



# SOUTH ASIA Regional Programme

## Local Economic Development Concepts and Interventions for Local Governments in Sri Lanka



Paper prepared for the CLGF and FSLGA by: Growth Concepts

Supported by the Department for International Development, UK (DFID) through the 'Strengthening decentralisation and local economic development' programme





## Contents

What is Local Economic Development? .....	3
How is LED understood in Sri Lanka? .....	4
Who should be involved in implementing LED? .....	5
Actions for effective LED .....	7
Development of Micro, small and medium enterprises (MSMEs).....	8
Access to markets .....	9
Strengthening local business development services (BDS) and associations .....	9
Inclusion of poor .....	10
Enabling environment .....	10
Building the capacity of local leaders.....	11
What is the regulatory frame work for LED in Sri Lanka? .....	11
What are the current local government responsibilities related to LED? .....	12
How effective is intergovernmental coordination in supporting effective LED? .....	14
What are the challenges within the existing system both under the law and in practice?.....	14
What scope is there for partnership with the private sector? (PPPs).....	15
Recommendations .....	16
Annex I: Main activities of PEAL Appraisal.....	<b>Error! Bookmark not defined.</b>

## Acknowledgements

This paper was prepared for CLGF by Sanath P. Vidanagamage of the Institute of Growth Concepts. We would like to thank Sanath and Hemanthi Goonasekera for commenting on an earlier draft.

*This document is an output from a project funded by the UK Department for International Development (DFID) for the benefit of developing countries. For more information visit: [www.clgf.org.uk/supporting\\_decentralisation\\_and\\_LED\\_in\\_the\\_Commonwealth](http://www.clgf.org.uk/supporting_decentralisation_and_LED_in_the_Commonwealth)*

*The views expressed are not necessarily those of DFID, CLGF, FSLGA or their members.*

Whilst all effort has been given to ensure the information herein is correct at time of publication, if you notice any inaccuracies, please do contact our research officer on [info@clgf.org.uk](mailto:info@clgf.org.uk)

**Citation suggestion:** CLGF/FSLGA 2014 ‘Local Economic Development Concepts and Interventions for Local Governments in Sri Lanka’ CLGF, Accessible from [www.clgf.org.uk/led-concepts-and-interventions-sri-lanka](http://www.clgf.org.uk/led-concepts-and-interventions-sri-lanka)

COPYRIGHT CLGF 2014: please feel free to distribute and reference using the above citation



## What is Local Economic Development?

Local economic development (LED) is a process which brings together different partners in a local area to work together and harness local resources for sustainable economic growth. There is no single model for LED, approaches should reflect local needs and circumstances. LED creates an enabling environment for business and other stakeholders to work to promote equitable and balanced local economic growth. Pro-poor and inclusive LED enables local government to address poverty, unemployment and social deprivation, including through strategies for promoting youth employment, empowering disadvantaged and marginalized communities, support for skills development, and promotion of gender equity and equality ([CLGF Cardiff Consensus 2011](#)). LED stimulates the key players of local economy and builds dialog for change towards a holistic development process. It should involve the full spectrum of the local community (public and private sectors, rich and poor, influential and marginalised, business owners, employees and unemployed, CSO, etc.) to focus on collective visioning and problem solving to create and support business and employment opportunities within the given locality.

LED can be used as a tool to involve groups that are marginalized or excluded by existing markets, be it as producers, as employees or as consumers. LED is not limited exclusively to activities that directly address the poor but focuses on a variety of economic and social issues that hamper the wellbeing and prosperity of the people of a given location. It is important to remind ourselves that the ability of LED to fight poverty is determined by the overall conditions present in a given location: the quality of economic institutions, the functioning of markets, the quality of local government's effort to address inequalities, the enabling environment for business, etc.

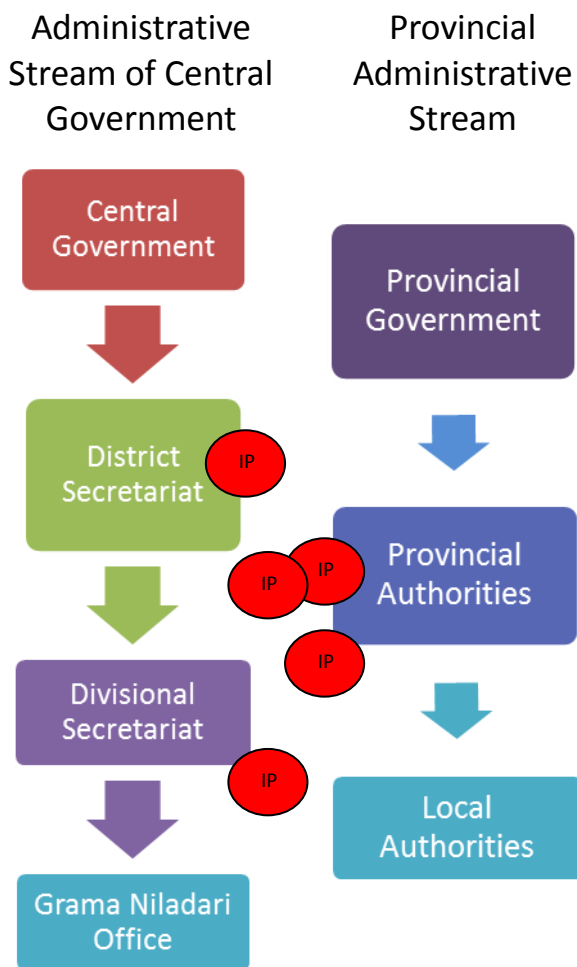
LED can include activities such as business forums, vocational training, market and transport link planning, streamlining regulatory processes as well as contributing to the provision of infrastructure development through local government and business community, as well as in bringing in regional and national partners. It is critical that LED does not limit its effort in this respect to mobilizing local resources but rather concentrates on leveraging resources available through provincial and national levels, as well as international capital such as FDI, to the benefit of local communities. Methodologically a process of Local Economic Development should start with a rapid and pragmatic study of the nature, stakeholders, relationships of the local economic fabric, and the gaps which are present. The appraisal not only examines the local economy but also collects the baseline data and enables the stakeholders to plan forward.

For more information on local economic development, links to practitioner-focused primers and further CLGF research studies and programme on LED please visit [www.clgf.org.uk/local-economic-development](http://www.clgf.org.uk/local-economic-development)

## How is LED understood in Sri Lanka?

There are multiple economic development strategies applied at the different levels of Sri Lankan governance and administrative structures. Yet a number of critical differences are found in terms of scope of the project, territorial focus, level of public sector engagement and the method of implementation. However there were LED projects that demonstrated significant impact on local economy while sharing important lessons on best practices for Sri Lankan context<sup>1</sup>. To date LED programmes have been effective when the project is hosted through Divisional Secretariat offices (DSO) as this particular office holds most of the regulatory provisions that affects the local economic relations at divisional level. However the strong interactions with District and Provincial level authorities seem to be the common success factor of most of these thriving projects.

**Figure 1: Two different administrative streams & potential LED initiation points (IP) in Sri Lanka**



Development institutions and donors tend to work more comfortably with administrative stream rather than with political setup. Donor driven projects have been trying to involve elected members of provincial and local authorities only when and where necessary but their role in decision making and implementing seem to be very limited in LED process. It is often observed that most of the donors do not have a clear understanding of the mandate, roles and responsibilities of the Local Authorities. Resources for development activities allocated by the Central Government channelled through the District and Divisional Secretariats and DSOs are supported with trained staff donors preferred to work with central administrative structures at the local level.

However, strong and supportive involvement of both the political and administrative streams will make any LED initiative more productive since it ensure increased participation and coordination of every layer. Of course, the degree of involvement of the stakeholders will vary depending on who is hosting or initiating a particular LED project.

<sup>1</sup> e.g. LED Project of Swisscontact Sri Lanka (Kurunegala District); GTZ- LED Project in Central Province (2004/2007); ILO-Entergrowth project (North Western and North Central Provinces-2005/2009)



Studies of LED projects in Sri Lanka emphasises the importance of integrating the right combination of LED components at the design stage of the project.

In the Sri Lankan context these components include:

- Participatory Decision Making and Local Planning,
- Enabling Environment Initiatives,
- MSME Development Initiatives,
- Value Chain based Market Access,
- Inclusion of Poor/Marginalised,
- Investment Promotion and Venture creation,
- Infrastructure Development,
- Building Capacity of Local Service Providers and Leaders,
- Networking among the actors in local, district, provincial and national levels.

For instance the Divineguma Programme<sup>2</sup> implemented by the Ministry of Economic Development (MED) is a national level initiative that works towards similar goals as many LED programmes (Please refer to the Divineguma bill attached as an Annex to this report). This programme mainly focuses on micro, small and medium enterprise (MSME) capacity building, disbursement of MSME grants, trade facilitation and infrastructure development, such as building common market places for rural producers. Involvement of all the public sector institutions in provincial, district, divisional and local authority levels has become the most prominent attribute of Divineguma. However, the Divineguma programme neglects regularising the framework conditions and pays little attention to supporting the development of market chains that involves MSMEs as well as larger enterprises.

### **Who should be involved in implementing LED?**

In Sri Lanka, where public sector controls the regulatory conditions which are crucial for private sector development, collective decision making and planning with public and private stakeholders are essential. Here the public sector refers to, the administrators and elected members of the institutions attached to central, provincial and local governments. The level of involvement of the stakeholders depends on how critical the issue is and its impacts to a particular market chain or industry.

---

<sup>2</sup> For further information see <http://med.gov.lk/english/?p=14326>



### **Case study 1: Swisscontact LED Project, Kurunegala District, 2005-2008**

Swisscontact LED Project was a LED initiative which was implemented through local DSOs and Local Governments (LGs) in Kurunegala District of Sri Lanka in 2005-2008. Maspotha division was one of these selected LED-localities in Kurunegala. As a result of initial economic appraisal, the stakeholders prioritised four main issues affecting the dairy sector:

- poor demand for dairy milk due to remoteness and limited collectors,
- very low price they get for a litre of milk they make,
- difficulties in getting proper service from veterinary surgeons office (VSO),
- business registration time taken for value added dairy businesses is three months.

Initially the project team organized a multi-stakeholder meeting to develop a plan for the dairy sector. They invited smallholder dairy farmers, farmer association leaders, medium scale collectors, chilling plant operators and a few large private sector processors. The chairman of the LGs, Divisional Secretary, VSO and livestock department provincial officials represented the public sector.

By the end of the project the four issues identified had been turned into opportunities for key stakeholders across the local dairy sector. Farmers benefited from a 22% price increase soon after the first multi-stakeholder meeting. This was predominantly as a result of one of the large processors setup new collecting centres which create a 140% additional daily demand for dairy milk. The DSO and chairman set-up a local service point of the veterinary surgeons office reducing the issue of getting veterinary advice for the dairy herds and raising productivity. Within a period of two months, the time taken to register a dairy business was reduced from three months to three weeks thanks to an intervention from the local government leadership. In addition delays in certification from the Public Health Inspectors (PHI) were eliminated by the local MOH office through the influence of the chairman of the Local Government.

These successes were due in large part to having the right combination of stakeholders working towards a more enabling business environment for the local dairy sector.

Source: Author's Reflection from Dairy Sector, Swisscontact LED Kurunegala Project 2007.

For more information see pages 18-26 of Enterprise for Pro-poor Growth report 2008 [www.value-chains.org/dyn/bds/docs/577/Enter-Growth\\_progress\\_report\\_6\\_final\\_draft\(30Sep\).pdf](http://www.value-chains.org/dyn/bds/docs/577/Enter-Growth_progress_report_6_final_draft(30Sep).pdf)



When it comes to local government-led LED initiative, the involvement and support of Divisional Secretariat offices (DSO), District Secretariat and Provincial Authorities is vital. The success and sustainability of the Local Government-led LED initiatives depend on linkages that are built into the process which help mobilize required resources, as well as to institutionalise the process.

Examples include:

- Local authority (LA) to construct a market that is required for the producers who are supported by “Divineguma Program”. Funds for Divineguma program are mobilized through Divisional Secretariat. Therefore it is essential that LA is working alongside with DS office to identify the required inputs at local authority levels.
- Local government authority to prepare necessary by-laws to support the LED and these by-laws needs to be passed by the Provincial Ministry of Local Government.
- Local government authorities can create a platform for local entrepreneurs and other stakeholders to discuss the common issues. This will help to synergize the efforts.

Involvement of micro and small enterprises as well as the medium and large business entities which are attached across the market chains is also vital in creating economic opportunities and synergies. This is where taking an LED approach to development can turn economic problems in to opportunities.

Banks and micro finance institutions (MFI) are crucial in facilitating the access to financing for LED initiatives. Financing is essential for business expansion and the involvement of financial sector increases the attractiveness of LED project for other stakeholders. To promote participation of stakeholders it is essential that the LED initiatives are supported by required financial support. Therefore it is essential to ensure that banks and MFIs are involved in the process and Local Government Authorities should invite these institutes to participate at all levels of the initiatives. This will create a better understanding and working modalities among the parties. Business development services (BDSs), universities and research institutions that are related to main economic activities of selected locality need to be involved from the inception.

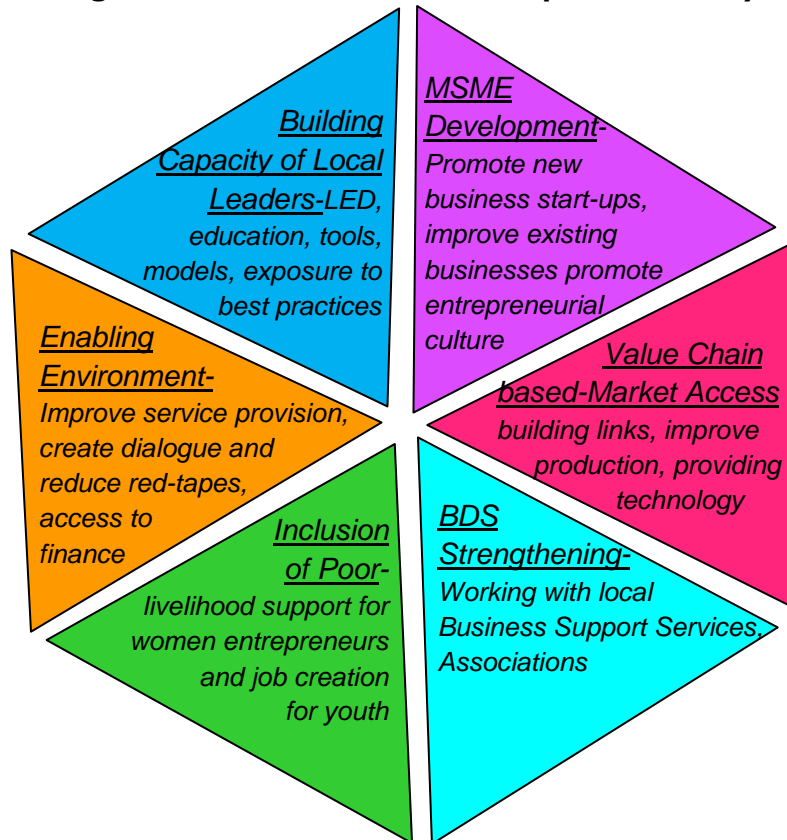
### **Actions for effective LED**

The scope of LED depends both on the objectives of those leading the process and on the local context. To design more localized and practical LED approaches aligned with the role and responsibilities of local authorities in Sri Lanka, there are six key areas which an LED strategy or project can focus on. These areas are merely suggestive and local authorities can make adjustments by removing some or adding components. These six areas are to:

- develop MSMEs (micro, small and medium enterprises) and promote entrepreneurial culture,
- create conducive regulatory environment for MSME,
- build capacity of local partners,
- facilitate the provision of access to finance,
- facilitate market access through market chains,
- mainstream poor and marginalized communities.

These six dimensions, discussed in detail in the following section, cover the basic scope of the targets a local authority should consider when planning an LED strategy or project. Any development activity that is prioritized and planned throughout the process, should directly contribute to one or more of these areas.

**Figure 3: A Hexagon of Local Economic Development activity**



### Development of Micro, small and medium enterprises (MSMEs)

LED can focus on enhancing the competitiveness of micro, small and medium enterprises (MSMEs). An LED process should assess the sector based performance and potentials of MSMEs by mapping the issues, actors and their relationships to wider markets, and in the value chain. LED programmes can work to develop the managerial and technical capabilities of existing MSMEs while promoting new start-ups linked to emerging business opportunities. MSME development can focus on training support such as business start-up training, business planning, marketing and management related trades. Promotion of entrepreneurial culture is another essential cross cutting concern associated with MSME development. LED should promote innovative business start-ups using available business/market opportunities and potential entry points, to facilitate problem solving sessions and support the local partners to enable local innovations and value additions to their products and services. LED projects should invest to improve and expand existing businesses that strengthen key players in the upper and lower strata of the value chain. Not only will this increase income, wealth and employment opportunities but also contributes to the generation of locally-raised revenues of the local authority.





## Access to markets

One of the main challenges facing local MSMEs is to find the means to sell their produce in urban and global markets. Constraints such as those associated with lack of knowledge and information, remoteness, poor product quality and lack of technology hampers the ability of MSMEs in Sri Lanka to access markets. Trade facilitation and building links with national and export markets can be an important part of an LED strategy/project. Working to build relationship between actors (through business coalitions, merchants associations, chambers of commerce, producers associations, etc.), and developing trading facilities (such as local market places, storerooms, trade fairs) are areas where local authorities can play an important convening role in the LED process. Some of these are also common income generating activities for local authorities. Value chain mapping, creating dialog with buyers, lobbying and product development support are all crucial under this initiative.

## Strengthening local business development services (BDS) and associations

LED which brings together local economic stakeholders and enables local systems need to ensure that catalytic activities are able to be sustained in long run. Productivity and better service delivery of local business development services (BDS) and agriculture extension services which provide on-site advice for farmers through agricultural field officers, play a major role in achieving sustained local economic development. Rural service centres such as veterinary surgeons office (VSO), agrarian service centre (ASC), and different types of farmer and producer organisations need to be supported and networked together in a way to ensure high quality services, and wider areas of coverage.

In rural localities in Sri Lanka these service providers play a critical role in providing business information, delivering training, providing information through pamphlets, brochures, etc. Local authorities should identify and work with local business service development (BDS) to build their capacity and to align their service provision to the requirements of local MSMEs. Especially when some of the services are not available at local level, LED teams have to bring in relevant service providers from district or provincial level through facilitating linkages with MSMEs. Formation of new business associations and/or strengthening of existing associations are also important in achieving sustainable development impact on income generation and job creation. For example, farmer organisations in North Central Province could play a critical role in agricultural development, as they operate as a network at the district levels. However, the very limited scope within which these farmer organisations currently operate restricts their bargaining power in terms of farming development is limits the role they might otherwise fulfil within local economic development. Farmer capacity building in organising the groups and building strong networks, empowering the leadership of farmer organisations and disseminate tools to enhance technical capacity can be key activities for LED.



## Inclusion of poor

The percentage of poor households in 2009 in Sri Lanka was 8.9% or nearly 1.89 million<sup>3</sup> (Ministry of Finance 2010). Key factors behind poverty include low level of education, unemployment and underemployment. The report also indicates that there is a greater chance of poverty when heads of households are engaged in agricultural activities such as paddy, vegetable, tea and fishery. It is therefore important to develop the market accessibility for agriculture produce in a systematic way where the poor can be better included in the development process. The proportion of poor households that were headed by women was 21.2% (ibid). Empowering women entrepreneurs through livelihood activities can be another focus for LED programmes. This type of livelihood support is often coupled with social mobilisation activities and micro financing. Local authority LED teams can make use of existing micro financing services and BDSs to motivate and involve women and other marginalised groups in to economic activities. Poverty reduction has become an underpinning focus of many LED strategies to integrating socio-economic tools that increases opportunities for poor, women and youth. In Sri Lanka children and youth less than 25 years of age account for 50.2% of the total poor population (ibid). Many LED initiatives combine vocational training and job creation initiatives within LED projects (e.g. targeting unemployed youth). Often this is linked with supporting small and medium scale business to expand operations, thereby linking those receiving training with businesses in need of these skills.

## Enabling environment

The environment for doing business in Sri Lanka has significantly improved during the past couple of years but still there is much to do in to create a more conducive environment for enterprises, and this is an area where local government is often either full or partially in control of procedures. Registering a business, obtaining permits and certificates and extension services are still quite difficult for the majority of farmers, producers and entrepreneurs. LED projects should work towards goals for creating conducive environment for local economic actors and entities. Local authorities can take a leading role and actively implement changes to improve its service provision, by assessing quality issues, starting dialogue, building capacity, reducing red-tapes, building linkages and disseminating information on public service delivery. Since a number of the regulatory bodies are governed and implemented by entities such as DSOs and line ministries under central government, Rural (*Pradesiya Sabas*) and Urban Councils have to work with these other spheres of government to coordinate improvement. Getting the involvement and assigning ownership to make changes in other public sector service delivery can be the most crucial responsibility of local authorities in Sri Lanka. An enabling environment also includes the issues related to infrastructure development such as roads, health& education facilities, marketing facilities, irrigation and other physical elements that are for the most part built using public funds. As infrastructure development is very costly it can often be beyond the scope of LED projects, however within mid to long terms strategies planning for this kind of intervention and working with local leaders to obtain resources from provincial authorities to make necessary improvements as part of LED initiative can have significant positive impacts on the local economy.

---

<sup>3</sup> This is using the 2009/2010 national poverty line of less than Sri Lankan Rs. 3,028 total expenditure per person per month. See [www.statistics.gov.lk/poverty/PovertyIndicators2009\\_10.pdf](http://www.statistics.gov.lk/poverty/PovertyIndicators2009_10.pdf)



## Building the capacity of local leaders

Sustainability of LED projects and programmes have in the past faced criticism as many of the project achievements were lost once projects and external funding ended. Engaging with political leaders and technical staff from provincial to local levels from the beginning of an LED process is essential in ensuring that activities and processes are maintained over the long run. A key first step, especially in countries where the concepts of LED are relatively new is motivating and educating the local leaders on the concepts and tools, and ensuring they are part of the planning and implementing of all LED activities. Working with experienced trainers or practitioners who already have experience in LED within their communities can be a good method to begin empowering local leaders to see how LED can benefit their councils and communities.

Possible areas that can be covered in this initial training/dialogue are:

- Essential leadership skills
- Effective management skills and techniques
- Role of economic development
- Local economic development tools
- Good governance as part of LED
- Networking and image building in LED

These type of information sessions can be targeted to one specific sector of the local community or can bring together a mix of people such as members of local government, public sector officers, the business community, civil society organisations and members of marginalised groups.

## What is the regulatory frame work for LED in Sri Lanka?

Local Economic Development in practice is highly successful when its implementation is coordinated between district, divisional and local authority level stakeholder. Planning and implementation should take into account the objectives of local and provincial economic development programmes of line ministries and provincial authorities. Central and provincial governments should work to provide clear strategic direction for LED within their economic development plans which should help local actors to access resources from provincial and national level programmes. However in Sri Lanka, there is currently a lack of coordination between the programmes developed by the 76 national ministries, divisional secretaries offices (DSOs), other boards and authorities, and local authorities (LAs), the majority of which are being implemented in an isolated manner. Lack of coordination has a negative return of the overall investment, and impacts the planning and implementation of projects by reducing synergies and sustainability, and also result in overlapping or contradicting activities which create confusion among partners and the public.

The table below provides indicators of the current situation for doing business in Sri Lanka. It highlights how the regulatory framework in Sri Lanka has affected the local businesses and the growth of economic sectors at large. Whilst ranking second to only the Maldives in South Asia, coming in at 89<sup>th</sup> in the international ranking indicates that there is much more that can be done to make regulations in Sri Lanka more favourable for starting, growing and sustaining businesses. The situations in rural localities is likely to be significantly worse than the national average and that in general the existing regulatory environment negatively affects the economic competitiveness of most Sri Lankan localities. Recent evaluation reports of four SME development projects conducted at provincial level highlighted one key constraint being that it takes more than 40 days to get a new business registered in most of the local government localities in Sri Lanka. This again points to the need for holistic local economic development focus at rural level in order to make regulations encouraging and productive for private sector development.

## Doing Business Ranking - 2012<sup>4</sup>

### Doing Business Ranking – 2012 : SAARC Countries

Indicator	Sri Lanka	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan
Overall Rank	89	160	122	142	132	79	107	105
Starting a business	38	30	86	83	166	59	100	90
Dealing with construction permits	111	162	82	135	181	20	140	104
Getting electricity	95	104	182	145	98	132	99	166
Registering property	161	172	173	83	97	152	24	125
Getting credit	78	150	78	126	40	166	67	67
Protecting investors	46	183	24	147	46	79	79	29
Paying taxes	173	63	100	67	147	1	86	158
Trading across borders	53	179	115	169	109	137	162	75
Enforcing contracts	136	161	180	35	182	92	137	154
Resolving insolvency	42	105	107	183	128	41	112	74

Source : Doing Business Ranking – 2012

### What are the current local government responsibilities related to LED?

The functions developed to local authorities concentrate on delivering services that required to ensure the comfort, convenience and wellbeing of the community. Roads, health and sanitation, water supply, solid waste management, sewerage, public recreation, are some of the key functions of local authorities. Other development activities such as education, agriculture, employment generation and poverty alleviation are not directly considered under the legal mandates of the local authority, however are areas where they have influence and can act as conveners. As the local authorities are not given strong holistic economic development mandate, they tend to stick to the key functions listed above. However LED experience in Sri Lanka has ascertained very clear links between the current mandatory powers of LGs and the key elements of local economic development. At present according to the powers conferred on local authority, only the Pradeshiya Sabha Act refers economic activities. Accordingly the LA is authorized to expend a certain portion of Pradeshiya Sabha fund for the purpose of conducting research on industries and breeding of domestic animals.

Nevertheless in the Chapter 13 of the special commission report on local government reforms 1999, recommends the role that needs to be played by local authorities in Economic development process.

Special recommendations were made under the following areas:

- 1) Agriculture and Animal Husbandry
- 2) Minor Irrigation, waterways and Reservoirs
- 3) Tourist Activities
- 4) Commercial Activities

As such there is a wider scope for local authorities to work in the areas of local economic development.

<sup>4</sup> [www.doingbusiness.org/reports/~media/GIAWB/Doing%20Business/Documents/Profiles/Regional/DB2012/DB12-South-Asia.pdf](http://www.doingbusiness.org/reports/~media/GIAWB/Doing%20Business/Documents/Profiles/Regional/DB2012/DB12-South-Asia.pdf)



Municipal Councils and other local authorities also have important responsibilities for market facilitation and regulation within their territory. This component is directly connected with the **Access to Markets Initiatives** discussed in the LED overview section. While municipal councils can in theory facilitate economic development using these powers, most municipal councils have not been able to take advantage of these regulations or have failed to facilitate or regulate economic activities. For example, the powers given to medical and health officers to inspect important places of business, especially hotels and restaurants are not exercised regularly, with a negative impact on consumers. There is also the municipal magistrate system which permits trying offenders under 30 different laws which could be used with regard to maintaining order, discipline, health and the environment standards. Issuing business related permits and licenses is another set of activities where local government has a significant impact on MSME within its territory. Simplifying processes and cutting down on red table is a key way local government can support **MSME Development and promote entrepreneurial culture** within their locality.

The following two tables depict some economic development related regulations implemented by local authorities and divisional secretariats. It also gives an idea about the different scopes of the two entities and authority levels on local economic development.

**Table 1: Some of the LED related regulations implemented by local authorities**

1	Issuance of trade licence
2	Certification of buildings plans
3	Certification of street lines
4	Certification of plans of commercial and residential lands
5	Issuance of environmental certificates
6	Collection of levies and taxes
7	Control and approval of advertising and trade promotions
8	Approval of the use of loudspeakers for local communication
9	Issuance of certificates and control of meat shops
10	Inspection of health and sanitation levels of establishments
11	Management and control of weekly trade fairs and trading properties

**Table 2: Regulations managed and implemented by divisional secretariat offices**

1	Business Registration-proprietorships, partnerships
2	Issuance of annual vehicle income permits
3	Certification and permits for timber related industries
4	Issuance of income/assets certificates for households
5	Permits for transporting animals
6	Permits for the transportation do sand, clay, metal and gravel
7	Permits for liquor and alcoholic beverages
8	Permits for metal quarries
9	Permits for sand removal
10	Certification and issuance personal identity cards
11	Issuance of birth certificates
12	Registration of associations and community based organisations
13	Management of multi stakeholder local agricultural/development monthly meeting
14	Land registration
15	Certification of electricity connection documents
16	Management of social welfare and national Samurdi subsidy programme





## How effective is intergovernmental coordination in supporting effective LED?

Economic regulations are common across the local government system and can help facilitate local authorities to work together and share the lessons of planning and implementing regulations linked to or targeting LED. Further, the LAs can take collective measures to overcome obstacles to local economic development caused by existing policies and practices at the district and/or provincial level. Another area where the LAs can build synergetic collaborations is market linkages and coordination. Municipal councils (MCs) and urban councils (UC) can support rural *Pradesiya Sabas* (PS) to link into their bigger markets providing trading facilities in urban areas for rural producers. One of the most important aspects of LED is to facilitate learning culture among the different stakeholder groups. That can be achieved through the facilitation of intergovernmental learning events and exposure visits throughout the course of LED implementation. Formation of local LED Forums and stakeholder platforms are some of key tools that promote local best practice across the system. One process that has been tried in some councils is undertaking one off-events such as local LED academies, regulatory unleashing clinics and trade exhibitions.

## What are the challenges within the existing system both under the law and in practice?

Introducing LED at the local government level is a challenge as local authorities have a very narrow mandatory scope on economic development. Lack of knowledge and capacity of elected members and officers on LED implementation can also be a major constraint. Development of micro, small and medium enterprises, inclusion and poverty reduction have until now, not been part of the local government action plan in Sri Lanka. However, local politicians are interested in strengthening the economies of their local area, and often come from the local business community so there is both motivation and experience at the local level, the challenge now is ensuring this is channelled into the areas where the local authority can have an impact on local economic development. Another limitation in many rural local governments is lack of funds. With limited budgets and limitations on how higher level funding can be used its important to begin LED processes with local government leadership and members with three key points on the purpose of LED project:

1. LED will directly create positive effects on local government's overall income generating capacity
2. How a vibrant private sector can contribute to the competitiveness and socio-economic growth of the locality
3. How wealth creation, poverty reduction & inclusion are powerful tools that resonate with the electorate.

It is important to balance practicality with political viability when developing a holistic LED plan. Capacity building and awareness raising sessions on LED play critical roles in ensuring stakeholder are conversant and active within the LED planning and implementation. In addition, the Ministry of Economic Development (MED) under its *Divineguma* Economic Development Programme, is working to support economic development activities at local authority level. This has resulted in some small grants and loan schemes for micro entrepreneurs and *Samurdi* beneficiaries (poor) being made available. *Divineguma* also provides some small business training for micro entrepreneurs and develops market places by constructing trading facilities at the local level. However this programme does not take a holistic approach to MSME development although its main purpose is to uplift MSMEs by enhancing the productivity and growth of these enterprises. The *Divineguma* programme is predominantly implemented through DSOs rather than local governments. A key challenge will be how to integrate with the MED development initiatives with other LED initiatives so as to increase the sustainability of the programmes outcomes, as well as access resources and support from the central government for local initiatives.



## What scope is there for partnership with the private sector? (PPPs)

There are three areas in where local authorities can develop Public-Private Partnerships (PPPs);

**1. The two parties can initiate joint business venture which can generate higher return on investment and socio-economic benefits for public and private sectors.** This type of business activities are being initiated by number of local governments mainly on managing trading centres and solid waste recycling. However through a constructive economic appraisal local governments can identify numerous production based opportunities as well with very high feasibility where private sector is willing to invest on. Some interesting initiatives are found in East Asia where local governments are involved in operating transport companies, processing units, production plants and power plants driven by renewable energies.

**2. Facilitate market access through marketing centres for local production.** Especially the urban councils possess and manage crucial marketing hot spots of the main towns which can be utilized as marketing centres for rural producers and MSMEs. Separate from traditional weekly fairs which are often run more for political than economic reasons, these new marketing centres can operate as PPP businesses. Properly planned and developed marketing centres can offer convenient attractions for passing consumers and for different rural producers who sell products such as plants, grains, processed food, fruit and vegetable, garments, handicraft etc. This type of marketing units can be combined with storage facilities, chilling plants and weighing units that requires for the process of selling. For example locations where the dairy production is competitive, the milk collection and chilling centre could be a highly profitable initiative for which private sector dairy processors would invest in. However ensuring adequate consultation on the locations of these is important. Business initiatives go beyond national markets such as setting up a joint export processing centres and many other business models can be developed based on the economic viability.

**3. Facilitating dialogue between local producers and larger suppliers and buyers** is a key role local governments can play in supporting LED. This Public Private Dialogue (PPD) or Local Economic Stakeholder Forums (LESF) where local government's role as a convener is key in bringing parties together and planning both short and long term strategies to support the local economy.



## Recommendations

1. **APPRAISAL:** LED should ensure that local economic appraisal is given sufficient emphasis. The effectiveness of initial appraisal determines the overall success, the level of energy and credibility that is built among the stakeholders.
2. **CAPACITY BUILDING FOR LED OF LOCAL LEADERSHIP:** Building the capacity of elected members and administrators of local authorities is essential. Ensuring basic concepts of LED and project management are covered at an early stage of the awareness raising process vital for successful development of LED strategies.
3. **LOCAL CONTEXT:** LED processes should be tailored to the local environment and based on local need and experiences. As programme activities go forward it is important to revise activity plans inline with the lessons coming out of the programme and be responsive to the feedback of partners and markets.
4. **INTERGOVERNMENTAL COORDINATION:** Local authority planning and implementation of any LED project should as much as possible work to coordinate with, and include the local DSO in the process as it is a main actor in regulations related to local economic development. Even in cases where the local government is the lead partner of an LED programme, it is important to ensure communication and coordination with the provincial level, and related various authorities such as urban development authority etc. so as to ensure the LED activities are effective and result focused.
5. **QUICK-WINS:** At first, LED activities should focus on quick-wins or highly result focused short term activities that are prioritized by the stakeholders. Long term activities with higher investment will kill the level of enthusiasm and credibility built during initial appraisal. Identifying and prioritizing quick-wins within a participatory discussion and planning process is a real challenge for the implementers and this is where they have to use some effective techniques to ensure discussions stay on target and participants remain realistic in their desired outcomes.
6. **LED FORUMS:** It is important to setup *local economic stakeholder forums* that comprises of public and private partners, at local authority level to make the decision making, planning and project implementation effective.
7. **OTHER LED PROGRAMMES:** The project team and local economic forum should collectively identify other ongoing economic development interventions at the district and local government levels. These should especially include projects implemented by the Ministry of Economic Development, other ministries, local non-governmental organisations (NGO) and international NGOs as integration, coordination and complementarity with other programmes is crucial in LED.

8. **TIMELINE:** Quick-win implementation stage should not take more than three months and the project team has to demonstrate higher level of punctuality and project administration skills. That keeps the enthusiasm and credibility among stakeholders especially at the initial stage.
9. **MANAGING EXPECTATIONS:** In some cases previous unsuccessful experiences with implementing LED projects created negative environments with stakeholders as the project did not deliver on their expectations. Therefore it is important that any LED program or a project explain the scope of the projects to the stakeholders at the inception to minimize the confusions and work with a clear mind sets to achieve common objectives.
10. **CHAIRSHIP OF FORUM:** Leadership of the hosting agency of the project, in this case the local authority, is very important in order to get the necessary support of other important stakeholders and championing the project as it goes forward. The chairmen and key elected member of the local government is an ideal figurehead for the LED project/strategy, however it is essential that they fully understand and support the goals and can make a long term commitment to supporting the work.
11. **CONSENSUS BULDING AMOUNG POLITICAL REPRESNTATIVES:** Conflicts between the leaders of local government and the senior political leaders such as MPs and ministers of the same location are also common. LED projects must take this context into consideration and as much as possible work to build consensus with all stakeholder in a local area.
12. **MSME AND MFIs:** Micro, small and medium enterprise (MSME) development is more effective when integrated with financial services. Micro financial institutions (MFI) and banks play a major role in empowering and supporting MSMEs in Sri Lankan localities. Project should identify and involve MFIs and banks of the locality from the inception of LED process.