outstanding natural environment, an attractive place in which to live and work and to visit

Goals	Objectives	Programs	Projects
Goal1: Shkodra with an attractive local economy and dynamic business environment, where support and encouragement is provided to the production, trade, tourism and service businesses operating successfully within the regional markets	Increase by 20% the total number of businesses operating within the Industrial Zone by 2008	Provision of quality public services and infrastructure in the Industrial Zone, developed in partnership with the area's business community	1: Improvement of the electricity supply within Industrial Zone
			2: Improvement of street lighting within Industrial Zone
	Increase from 3 to 8 the number of mechanisms that provide services and support for SMEs within the city by 2010	Promotion of the Industrial Zone	3: Rehabilitation of surface water drainage and sewage systems in Industrial Zone
			4: Rehabilitation of road infrastructure within Industrial Zone
	Increase from 4 to 6 the number of cross-border cooperative activities by 2010	Creation of novel activities and promotional materials to facilitate the development of new SMEs	5: Install new telephone lines and renovation of existing network within Industrial Zone
			6: Improvement and expansion of green spaces within Industrial Zone
	Increase from 7 to 10 no of public food markets by 2010	Establishment of structures to encourage and support cross-border activities	1: Development of a map of businesses operating in the Industrial Zone
			2: Publication of promotional materials for businesses operating in the Industrial Zone
	Increase from 10,000 to 25,000 the annual number of visitors to the city by the year 2008	Strengthen existing retail and wholesale public markets	1: Establishment of a 'One-Stop-Shop' in Shkodra City Hall
			2: Production of profiles of the most successful businesses in the city
	Increase from 10,000 to 25,000 the annual number of visitors to the city by the year 2008	Support and development of tourism infrastructure	3: Establishment of a business services centre
			4: Conduction of a survey and needs analysis of SMEs operating in the city
	Increase from 10,000 to 25,000 the annual number of visitors to the city by the year 2008	Support and development of tourism infrastructure	5: Conduction of a study on workforce supply and provision of training for businesses
			6: Make operational a lake transport service between Shkodra and Virpazar (in Montenegro)
	Increase from 10,000 to 25,000 the annual number of visitors to the city by the year 2008	Support and development of tourism infrastructure	1: Establish a board to facilitate an increase in and strengthening of cross-border cooperation
2: Information package for foreign investors on trade and investment potential in Shkodra			
Increase from 10,000 to 25,000 the annual number of visitors to the city by the year 2008	Support and development of tourism infrastructure	3: Establishment of a regional business training centre	
		4: Construction of a business fair centre	
Increase from 10,000 to 25,000 the annual number of visitors to the city by the year 2008	Support and development of tourism infrastructure	5: Establishment of a system for integrated management of Lake Shkodra ecosystem	
		6: Make operational a lake transport service between Shkodra and Virpazar (in Montenegro)	
Increase from 10,000 to 25,000 the annual number of visitors to the city by the year 2008	Support and development of tourism infrastructure	1: Construction in the city of a public wholesale market place for fruit and vegetables	
		2: Construction in the city of new fruit, vegetable, fish and meat retail market places	
Increase from 10,000 to 25,000 the annual number of visitors to the city by the year 2008	Support and development of tourism infrastructure	1: Development of a tourism strategy for the city of Shkodra	
		2: Establishment of a Tourism Support Office in Shkodra City Hall	
Increase from 10,000 to 25,000 the annual number of visitors to the city by the year 2008	Support and development of tourism infrastructure	3: Establish network of hotels & restaurants & improve standards and diversify their services	
		4: Establishment of a trade centre for artisan products	
Increase from 10,000 to 25,000 the annual number of visitors to the city by the year 2008	Support and development of tourism infrastructure	5: Holding of training sessions for capacity building of tourism agencies and businesses	
		6: Project to encourage family- and eco-tourism in Shiroke and Zogaj	
Increase from 10,000 to 25,000 the annual number of visitors to the city by the year 2008	Support and development of tourism infrastructure	7: Development of a tourism marketing strategy for the city	