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How does Local Economic Development (LED) contribute to Poverty Reduction? The Relevance of Monitoring and Evaluation for LED

Information note

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Information note - How does Local Economic Development (LED) contribute to Poverty Reduction? The Relevance of Monitoring and Evaluation for LED

LED is not a panacea, it can not and should not be done without consideration of the context it will be deployed in. In some contexts, there might not even be an option for SDC intervention at all but often, however, it can be an important programme component.

An external evaluation of SDC's decentralisation programmes has highlighted that SDC should increasingly consider LED and financial aspects of decentralisation.¹ As SDC is strongly engaged in decentralisation, increased resources should therefore be allocated to LED.

But what are the employment and income gains from local economic development projects and programmes? What is the contribution of LED to improving local governance and living conditions? Is LED a particularly powerful tool to obtain this kind of results?

The SDC documentation of experience of LED projects (2006) has shown that monitoring and evaluation (M&E) is often too rudimentary while implementing programmes/projects. A more systematic M&E would allow a) improved steering of LED projects and programmes aiming at higher efficacy and sustainability and b) better documentation and quantification of E&I and GOV gains. This could inspire operational staff to engage increasingly in LED.

To start closing some of the aforementioned gaps, the E&I and GOV divisions commissioned research on Evaluating Local Economic Development.² On one hand, this study, completed by Gwen Swinburn and Mario Piacentini, points out that there is little robust empirical evidence in the public domain.³ On the other, the internal evaluation of the SDC programme APODER in Peru offers interesting evidence of GOV and E+I gains. This provides inspiration for M&E in other LED or decentralisation projects supported by SDC.

The objectives of this information note is to raise SDC staff's awareness on M&E issues, in particular when (re-)designing LED projects, by:

- a) Highlighting the main conclusions of the M&E study and give recommendations on how to proceed
- b) Sharing the evidence on economic and governance gains from APODER, Peru.

I. Conclusions from the study "Evaluating Local Economic Development – In Search of Practical Solutions"

The key outcomes of all LED projects and strategies are primarily economic, sometimes institutional, social and environmental, and usually a combination of some of these dimensions.

Evaluating LED is therefore both 'doable' and affordable, at both project and strategy levels. However, costs and benefits of evaluation must be discussed at the start of every project: small budget projects and strategies should focus on processes and output evaluations, bigger projects need to be realistic and, given the attribution problem, it should not be expected from every LED project or LED strategy that its effect on higher level outcomes or impacts⁴ will be quantifiable (as against contributing to higher level outcomes or impacts).

At present, only few systematic evaluations exist in the public domain. This may partly be explained by the fact that:

¹ http://www.deza.ch/ressources/resource_en_156896.pdf

² Gwen Swinburn/Mario Piacentini, *Evaluation Local Economic Development – In Search of Practical Solutions*, August 2007, SDC, Bern (unpublished).

³ E+I and GOV Division would be grateful, if readers with access to pertinent evaluations could contact them via: alexandra.sagarra@deza.admin.ch or peter.beez@deza.admin.ch.

⁴ Local (un)employment, GDP figures or local poverty levels.

- **LED is a relatively new field** without a long history of tried and tested evaluation methodologies and metrics
- There is a lack of **incentives and financial resources** from donors and program managers to undertake thorough evaluations
- LED strategies are **long term strategies** and take longer than the usual project life-time to create an empirically measurable impact: defining and measuring governance and E+I gains in a robust manner is therefore challenging
- The classical **attribution problem remains and is magnified**: is the development effect created by the project or by interventions/factors external to the project?

The research team developed examples of possible economic and governance indicators that may be used to evaluate outputs, outcomes and impact of LED interventions. The list differentiates project-level and strategy level indicators (see annex 1). The latter give aggregate assessments of the effectiveness of the LED strategy (and large LED projects).

On the basis of different LED evaluation cases, the following recommendations are proposed to enable an improved evaluation of LED project and strategies:

1. Always design a **few essential measurable baseline indicators** - However modest the project, without baselines there is nothing to measure against. For LED initiatives this can be made quite straightforward by conducting a business enabling environment survey to understand the context and set a baseline.
2. **One well designed survey can be used to address the baseline evidence base** - A small survey done effectively as the project is being designed will assist project/strategy design, as well as project monitoring and evaluation. It can also be used to gain stakeholder engagement. Ideally, the survey should be supported by secondary data such as unemployment data, business starts, and so on.
3. Invest in an appropriate **survey sampling frame, design and capacity building** - capacity building to undertake and analyse the instrument should be a priority to enable the local LED programme teams and key LED stakeholders to administer and analyse the survey in the middle, at the end and even a few years after the end of the project.
4. Decide about evaluation indicators at the start of the LED project or strategy making process and **ensure that baselines, objectives and evaluation indicators are in alignment** at the beginning. Use a log frame and Activity-Output-Outcome-Impact table, review it regularly.
5. To **use secondary data** (i.e. government and private sector statistics) to support the LED strategy design as well as the evaluation is important but take care not to attribute causality, unless plausible (this is easier to do when small area statistics are gathered). Only very big programmes can reasonably be expected to contribute measurably to higher level indicators. A survey instrument, ideally validated by focus groups is now considered to be 'industry standard' for designing and developing LED strategies and programmes. To ensure robustness, 'bigger' LED projects should be supported (wherever possible by disaggregated secondary data, be it employment data, business starts, GVA or GDP figures for example). Much of this however depends upon governments collecting information at 'ward' or small community level. Projects will need to be designed accordingly.
6. The evaluation should **be proportional to the size of the project**. Project designers should seek to address some outcome indicators even in small projects (e.g. numbers of new starts remaining in business after one year).
7. **Integrate evaluation into management** information systems and form a stakeholder evaluation oversight team.
8. Project and program **counterfactuals** are quite straightforward; however trying to identify counterfactuals for entire communities is not easy, unlikely to be conclusive or robust **as** well as being tremendously expensive.

II. Evidence of APODER economic and governance gains

APODER is a programme supporting the decentralization process that takes place in Peru. The programme was launched 5 years ago through the implementation of transparent, inclusive, negotiated and participatory local management experiences. Its first specific objective is to influence the design and implementation of norms and policies regarding decentralization at regional and national level. Second, it aims at strengthening processes and capacities of local governments for participatory management of development. Third, it facilitates the identification and use of local economic development opportunities. Forth, it aims at strengthening coordination among and with other SDC supported project in order to integrate them in the decentralised structures of the State. LED was introduced in the second phase (from June 2004 - December 2007) through the window of participatory budgeting in municipalities.

The programme has a regional focus on 3 provinces (Cusco, Apurimac, Cajamarca) and 56 rural municipalities, thus a large coverage. It impacts beyond the local and regional level, as well on the national level through its partnerships with associations of municipalities, by strengthening their role in lobbying parliamentarians and the government and provision of technical assistance services to its members.

In 2004, the programme established a baseline including 55 indicators. It has been able to manage this very large number of indicators thanks to a decentralised system of collection of data: municipalities, NGOs, community based organisations (CBOs) and association of municipalities are all involved in it. The latter playing an important role in the management of the M&E system as whole. The internal evaluation of the second phase assessed progress against the baseline and revealed the following development effects:

a) Governance gains - The governance gains in participation, social control, participatory management and policy influence/lobbying are impressive. The following list illustrates just a few examples:

- 80 percent of the **legislation** directly related to local rural governments has been developed with inputs from the programme's partners (national and territorial associations of municipalities). REMURPE, a national association of municipalities, managed to become a recognized negotiator of rural municipalities at the parliament and national government.
- In 93 percent of municipalities (almost twice as much as targeted) a system of **inclusive citizen participation** is well functioning (e.g. Committee of Local Coordination, participatory budgeting or another accountability mechanism), with a significant increased participation of women, youth and small rural communes ("comunidades").
- **Participatory budgeting** is perceived by citizens as the most useful mechanism through which their problems can be solved. The number of experiences in it more than doubled in the second phase.
- Almost 43 percent of the targeted population perceives that key **public services** (e.g water and sanitation, maintenance of rural roads, economic promotion or civil registry) have improved.
- Capacities of municipalities for **transparent and participatory management** have been improved: almost twice as many municipalities (from 45% in 2004 to 87% in 2007) generate clear and transparent financial and technical information.
- CBOs⁵ are strengthened and active in **co-management of public funds** (76% of supported social organisations participate in participatory budgeting, more than twice as in 2004).

b) Economic gains - APODER supports 8-9 pilot experiences in LED during phase 2. As the Swinburn & Piacentini study points out, LED outputs, outcomes, impacts take time to show and economic results are particularly difficult to measure. However:

⁵ Community based organisations (CBOs) include recognized communities, second tier organisation (with "personas juridicas no personas naturales") and functional organisations at district level.

- Although the attribution link is unclear and the displacement of old businesses by new enterprises is not known, the **income** of people involved in LED initiatives (mostly support to value chains such for the milk, guinea pigs, wood, handicrafts production/marketing) has improved (measured by increased sales of products from producers supported by the programme).⁶ This effect is attributed to:
 - (i) a public-private sector cooperation which has removed bottlenecks in productive sectors and generated a more favourable business environment (e.g. through investment in infrastructure, promotion of fairs for certain products, capacity development, improved procedures for obtaining business licences/business registration etc.). In 20 value chains, processes for the institutionalisation mechanism for public-private sector cooperation were initiated.
 - (ii) the direct strengthening of technical capacities of producers (SMEs and associations of small producers) coupled with coordination and technical assistance from other SDC projects supporting productive capacities
- In the 9 pilot LED municipalities assisted by APODER, **private investment** has increased. The number of businesses, economic initiatives and associations supported and created increased.
- 25 (10 more than in 2004) local governments have defined their role in LED, created the function and **adjusted their structure and resources** accordingly. 11 local governments have an LED plan, 3 of which were elaborated jointly through a negotiated process by public and private sector. The capacities of local actors to develop and implement LED policies were greatly strengthened not least through a diploma degree programme on Municipal Management of LED.

The APODER example shows first that institutional strengthening of local governments is a pillar to build public policies for LED and improved local governance.

Second, even though it is premature to reach firm conclusions regarding the link between improved local governance and poverty reduction, evidence suggests that in those districts with better governance, participatory budgets are of better quality, and have contributed to resolve some problems in public services delivery. In those territories, LED strategies have progressed faster than elsewhere.

Third, if local governments make efforts to work with economic actors and reach an agreement (e.g. on how to address bottlenecks in production and commercialisation of products with a competitive potential) local economies are stimulated/energized. Finally, Local governments do show interest to work in LED.

III. Steps ahead for thematic work

LED is increasingly on the agenda of SDC operational units that will increasingly be confronted with M&E questions. Based on demand, the E+I and GOV Division will continue to work on this issue. Feedbacks of readers are therefore highly encouraged.

Suggestions for future thematic work to respond to the most pressing needs of LED projects are also welcome.

⁶ in 9 municipalities directly involved/support by the programme private investment has increased: the number of entrepreneurial initiatives (enterprises and producer organisations) increased, especially in the sectors of guinea pigs, tourism and handicraft.

Annex 1: Project level and Strategy level Indicators

1. Project Level

| 1.1. Employment and Income Indicators or better “Economic Indicators” |
|--|
| Higher sales – output indicator |
| Higher profits – outcome indicator |
| Client satisfaction – process indicator |
| Improved access to finance – output indicator |
| Jobs created –output/outcome |
| People Trained (types/ages/marginal groups) etc - output |
| Amount of new serviced land for business - output |
| Numbers of managed workspace units developed/occupied -output |
| Number of new businesses formed – output |
| Survival rate of new businesses - outcome |
| Expansion rates of existing businesses - outcome |
| Increased exports- outcome |
| Take up of services - outcome |
| One stop shop built and operational- output |
| % SMEs have introduced "significant change" in operations attributable directly to projects - output |
| Growth in new direct clients of Business development service Providers (BDS) – process/output |
| Sustainability of BDS and one stop shops - outcome |
| Access to basic infrastructure for productive and marketing purposes - outcome |
| Rates of informal sector business activity - outcome |
| Diversification/ Contribution to output and employment by size of business -outcome |
| Increased foreign direct investment - output |
| Increased number of enquiries to locate in an area - process |
| Increased business confidence - outcome |
| Increased shopping “footfall” in a given area – outcome |
| Increased number of functioning business networks and associations - outcome |
| Numbers of Companies achieving ISO standards - output |

1.2. Project Level - Governance Indicators

Stakeholder satisfaction – process/output
Numbers and types of consultation held – process/output
Numbers of projects with transparent governance – process/output
Numbers of programs with public/open call for applicants – process/output
Less red tape, number of processes/procedures - output
Reduced costs for local licensing and certificates - outcome
Transparency of local government decision making processes – process/output
Increase of x% economic development collaborations between key stakeholders - output
Municipal public servants or selected ministries trained in policy-related skills and knowledge-
output
Policy forums organised with part of the costs not borne by the project - output
Ownership and actions by stakeholders – outcome
% of purchases publicly procured - output

2. Strategy Level - Higher level Aggregate Improvements

2.1. Employment and Income Indicators

Improved productivity- outcome
Improved Employment levels – impact
Improved income levels - impact
Sector competitiveness measures - outcome
Jobs created /retained – outcome
Improved skills benchmarks -outcome
Improved education benchmarks - outcome
Ratio of informal to formal businesses - outcome
Higher level local GDP or GVA – impact
Increased trade flows - outcome
Increased productivity - impact
Absolute number of households below the poverty line - outcome
Access of poor to basic services – outcome
Gender equality (access to work/equal pay/perceptions) - outcome
Social exclusion (poverty indicators/ ward level unemployment/health/education levels) -impact
Business confidence levels – outcome

2.2. Governance Indicators

Target Group community involvement strategy design (process indicator)
Target Group involvement strategy implementation (process indicator)
Target Group involvement in strategy performance (process indicator)
Client satisfaction of public sector – outcome
Improved trust between the public and private sector – impact
Improved trust between the public and community sector - impact
Perceptions of quality of place- impact
Perceptions of safety - impact
Perceptions of feeling involved - outcome
Improved capacity to design and implement LED - outcome
Improved coordination between partnership - outcome
Establishment of functional partnerships - outcome
Actors adopted longer term orientation - outcome
Improved access to decision makers - output
Actors share responsibility for evaluation -outcome
Gender engagement in community governance -process indicator
Methods in place to consider and adopt ideas from all parts of the community - process
High level political engagement - process
Improved leadership within the community- outcome
Increases in numbers and types of local NGOs - outcome
Transparency and accountability in corporate governance - outcome
Institutional capacity for ensuring regulation compliance – outcome
Institutional capacity for continuous stakeholder consultation and participation – outcome