



Commonwealth Local Government Conference

## **Energising local economies: partnerships for prosperous communities**

15-18 March 2011, City Hall, Cardiff, UK



## **Energising local economies: local economic development around the Commonwealth**

Background discussion paper  
for the 2011 Commonwealth  
Local Government Conference

by

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## Foreword

Local economic development or LED is the basis of energising local economies, the theme of the 2011 Commonwealth Local Government Conference in Cardiff; it is also increasingly becoming a key responsibility of local government. This report provides a valuable oversight of some of the important issues and trends in this area and gives a number of case studies from across the world. As such, it will be a useful reference point for the many senior policy-makers, elected mayors and councillors, ministers, chief executives and senior government officials who will be with us in Wales in March 2011 to debate this subject, together with other key stakeholders such as our partners from the private sector and international development agencies.

There is a danger that the serious short term budgetary and other pressures facing many local councils, especially in some developed countries, will detract from the longer-term value of undertaking pro-active LED strategies and enabling local government to do this properly. Certainly the delivery of high quality services with limited resources at a time of public sector cutbacks presents many challenges and difficulties and this will be discussed in Cardiff. However as this report demonstrates, LED can be a major way to create jobs, attract investment and promote tourism and encourage other local opportunities and some countries like South Africa have developed innovative mechanisms to take this forward.

It will be the aim of the CLGF in Cardiff to define and develop clear and practical strategies on LED, involving our central, local and provincial government members, to be implemented in close partnership with other stakeholders. CLGF is committed to having a Commonwealth-wide approach to promote good practice in LED and to provide, through our technical and other related programmes, appropriate capacity-building for our members.

In an inter-connected international economic and financial system, local government has a lot to learn from each other: repairing potholes in the road or collecting rubbish is important, but not enough: in the 21st century local government, like business, has to operate in a global economic environment and work to attract international investors and funds by having decisive pro-active LED strategies.

A handwritten signature in black ink, appearing to read 'C. Wright'.

Carl Wright  
Secretary-General, CLGF

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The views expressed here do not necessarily represent the views of CLGF or the Commonwealth Secretariat.

# Executive summary

This paper provides an introduction to the Commonwealth Local Government Conference 2011, the theme of which is “Energising local economies: partnerships for prosperous communities”. The conference is being held in Cardiff, Wales from 15-18 March 2011. It will bring together ministers of local government, elected local government mayors and leaders, officials from all spheres of government, academics, representatives from NGOs, regional/international development organisations and the private sector. It is a unique event in that it promotes debate, policy making and international learning with practitioners from across the local government sector.

The conference is taking place at a time of global economic crisis which is affecting and impacting on local government and local communities across the Commonwealth, manifesting itself in reductions in public sector expenditure, challenges for small and medium sized businesses, and cautious private sector investment. The impacts of the global crisis have not been uniform across the Commonwealth, and countries have used different strategies to alleviate its affects, but it has ensured that local economic development and the role of local government in fostering local growth and development remains very relevant.

The paper highlights some key issues around the conference theme: It reviews the context of globalisation and the community leadership role of local government; the increasing expectations and demands of local communities for services and support around local economic development; and considers the status of local economic development across the Commonwealth, recognising that in some cases it is a statutory function delivered within the framework of a national policy, but in many countries it is much more ad-hoc, and seen as part of the local governments’ strategic planning or community/economic well-being mandate.

Section two considers the historical development of the concept of local economic development and the changing role of local economic development. It seeks to define terms and provide delegates with a clear understanding of what is meant by LED, and who the key stakeholders are in successful local economic development. It demonstrates at an early stage the importance of partnerships and the diversity of different stakeholders who have a role to play in effective local economic development. It also highlights the fact that local government is one partner, not necessarily always the lead partner, in effective LED.

Section three considers the role of national, provincial/state and local government. It touches on issues such as leadership, the inter-relationship and tensions between national and local policy making, and the importance of integrated planning for effective LED. It also highlights the enabling role of local government and the value of improving the performance of the sector across its service delivery responsibilities to underpin and enable effective local development.

Section 4 reviews different approaches to LED and some of the key priorities from infrastructure development, to SMME development and support for existing businesses, to community self-reliance programmes and strategies for linking growth to redistributive/development financing, as in South Africa in relation to the auto industry.

Section 5 provides a snapshot of LED in selected Commonwealth regions, demonstrating the different ways in which LED is increasingly being recognised as a responsibility of developmental local government, if not always a statutory function.

Section six considers some of the opportunities and challenges for local government:

- The challenge of funding local economic development and unfunded mandates
- The effects of uneven development and its impact on effective LED
- The challenges of effective policy transfer and the importance of designing an approach which takes full account of local circumstances and context
- The need for increased capacity within local government to effectively enable and support local economic development. This is particularly evident in rural areas where economic opportunities, resources and human capital are limited, but also to enable local government to capitalise fully on the opportunities of cities as centres of growth
- The importance of partnership and integration of activities by a vast array of local and national stakeholders is critical to success. The paper highlights different models and approaches adopted in various parts of the Commonwealth
- LED is also competing with other services for which local government is responsible, hence the need for mainstreaming it into the local government’s strategic priorities.
- The value of sound intergovernmental relations to underpin effective local economic development

Section seven maps some of the national, regional and international networks which have been established to share information and ideas around local economic development. It also reviews some of the international donors/development partners actively supporting local economic development.

In conclusion the paper seeks to set out some of the key questions for discussion at the conference:

- How can local government’s role in local economic development be further enhanced?
- How can greater recognition for the role of local government in local economic development be achieved?
- How can local economic development be integrated into national and local development planning?
- How can the capacity gaps in the sector be addressed to ensure that local government can play its full role in effective local economic development?
- Strategies for forging effective partnerships for LED, including with the private sector
- Financing effective local economic development

The conference seeks to build on the outcomes and recommendations from previous CLGF conferences. It is taking place against a backdrop of decentralisation in many Commonwealth countries. Indeed, Commonwealth Heads of Government have increasingly recognised the importance of decentralisation and local government. In 2009, at their biennial meeting in Trinidad and Tobago in November 2009, the Aberdeen Agenda: Commonwealth Principles on good practice for local democracy and good governance were included as part of the Affirmation of Commonwealth Values and Principles, a document which revisited the organisation's core political values, to mark the 60th anniversary of the Commonwealth.

The Aberdeen Agenda sets out 12 core principles which guide CLGF's work. It was developed by CLGF members to encapsulate a vision for decentralisation, local democracy and good governance. It seeks to set a framework, not to be prescriptive, reflecting the diverse nature of Commonwealth member states which vary considerably in terms of size, population and culture, with some large federal states and many small states. The Commonwealth Affirmation further underlines the growing importance of local governance and decentralisation.

Local economic development and vibrant local economies speak directly to the principle of inclusiveness: *"Inclusiveness: the process of local decision-making must reflect the social economic, environmental and cultural needs of the entire community"* and this theme has been picked up in a cross-section of CLGF's work including recent policy events, capacity building projects under the Commonwealth local government Good Practice Scheme and the Pacific Regional Capacity Building project, and through CLGF's Inclusive Cities Network.

The theme also builds on the outcomes of earlier CLGF Conferences. In 2007: which focused attention on the important community leadership role of local government, its unique potential to forge and develop community partnerships and alliances with a cross section of partners, and maximise resources in the interest of development for all; and 2009 which focused on the importance of developing a culture of continuous improvement in public services at the local level across the Commonwealth. Leadership, partnership, good governance and capacity are key building blocks for effective LED.

Local economic development is of importance to men, women and young people across the Commonwealth - access to economic opportunities is an essential building block for development and poverty reduction, and energising local communities in all Commonwealth communities. Citizens are looking to local government to play a more proactive role in LED.

The recommendations from the conference will be discussed and agreed by CLGF members at the General Meeting which takes place immediately after the conference, and will be circulated to all members, encouraging them to support and implement the recommendations. The conference outcomes will be formally submitted to Commonwealth Heads of Government for endorsement at their biennial meeting in Perth, Australia in October 2011.

The paper puts forward some issues for the conference to address; it raises questions as to potential areas for debate and discussion. It is designed to show the diversity of approach to LED, reflect different models, and to prompt ideas for discussion.

# 1. Introduction

Local government is the part of government which is closest to the people and often it is the part of government with most direct relevance to people's daily lives. It has an important democratic mandate, with councillors and mayors normally being elected by the community resulting in substantial public legitimacy in their respective localities. In addition to its governance, strategic planning and leadership role local government also delivers many key services essential for vibrant well-functioning communities, such as water, waste management, sanitation, roads and primary health care. Increasingly local government is responsible either statutorily or through a commitment to community well-being for enabling and supporting local economic development.

Local Economic Development (LED) is not a new concept in local governance. Of late, it has become a widely practised development strategy, whilst in many developing countries; it is still in the incipient stage (Nel 2001; 1). Historically, LED originated in developed countries about 30 to 40 years ago in response to the socio-economic problems emanating from the persistence of locality-specific development challenges (Nel 2001:1004) The traditional top-down supply-side sectoral strategies addressing increasing unemployment and regional inequality provided the impetus for alternative development strategies for growth opportunities in all areas (Roberts in Rodriguez – Pose and Tijmstra, 2005:35), This trend continued in the 1990s in developing countries as the challenges of slow economic growth and poverty which were ongoing, coupled with economic developments taking place nationally and internationally, provided an impetus for change in the direction of initiatives which were more locally based. Furthermore, as Nel (2001:1004) adds, the situation was compounded by factors such as, *inter alia*, the debt crisis, imposed structural adjustment and massive currency as well as other natural and political shocks (Rodriguez – Pose and Tijmstra 2005:35).

LED has gone through a number of different phases which can be broadly grouped: ([www.led.co.za/node/1011](http://www.led.co.za/node/1011)):

- Initially the focus was on the marketing of locations to external investors, linked with incentives, notably tax breaks and/or reduced costs of municipal services (water, electricity and infrastructure development);
- The shift to indigenous economic potential, support for competitiveness of existing firms, promoting entrepreneurship and business start-ups. Enterprise development, business support and business linkage mechanisms, access to finance, skills, rural and sectoral development have facilitated the process ensuring a holistic approach to LED since the 1990s; and
- Finally, individual business support and sectoral development approaches of the second phase are enhanced by a more conducive environment to economic development through networking, collaboration, public/private and community partnerships, workforce development and education, focusing on inward investment, cluster growth and supporting quality of life improvements.

Several disciplines: notably public administration; economics; systems thinking; geography; regional and urban planning and sociology have contributed to the evolution of LED internationally. Although LED has been around since the 1970s, interest in the issue has not declined; there have been new thoughts and ideas that have kept the subject very much alive. Perry (2010:X11) points out that that in academic circles, there is a firm belief that "the most effective manner of reducing disparities in unemployment remains what it has always been, that is "attracting inward investment, although from a wider range of projects than may have been considered appropriate in the past". Internationally, there has been a great deal of theory developed on the subject in the form of theoretical perspectives, policies, strategies, case-studies etc; however, on a practical level, actual implementation has proved to be a challenge and there have been varying levels of success experienced in relation to that.

## 2. Towards an understanding of LED

### 2.1. Defining terms and conceptual overview

It is important to frame the concept of local economic development and to set out some of the key terms. LED, as initially coined by the United Nations Development Programme (UNDP), is a locally driven process that seeks to identify, harness and utilise resources to stimulate the economy and more importantly create new job opportunities in a locality. It is the sum total of the individual contributions of a broad spectrum of the community (local authority, business, labour, non-governmental organisations and individuals) in improving their economic status by combining their skills, resources and ideas (International Republican Institute and National Business Initiative, 1998:2).

The generic definition (others are in Box 1) adopted is appropriate, i.e. it is “an approach towards economic development which allows and encourages local people to work together to achieve sustainable economic growth and development thereby bringing economic benefits and an improved quality of life for all residents in a local municipal area” (Morgenrood 2007:16). The World Bank (as quoted by Breitenbach, 2006:9) highlights the fact that the objective of LED “is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which the public, business and the non-governmental sector partners work collectively to create better conditions for economic growth and employment generation”. The focus is on local development as opposed to regional or national development and municipalities should be seen to be enthusiastic and ambitious in terms of developing their areas. The term “locality” is directly linked to LED as it emphasises both the mobilisation and the proactivity of local individuals, non-government organisations, business and labour. It is ongoing rather than being a single project or a series of steps that has to be undertaken. It includes all the role players and stakeholders in the locality involved in a diverse range of initiatives addressing a range of socio-economic development needs. This implies collaboration and responsibility between the public and private sector for the economic development of a region or a location ([www.led.co.za/node/1011](http://www.led.co.za/node/1011)). A local economy is more than a collection of individual firm and markets. It is a collection of networks and dynamic systems of interactions that shape individual decisions and actions ([www.led.co.za/node/1011](http://www.led.co.za/node/1011)).

Given the above, LED can be viewed as a process which is community empowering and cost-effective and which is an integral part of local governance. More importantly, there are tangible benefits for participating communities. Governments have a distinct role to play in the process through *inter alia*, facilitation; support, funding and devolving control.

LED was developed as a concept in the broader context of globalisation, which is the process through which trade barriers have been reduced thereby allowing goods and services to be traded more freely internationally<sup>1</sup> (DPLG undated:6). It is an integral part of globalisation as local responses have been developed to address global challenges. Localities globally are playing a critical role in investment, decision making and development and this has been acknowledged by United Nations Habitat and the World Bank as set out in the recent Report on the State of the World Cities. Global developmental challenges, namely balancing economic strategies to

achieve both competitiveness and poverty eradication; improving service delivery; affordability constraints; ensuring open and transparent state-society relations; tapping into the resourcefulness and creativity of local role players and stakeholders; and enhancing intergovernmental relations (Harrison et al, 2003:176 adapted) demand the mobilisation of skills and resources within all spheres of government, civil society and the private sector. Consequently, LED has to be complementary to both nationally and regionally driven

#### Box 1 International definitions of LED

1. “Essentially a process in which local governments and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area” (Zaaier and Sara 1993:129);
2. “Process in which local governments or community – based (neighbourhood) organisations engage to stimulate and maintain business activity and/or employment. The principle goal of local economic development is to stimulate local employment opportunities in sectors that improve the community, using existing human, natural and institutional resources” (Blakely 1994:XV1);
3. “The process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life for all” (World Bank 2003:4).
4. “An ongoing process by which key stakeholders and institutions from all spheres of society, the public and private sector as well as civil society, work jointly to create a unique advantage for the locality and its firms, tackle market failures, remove bureaucratic obstacles for local businesses and strengthen the competitiveness of local firms (GTZ in [www.led.co.za/node/1011](http://www.led.co.za/node/1011));
5. “A participatory process which encourages social dialogue and public/private partnerships in a geographical area. LED enables local stakeholders to jointly design and implement a development strategy which fully exploits local resources, and capacities and makes best use of the area’s comparative advantages” (International Labour Organisation in [www.led.co.za/node/1011](http://www.led.co.za/node/1011));
6. “A participatory process where local people from all sectors work together to stimulate local commercial activity, resulting in a resilient and sustainable economy. It is a tool to help create decent jobs and improve the quality of life for everyone, including the poor and marginalized. LED encourages the public, private and civil society sectors to establish partnerships and collaboratively find local solutions to common economic challenges. The LED process seeks to empower local participants in order to effectively utilise business enterprise, labour, capital and other local resources to achieve local priorities (e.g. promote quality jobs; reduce poverty; stabilise the local economy generate municipal taxes to provide better services” (UN – Habitat in [www.led.co.za/node/1011](http://www.led.co.za/node/1011)).

1. Globalisation presents opportunities and threats. The former are expanding trade beyond local, regional and national boundaries through competitive production techniques, value addition and innovation in local economies while the latter are adapting to global economic forces and producing goods and services for international markets. Consequently, technology and production standards must meet international requirements (DPLG undated:6).

economic strategies, programmes and policies. Globally, local governments are key to facilitating an enabling environment for development to take place (Parnell et al.2002:79). The limited success achieved by central government in ensuring economies of scale has resulted in socio-economic planning being devolved from “national institutional cores to individual localities in municipal areas” (Parnell and Pieterse, 2002:79 and Binza 2005:7).

Rodriguez – Pose and Tijmstra (2005:37) and Hadingham et al (2008:3) have highlighted the basic differences between traditional development strategies and LED:

TRADITIONAL DEVELOPMENT STRATEGIES	LOCAL ECONOMIC DEVELOPMENT
1. Sectoral	1. Territorial focusing on a region or locality rather than an industrial sector
2. Top down, with national government deciding where intervention is needed with limited or no input from local actors (with related issues of empowerment).	2. Focuses on development from below and Emphasises the need for promoting economic development in all areas. National institutions cannot respond effectively to local and regional needs whereas local institutions given their flexibility are better placed to interact with other local institutions and social actors
3. Large or infrastructural projects, using financial incentives to attract large firms enhancing additional economic activity.	3. LED exploits development potential of a locality with a view to stimulating local economic systems to the changing environment. Local capacity is developed thereby enabling the locality to successfully addresses challenges and take on new opportunities.
4. Managed by central administration	4. Decentralised/co-operative

There no blueprint for LED which will succeed in every locality as each has its distinct uniqueness in terms of opportunities and challenges. The availability of land, infrastructure, natural resources and a skilled workforce is the determining factor for the choice of plans and more importantly strategies for LED. Each locality is unique in terms of natural assets and consequently has to ensure that it derives the maximum benefits from the resultant LED opportunities. The ability to rapidly change and adapt to the local, national and international markets which are by nature dynamic, will to a large extent determine the success of any locality.

A well developed LED strategy can strengthen local economic capacity; improve the investment environment; and facilitate an increase in productivity, quality and competitiveness of local businesses, SMMEs and workers. (Phutiagae, 2007:140). Success in LED is defined by a community's ability to ensure that all key role players and stakeholders are on board, maximising local resources and current opportunities, identifying and developing future opportunities and harnessing critical external resources and skills.

LED is also critical for:

- Job creation
- Increasing affordability levels
- Broadening the local tax base
- Improving municipal services
- Capacity and institutional development and linking developed and underdeveloped areas (International Republican Institute and National Business Initiative in Harrison et al 2003:3).

It also seeks to empower disadvantaged and marginalised communities socio-economically, facilitate the redistribution process and improve quality of life locally. Poverty alleviation and unemployment are the greatest development challenges internationally and a significant part of the community particularly in developing countries are living below the poverty line and lack access to basic services. LED is an important mechanism for poverty alleviation given its focus on socio-economic issues.

Globalisation and economic restructuring in most developing countries has resulted in stagnation and economic decline. Consequently, historical governance practices over the years often focused on prevention or control of development rather than facilitating it and this should be reviewed (Simpson 2009:2). According to Rodriguez – Pose and Tijmstra (2005:38-39), there are some distinct socio-economic benefits of LED, namely:

- it combines the objectives of ensuring sustainable growth and being pro-poor often difficult to identify in traditional development strategies. There is local empowerment, dynamism of local resources; people becoming more pro-active, development of a stronger civil society and ultimately transparency and accountability; and
- LED strategies can create an environment that stimulates more sustainable and higher quality employment opportunities if successful.

Recent LED approaches have focused on popular participation in development with a view to the mobilisation of internal resources, capacities and skills that will facilitate strong partnerships and implement innovative solutions (DPLG 2001:8 and DPLG 2000:21-22). Qualitatively greater social-economic outcomes could be achieved if LED could become a key component of national strategy at the local level. LED can viewed as a decentralisation strategy as it empowers communities (business, labour and society) as well as local and provincial/state governments to improve their competitiveness, shape their environments and more importantly ensure that the provision of infrastructure and services is efficient and effective locally. Investment can be attracted and the citizenry can grow the local

economy by retaining income in the area if dynamic LED strategies are adopted (DPLG 2007:9).

The enterprise approach is a new phenomenon whereby municipalities enter into collaborative partnerships to stimulate local economic activity and create jobs in a defined locality. Emphasis has been placed on “endogenous development policies using the potential of local human, institutional and physical resources (Blakely in Harrison et al 2003). There are different versions of the endogenous growth theory, but they quite often rely on some form of knowledge spill over, i.e. when an enterprise invests in technology and skills, the economic benefits diffuse to other enterprises as the efficiency gain is transferred to linked enterprises (Martin and Sunley in Perry 2010:80).

Three basic themes critical to LED are the importance of entrepreneurship for the economic vitality of a locality; the significance of retaining human capital and reducing out-migration in poorer regions; and the potential for inter/intra firm linkages locally. An LED strategy should be an integral part of the broader strategic planning process for a sub-national region, city, town or rural area. Sound LED strategic planning ensures that priority issues are addressed and scarce resources well targeted (World Bank as quoted by Breitenbach, 2006:9).

LED is process orientated, requiring the creation of new institutions; the development of alternative industries; enhancement of the capacity to improve quality, identification of new markets, the transfer of knowledge and the nurturing of new companies and enterprises (Harrison et al 2003:178). Increasing the variety and number of job opportunities locally is a key consideration in LED and local government and local communities are seen to be the main facilitators of the process. Local government should serve as a catalyst in utilising the resources of community-based organisations to develop the local economy.

## 2.2. Key role players and stakeholders in the process

Developing local partnerships will enable municipalities to achieve much more locally with their own resources, and at the same time to identify and leverage additional resources for development. Municipal partnerships seek to develop a linkage between various local role players and stakeholders that have an interest in LED to ensure that the process is successful and sustainable. The key role players and stakeholders are identified below:

### Local authorities

Local authorities are one of the key actors in the process, as they are instrumental in service provision and implementing local regulations relevant for enabling effective LED. They can facilitate business development, retention and attraction by marketing local products, offering incentives to support business expansion, providing education and training, supporting small business development and improving infrastructure (Swinburne, Goga and Murphy 2006:13).

Local government functionaries in concert with the local communities, businesses and government structures at all spheres have to assume responsibility for LED. Economic development cannot take place and has to be nurtured. Consequently, local authorities will have to commit considerably more resources to facilitate local and regional development and more specifically develop the capacity of economic

development units within local authorities. They can then start matching their strategic objectives of growing the economy with well resourced economic development programmes. This could then serve as key entry points for localising national growth policies (SACN, 2006: 6-5). Local authorities have a wide range of regulatory procedures impacting on business namely:

- Reducing the cost of doing business by streamlining business applications and ensuring that municipal tax and service charges are affordable;
- Analysing the local economy and communicating the complex economic relationships, limitations, and advantages to key role players;
- Undertaking strategic planning which reflects LED priorities;
- Providing leadership for LED through civil society mobilisation/public participation; networking to create partnerships and projects; developing sector linkages and clustering of economic activity;
- Coordinating and funding the implementing of LED projects;
- Ensuring a high standard of service delivery, improving the quality of life and facilitating economic opportunities;
- Providing incentives (fiscal; land development, planning and marketing) to attract private investment and identifying and marketing new economic opportunities;
- Promoting local business development through procurement policies and re-evaluating land use legislation to identify restrictive conditions, particularly those inhibiting less formal economic activities and
- Ensuring an enabling environment for local businesses through efficient and effective service and infrastructure delivery, and stimulating business growth.

(Swinburne et al 2006:14; SACN, 2006:5-6 and DPLG undated:62 ).

A key issue in any locality that impacts on the ability of enterprises to be competitive is local governance. Camagni in Perry (2010:31) points out that there is some variation in the extent to which local management and administrative processes bring together representatives of the public and private sector, and encourage a collective approach to problem solving and coordinated investment in public infrastructure. Local authorities should be creative in terms of developing mechanisms to enhance their business platforms by ensuring that good transport infrastructure is provided, high quality physical locations, reliable urban services and good telecommunication access are available to conduct business (See Box 2). It is a given that local authorities will have to improve communication with other spheres of government, parastatals and the private sector as many of these are outside local government (SACN, 2006:6-6).

### Civil society

Residents must be fully involved in the local development process if successful LED is expected to be driven by the community. This will (Swinburne et al, 2006):

## Box 2: Bandra Kurla Complex (BKC): restructuring the city and seizing opportunities for growth in Mumbai, India

Mumbai Metropolitan Region which is the commercial capital of India has a population in excess of 18 million people. The business district, located in the South had over 50% of all business enterprises and this caused long distance commuting resulting in overcrowded and congested roads. The City's 1948 development plan hinted at decongesting the south and proposed an alternate centre near Bandra in the north. The 1964 Development Plan and the Bombay Metropolitan Regional Development Plan of 1973 made similar recommendations.

The Bandra-Kurla Complex (BKC) has many advantages and is highly accessible by road and rail and very close to the airport. The Mumbai Metropolitan Regional Development Authority (MMRDA) was appointed as the Special Planning Authority for this complex in 1977. The 553 acre site developed from marshland was reclaimed by channelling the Mithi River and two creeks. The BKC was the first new growth centre established to assist arrest further concentration of offices and commercial activities in South Mumbai. The intention was to make it a commercial and office complex, similar to the one in South Mumbai. The development included *inter alia* private and government offices, banks, wholesale establishments, and created about 200,000 jobs locally. MMRDA decided to focus on the finance sector as a driver of growth for Mumbai. It decided to develop BKC as an International Finance and Business Centre and this was a major boost. The main objective was to create new office locations of international standards, ensuring easy accessibility and high quality of amenities for employees, safe environment and a distinct character and image. In promoting this concept, the MMRDA changed its development strategy and started leasing plots by invitation of tenders. With only a few plots being put on the market at a given time, it managed to obtain a high premium on the land. In the initial period, plots were auctioned only to the 'end-users', but in recent years, real estate developers were also allowed to bid.

"The decision to accelerate land sales from Bandra-Kurla, and in particular to emphasize sales of land rather than long-term leases of developed property built by MMRDA, was motivated by two factors. First, it was decided that Bandra-Kurla could be built out more efficiently by private developers. Individual land parcels within Bandra-Kurla are designated by MMRDA for specific development purposes—for example, five-star hotel, commercial building of maximum floor space, convention centre. The parcels are auctioned subject to this use restriction and then developed by the buyer. This public-private partnership has accelerated development relative to the former practice, where MMRDA constructed many of the properties and leased them to users in a finished state. The private developers at Bandra-Kurla are responsible for installing all access and on-site infrastructure at their own expense. The second

factor motivating the sale of land was the desire to generate significant amounts of capital up front that could be invested in Mumbai's infrastructure" (Peterson, 2009).

It is projected that by 2021, the BKC will have nearly 500,000 jobs and 46% of all the commercial built up area. The land prices and rentals in the BKC have also risen dramatically in the past few years. The property prices in BKC are much higher than the south Mumbai commercial district. With property prices currently pegged between US \$ 500 and \$ 1,000 per sq ft., they are amongst the highest real estate prices in India.

The initial Act establishing the MMRDA was amended to enable it to undertake infrastructural development projects. The sale of land was prioritized to generate funds for infrastructural investment. By the year 2001, total proceeds from land sales, leasing revenues, and development fees at BKC was Rs17 billion. In just two land auctions in January 2006 and November 2007, MMRDA was able to generate Rs50.8 billion (approximately US\$1.2 billion) from the sale of small land parcels. This is almost 10 times the total MMRDA infrastructure investment in 2004–05 and almost five times total infrastructure investment by the Mumbai Municipal Corporation in 2004–05. The large amount of funds generated through through leases and the sale of land in BKC has resulted in MMRDA becoming one of the richest public agencies in India. It has co-funded and implemented major infrastructural investment projects in Mumbai as oppose to being merely a planning agency.

The BKC is an example of a local planning agency using land development as a tool for restructuring a city's economic space and generating funds for infrastructural development. The mode of LED has many important lessons for other cities, namely:

- the ability of the planning agency to implement the vision of a development plan. The MMRDA's role was amended from a mere planning agency to become an infrastructure, finance and development agency; and
- the policy of releasing few plots at a time thereby enabling it to capture the market gains in property prices and generate large surpluses. It also helped achieve multiple goals of providing large commercial space in a planned manner, creating jobs, and raising resources for infrastructural development in Mumbai.

Source: Peterson, George E 2009 "Unlocking land values to finance urban infrastructure", Trends and Policy Option Series No. 7, PPIAF, World Bank, , Washington, 2009 and Information obtained directly from the CLGF on the 17 February 2011.

- legitimise the process and de-politicise LED projects and ensure long term sustainability. A practical developmental agenda must be adopted by the community which focuses on realistic and sustainable goals, long term plans and small visible achievements by involving people, which is key to empowerment (DPLG undated: 64);
- increase the effectiveness and efficiency of the process by securing a range of external resources (material, financial), knowledge and experience, often not available within the municipality;
- widen consensus and support for the LED strategy, thereby strengthening the confidence of potential investors and businesses;
- foresee problems by engaging key partners and stakeholders in the process;
- secure community volunteer efforts to support LED implementation programmes. A core group of capable and respected local leaders, who are prepared to commit time, priority and belief in LED should be identified (DPLG undated:64);
- incorporate the low-income and informal economy groups and associations into the local leadership process as they have a greater understanding of local economic issues; The active engagement of women in local leadership is critical (DPLG undated:64).

#### Private sector/business

The private sector/business has a key role to play in LED as they can (DPLG undated: 65):

- increase the understanding of the local economy as they have a deeper knowledge of local economic issues and are more likely to be more informed about local problems and opportunities that could be addressed by the LED strategy (Swinburne et al, 2006:14);
- recognise the importance of co-operating with government and civil society. It should organise itself to participate appropriately in building the economy by co-operating with government to create a favourable climate for investment;
- support small local business development through advisory and linkage mechanisms, sub-contracting and tendering; and
- work on feasible expansion strategies whilst at the same taking cognisance of environmental issues. Opportunities for clustering should be promoted across businesses to enhance competitiveness of local industries

According to Lawrence and Hardingham (2008) the private sector is critical to unlocking the potential of a locality. It is imperative that local government is able to work in collaboration with the private sector to unlock the potential and transform the local economy into a vibrant and dynamic one. They point out that the challenge in this context is to ensure that local government functionaries are adequately equipped to negotiate, debate, and strategise with the private sector around common interests.

#### Box 3: UNCDF explores ways for greater private sector involvement in Africa

A large number of African governments and the donor community have demonstrated a growing interest in LED as a catalyst for facilitating economic growth and ensuring socio-economic benefits to deprived communities. The assumption is that while the public sector can best provide the basic engine for economic development through infrastructure provision, it is the local private sector that will ultimately generate the levels of growth that will lift people out of poverty.

According to Aladeen Shawa, UNCDF Technical Advisor for Local Economic Development, 'the growth of the private sector can be aided or impeded by a whole range of actions of local government, namely improving the local business climate by reducing public sector impediments to economic activity and facilitating public investment and services to targeted sectors. This can contribute significantly to growth and the reduction of poverty. Local authorities are already deeply involved in local business activities, as they are the suppliers of infrastructure, collectors of fees and taxes, providers of basic social services and regulators of land, buildings and activities'.

According to Kadmiel Wekwete, Director, UNCDF, the approach adopted seeks to "strengthen the role of local authorities to find innovative solutions that address the needs of their constituents. Promoting the development of a vibrant private sector is the surest way of sustaining the process and also making use of the great comparative advantage of UNCDF".  
Source: UNCDF

The United Nations Capital Development Fund is responsible for developing the capacity of local governments to plan, finance and manage their own development. It is also expanding its focus on exploring ways in which local authorities in Africa can facilitate and support the growth of the private sector. An LED-related strategy would encompass a reorientation of local governments from their traditional role of delivering social services "to one which includes facilitating and supporting private sector development and investment, resulting in vibrant markets and productive economic activity (See Box 3 for additional information on UNCDF involvement in LED)

### 3.LED: Role of national, provincial/state and local government

LED is perceived as a cost effective and community empowering exercise which, if appropriately managed, will yield considerable benefits for the participating communities. In fact, government has a distinct role to play in the overall process through facilitation; supporting, part financing and developing control (Nel 2001: 1006). LED has been conceptualised as operating on two broad levels, namely:

1. Formal: characterised by the involvement of local and higher governmental structures and the business sector; and
2. Informal: characterised by action at the level of community based organisations and NGOs; links with spontaneous self-reliance initiatives and the informal sector (Nel in Nel 2001:1006).

Leadership in any LED initiative is not confined to any single sector and can fall under local governments, NGOs, community groups or a combination of such organisations (Zaaijer and Sara 1993). It is imperative for all the spheres of government, private sector and community groupings to participate in the process if socio-economic development is to be achieved.

#### National government

The development of robust and inclusive local economies requires a high-level or intergovernmental co-ordination, both horizontally (between national government departments) and vertically (through all spheres of government) (DPLG 2005:23). Often the LED mandate is not well defined in local government legislation and therefore not clearly set out in the legal or regulatory frameworks of other relevant sectors such as agriculture, industry, trade or vocational education. This can also have a significant impact on resourcing levels. It is important that economic policies and strategies, both macro and micro, are clearly understood and articulated so that the key role players and stakeholders can coordinate their thinking.

National departments should not only disseminate the relevant information on opportunities and resources available locally, but also ensure that it is properly planned and coordinated so that there is a single vision for LED nationally. A national policy framework can clarify a local economic development understanding of the national economy highlighting sectors, clusters of specific activity etc, help to make macroeconomic policy more responsive to local realities, and provide a focus on refining the respective functional responsibilities of respective stakeholders active in LED, including local government. There should also be access to finance (through grants, loans or financing mechanisms), particularly for those that are disadvantaged and marginalised. The development of relevant skills should be encouraged and promoted (DPLG 2005:24).

National tools and instruments that are used to facilitate local growth and development must be used optimally and include the following (DPLG 2005:24-25):

- Good infrastructure does not guarantee a successful local economy, but it can make an important contribution to it. Labour and skilled resources are required and short-term jobs can be created. More local enterprises can be awarded contracts thereby ensuring resources remain in the locality; and
- short-term unskilled labour intensive jobs should be transformed into a skilled workforce and permanent jobs in the community.

The LED process should be continually stimulated, governed and facilitated. A focal point for it should be created through *inter alia*, improved integrated economic planning; coordinated access to funding; enhancing the performance of local government (for LED) and more importantly identifying and capitalising on local competitive advantage for territorial socio-economic development.(DPLG 2005:26). Universities can play an important role in developing a knowledge base in the subject area and should be encouraged to provide relevant graduate and undergraduate LED courses and modules. Furthermore, they should ensure that they link themselves to national and global networks so that they are central in information dissemination and diffusion.

In much of Africa, there has been a tendency, inherited from colonial rule, to practise a deconcentrated rather than a devolved form of administration and governance at local level. The main reason for this is to ensure that national government has representation and thus exercises control and direction. In these circumstances, it is essential to factor this into the understanding of how national government contributes to LED, as key national departments with developmental portfolios as well as coordinating bodies and officials, such as District Commissioners, have relevant responsibilities at local levels.

#### Provincial/state government

Provincial/state governments (where they exist) are required to coordinate resources transferred to their departments and to ultimately ensure that the priorities and initiatives at the local level are realised. Provincial/state departments view LED "as a major delivery area for the local communities, and provinces/state governments have an important role to play in developing the capacity of municipalities to undertake LED by supporting them in their programmes" (Hindson and Vincentre 2005:33). The latter through their structures must play a role in securing loan finance for small producers from the financial institutions.

Provincial/state departments dealing with LED notably local government or economic affairs should be adequately capacitated and empowered for developing and stimulating the local economy. These departments should always see this as a major delivery area, which municipalities must provide for their communities and citizens (DPLG 2005: 27-28). They should support and strengthen municipalities to address LED as a key governance capability through technical assistance, economic development resources and business information (DPLG 2005:28). Consequently, a more robust provincial/state economic development role is therefore key to strengthening and supporting co-operative governance and coordinating action that promotes growth and development across all spheres of government and social partners (Phutiagae 2005:138).

#### Local government and LED

The dynamic implementation of national and provincial/state policies and instruments is key to promoting LED. If these policies have been developed with a view to promoting long-term sustainable employment through economic and enterprise creation, retention and development, then the local authorities need to ensure that they have the necessary capacity to take full advantage of these opportunities. Local authorities, acting in partnership with the national and provincial government, and NGOs should endeavour to enhance the skills base in local communities. This factor tends to increase productivity as well

#### Box 4: Partnerships, linkages and networks in Cardiff, Wales

Cardiff has been transformed over the past twenty years from the development of Cardiff Bay and the Millennium Stadium through to the recent opening of St David's 2 Shopping Centre. The local economy has transformed from heavy industry to services and the City has grown as the cultural, commercial and political capital of Wales. The economic climate within which this transformation has taken place has also radically changed. Future opportunities will be unlocking the potential of the local citizenry, developing the financial and business services and growing creative and scientific industries. The overall aim was to upgrade the city's business infrastructure and connectivity to make sure that its business offer matches its excellent quality of life offer. Cardiff should be viewed as a great place to live or to visit in 2011 and by 2015 a great place to do business. A long term strategy as well as short-term responses were needed to ensure that the recession does not inflict lasting damage on the local economy.

In Cardiff the claimant count more than doubled from 2.2% in January 2008 to 4.5% in April 2010, with 18–24 year olds, a demographic especially vulnerable to unemployment, particularly affected. Businesses closed as finance and investment dried up. The Council established a Regional Skills Vehicle to assist young people to gain employment and the Capital Cardiff Fund had to ensure that finance continued to be available to the city's small businesses.

##### Cardiff regional skills vehicle

Bringing together the Council's various service areas, agencies and organisations in the area of skills and employment, the vehicle provides a mechanism for satisfying demand for skilled labour created by the major infrastructure projects; and ensures that the economic benefit of some of the larger developments are captured by local communities, particularly those in more economically deprived communities and 'hard to reach' groups. What makes the partnership unique is the cross disciplinary approach, bringing together Council departments and a range of organisations in the city and the region to share resources and expertise. Cardiff City was able to assume a leadership role whilst at the same time having the people on the ground close to each community.

##### Capital Cardiff Fund

The Capital Cardiff Fund offers business support through a range of financial assistance packages including loans, equity and grants, aimed at start-up growth businesses and existing companies that

need assistance to undertake investment. The innovative component of the Capital Cardiff Fund is the Development Capital Fund, operated under a co-investment arrangement with fund managers and business angel syndicates, for the businesses of today Cardiff is putting in place the foundations for present and future prosperity.

This case study represents how a particular city is responding to the exigencies of the financial crisis, making use of the advantages it possesses (e.g. its position as capital city of Wales) and by forging partnerships with other role players in the local economy. Whilst Cardiff undoubtedly has unique characteristics making for success, it still serves to illustrate some of the ways in which LED approaches can assist in turning around local economies in times of trouble such as those experienced in many parts of the world towards the end last of the decade. (Information supplied by the CLGF in correspondence dated 17 February 2011).

The innovative component of the Capital Cardiff Fund is the Development Capital Fund, which is operated under a co-investment arrangement with fund managers and business angel syndicates, and through which the Council has taken equity investments worth up to £50,000 in high-growth companies in the city, particularly those in identified key economic sectors. At a time when the supply of capital is constrained, the Capital Cardiff fund has allowed new and high-growth businesses to continue to develop in the city.

Council officers undertake the due diligence for grants and loans. This involves a lengthy review of business plans and financial forecasts, credit checks and bank references. For equity investments the Council must be invited by a company to participate and must be the 'last on board' to fund the project shortfall. The Council will only consider investing where organisations such as Finance Wales, Fusion IP or UK Steel Enterprise have invested. Finally, external legal and investment advice is taken to ensure that a detailed review of the opportunity has been conducted.

Through creating the right environment for the businesses of tomorrow and providing responsive support for the businesses of today Cardiff is putting in place the foundations for present and future prosperity.

as have strong distributional benefits in urban societies (SACN,2006:6-5). It is imperative that the opportunities and competitive advantage of their locality is made readily available to local people in useful and accessible forms (DPLG 2005:29).

It is apparent that local governments have a critical to play a critical role in LED, although it is rarely their sole prerogative. The leadership role of the municipality in LED is quite marked given its developmental mandate and the new redefined socio-economic context in which it has to operate internationally (Harrison, et al, 2003:178 adapted). Local government's role whether direct or indirect will determine the institutional arrangements. Inter alia, Local government's role may

include policy formulation and leadership in integrated development planning and spatial planning, collation and interpretation of economic intelligence, coordination of local initiatives and other government LED activities, provision of basic infrastructural services, support to SMMEs, accessible local procurement processes, and development of incentives. The latter includes the creation of an enabling environment, improvement of operational efficiency, facilitation of sustainable community projects; attraction of development funding, and dissemination of information (DPLG 2000:27).

Other critical roles of a local authority either direct or indirect can be summarised as follows: (International Republican Institute/National

Business Initiative and Blakely in Harrison, et al 2003;178-179):

1. Policymaker: small business should have greater access to the tender process; ensure that regulations and bylaws do not become barriers to local growth and investment; streamline the approval processes for investment and facilitate the capacity-building process locally;
2. Entrepreneur/developer: local authorities as property owners should explore the commercial potential of these assets with other stakeholders (Simpson 2009:5);
3. Promoter: key local government functionaries should market the locality, thereby projecting a positive image;
4. Catalyst/stimulator: certain action taken can stimulate or catalyse business and development initiatives ( brochures, urban renewal, developing industrial estates and creatively using facilities for major cultural and sporting events (Simpson 2009:5). It also involves the identification of those activities and target groups requiring guidelines, monitoring, and intervention in order to ensure the sustainability of LED initiatives (Phutiagae 2007:136); and
5. Lobbyist: local governments and local government associations can lobby national and provincial/state government on policies and programmes that benefit their localities;
6. Coordinator: there is an increasing recognition of the crucial role that local authorities are playing in coordinating various

## Box 5: Integrating street vendors into the city economy in Kuala Lumpur, Malaysia

Local economic development strategies are usually perceived as promoting rapid growth and employment. Kuala Lumpur has attempted to integrate the street vendors and petty traders as an integral part of the city economy. In Asian cities at present, attitudes toward street vendors is ambivalent. However, Kuala Lumpur has recognised that street vending is an important part of city's economy, not only because it provides employment to a large number of people, but also because they provide a range of services to the urban population at a reasonable price. Street vending has survived, despite the increase in formal shopping in Asian cities because it caters to all sections of people. Kuala Lumpur shows that informal trade activities are complimentary and not competitive to formal commercial activities. Tourism is also promoted through street vendors, as in the case of the famous Hawker's market in Kuala Lumpur for food that is listed in all tourist guides.

In 1990, Malaysia formulated the National Policy on Hawkers. This is a comprehensive plan to tackle the social and economic problems associated with street vending. Its implementation includes the provision of funds to support credit schemes and training programmes for street vendors to improve their facilities. The regulation and control of street vendors is under the department of hawkers and petty traders (DHPT) established in 1986. The objectives of the department include the development, modernisation and management of the street vendors in line with the objective of making Kuala Lumpur a clean, healthy and beautiful city for the local people and tourists. Its vision is "Working towards creating a community of hawkers as entrepreneurs who are disciplined and professional".

### Client Charter of the Petty Traders Development and Management Department

1. Process and approve complete applications for Hawker Centre, Indoor Market & Farmer's Market licenses within 24 hours.
2. Process and approve complete applications for Open air markets & Late Night Bazaars within 14 working days.
3. Process and approve complete applications for Night Markets,

Roadside Stalls, Temporary Stalls & Mobile Stalls within 20 working days.

4. Notice of License Renewal will be sent at least 2 months prior to the date of license expiration.
5. Renewal of all types of licenses will be made with 24 hours from the date of application.
6. Ensuring acknowledgement of public complaints is done within 1 working day and follow up action is taken within 3 working days. Additional feedback on the outcome of any actions taken will be given within 14 working days.
7. Conducting enforcement spot checks every 3 months to ensure compliance to relevant by laws.

The total number of licensed street vendors in 2000 was nearly 35,000. In addition it was believed that there were more than 12,000 unlicensed street vendors operating. The objective is to relocate street vendors, in the case of food hawkers, to food centres in buildings or to central sites. Vans are designed for mobile hawking. Around 35 per cent of the total street vendors are food hawkers. However there are other sites where street vendors can carry out their business.

Licensed street vendors have access to institutional credit as the government has provided funds for this. Training programmes are organised regularly for these vendors in which they are taught about health and hygiene, business skills, accounts, etc. The DHPT organises some of these programmes and seeks the cooperation of NGOs too. There are 60 NGOs engaged in this activity. The Kuala Lumpur experience shows that a positive hawkers' program can begin to be designed if hawking is viewed as a trade, not as a last resort. In Kuala Lumpur, the skills of young hawkers are improved by training in accounting, hygiene, and marketing. The city government provide long-term credit, either as interest free loans or at low rates to hawkers.

Kuala Lumpur has shown that inclusive local economic development policies help generate employment and raise revenue for the city government.

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interventions and initiatives aimed at promoting LED. "Municipalities are actually well positioned not only to carry out their core functions, but also to play a coordinating role in terms of LED". Coordination is key in ensuring that local government, as the sphere closest to communities, is in touch with the latter's needs (Phutiagae, 2007:136);

7. Facilitator: local authorities play a strategic role in LED, and communities and other stakeholders are the actual implementers of local initiatives (Phutiagae 2007:136); and
8. Enabler: if local authorities are local institutions of development, they should be creating an enabling environment where communities are empowered to use local government to achieve their needs. Local governance should facilitate this process for local communities and service providers (Phutiagae 2008: 137).

Local government, community-based organisations and the private sector have to realise that they are essential partners in the LED process if they are desirous of improving the quality of life of local people. Successful LED is jointly driven by the public and private sector and civil society and consequently requires active stakeholder participation, linkages and networking which has to be a bottom – up participatory approach (Trah, 2006:3). The example from Cardiff City Council in the UK reflects in practical terms how some of the key functions highlighted above can manifest themselves in LED initiatives and activities.

Municipalities can support LED by *inter alia*, ensuring the local investment climate is conducive for local business; supporting small and medium enterprises; informal and newly emerging business; targeting disadvantaged and marginalised groups; investing in public infrastructure (roads, sewerage and airports) and soft infrastructure (educational, workforce development and institutional support systems) (Simpson 2009:2); initiating partnerships for infrastructure and urban renewal; drawing up analysis and development plans for their local economies; identifying with stakeholders the key sectors to promote; facilitating the participation of business, labour, community based and non-governmental organisations; ensuring tender procedures favour small business; providing support, advice and training for SMMEs and Community Based Organisations (CBOs) involved in community development; providing training for the unemployed; developing links facilitating subcontracting between large and small businesses; promoting tourism, business investment/conferences; encouraging the use of local labour, small businesses and intensive constructive methods; encouraging local purchasing campaigns; encouraging the use of new technology; developing linkages with local tertiary and research institutions; ensuring flexibility in planning regulations; facilitating co-operation between the formal and informal sectors; lobbying provincial/state government in relation to transport, planning, education and housing and "kickstarting projects" focusing on urban renewal and infrastructure development (Ntsika Enterprise Promotion Agency, 2000, 61).

## 4. LED approaches, strategies, financing and implementation

There are various approaches to LED, which can be broadly grouped under five categories, detailed below (DPLG 2001:6-7 and Harrison et al, 2003:180-181):

TABLE 2: APPROACHES TO LED	
Approach	Key Instrument
1. Traditional	Industrial recruitment
2. Urban efficiency	Increased urban productivity and lowered costs
3. Entrepreneurial and sectoral	Pick winners and promote public private partnerships (PPPs)
4. Progressive-competitive	Pick winners with the maximum social benefits – promote PPPs and public community partnerships
5. Progressive/community-based	Link profits to development and support community based institutions

Seven common LED strategies/interventions are summarised below: (LGWSETA, 2002:4; Harrison et al 2003:180-183; DPLG 2007: 56-57 and Binza, 2005:9):

1. *Infrastructural development and service provision* is a powerful strategy as the quality of urban governance is dependent on policies affecting the availability of or lack of electricity, transport, telecommunications, sanitation and developable urban land (Cities of Change in Phutiagia 2007:143). Efficient and effective infrastructure and service provision, are statutory responsibilities for most local governments, and are important considerations in boosting business confidence in an area;
2. *Retention and expansion of existing businesses* business should not relocate, but focus on improving their productivity and increasing their market share. Key interventions include business skills development; providing advice, capital and technological support; developing under-exploited sectors that have comparative advantages; site identification and assistance in re-locating; changes in zoning and fast-tracking development applications; identification and adoption of new technologies; financial schemes and incentive packages; bulk buying and place and product learning;
3. *Increased spending on locally manufactured products* should prevent the outflow of funds from the area. Special events and festivals should be funded and employee training promoted locally;
4. *SMME Development* creates jobs and empowers disadvantaged and marginalised individuals. It has to be based on community economic development initiatives and it requires assistance for skills development; marketing, research, financial, infrastructure and technical support. The strategies adopted are critical for any job

creation programme (Scheepers and Manchusi, 2002:87) and must address broader environmental and entrepreneurial development challenges and create economic wealth. It is cheaper to create jobs in the SMME sector than in large businesses and furthermore the risks involved are lower. A large number of people are able to realise their full potential and make maximum contribution to local economic growth and development (Yurdakil, 2002:7). It is an area where economic development strategy has been most effective in cities in the South; however, weaknesses in the monitoring and evaluation systems have been acknowledged. Concerns have also been raised about efforts to support non-sustainable SMMEs (SACN, 2006:4.6);

5. *Human capital development* ensuring that economic development results in social benefits often requires explicit linkages between “living wages”, human capital development and productivity. Interventions to strengthen existing community organisations and to train people in basic life skills for urban living should form part of these programmes (Phutiagia 2007:144). Key interventions include, basic business management training, skills development and targeted procurement policies;
6. *Community economic development* is based on community self-reliance through human resource development and skills enhancement. The focus is on empowering the community to develop the sustained provision of basic services as community resources. These resource tools must address the needs of communities with low literacy levels and a limited or no skills base (Phutiagia 2007:144). A key objective is poverty alleviation through improving the capabilities of local communities to be self sufficient through promoting safe savings collectives, and financial services; community based environmental management and maintenance schemes, and urban/rural farming projects; and
7. *Linking profitable growth to redistributive development/financing* private sector should assist disadvantaged and marginalised communities and a combination of strategies and a coordinated and coherent approach to meeting development challenges should be adopted. In South Africa, most cities have an LED policy but only 48 per cent of rural municipalities have one (Nel and Goldman, 2007:10). In South Africa for example, national initiatives that had most benefited local LED activities included auto cluster initiatives; industrial development zones; Department of Labour support for skills development; stable fiscal environment with the emphasis on promoting growth and employment; broad based black economic empowerment and ongoing SMME development (SACN, 2006:4-7).

LED strategies and projects can be implemented, managed, coordinated, monitored and evaluated through a diverse range of institutional arrangements. This will by and large be determined by local needs, circumstances, capacity and budgetary considerations. There are several key institutional factors that can have the effect of either supporting LED initiatives or hampering them. LED could be undertaken at the local level through either projects or programmes or in some cases both (Xuza and Swilling, 2008:279). However, they caution that the co-existence of LED units and development agencies necessitates a focused approach in terms of complementarity, linkages and cooperation, which ultimately impact on their sustainability and viability. It should be noted that one of the reasons for failure of LED is inappropriate institutional arrangements (Xuza and Swilling,

2008:277), particularly silo thinking in municipalities where LED is not often seen as a cross cutting issue (Nel and Goldman, 2007). LED policies, programmes and projects need to be aligned with those at the national and provincial/state level. Key to an effective institutional arrangement is coordination.

Globally few LED initiatives, projects or programmes have a permanent, dedicated funding source. However, it is often possible to access resources from government programmes and projects, development agencies, via private sector investment, and the donor community. However, a major challenge that faces local authorities, particularly in developing countries is accessing the funding from the different sources which is generally not well coordinated and does not auger well for holistic development at the local level (Harrison, et al, 2003:187). Xuza and Swilling (2008:279-280) have alluded to this by pointing out that the "bigger challenge is to integrate initiatives by other financiers and make them responsible for funding LED implementation, while local level institutions are working on programme or project conceptualisation. Financing LED is a very critical issue and it should be high on the national government and municipal agenda as sustainability of LED interventions is key to the process.

Development always takes place in relation to communities and by facilitating skills development, the local citizenry can be assisted to generate an income and participate in sustainable economic development (Scheepers and Manchusi, 2002:88). Key considerations for enhancing the LED role of local government include: developing skills, increasing the understanding and knowledge of local economies and increasing staff; the oversight role of local leadership; government has to play a leading role in identifying and/or creating markets for local economies; developing strong partnerships with the national/provincial/state government and private sector; addressing the land issue which has to be managed; and mechanisms must be created by government for protecting community involvement in LED initiatives and demonstrate commitment by staying with such initiatives to ensure sustainability (SACN,2006:4.70; Ngcobo, 2006: 9; Lamshead, 2006:14 and Patel, 2006:3-5).

As LED is essentially a needs-driven approach to economic development within a specific locality, it requires sustained involvement of the communities in the process (Breitenbach,2006:18).

### Box 6: Community-driven development plans in Uganda

In Uganda local economic development is a key component of the three year rolling development plans that local authorities must prepare. The development plans are community-driven, starting at village level. The District Development Programme (DDP) being taken forward with the support of UNCDF has focused on helping Government to implement its decentralisation policy by introducing these local planning, management and performance-linked financing procedures that are now part of official policy. The programme is now piloting policy in the more specific areas of local participatory planning, local revenue enhancement, local justice administration and gender mainstreaming. Overall, DDP has been designed to support local-level implementation of the National Poverty Eradication Action Plan by promoting local delivery of key pro-poor infrastructure, greater participation in decision-making, and control and equitable distribution of resources.

## 5. Overview of Commonwealth experiences in LED

It is generally and increasingly accepted that LED is an integral part of development policies applied by a range of government, community and non-governmental organisations across the Commonwealth. The experiences of selected regions of the Commonwealth are summarised below:

### Caribbean

Economic liberalism and globalisation impacted negatively on economic relations and consequently Caribbean countries had to adjust their markets through liberalising their economies. Local economies exposed to increased competition in an open economy faced several socio-economic challenges, increased unemployment among especially unskilled workers; and closure of small businesses due to lack of business knowledge, capital; new technologies; management expertise and marketing tools (Simpson 2009:3)

A new economic system, the *Third Economic Way* was proposed for responding to development challenges in the Caribbean and a transformed local government with a strongly enhanced civil society sector was critical to the process. Duncan in Simpson (2009:4) points out that “key to the achievement of ‘a third economic sector’ is a renewed and vitalised local government as a vital pillar in a new structure of community governance,... primary official institution ...invested with the power and authority to act,... radical and urgent reform of the local government system,... to achieve major new tasks”.

It has been accepted that municipalities in the region need to be more active in terms of facilitating local development. Although LED is a relatively new concept in the region, local authorities in Belize, Guyana, Jamaica, and Trinidad and Tobago have progressed beyond their basic role and embarked on several LED initiatives (Simpson 2009:5).

### Box 7: LED in a redefined South African development context

The notion of empowerment through participation is deeply entrenched in South African local government as a key objective to promote socio-economic development<sup>2</sup>. The White Paper on Local Government (Republic of South Africa, 1998:17) advocates that “local government should be committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives” ([www.thinasinako.co.za/uploads/documents/040906170325.doc](http://www.thinasinako.co.za/uploads/documents/040906170325.doc)) . “Developmental local government” is constitutionalised and one of the key outcomes and objectives is the promotion of socio-economic development, as highlighted by the Local Government: Municipal Systems Act, 2000, (Act 32 of 2000), “Local government is not directly responsible for creating jobs. Rather, it is responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities”<sup>3</sup>.

Several government policies have provided an enabling framework for LED, namely the Reconstruction and Development Programme (RDP) has placed particular emphasis on the need for a coordinated framework for a broadly based LED forum to facilitate job creation and develop poverty alleviation strategies (Harrison et al, 2003:177). The then Growth, Employment and Redistribution (GEAR) strategy attempted to combine social policy objectives with economic priorities through the development of a competitive economy to address unemployment, redistribution; opportunities (for the indigent), ensure access to education and other services and create a secure environment and ensure enhanced productivity. (SALGA,1999: 6). The objective of GEAR in a LED context was the utilisation of public investment to upgrade municipal infrastructure (Harrison et al,2003:177) thereby ensuring a balance between social policy and the economic imperatives of globalisation. The country’s economic rating has improved internationally; however, unemployment, social inequalities and poverty are hampering development. The White Paper on Municipal Service Partnerships (MSP) (2000:7)

has highlighted policy guidelines for municipalities embarking on strategic LED actions, namely creating a conducive environment; assisting with capacity development for service delivery; establishing and implementing a monitoring framework for MSP policy (including LED initiatives); and providing targeted capacity enhancement to assist in MSP implementation including LED initiatives. Other policies and programmes which impact on LED are the Microeconomic Reform Strategy which identifies geographical considerations and the issues of growth and competitiveness; SMME development and Black Economic Empowerment are critical for economic development; the Integrated Manufacturing Strategy, linked to the Micro-Economic Reform Strategy seeks to promote development in competitive sectors, equity and growth; the Municipal Infrastructure Grant which co-ordinates and directs support from a range of state programmes and aligns support with local integrated development plans; the Extended Public Works Programme which promotes both employment and infrastructural development locally and the National Spatial Development Perspective which identifies areas in the space economy which have competitive advantages and encourages locally appropriate development (DPLG 2004: 15-16). The reduction of poverty and unemployment by half by 2014 is a key objective of Government and the Department of Co-operative Governance and Traditional Affairs in consultation with the Department of Trade and Industry has been mandated to develop the capacity of municipalities to support LED as part of the ASGISA process ([www.pmg.org.za/bills/060206malmo-ngcuka.htm](http://www.pmg.org.za/bills/060206malmo-ngcuka.htm)). It will also improve the regulatory environment for the operation of small businesses in municipalities; extend the lifespan of the Expanded Public Works Programme and address the skills problems identified in Project Consolidate through the deployment of 150 expert staff (Mlambo-Ngcuka,6/2/06:7-10). However, it does not provide direction in terms of generating competitiveness and shared growth. The approach to human and social capital development and the role of municipalities in this regard also remains loose and unfocused (SACN,2006:6.5).

2. See section 23 of the Act

3. Section 152 (1) of Chapter 6 of the Constitution of the Republic of South Africa Act, 1996 (Act 108 of 1996). See also [www.lorc.ryukoku.ac.jp/docs/symp2006/0121/prof\\_reddy\\_final\\_LORC\\_1.doc](http://www.lorc.ryukoku.ac.jp/docs/symp2006/0121/prof_reddy_final_LORC_1.doc)

Some of the challenges experienced to date are difficulties in securing credit from traditional financing institutions and credit agencies; insufficient trading and knowledge of marketing; limited infrastructure, planning and community involvement; resource mobilisation and the need to strengthen investor confidence; local government has no formal mandate to respond to socio-economic issues and strengthening institutional and community capacity (Simpson 2009:9,13,18 and 19).

### Box 8: Five point plan promotes economic growth for development

The Kingston and St Andrew Sustainable development Plan 2005-2025, plan outlines a number of steps the Kingston and St Andrew Corporation (KSAC) in Jamaica will take to enhance growth and development of the area with the aim of achieving developed status by 2025. The Plan outlines five main goals to be achieved and demonstrates the importance not only of targeted LED initiatives but also of improving delivery of core services which enable development and investment:

- Improve the living conditions of Kingston and St. Andrew Residents. By doing this the plan speaks to local authorities ensuring that there is sustainable development of infrastructure, ensuring that social services and safety nets are available to its people.
- Promote growth, increased productivity, broad based employment, investment and trade in Kingston and St. Andrew. In achieving this goal the intended steps to be taken are; promoting investment and growth of the small and micro business sector, promoting sustainable employment opportunities and much more.
- Sustainable management and conservation of the natural, cultural and built environment.
- Establish a safe Kingston and St. Andrew and ensure a significant reduction in crime and violence.
- Support a stronger, more effective system of local governance.

With regards to Goal 2, in promoting economic growth, the aim of the development plan is to create local economic development initiatives that will promote and diversify growth within the communities. The plan speaks to this being done by enhancing the domestic market, encouraging small and informal sectors and providing ways of supporting them and making them more economically viable. Some of the objectives outlined in achieving Goal 2 include the KSAC plans to promote an appropriate incentive structure to encourage private investment while allowing new competitive advantage; linking economic performance with social cohesion, addressing problems hindering development of the small business sector and developing new products and services that will lead to the creation of new employment opportunities.

*Author: Avagay Simpson, Local Economic Development (LED) in the Caribbean, 2009*

## Africa

LED has been assimilated with community or local development and these pro-poor led strategies basically seek to achieve social rather than economic goals. The emphasis seems to be on short term survival and remedial action for addressing social problems as opposed to long term sustainability and development (Rodriguez – Pose 2005:40). LED strategies are aimed at economic growth; however, there is also an attempt to address poverty alleviation and greater inclusion of previously excluded groups. Rodriguez – Pose (2005: 40) points out that LED strategies that combine a pro-growth with a pro-poor dimension are rare and are generally in countries that are developed, diversified, globally linked and have an urbanised economy. South Africa is a good example of a country that falls in this category (See Box 7).

A UN Habitat Study by Simone (2002:18) pointed out that in many African cities, the widespread insecurities in terms of tenure, livelihood and personal safety has made residents “reluctant to invest time and resources into institutionalising a sense of place”. Globally, while many other developing countries have benefitted from globalisation and localisation, economic growth and poverty reduction rates have been slow in African countries. Furthermore, most economic activity has been in the informal sector. The Economic Commission for Africa Report (2005) highlighted the fact that although the private sector is viewed as not being involved in policymaking, contrary to expectations, the private sector has been growing. In addition, the number of civil society organisations has also been increasing. These new developments provide an opportunity for credible partnerships as LED can complement and also be an alternative to existing development strategies on the continent. The benefits are increased participation of local communities, the formulation of more balanced development strategies, sustainable development and a new strategy for addressing the problems of urban centres and city-regions (Rodriguez – Pose, 2005:75). However, the majority of these organisations “still suffer from real capacity gaps, poor transparency and lack of accountability” (Commission for Africa Report 2005:145).

The generally difficult development environment faced by local and provincial/state governments, that includes limited funding and capacity, poor accessibility and relatively weak civil society impacts negatively on the viability of LED outside the more prosperous urban areas (Rodriguez – Pose 2005:73). Consequently, it is imperative for human resources and institutional capacity to be developed thereby ensuring their successful participation in the LED process. Perhaps, some external international support through the national government could facilitate and strengthen the process so that the desired impact is felt locally.

## Asia

Bodies such as the United Nations Economic and Social Commission for Asia and the Pacific and the Asian Development Bank have taken significant interest in LED in recent years. It has been noted that, in the wake of the financial crisis of the mid 90s, there was stress placed on decentralisation of systems of governance in order to better promote local economic development. Rather than being dominated by national governments, the new approach has been to formulate and implement economic development strategies regionally and locally.

## Box 9: Masterplan brings new opportunities to East London

On 16 December, 2010 the Mayor of Newham (one of the London boroughs) approved the Stratford Metropolitan Masterplan as a strategic statement for the regeneration of the Stratford area including the existing town centre, Stratford City and the Olympic Site after the 2012 Games.

The Masterplan was developed through a year-long process involving widespread consultation and option testing. The plan is supported by a range of background studies including a detailed evidence base, a sustainability appraisal, a transport study and a community infrastructure assessment.

The Masterplan sets out the Council's ambition for Stratford to be transformed into an integrated metropolitan centre for East London offering new opportunities for Newham residents including 46,000 new jobs, 20,000 new homes, eight new schools, new shops, leisure facilities and local services and better walking routes and transport connections.

A new shopping centre is currently under construction by private developers Westfield, and is due to complete in September 2011. During the construction phase 25,000 jobs have been created, with a peak of 4,500 on site at one time. A further 18,000 permanent jobs will be created when the development is complete. The company constructing the retail centre are part-funding a council initiative – Workplace - which seeks to match people with jobs on the project and provides skills and training. The company has also established a retail training academy, managed by a company called Seetec, designed to get the long-term unemployed back into work.

Local governments are now being encouraged and supported to promote economic growth in cooperation with the private sector and civil society. The new approach has been summed up by three priorities:

1. Greater participation of non-public actors, including private companies, NGOs and community based organizations;
2. Decentralization of national government; and
3. Mobilization of sources of finance, with more emphasis on local economic resources (United Nations Economic and Social Commission for Asia and the Pacific, 2000:5).

It has also been noted that the cities of Asia are now seen as being central in social and economic development.

The United Nations, together with partners such as the Asian Development Bank, supports six strategic principles for LED: decentralization, partnership, popular participation, capacity building, networks and the use of information and communication technology. It is also noted that the new emphasis falls in line with the Habitat Agenda's 20 key commitments such as support for small and micro enterprises, particularly those developed by women (United Nations Economic and Social Commission for Asia and the Pacific, 2000:1-2)

## 6. LED prospects and challenges

### A review of challenges

Applying the fashionable, but sometimes rather confusing concept of the developmental state at local level is the overall challenge summarising most of what is said in this section of the paper. However, the more developed Commonwealth states to which this concept might not normally apply, still face challenges which are largely about ensuring that LED is well addressed, implying an orientation which departs from much historical practice. The following section sets out some of the key challenges identified it also provides some discussion of responses to those challenges, together with an assessment of how effective they have been. Some of them are very generic, facing local government in most countries, whilst in other cases the issues are confined to only a few. As far as possible, examples are given of where these challenges have arisen and under what conditions. There are differences between the experiences of developed and developing states. For example, there are considerable differences between North America and Africa. This is so in terms of key factors such as infrastructure (where developed countries are usually more favourably placed) and labour costs (where developing countries may be more attractive to investors).

The problems are to some extent ones which arise from the general situation facing local government, rather than being specific to LED. However, it is important that they are included as their impact is relevant to the issues under discussion. Most of the challenges listed are about factors that in some way limit the extent to which local authorities can be positioned adequately to manage LED.

### LED as an unfunded/under-funded mandate

This appears as a problem in several states where there is a gap between what national governments and society in general may expect of local government and the resources that can be marshalled to enable it to happen. Whilst this is a general problem faced in relation to a wide range of functions, such as public health and water supply, this certainly can apply to cases where LED is seen as strategically and even constitutionally or legally required of local authorities but where funding for this purpose is not available.

Municipalities are highly dependent on national government for funding to carry out local responsibilities as local taxation is often inadequate to support other activities. This reliance has meant that municipalities can only implement projects approved and funded by national government (Simpson 2009:23). Thus, the mandate to achieve LED objectives such as industrial growth in areas served by municipalities may be unfunded or under funded as it may be either impossible or extremely difficult to implement because of constrained financial circumstances. This may be (and often is) a result of inadequate revenue collected by the local authority itself combined with a lack of funds from national government or other external sources.

There is a tendency for LED to find its way into constitutional provisions and policies but that does not mean that funding is possible especially where local revenue bases are weak. This challenge is being addressed within the framework of the 2010 Kenyan constitution, for example, where county governments are expected to carry out a multitude of functions but it is still not clear whether the revenue sharing proposals, which appear to depend heavily on central government, will be workable (Republic of Kenya, Committee of

Experts on Constitutional Review 2010: 72, Republic of Kenya- Laws of Kenya 2010: 107-108).

In the case of the Caribbean, Simpson (2009:22-23) has drawn attention to promising initiatives which may, however, struggle as a result of inadequate financial systems and resources.

### Uneven development and its consequences

The economic histories of most states have created the phenomenon of uneven development (Cox 2002). This is characterised by there being certain areas within states where industrialisation and other forms of economic development have taken root but others where economic activity is very limited (for example, areas where pastoralism and subsistence agriculture feature strongly).

In many countries which have been through colonial rule this has arisen from variations in how this experience influenced economic histories. Examples would be Zambia's 'line of rail' and the Copperbelt geography of development with its associated neglect of areas which fall outside those regions, or Guyana where there are sharp contrasts between the coastal areas where there is industrial and commercial activity, as well as a history of plantation agriculture, and the inland areas; this contrast is well described by Naipaul who visited the country when it was experiencing its transfer of power from British colonialism to independence in the early 1960s (Naipaul 1981: 86-162). This is also a feature of Australia and Canada for example which have high levels of development in many areas but there are also parts of the country, particularly inland, which have historically enjoyed limited development.

In meeting this kind of challenge, it is important to note controversies such as those which have affected Botswana. In that country, development of some less developed areas at the periphery (especially the Kalahari Desert) as it is seen by government and investors is not necessarily regarded as beneficial by the people who actually live there (Taylor 2003: 84-85). Other controversies can involve environmental considerations as some areas, whilst perceived as underdeveloped in terms of statistics, may have resources such as heritage sites which may be damaged by some forms of development such as dam building.

The choice of geographical location for businesses and households is becoming an increasingly important consideration. Linking this point to urban planning, van Vliet (2002:36) states that 'Locational features impose certain restrictions but they also provide opportunities for local development choices, allowing cities to take advantage of unique qualities that can be "marketed"'. However, this emphasis on marketing and entrepreneurship in urban development planning can be seen as having a down side: 'cities that do not have the resources to attract outside interest and investment may find themselves even more bereft and impoverished' (van Vliet 2002:37). What is implied here is that LED carries in its wake a degree of competition between localities to attract business activity and the outcomes are likely to favour those who are already stronger than others. Turning this phenomenon around is a serious challenge for which there are no easy answers. Some countries have been able to progress on this front more than others; Botswana and Australia are examples where mining opportunities have led to economic transformation in places distant from the main urban centres. A corollary of this kind of development is the need to ensure that it is sustainable.

Whilst van Vliet's article is mainly about cities, this perspective carries even more weight when extended to local authorities in general. For example, most states in the Commonwealth, and particularly the larger ones, have areas of economic concentration which tend to be favourable for further investment whilst the more remote areas are often neglected. Note should also be taken of the circumstances faced by small but nevertheless complex states such as the Bahamas in which levels of development have been unevenly distributed between New Providence and Grand Bahama on the one hand and the 'Family Islands' on the other with important implications for local government (Mawhood 1991: 6). The search for effective economic pathways in more remote areas is therefore of considerable importance to national governments and particularly for those who live there and the local authorities which serve them. The competition for business locations can be a continued cause of concern even for areas with a strong economy. Quite often the risk of competition is not identified until an area begins to lose business to a competing area. A targeted economic development strategy aimed at sustaining a competitive business climate can offset this threat (Phutiagia 2007:140)

## LED as policy transfer

In so far as LED is a child of the west, and particularly the United States, there are dangers associated with policy transfer which cannot be ignored. It has been noted, with particular reference to the Caribbean, that 'inappropriate transfer may take place and it is seen a major cause of policy failure in many countries' (Sutton 2006: 188). There are risks which arise where not enough notice is taken of the 'economic, social, political and ideological contexts' which may differ greatly between the receiving and sending parties to the transfer (Sutton 2006: 188, Dolowitz and Marsh 2000: 17).

These general points about policy transfer certainly can apply to LED as it cautions against the assumption that what works in countries like the USA and Canada can be replicated in places like Lesotho or Malaysia. It also draws our attention to the challenge of ensuring that LED policy and its application are grounded in local realities such as the skill attributes of the local population and the investment climate. Poor financial resources impact negatively on the municipality's ability to compete on the open job market and develop the required human resources capacity (Simpson 2009:23). Consequently, the capacity to perform a new developmental role is limited (Phutiagia 2007:139 and Rodriguez – Pose, 2005:75).

A key difficulty here is that the recorded and analysed evidence about LED experience has a somewhat distorted pattern, in that wealthier countries are more represented in the literature than those which are less developed. The response to this has to be to ensure that the passive acceptance of donor prescriptions is replaced by a more grounded approach, based on local realities, and is fully integrated into planning. Rose in Perry (2010:45) identified seven conditions impacting on the likely success of transferring policy experiences between countries, namely:

- the policy does not address a problem unique to the location where it developed;
- sufficient resources exist (financial, human and regulatory) to replicate the policy design;
- the programme does not depend on institutions unique to one locality;

- the policy initiative is not as complex as when it works through the co ordination of many separate elements;
- the scale of change envisaged is minor;
- some interdependency between the original location and the place where it is attempted to replicate the programme;
- the policy is consistent with the values of policymakers

The starting point for effective local economic policy is to be found in the existing structure and culture of the regional economy rather than replication. Experiences in other localities should be treated as sources of inspiration as opposed to recipes that can be copied (Perry 2010: 45).

## Challenges associated with rural local government

There are several factors requiring discussion. The capacity problems rural local authorities face are often greater than elsewhere. This is particularly true in areas where poverty levels are high and business activity of limited scope. This creates scenarios in which revenue bases and other resources for local authorities, and therefore their ability to play a meaningful role in enabling LED are likely to be insignificant compared to bigger urban centres.

An important factor in many countries, especially in Africa and the Pacific, is the role played by traditional leaders in local development initiatives. Traditional leadership is an important part of local governance ([www.lorc.ryukoku.ac.jp/docs/sym2006/0121/profreddyfinalLORC1.doc](http://www.lorc.ryukoku.ac.jp/docs/sym2006/0121/profreddyfinalLORC1.doc)). Leaders of this sort are rarely found in urban settings but frequently need to be taken into account in rural areas. This is because they are often key participants in local authorities, either as *ex officio* or elected members and may have the legitimacy and the power to determine how far development happens, if at all. For example, a critical factor in development, land tenure, may place such leaders in the position of being able to veto LED initiatives or attempt to enforce conditions related to land tenure which investors may find it hard to accept.

In the South African context, they are responsible for facilitating planning in the rural areas. They are responsible for maintaining law and order as they have judicial, executive and administrative powers as presiding officers in the customary law courts. They are responsible for consultation with the community and are essentially regarded as the chief executives of the local tribes. They assist the local communities through the *lekgotla* (*imbizo*) systems, in terms of dealing with the authorities, and when they have to advise government through the National, Provincial and Local Houses of Traditional Leaders (Scheepers and Manchusi, 2002:85). However, the opportunity to facilitate development has been missed, as there has been limited or no participation by traditional leadership in the integrated planning process (Reddy, 2004: 48). Furthermore, they have been marginalised and some cases ignored by district and local municipalities (Scheepers and Monchusi, 2002:87).

There are also cases where there are politically fuelled tensions between elected representatives (councillors) and traditional leaders. These tensions can impact negatively on LED. Traditional leaders can play a pivotal role in LED by developing capacity amongst the youth, women and disabled people who if properly empowered can transform the rural areas; identifying the uniqueness of the rural areas and capitalising on them; managing the exodus of people to urban areas and internationally, and ensuring that the natural resources are not depleted. The governmental and non-governmental structures in

the rural areas should always facilitate the active participation of traditional leadership in planning; prioritisation; resource mobilisation; monitoring and evaluation of programmes; community mobilisation and any policy development aimed at improving the quality of life of the rural populace (Sithole, 2006: 4-18).

This has led some to argue that the only answer is to abolish this form of leadership or at least reform it so that it ceases to be an obstacle. A recent report lists '11 ideas for 2011' to bring about changes in Africa's economic prospects. One of these concerns chiefs:

'Unchanged land laws are subject to the caprice of traditional chiefs and have stymied economic development. Chiefs should be barred from selling the land rights of their subjects. Most Africans live in rural areas without formal title deeds. Without them, farmers cannot get loans, limiting their access to machinery, seed and fertiliser. Chiefs are not necessarily the best allocators of capital, and land disputes are often resolved in favour of chiefs' cronies' (Africa Report December 2010 – January 2011: p102).

Whilst this view may be considered too strong, there is no doubt that an important issue is being raised: how can states reconcile LED with traditional leadership structures?

Another difficulty is that rural areas tend not to have the same scope for economic partnership as may exist in urban settings. Chambers of Commerce, for example, are typically urban orientated. Where there are effective rural cooperatives, there might be exceptions but this is quite unusual.

Historically, the growth of local government in the last two hundred years has been urban biased. Whilst the institutions created in North America and Europe (mainly) were about responding with structures and functions that could meet pressing infrastructural and quality of life needs of growing urban populations, less attention was given to rural issues and needs. Thus, the paradigm within which policy makers have operated in developing countries was largely derived from a mainly urban understanding of the realities to be managed.

One result of this difficulty is the default assumption that deconcentration (dispersal of responsibilities and powers to field officials of central government departments), rather than devolution (through elected local government), is a more suitable model for rural areas with local authorities playing a minimal formal role in LED. This has certainly been the case in most parts of Africa where local authorities are often seen as the 'poor relations' of the representatives of central government. Efforts are currently underway in a number of countries including Uganda and Sierra Leone to pilot activities with a strong focus on LED designed to redress this balance.

### Integration and its difficulties

A feature of LED is that it often involves a need for integrated action by different organisations. For example, within a local authority the building of a substantial complex for small businesses may require inputs from a large number of departments such as architectural services, public health, police, licensing, traffic and transportation and urban design – to name but a few (Dobson, Skinner with Nicholson 2009: 53). This means that close attention has to be given to planning and working inter-departmentally. The challenge posed here is a real

one as a frequently observed problem in development management is that integration is lacking. Attention to the creation of improved structural arrangements to cope with this dilemma is needed, as the alternative is continued disappointment with the results of implementation.

Enterprise Agencies and development boards are also examples of structures to promote enterprise growth at local level; very often a parastatal model is adopted for this purpose. South Africa's Small Enterprise Development Agency, which has links to some local authorities as well as central government, may serve as an example. The challenge here is to find the most appropriate model to the needs and circumstances of particular states. Several questions emerge such as: how decentralized should such structures be and how far can they be accountable to elected local government? And why does responsibility not lie with democratically elected local government's which may be perceived to have a more legitimate mandate? This is particularly important to ask in contexts where highly centralised structures appear to enable elite control and access to business opportunities with very little benefit to anyone else.

In a study of Australia, it is pointed out that much LED work involves regional bodies known as Regional Development Boards, such as the thirteen in South Australia, which became operational in the 1990s. They receive funding from the State of South Australia and from the local governments within the region. Thus, local governments are partners in LED and, whilst they are important players, they do not have sole responsibility. This means that the achievement of local authority LED objectives is often via the relevant regional board (Beer and Maude 2002: 11-12).

In most cases, structures for business development are independent or semi-independent of local government. Chambers of commerce are examples of the former; as are, but to a lesser extent, cooperative societies. Both of these types of organisation may support small business but to varying extents. Cooperative societies often exist in order to support small enterprise, although they may ultimately become large enterprises in their own right. Kenya represents an example of this kind of growth; banking and insurance are examples of sectors where this has occurred (Satgar and Williams 2008: 16-27). Given the desirability of Chambers of Commerce being independent, what linkages can nevertheless be created with local government? Whilst in principle, the basis for partnership may be strong, in practice there are likely to be significant areas of tension and conflict especially where political differences form part of the equation.

Clearly there are benefits in linking co-operatives with local government. Kenya may also be a case in point here, where there is an explicit statement in the new constitution to the effect that cooperatives are a local government responsibility (Laws of Kenya 2010: 177) even though there is a well established record of many cooperatives being more able to play a more developmental role than local government (Satgar and Williams 2008: 16-30). Where the cooperative movement is not well established, as in South Africa, local authorities can play a role especially where there are clear opportunities to act but the challenge is to do so without becoming excessively dominant and destroying the autonomy that is a core principle of cooperation (LED News 2011: 1-2).

There is also an important part to be played by the financial sector. In analysing LED, it is important to stress that the role commercial banks can play is limited by the priority they have to attach to the profit motive. For them, LED projects are often seen as unbankable, as the business risks entailed are seen as excessive. This then raises the question of other types of bank which have closer links with the public sector. These banks have emerged in a number of countries but have mixed records; the challenges have been considerable as issues such as poor servicing of debt by clients and corrupt practices by staff and management have occurred. One example is in South Africa where, in the province of KwaZulu Natal, the Ithala Bank (a legacy of *apartheid*) has apparently had this experience (observation based on interviews with key informants. 2009).

Another aspect of this challenge is that in many countries there is a parallel structuring of local institutions of governance in which elected local government exists side by side with field officials representing central government (trade and industry, agriculture, etc.). There is thus a mixing of deconcentration and devolution. The overall structure is often headed locally by officials playing a combination of coordinating, public order, regulation, and often political roles. The classical title for this official is the colonial one: the District Commissioner. This is often complicated by the fact that both these types of structures are supposed to be developmental but may be working at cross purposes; often there have been tensions fuelled by political conflict, sometimes of a violent kind. Under these circumstances, development initiatives are unlikely to flourish. The fusion of these parallel structures is a promising way forward but it will be important to avoid the diminution of local government autonomy as a result; this could happen if central government power continues to be excessively dominant.

## Competing priorities

Within local authorities, there are various functions apart from LED to be performed. The precise mix varies from country to country and often within countries. However, although basic service delivery is important in enabling LED, in so far as LED initiatives need to be supported by resource allocation, they can be seen as being in competition with other demands on budgets arising from service delivery imperatives where it is often very clear that urgency has to be the order of the day such as sanitation and water. This problem of competing priorities is more severe if local authorities are also faced with major challenges in other areas which at various times are often posed as of greater urgency, such as influxes of refugees (both from outside the country and from within) and disaster management in varied forms.

The World Bank has pointed out that "local authorities often do not have a statutory responsibility to deliver LED services". Given that it competes with more traditional local government services for scarce resources, there are great possibilities of losing out "as the LED initiatives, ... often have longer time horizons, benefits may not be that immediately apparent" (Morgenrood, 2007:16). Municipal planning has to be developmentally orientated and it is an integral municipal function. The budgetary process should promote economic development and LED is very much a part of the local governance process. It is also viewed as part of the municipality's development priorities and objectives (Morgenrood, 2007:20).

The advocates of LED therefore have to ensure that a coherent and convincing case is made so that space can be found for LED in the portfolio of local government functions; otherwise the risk is that it will be marginalised or left out altogether. This advocacy must also be opportunist (in the best sense of that word) by, for example, involving local businesses in reconstruction work following on from disasters or in the more routine forms of service delivery such as water supply (this was the approach suggested in the Lesotho case mentioned earlier). Thus, LED strategy has to be closely linked to the priorities of local authorities; it should not be merely seen as a competitor in the battles for scarce resources.

A related point to be made here is that certain types of energising initiatives at a local level may find themselves prejudiced by other forms of LED. A case in point is the 2010 World Cup in South Africa. As Rosenberg argues, for small traders in parts of Durban (one of the host cities) the tournament was detrimental in its effects. He refers to the City Manager stating that a new shopping mall would replace the 'early morning market' in the Warwick area as part of a broader plan to respond to the demands made by the World Cup to improve transport flows. A major controversy arose (and is continuing) which cast local government in the villain's role as far as small businesses and their supporters were concerned (Rosenberg 2010: 16-17). Finding a way out of such dilemmas is a major challenge in such cases. In a recent report, UN Habitat has noted that equity and growth are often 'decoupled' which it sees as unfortunate. In its view, these should not be seen as competing priorities but in practice they do not combine well (UN Habitat 2009:2).

## The need to develop business related skills, capacity and attitudes

Not only is LED not immune to capacity problems within local government, it is rather less well placed than is the case with the sector generally because of its relatively new and less well understood status. It has been argued with some force by Kauzya, mainly with reference to Africa, that 'there is need for public administration leadership in local governments which combines inspirational, integrative and entrepreneurial abilities' and he goes on to focus on the need for 'entrepreneurial leadership' as an ability which is especially in need of development (Kauzya 2010: 22). In a similar vein, Simpson (2009:23) reviewing the Caribbean experience points out that there is a general lack of awareness of the roles and responsibilities relative to local government amongst the majority of councillors and there is limited knowledge and expertise to deal with socio-economic issues at the local level (Simpson 2009:23).

As part of his argument for new approaches to address poverty, Sachs observes that a 'sound public management plan' is needed if the

### Box 10: Competing priorities in Lesotho.

Lesotho reported that income generation was treated as a strategy to take place later than infrastructure, health and education within a public works programme sponsored by the Lesotho Fund for Community Development (Monaheng 2005: 33). LED was not considered to be unimportant but other concerns were seen as more pressing at that time.

'scaling-up' of investment is to happen successfully. It should have six components, two of which are relevant here. First, there is the need for decentralization of investments, the details of which 'will have to be decided at the ground level, in the villages and cities themselves, rather than in the capitals or in Washington.' (Sachs 2005: 278). The second point he makes is closely linked to the first and is very much about capacity building and training:

"The public sector at all levels - national, district, village - lacks the talent to oversee the scaling-up process. This is not a case for evading the public sector which will not work, but for building the capacity of the public sector. Training programs (or capacity building) should be part of the overall strategy." (Sachs 2005: 278). Lack of government capacity is likely to remain an obstacle for the success of LED in many developing countries. Attracting and retaining qualified staff, particularly in the remote areas is a problem (Rodriguez - Pose 2005: 58). There are echoes here of the early days of LED in the United Kingdom when Young argued that if central government is serious about the role to be taken on by local authorities, it would have to deal with the challenge of capacity of the 'weakest leg' in the whole system which was felt to be the limited capacity of the officials in local government:

"Acceptance of the local authority presence in this field surely implies an acceptance of the responsibility to help them develop their capacity to perform it by training, education, and a widening of recruitment. To be effective in local economic development, a cadre of new professionals will need to be created, for which central government help will be essential" (Young 1986: 449)

The need that is emerging includes changing mindsets and developing business-related skill areas such as marketing, contract management and identification of business opportunities. These have only recently, and to a limited extent, become well understood needs in local government circles. The authors recall the Institute of Local Government Studies at Birmingham University in the UK introducing marketing into its portfolio of activities in the early 1990s; this was seen as quite a breakthrough as such skills areas had not been seen as important enough previously. However, there has to be some caution here as there are many highly organized and well resourced local authorities which are able to attract and retain such staff, albeit with difficulty at times, but at the same time there are other less well resourced authorities which would not be similarly geared for LED purposes.

A challenge for LED in the realm of human resources that it is not always easy to find staff that can carry out LED related tasks. This is especially likely to be the case where local government is under resourced and likely to struggle to compete for scarce skills in the labour market. Under these circumstances, one option is to outsource this function instead of trying to recruit staff with relevant qualifications and experience. There are also difficulties with outsourcing. These are well known and need to be managed. Another possibility is to equip existing managers with the required skills if they have the potential to develop along the lines needed. Part of this challenge concerns educational and training institutions.

Not only is it essential to ensure that local authorities have suitably trained staff in place, it is also important that skills are developed in the work force so that LED does not fall short because of skills shortages. This means, in many countries, better triangular links between colleges

and universities, local government and industry. In Australia, for example, it is reported that universities and technical colleges were not important partners in LED, with universities particularly lacking in relevance (Beer and Maude 2002: 66). One of the complications is that education and training are very often outside direct local authority control. Research conducted in the public sector can complement business contributions in terms of developing the knowledge base.

There is a positive correlation between investment in university research and innovative developments in the local business sector and this can be attributed to localised learning. Perry (2010:95) points out that universities and research organisations may be linked to the surrounding business community in at least three ways:

- Academics conduct publicly funded research and release the findings into the public domain;
- academics transfer knowledge directly to individual enterprises or groups of enterprises through contract research, consultancies relationships and possibly by creating new enterprises; and
- private sector recruits graduating students and academics from the university

It is therefore important to build links by which educational/training institutions can be urged (they normally cannot be instructed) to play their part in LED. In this way, it may be possible to make some impact on a major problem: the mismatch between the skills and knowledge acquired by learners and the local economy.

### **Inter-governmental relations: roles to be played by national and intermediate governments and constitutions**

There has not been a great deal of change since the publication of an important study fifteen years ago. In discussing development in Africa, the tendency for states to follow a centralised approach is critiqued. These writers argue that "the centralised strategy depends too much upon having appropriate leadership at the centre". (Olowu and Wunsch 1995: 297). They also point to other dangers such as corruption at the centre and capacity constraints. Despite some efforts towards a more decentralised approach, the conventional wisdom adopted by national leaderships and their bureaucratic allies has been to assume that there has to be 'detailed control over the periphery' which applies to local government as well as to other organizations outside of central government (Olowu and Wunsch 1995: 297).

Constitutions are national frameworks for governance which sometimes include significant provisions related to the powers and functions of local government. Constitutions are also important because they entrench certain rights which have consequences for local authorities including requiring of them a developmental role, as in South Africa. Also included are likely to be provisions concerning the relations between levels of government including areas of shared competence between two and perhaps three levels. The challenge here is that local governments are often not only obligated to act in certain ways by the relevant legislation, they are also compelled by the constitution/act to do so. The functions of local government need to be integrated into the national economic objectives of the country and economic development and poverty alleviation needs to be localised. Municipalities need to play a stronger role in implementing socio-economic policies impacting on their localities. To enable this,

national governments need to see local government as a partner in development. Municipalities are often seen as agents of national government and their roles and functions are designated and influenced accordingly. Consequently, municipalities require support to implement LED initiatives (Simpson 2009:22-23).

There are also variations to be noted where constitutions establish a federal system. In countries such as Australia, local government can vary in structure as one goes from one component state to another (and, of course to parts of the country which are not states such as the Northern Territory). What Beer and Maude refer to as the 'institutional architecture' of Australia's LED experience is therefore affected by federalism (Beer and Maude 2002: 2). The extent to which this represents a challenge is not entirely clear although the difficulty of coordinated planning and management is compounded by the complexity of all these governmental structures. This difficulty may, however, be offset by the opportunity provided to the states to operate as they see fit. Some (eg Victoria) have legislation in place obligating local authorities to take responsibility for LED (Beer and Maude 2002:21).

## Planning and related obstacles to development of enterprises

The generally difficult local and regional development environment in some developing countries combined with the lack or limited funding and government capacity (skills and infrastructure) are likely to impact negatively on the ability of provincial/state and local institutions to develop and implement successful strategies particularly in those areas where capacity constraints are greatest. Poor resource endowments, poor accessibility and relatively weak civil societies are likely to determine the viability of LED outside the wealthier and more prosperous urban areas (Rodriguez – Pose and Tijmstra 2005:73).

The role of local authorities is, at a minimum, to provide an environment in which local enterprise has a genuine chance of achieving success. However, it is clear that contradictions, which challenge local authorities, have to be considered as possibilities in this context. There are sensitive and challenging issues at stake as planning legislation and procedures, and environmental impact assessments can be seen as detrimental to LED. There are frequent comments and complaints made that such processes may be unduly onerous and it can be argued that much development planning, as carried out in local government, is more concerned with regulation than it is with the facilitation of development projects in localities. Such views are probably more frequently heard now with the increasing priority attached to environmental and sustainability considerations being taken more seriously than it was say two decades ago. In this regard, Phutiagiae (2007:138) points out that a non-conducive business environment to promote LED, namely poor urban planning; lack of access to information and administrative barriers can hinder the process.

The challenge here is to find the optimal balance between two positions. To do this is not impossible even though there is an onus on LED actors to accept that proposals which may be desirable from their perspective have to be reconciled with concerns over the environment. This is exacerbated by the phenomenon of urbanization which often has a dual nature: it both reinforces the need to strengthen LED, but it also creates potential serious environmental problems, some of which may pertain to public health or disaster

management. There are many cities in Africa and Asia where this issue has to be taken seriously.

## The global financial crisis and other international developments

The financial crisis which made its presence felt in 2007 is still relevant today. There are various new challenges as well as the intensification of others to consider in this context. The effects have not been uniform around the world. However, there have been important initiatives taken. There is obviously the CLGF effort which is the basis for this report. The International Labour Organisation (ILO) has also launched a project to obtain further information (Crunel 2009).

What can be said is that for much of Africa the effects have been less dramatic than in Europe and North America. Although not focusing specifically on LED, a recent article, which is based on research findings, argues that Sub Saharan Africa (SSA) experienced 'better-than – expected' performance due to two factors: less exposure to threats arising from the crisis and 'the improved resilience of SSA economies' (Naude 2010:49). On the other hand, in larger economies such as the European states, United States and Canada, the effects seem to have been more intense. It should be noted, of course, that this pattern does not mean that local government in more developed countries has been weakened to the point of collapse, or that Africa's systems are in robust health. The disparities have a long history which cannot easily be dissipated.

Despite these caveats and variations, it can be argued in general that the crisis has had an adverse effect on LED in four main ways: it has created a greater scarcity of revenue for public sector spending, local government included; it has created a situation in which private sector investment becomes more difficult to obtain; it has made donors more cautious about how they use their funds for developing countries; and it has made resolution of the long standing and controversial issue of debt relief/cancellation more difficult to achieve.

The reality is, however, one in which there may be opportunities to review how economic decisions are taken. For example, much rethinking has already taken place, followed by action, to strengthen state regulation and in some cases this has extended to nationalization of financial institutions. Local government needs to be fully factored into this process. Writing from a developed country and politically radical perspective, Ransom has pointed out that, whilst there are huge dangers to be contemplated, there is a more positive view:

'But never in my lifetime has everyone been forced to witness the same spectacle – the meltdown of the world's financial 'architecture', the prison walls it built around us, and the open space it leaves in front of us. But never have the possibilities, and the dangers, been so common or so great.' (Ransom 2009: 11).

If Ransom is right in this perhaps somewhat optimistic, even utopian remark, the financial crisis may even be a catalyst to local action and give greater impetus to LED.

## 7. International, national and local networks and donor support

There are a large number of networks and donors who are involved in LED across the Commonwealth. There are great opportunities to share experience as a result of this, especially by making extensive use of the Internet as the websites in many cases are highly informative. However, there are some deficiencies such as the predominance of developed country experience in the sites and the rather uncritical window dressing which is often found.

There is not a comprehensive list of contacts which enable networks to be tapped but the World Bank's team for LED in its Urban Development Unit has put together a list which may be of interest to readers of this paper. A 2006 report lists 37 external organizations.

There are, however, other important networks which play a role in LED to a growing extent. Three are of obvious importance but must be recorded here. The first is the CLGF itself which is encouraging research and bringing together practitioners to review and share experience. CLGF's work is also increasingly focusing on strengthening the economic development capacity of local government by promoting on the job training and learning through its Good Practice, and in the context of its various capacity building programmes in different regions of the Commonwealth. The second are local government associations within countries such as the South African Local Government Association (SALGA) and, in the case of Australia state based associations such as the Local Government Association of South Australia (LGSA) which sponsored some of the research on LED which has been drawn upon in preparing this paper (Beer and Maude 2002). Most countries with a significant number of local authorities have associations established some time ago whilst others bring together local authorities on a cross national basis within a region or even a continent. An example of this is given below.

Another example, taken from the UK experience is a network which was created to bring together local government, motor car manufacturers and academic institutions. This was termed by Cox a 'coalition' to provide a common front on the motor industry through lobbying and mediation with the European Union and the national government (Cox 2002: 261). It was believed that a need for this existed in areas where local economies were being threatened by possible closure and/or downscaling of factories producing vehicles (such as British Leyland in Longbridge, Birmingham, for example). The Motor Industry Local Authority Network (MILAN) was therefore created and was a forum for the expression of concerns. There were mainly two academic institutions involved (Birmingham and Warwick, both in the West Midlands). It should, however, be noted that

networks such as these may not always support cooperation as the firms and local authorities which are brought together are often in fact competing with one another.

### Local government, cooperatives and LED

There is a view that linking local government with cooperative societies can pay dividends. After all, cooperatives are usually in themselves locally based and are mechanisms for small business development, albeit there are some which come to play a role on the national stage. However, it is at present rather exceptional for close relationships to be formed as the favoured model seems to be one in which national government is the main vehicle for state support. In principle at least, the following roles can be played in support of cooperatives (LED News 2011:1):

1. As 'champion', in which the council is the main driver and calls the main decisions;
2. As 'facilitator' where the role is more one of assistance with, for example, access to markets;
3. As 'broker' where the essential point is that the council's assumed understanding of the local economy makes it possible for it to identify business opportunities for cooperatives;
4. As 'trainer'; here, the council provides training in key skill areas; and
5. As 'enabler' where the council provides a suitable spatial environment such as access roads and markets for the direct selling of products.

In taking this analysis forward, there is a need to take into account that networks are not a one way street with benefits flowing from the council to the cooperative society. Local government can itself benefit from networking with cooperatives, not least as insights can be obtained to enrich understanding of the local economy and the needs of small business.

### Donors

Donors have been important supporters of LED for over a decade. The emergence of an interest in LED can be seen as part of a succession process following on from the structural adjustment approaches prevalent in the 1980s. Thus, whereas a pro-private enterprise focus had earlier been linked to privatisation, subsequent thinking was to favour other strategies to strengthen business communities such as public private partnerships, decentralization and LED.

However, there are broader issues to be noted. To some observers, aid and development are not complementary; they are opposed concepts. To Moyo, for example, aid damages rather than supports sustainable development in Africa (Moyo2010). Although detailed discussion is not possible here, it is important to note that aid is a contested issue in the study of development. One point of particular importance, however, is that aid reinforces the policy transfer problem noted earlier. Moyo is of the view that 'aid dependency only further undermines the ability of Africans, whatever their station, to determine their own best economic and political policies' and supports Collier's call for a more 'nuanced approach to aid driven proposals, and only when they are needed.' (Moyo 2010: 67-68, Collier 2007).

#### Box 11: The Local Economic Development Network for Africa (LEDNA)

LEDNA plays an important role in linking countries concerned to promote policies and programmes in the LED field. It works closely with local government associations such as those in Zambia and Botswana to build capacity through Knowledge sharing. Free access can be obtained to about 3,000 peer reviewed resources. Blogging between members is facilitated. Recent discussions on the web site include the role of women, value chains, procurement, small scale mining (collaboration with larger companies) and vocational training for rural development in Uganda.(summary of LEDNA web site accessed on 14-12-10).

Many localities (both small and city-regions) in developing countries have some of the basic preconditions for LED already in place, but further capacity building is needed in order to ensure success. Some external top-down support – an area in which international organisations and the CLGF could play a pivotal role to address these initial challenges and facilitate the LED process (adapted from: (Rodriguez – Pose and Tijmstra 2005:73).

There are several projects currently which benefit developing countries in the Commonwealth. Some of the main supporters are the German government (the GTZ agency), the United Nations and the World Bank. Much of this support is to fund the appointment of experts, as in a GTZ/South Africa example which entails the recruitment of experts to advise on LED at provincial level (*Mail and Guardian Newspaper*, December 3-19, 2010, p57)).

The thinking of the United Nations Capital Development Fund's programme is illustrative of the kind of support currently planned and being implemented:

"Too often, however, sub-national levels of government are not involved in consultations on national poverty reduction strategies or sector policies. Nor are they given the mandate to plan and deliver local development interventions such as social services and local infrastructure, *local economic development initiatives* and natural resource management" (United Nations Capital Development Fund 2010:1).

The programme aims to build local government capacity to plan, budget and implement these kinds of developmental interventions. In more detail, the following is envisaged (United Nations Capital Development Fund 2010:3):

- A 'sub-national focus (ie not just local government, as community bodies are also mentioned)
- 'Local level institutional development: this includes improved procedures (public expenditure management, strategic planning, procurement etc.);

- Performance linked funding to assist by linking investment to an agreed measure of local performance; and
- National policy relevance – to pilot locally with a view to national replication.

On a more general note, the UNCDF has three main objectives, the second of which is to promote policies promoting decentralization, including the strengthening of LED (United Nations Capital Development Fund 2010: 6). A country specific example is Bangladesh where a project valued at US\$9.5m is supporting 81 Union Councils in the Siranjani district, which has a population of over 2 million people. This is supported by other donors including the European Union and the Danish International Development Association (DANIDA) (UNCDF 2010: 4).

However, a concern expressed by donors, including another UN agency (Habitat) is that 'Local economic development practice in developing countries, particularly in sub-Saharan Africa, remains in its infancy. A number of key challenges undermine its application and effectiveness.' (UN Habitat 2009: 2). A particular concern noted is that LED is supposed to deliver both equity and growth objectives. Encouragingly, good practice can be observed including in South Africa (focus on the informal economy) and the East African states - the Lake Victoria Initiative (a wide range of activities including agro processing, marketing, energy and waste management).

It is worth ending on a cautionary note. Donor support for LED is clearly not universal. In Kenya, for example, a coordinated and quite comprehensive strategy drawn up with 17 donors in 2007 (bilateral and multilateral) largely ignored local government and LED, only noting the need to reduce the need to obtain local authority licences to operate businesses (Kenya Joint Assistance Strategy 2007:13). Reading of this document suggests that donors are not always very confident about local authority capacity and legitimacy. Where this is the case, their strategies will not embrace local authority involvement in LED.

## 8. Conclusion

Local economic development has been in existence and practised internationally for more than three decades. New thinking and ideas has kept the subject matter vibrant and dynamic. National and international literature and experiences highlights the fact that LED is not the sole responsibility of the local authority but is a collaborative partnership between the public, private and NGO sector and the community. Despite the literature that has been developed on the subject and various strategies and initiatives being introduced internationally, the practice and the implementation to date has been quite challenging and has met with varied levels of success.

There are several role players and stakeholders key to the process, namely the national, provincial/state government, local authority, community and the private sector. There has to be firm commitment and support for the process from all the key players and stakeholders and more importantly, there has to be an enabling political environment and a desire to improve or enhance the quality of life of local people. Local partnerships, linkages and networks can facilitate the process of local economic development. One or more of these role players and stakeholders must serve as a catalyst to galvanise them into action.

A review of the Commonwealth experiences has highlighted the fact that LED has been an integral part (in some form or the other) of local governance in both developed and developing countries. Despite considerable differences between countries, there are trends. These include the existence of systems not particularly well geared to LED, given the dominance of more traditional local government functions and a wider financial context that has presented major difficulty in recent years.

Thus, although there has been some degree of success, demonstrating very tangible benefits to communities in those localities, this is not yet universal. There are still some challenges that need to be addressed, particularly in developing countries, notably the development of a closer relationship between national and local policy making, difficulties in securing funding from traditional financial institutions; community involvement (including for example, traditional leadership); capacity development particularly the relevant human resources; the need for better coordination between key organisations; limited infrastructure and weak governance (for example, continuing high levels of centralization in some states and a lack of constitutional/legislative support for LED).

This paper is a possible stepping stone in the way forward. Individual countries will need to look at their own experience and circumstances in order to avoid the pitfalls of policy transfer to which reference has already been made. However, a number of recommendations can be made which have broad applicability. Some of the key recommendations include:

- The legislative framework, including national constitutions and local government legislation, need to be looked at, with a view to ensuring that LED is clearly identified as a local government function. There should be no competition between the levels of government relative to LED, and the notion of co-operative governance should be enhanced. A supportive governance system for LED is imperative, i.e. national/provincial (or state) legislation which is quite explicit in terms of empowering local authorities; defining their roles and responsibilities; promoting collaboration beyond the public sector; providing adequate financial support and capacity development and making provision for external support and collaboration;
- LED must not be allowed to fall foul of the unfunded mandate syndrome. Where there are costs involved, it is important that a budget exercise takes place at the relevant levels of government;

- National governments need to look more closely at their role to see how far action is needed in support of the LED function. At the moment, there are challenges arising from excessively centralised forms of governance which are ill-suited to the needs of localities;
- Along with some of the authors quoted, Kauzya (2010:22) pointed out at a recent conference that there is a need for a more entrepreneurial style of leadership. This entails recruitment and training strategies and the promotion of a mind set in which LED sits more comfortably at the core of local government;
- What is striking about LED is the multiplicity of actors involved. This amounts to a considerable number of government bodies but there are far more if one brings in cooperatives, NGOs and the business sector. Local government cannot perform its role well if it operates in isolation. Networking and coordination becomes important here and needs the creation of structures which can make this happen;
- Most countries are in some way trying to cope with the fallout and long-term effects of the global economic crisis. This presents very obvious challenges to LED, as noted in the paper. However, there is a need to assert that LED can be part of the way forward out of the crisis and not a mere casualty of it;
- It is essential to have an enabling environment at the local level for companies to succeed and business to flourish. The tendency for local government to act in ways which inhibit LED has been noted. As local government becomes stronger, so can this tendency become more pronounced and challenging. Whilst it would be irresponsible to advocate an 'anything goes' mentality, it is important that the regulatory framework in which business operates is as conducive as possible, when deciding if certain types of economic activity should be allowed in a particular area. It is imperative that the importance of the informal economy is recognised and furthermore its development is supported;
- The active and consistent participation of the private sector and NGO sector is crucial for the recognition and exploitation of local development opportunities (DBSA,2000:114). Partnership formation/growth has to be encouraged and the private sector should participate more meaningfully in local development. The private/community/NGO sectors all have critical roles to play and they should be supported and encouraged to engage in collaboration and independent action and this local government must actively reach out to the private sector and seek to better understand their needs.
- There are certain issues surrounding how LED can work in rural areas which clearly need attention on certain fronts, one of which is research as much LED work informing this review has had an orientation which is biased towards urban settings and needs.

International NGOs and donor agencies can play a pivotal role in supporting LED initiatives by sharing knowledge, insight and best practices. However, it is important to be alert to certain concerns, such as *inter alia*, the dangers of policy transfer without there being adequate grounding in local realities, provision of short term solutions to what may be regarded as long term development needs; the changing focus and political contexts of support and the reluctance of donors to support LED because of doubts surrounding issues of governance. Whilst the sharing of international experience can be of value (as has been attempted in this paper) application to any given locality needs fine tuning if it is to stand much chance of success.

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