Local Economic Development

Synthesis of the e-discussion
May 2018

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Introduction to the e-consultation on Local Economic Development

- The Focal Points of the employment and income (e+i) and Democratisation, Decentralisation, and Local Governance (DDLG) Networks jointly organised e-consultation in March 2018 on Local Economic Development (LED) in SDC.

- As a preparation, a stock taking of LED projects within and beyond SDC has been established. The aim of the **stock taking** was to learn what the current trends are in LED and how LED can complement other PSD and VSD approaches.

- The e-consultation started with **webinars** in three languages (English, French, Spanish), presenting the stock taking and a number of case studies from within SDC.

- Following the webinars, an **e-discussion** ran from 14 to 23 March 2018 to discuss questions around the usefulness of LED approaches both from an economic development and a local governance perspective. The present document is a synthesis of this e-discussion.

Local Economic Development | Webinar
e+i and DDLG Networks

e+i   employment and
income network

ddlgn   Democratisation, Decentralisation
and Local Governance

2

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Prelude: Creating conceptual clarity between territorial and sectoral approaches

Conceptually, territorial approaches are distinct from sectoral approaches.

LED is a spatial approach. Space is defined as area of intervention and change. LED integrates different perspectives and services to foster development that is adapted to the specific combination of capabilities and challenges in that space.

Sectoral approaches focus more on private actors along whole value chains, going beyond bounded local areas. These value chains can be regional, national or even global.

This **does not mean that a territorial approach ignores** everything that happens outside the territory. LED links into value chains that go beyond the territory. The approach also recognizes the importance of economic, social and political dynamics beyond the territory that affect competitiveness and economic inclusion within the territory.

During the discussion, there was **a tendency to conceptually conflate** territorial and sectoral approaches to development. Some **reasons** might be:

- Territorial approaches also most often choose specific sectors to focus on.
- At the same time, the sectors chosen in sectoral approaches do have a territorial dimension, mostly defined by the geographic area where the product relevant to the sector is predominantly produced.
- Donors often attach priority regions to sectoral development projects, predominantly because they have identified them to be most in need of support or be home to large numbers of specific target groups like the poor or ethnic minorities.

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Is LED a relevant approach for SDC?

The majority of participants thought that **LED is a relevant approach** for SDC. The main reasons mentioned were:

- SDC has already been doing LED for many years, for example in Western Africa.
- LED integrates inclusive economic development and local governance, two priority topics for SDC.
- LED allows SDC to have a closer connection to an area and its local communities.
- LED is a way to empower people and include them in decision-making, which can reduce causes for conflict.

Yet, **sectoral approaches** to economic development have also shown to be very promising. An example that was mentioned funded by SDC is Katalyst in Bangladesh.
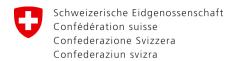
Also, local economies are complex and cannot always be influenced by a linear planning approach. Some participants felt that SDC's **project cycle management** might struggle with that.

"To me it seems obvious that, for a government agency like SDC working with government agencies in developing countries, LED belongs into the central things of what government is all about."

"LED projects generally are closer to the communities, local government, CSOs and the private sector than e.g. hardcore MSD projects (…)! Local project presence allows projects to gather continuously 'local intelligence' about what's going on or not, who with whom or not etc."

"Some of the most powerful achievements in recent times have been on the systemic improvement of large and complex value chains. There are numerous examples (…) The incredible impact of Mobile Money in East Africa (…) would never have happened under an LED approach."

"The typical 'project approach' (and budget management) might not be the right way to interact and invest in such local development systems."

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Synergies between LED and Decentralization and Local Governance (I)

It was clearly recognized by the participants that there are **important synergies** between work in local economic development and in democratization, decentralization and local governance (DDLG).

The participants saw LED as a central role of **the local government**. At the same time, the local government needs the necessary capacity, resources, and legitimacy to perform this function, which is often down to DDLG processes. It needs the mandate from the central government connected to the ability to generate or receive the resources needed to perform its role. It creates its legitimacy out of its relationship with the **local population and private sector** by following good governance principles and providing the right services to its citizens and to companies.

One participant was of the opinion that local good governance was not an end in itself, but a central element in improving employment and income generation.

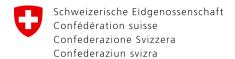*"The strongest point [of LED] is to integrate economic development and governance issues."*

"The territorial approach makes governance which is an abstract notion a tangible reality. People need to see changes, and transformation might be illustrated for good or bad through territory; use the territory as an anchoring tactic for governance facts brings people closer to a policy discourse."

"The governance approach brings all the necessary tools to make LED work for people and redistribute the welfare."

"LED provides opportunity for local governments to innovate the local development projects beyond the traditional development on infrastructure. LED allows the local government to address broader needs of local communities"

"I do not believe that good governance is an end in itself, but a function in the service of other functions: social functions and economic functions for example."
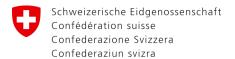
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Synergies between LED and Decentralization and Local Governance (II)
Experience from Myanmar

"Our project is focusing on the Gulf of Mottama in the South East of Myanmar. The project is multi-facetted and we are focusing among others on developing alternative livelihoods for fishermen and farmers in the Gulf and working closely with government to improve the present fisheries laws. (…)

Regarding the synergies [between governance and e+i] for me this is very clear. By improving the local fisheries laws and strengthening the Co-Management of Natural Resources by the local fishing communities, we do hope to stop the illegal fishing, which will ultimately result in higher catches of the fishermen and thus increased employment and income for the direct beneficiaries and down the fisheries value chain as well."

Shared by Jos van der Zanden, Chief Technical Advisor, Gulf of Mottama Project (GoMP), HELVETAS Myanmar

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Preconditions for functioning LED

The following points were discussed as being preconditions for LED to work:

Political will

Most participants agreed that political will is crucial for LED to be effective. But the question was also raised about the relation between the will of the local population and the will of the government and which should drive which. Furthermore, political will was recognized as only one out of many different factors for LED to work.

Good governance

Some participants mentioned that the ability of local government institutions to raise funds (whether through tax or from central government) is a precondition for LED. But also once this money is raised, transparency and accountability towards the citizens of how the local government spends this money was seen by one participant as an important aspect for LED.

"I am still puzzled about such chicken and egg situation: what should be first, citizen will or political will? Who should be at the other's service: the citizen at the service of a political body ruling the game or the other way around?"

Functioning decentralization

Linked to the point on good governance, a certain amount of resources and capacity must be ensured for local government to perform their functions. Accordingly, improved LED often goes hand-in-hand with a decentralization process, especially with regard to giving more responsibilities along with associated financial and personnel resources to local governments. It is difficult to see the one work without the other.

Is LED possible in non-functional states?

In conflict-affected territories, often distrust is the main driver for decision making. Local development on the other hand is mainly based on trust between actors and long-term relationships. So it is hard to see long-term LED at scale function in non-functional states.

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Types of LED processes (I)

In the stock taking presentation on LED that was shared as input to the e-discussion, three types of LED processes were presented:
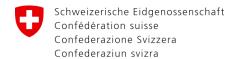
1. **Strategic planning:** Emphasizes that LED should always begin with a strategy, is based on a step-by-step guidance, is driven by government, yet needs the involvement of the private sector and civil society

2. **Institutional:** Puts an emphasis on the establishment of local implementation structures in the form of local forums or LED Agencies (LEDAs)

3. **Organic:** Assumes that economic development evolves along trajectories shaped by learning-by-doing and learning-by-interacting

Most participants who assessed these three types thought that **an organic approach best fits the reality SDC projects face**.

"I believe more in an integrated approach than in a step by step [approach]."

"It is therefore clear that LED can best be tackled with the 'Organic' approach, where learning-as-one-goes is the best way to go about this. There are procedures and operational mechanisms to organise such learning so that it translates into meaningful and systemically effective actions for LED"

"[The local communities] each react in their own ways to get a handle on the potential. I would argue that the highly diverse reactions ranging from highly successful illicit cross-border trade as in Myanmar to locally well-organised support mechanisms in Vietnam all are specific reactions to the chance and potential that was opened up [by the project]. And each of them is unique and specific to the socio-political environment in which these people live and work. And because these environments are so richly diverse (…) there is no way an overarching program can hope to introduce the one way this has to be done.."
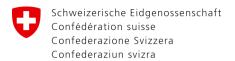
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Types of LED processes (II)
Experience with Local Economic Development Agencies in Serbia

"The Local Economic Development Agencies [LEDAs] have been established also in Serbia some 15 years ago as a means for LED and also for channeling donor support. They have been established by local stakeholders such as the: chambers of commerce, companies, banks and local self-governments. The members are registered formally and pay membership fees. Initially, the private sector had a voice in these agencies but gradually their power diminished. The reason is that central Government wished to systematize these agencies and imposed a condition that more than half of the founders should be local self-governments. The wish of the central Government to systematize the work of LEDA's was sound, but as a result the private sector gradually stepped out since they did not see them as a vehicle for serving their interests. Additionally, in pursuing its efforts, the government gave powers to a central, i.e. National Development Agency which had the responsibility to channel state support through local agencies, where the donors also join in. Such an approach does have an effect on LED, but consequently due to the system set in such a manner, LEDA's have become politically dependent.

Functionally, the model of LEDA's should be joined by other vehicles. Namely, the largest economic benefits are achieved when other stakeholders, i.e. the private sector steps in with dedicated resources or even better with co-investing funds. Thus, the system of LEDA's gives mixed results, somewhere more and elsewhere less and it should be complemented by other vehicles. The choice of this vehicles should be tailored depending on the country / region and targeted sector."

Shared by Arminio Rosic, NPO, Swiss Cooperation Office Serbia

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Key partners for successful LED (I)

There is a shared understanding that **both the public and the private sector** need to be part of any LED process. Some participants made a point that the **selection of partners cannot be generalized** but that an LED project should be pragmatically looking at local capabilities and willingness to engage in a LED process.

For some participants, it is, however, hard to imagine an LED process without involvement of the **local government**. Others mentioned the importance of involving different levels of the government, not just the local government.
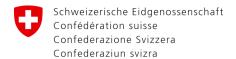
Depending on the resources and capabilities of the partners, LED processes can lead to quite different outcomes. An organic and pragmatic approach to LED (see page 8) ensures that a project can adapt to what capabilities are available locally.

One of the questions raised during the discussion was which players are **legitimate** to join LED processes and how legitimacy could be defined.

"Can central partners be pinpointed in general? Or is it rather situational, whether catalytic players are from the private sector, the state or the civil society?"

"I tend to say that it is not so much the actors as the functions or roles they play in the system that are most important. An actor is above all defined, within a system, by his roles, his relationships with others and therefore his legitimacy that the system gives him."

"Just not supporting local authorities because they are incompetent or corrupt and therefore supporting NGOs to deliver on services that belong into the public domain (…) is unacceptable in LED. Legitimacy of local authorities for fulfilling their public domain functions is not negotiable, no matter how incompetent and corrupt they may be. The challenge is not to bypass them, but to make them competent."

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Key partners for successful LED (II)
Experiences from working with different tiers of government in Cambodia

"[In] Cambodia, in the implementation of [the Regional Economic Development Project] RED III, we have two-tier steering structures (one at national/central level and respectively three provincial steering committees). Provincial steering structures help to guarantee buy-in and alignment of local partners with the programme. The national/central government under the lead of the Council for the Development of Cambodia (CDC) is very supportive. However, the ownership of [the] programme as such remains an issue, especially at the provincial level. At the national level, it is also difficult to make the connection and synergy between LED and decentralization reform programme. So far, there is no proper mechanism that allows the two government institutions – CDC and decentralization reform coordination body – to exchange and enforce the synergy between the two programmes."

Shared by March Luon, Programme Manager Governance Programme, Swiss Cooperation Office Cambodia

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Challenges with LED

The stock taking presentation shared with the participants of the e-discussion named a few challenges with LED. Among others, it stated that there was a tension between a strategic approach that focuses on planning and a participatory approach. In **participatory approaches** the question often rises if the chosen activities are strategic for the long-term development of the region. To this, one participant responded:

"Blaming 'participatory' approaches for not yielding [long-term] strategies misses the point entirely. People need to be involved in a continuous learning effort, learning as one goes. Expecting result-oriented strategies from participation I think doesn't make sense… what does make sense is to aim for sustained processes of learning and sense-making among a population."

In addition to the challenges mentioned in the introductory presentation, **a number of further challenges were raised** in the form of questions during the e-discussion by the participants:

• How can a project with specific focus (e.g. poverty reduction, youth, etc.) react effectively to emerging local needs that might diverge from this focus?
• How to create local ownership of a process rather than drive it from the project?
• How to cope with a political environment where the central and local governments do not agree on a strategy?
• How to craft the interaction and mutual leverage between social investment funds and public development agencies in enabling LED?

"[T]he challenge is that while territory is a good anchoring tactic, its transformation needs a combination of both soft and hard investments which not always are provided in the frame of governance projects."

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The relation of LED and Market Systems Development

The relationship between LED and Market Systems Development (MSD) clearly links back to the discussion of territorial vs. sectoral approaches (see page 3).

Most participants highlighted **commonalities and mutual enrichment** between the two approaches. For some participants it was clear that also MSD is rooted in a territory. Likewise, it was pointed out that a territory should be understood as a system with strong interlinkages with other systems.

Two aspects emerged from various contributions as being essential to both LED and MSD:

• Advocacy for better enabling environment
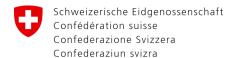• Engaging private sector enterprises

On the other hand, a few participants saw a **clear difference** between the two approaches.

"In practice I see little difference between the LED and MSD approach because a market system is inevitably rooted in a local territory. Developing a market system requires establishing inclusive and concrete dialogues, between local actors …"

"even though we think LED and Value Chain/sectoral development are conceptually distinct, we often find that LED programmes will end up having a sectoral component while sectoral programmes often find themselves work in a specific territory."

"In practice, if incentives remain at the local level, the desired systemic transformations will be difficult to achieve."

"…classic conflict between an LED approach which tends to be slower and more subtle and a market system approach which assumes a pilot project to establish "proof of concept" and then rapid expansion (across the whole programme) as it pushes towards major replication and crowding in."

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The relation of LED and Vocational Skills Development
Experience from West Africa

The stock taking presentation shared as an input to the e-discussion suggested several overlaps and synergies between LED and Vocational Skills Development (VSD). This interrelation was, however, not further discussed during the e-discussion. Nevertheless, the **one case** that was shared that combines LED and VSD shows the potentially beneficial relationship between the two approaches:

"For example, in Mali, Benin and Burkina Faso, HELVETAS supports "dual-market" initiatives. By supporting the inclusive and sustainable development of agricultural and livestock market systems, HELVETAS also supports the inclusive development of vocational and skills training market systems. The first market systems are resurrecting the demand for the second market systems. Thus, HELVETAS accompanies the continuity between the professional integration of young people and women and their entrepreneurial integration within rural enterprises active within the market systems of agricultural and livestock products... thus we can speak of a complete economic integration: goal of any LED approach, no?"

Shared by Bernard CONILH de BEYSSAC, Conseiller Régional Economie Rurale, HELVETAS, Burkina Faso

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Open questions

A number of open questions on LED processes surfaced during the e-discussion:

- What does LED mean in a context of urbanization and urban-rural relationships?
- How to define boundaries of territories?
- How do we best incentivize the private sector as well as citizens and CSOs to enter into partnerships with the municipalities?
- Is there a danger that decentralization projects with a focus on economic development might crowd out other essential public services?

"[W]e adopted for territorial administrative reform the notion of functional areas, which do not respond to boundaries but mainly to social and economic activities. Thus the whole territory is redesigned based on economic and social potential for development."

"Apparently [incentivizing the private sector] goes through win-win arrangements, we foster and see in (pragmatic) partnerships between local public services and business organizations to achieve public and economic gains (e.g. to access to local markets). Beyond that it is the legitimacy of the local state/municipalities that matters. (…) The bottom up local governance building process, as we experienced it over the last years, has the potential to strengthen such legitimacy."

"In Africa, secondary cities will grow fast and will play a more important role in local economies during the next 20 years: interconnection between those growing urban territories and surrounding rural territories must be understood in terms of economic opportunities and leveraging interventions. In French we talk about 'pôles de développement', in other cases we talk about industrial clusters..."

"There is (can be) a direct link and positive feedback loop between public resources that are generated through the local economy and the ability of local governments to provide essential services."

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