

Local Economic Development

LED Quick Reference

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www.worldbank.org/urban/led

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Further more detailed resources, including training manuals and case studies may be found on www.worldbank.org/urban/led. This site also offers links to other key LED web resources, with some materials translated where possible

These materials have been made available for use in the public domain. Users are however requested to cite the World Bank when using these materials.

Feedback and ideas are requested to be sent to Gwen Swinburn, gswinburn@worldbank.org, gwen.swinburn@gmail.com and urbanhelp@worldbank.org.

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WHAT IS LOCAL ECONOMIC DEVELOPMENT?

The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and to improve the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation.

WHAT DOES PRACTICING LOCAL ECONOMIC DEVELOPMENT MEAN?

The economic success of communities today depends upon them being able to adapt to the fast changing national and international market environment. Strategically planned local economic development is increasingly used to enable communities to improve their economic futures. This booklet is an introduction to strategically planned local economic development. Further information is available at: www.worldbank.org/urban/led

HOW CAN A STRONG LOCAL ECONOMY BE BUILT?

Every town, city and community has unique local conditions that either help or hinder its economic development. These conditions will form the basis for designing and implementing a local economic development strategy. To build a strong local economy, good practice tells us that each community should undertake a collaborative, strategically planned process to understand, and then act upon, its own strengths, weaknesses, opportunities and threats. This process should enable local areas to become more attractive to business, workers and supporting institutions.

WHO DOES LOCAL ECONOMIC DEVELOPMENT?

Successful private enterprises create wealth, jobs and improved living standards in local communities. Private enterprise however, depends on favorable local business conditions to achieve

prosperity. Local governments have an essential role in creating favorable environments for business success and job creation. To do this optimally LED is undertaken through partnerships between local government, business and community interests.

WHY DO LOCAL ECONOMIC DEVELOPMENT?

LED started being practiced in the early 1970s as local governments recognized they had a role to play in enhancing the economic viability of their communities. By actively examining their economic base and understanding obstacles to growth and investment and by undertaking strategically planned programs and projects to remove obstacles and facilitate private sector development, communities sought to grow their economic and employment base. Today towns and cities as well as rural areas face an even greater number of challenges accordingly local economic development strategic planning is becoming an increasingly important activity across communities throughout the World.

International

Globalization increases both opportunities and competition for investment. It offers opportunities for local businesses to develop new markets and presents challenges from international competitors entering local markets. Multi-site, multi-national manufacturing, banking and service corporations compete globally to find cost efficient sites in which to locate. Technologically advanced industries require more highly specialized skills and technology infrastructure. Local conditions determine a community's comparative advantage and hence its ability to attract and retain investment. Even small towns and their surrounding rural regions can find niche opportunities at a national or international level by building on their existing and potential economic advantages.

National

Macro-economic, fiscal and monetary policies naturally affect local communities. National regulatory and other legal conditions (e.g., telecommunications deregulation, environmental standards) also influence the shape of local business climates, which can help or harm local economic development goals. In many countries, national government functions continue to be decentralized and

private industry has become more mobile. These trends all have consequences for local economic development. Local communities need to be aware of the threats that they pose as well as the opportunities that they bring.

Regional

Communities within and between regions compete to attract and retain investment. But there is much evidence to show that communities (both rural and urban) that collaborate with one another enable their collective economies grow. For example this can be done by enabling major infrastructure or environmental improvements with broad regional as well as local impacts. Individual and groups of local governments or formal regional governments are increasingly intermediating with national governments to achieve local economic development outcomes.

Local

The economic growth advantage of places (metropolitan, urban, rural) depends upon many factors including the quality of public sector management, policies affecting the availability, or lack, of electricity, transport, water, sanitation, telecommunications and developed or developable urban land. Factors affecting labor productivity in the local economy include housing, health and education services, skills availability, security, training opportunities and public transport. The availability of business development services, knowledge networks and education/business links are all now crucial to increasing the dynamism of local economies. All these hard and soft infrastructure factors and more are key determinants of an area's comparative advantage and form the backbone of a successful local economy. It is these and more issues that need to be addressed within LED strategies.

The first and most crucial local economic development activity that municipalities should undertake is to improve the processes and procedures that businesses are subjected to by the local authority itself. A brief survey of most local governments reveals a large number of complex, badly managed, expensive and unnecessary business regulations. By reducing these appropriately, an area quickly starts to improve its investment climate and becomes known as business friendly.

LOCAL ECONOMIC DEVELOPMENT EVOLUTION

Before examining how to undertake LED, it is important to examine its evolution; this shows us ways in which LED can be pursued.

This is necessary in order to avoid making mistakes of the past.

<i>FOCUS</i>	<i>TOOLS</i>
<hr/>	
<i>1960s to early 1980s</i>	
<ul style="list-style-type: none">▪ Mobile manufacturing investment attraction from outside local area.▪ Big firm level subsidies▪ Making hard infrastructure investments.	<ul style="list-style-type: none">▪ Large grants, tax breaks, subsidized loans for manufacturing investors.▪ Subsidized hard infrastructure investment.▪ Focus on lowering production costs through techniques such as recruitment of cheap labor.
(Public sector only)	
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<i>1980s to mid 1990s</i>	
<ul style="list-style-type: none">▪ Retention and growing of existing local businesses.▪ Continued emphasis on inward investment attraction but usually more targeted to specific sectors or from certain geographic areas.	<ul style="list-style-type: none">▪ Direct payments to individual businesses.▪ Business incubators/workspace.▪ Technical advice, support and training for small-medium scale enterprises.▪ Business start-up support.▪ Hard and soft infrastructure investment.
(Public sector driven)	
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<i>Late 1990s onwards</i>	
<ul style="list-style-type: none">▪ Making whole business environments favorable.▪ ‘Soft’ infrastructure investments (e.g., human resource development, knowledge sharing, regulatory rationalization).▪ Public/private partnerships.▪ Leveraging private sector investments for public good.▪ Improving quality of life and security for communities and potential investors.▪ Highly targeted inward investment attraction, building on local area comparative advantage.	<ul style="list-style-type: none">▪ Integrated strategy providing a facilitative local business environment.▪ Stimulating local firm growth.▪ Cross-community networking and collaboration.▪ Developing collaborative business relationships.▪ Workforce development and soft infrastructure provision.▪ Supporting quality of life improvements.▪ Focus on service sector as well as manufacturing.▪ Facilitating economically-linked business clusters.▪ Initiating regional and local economic development programs.
(Public sector-led, usually)	

HOW TO START LED: BUILDING AND EXECUTING LED STRATEGIES

Good practice tells us that local economic development should always be guided by a strategy. An LED strategy is a key part of any community's planning process. Ideally, an LED strategy should form a component of a broader community-wide strategic plan. The time horizon for an LED strategy is typically between five and ten years and includes annual action plans. This LED strategic planning process has five stages, for ease of explanation.

LED – A Five Stage Strategic Planning Process

Stage 1: Organizing the Effort

Stage 2: Doing the Local Economy (Competitiveness) Assessment

Stage 3: Creating the LED Strategy

Stage 4: Implementing the LED Strategy

Stage 5: Reviewing the LED Strategy

Stage 1: Organizing the Effort by Developing a Management Team and Partnership Network

To successfully design, develop and implement a local economic development strategy, institutional arrangements and stakeholder involvement need to be organized early. An LED team should be established within City Hall (or within a partner organization), and this team should initially manage the strategic planning process. Political 'buy-in' is essential from local elected officials as well as staff.

Successful local economic development also depends on the collaborative efforts of *public* (governmental), *business* (private) and *non-governmental* (NGOs, community-based organizations, trade unions, social, civic, religious) sectors. The strategic planning process will need to identify the people, institutions, businesses,

industry groups, civic organizations, professional organizations, think-tanks and training institutions, and other groups with interests in the local economy.

<i>Public</i>	<i>Business</i>	<i>Non-Governmental</i>
<ul style="list-style-type: none"> ▪ Local government including technical departments. ▪ District or regional government. ▪ Sector boards and authorities: <ul style="list-style-type: none"> – health – education – transport ▪ Zoning board. ▪ Institutions of research and higher learning. ▪ Utilities. 	<ul style="list-style-type: none"> ▪ Large corporations. ▪ Trade unions. ▪ Small-medium and micro-scale entrepreneurs. ▪ Land and real estate developers. ▪ Banks and other financial groups. ▪ Chambers of Commerce. ▪ News media. ▪ Other business support groups. ▪ Professional associations. ▪ Private utilities. ▪ Private education establishments. ▪ Think tanks. 	<ul style="list-style-type: none"> ▪ Community leaders. ▪ Neighborhood groups. ▪ Community service organizations. ▪ Local educational institutions. ▪ Local religious institutions. ▪ Other non-governmental organizations, e.g., groups representing: <ul style="list-style-type: none"> – minorities, – disabled and other disadvantaged populations – environmental issues – cultural, arts and historical interests

The skills and resources that each stakeholder group brings to the process make up the critical foundation of the strategy process. Establishing working relationships and structures that fully engage stakeholders in the process should also lead to beneficial long-term, formal public/private/non-governmental partnerships and trust building. These working relationships can range from a process of relatively informal collaboration through working groups, to the establishment of development agencies in local government or a constituted public-private partnership.

Stage 2: Doing the Local Economy Assessment

Knowing the context of the local economy is crucial to help the stakeholders strategize for the future. The analytical boundaries of the local economy assessment should not be limited by an administrative jurisdiction such as a municipality, but rather defined by the economic relationships in a geographic area, such as the metropolitan region, “commutershed”, or a city and its hinterland.

A preliminary economic assessment will use available quantitative and qualitative knowledge of the sources, structures and trends in production and employment, skills, and other resources to help identify the strategic direction for the local economy as well as programs and projects for the future. Data collection is a first step in an economic assessment and then analysis, for example a SWOT. (Strengths, weaknesses, opportunities, and threats).

The **local economic assessment** analysis might identify, for example:

Strengths (local assets): Competitive wage rates, skilled workforce, educational and research institutions, strong transportation network, safe locality, productive existing firms, successful economic sectors or clusters, proximity to raw materials or other natural resources.

Weaknesses (obstacles to growth): Worsening poverty, complex regulatory procedures, inadequate infrastructure, limited access to credit, crime, health issues affecting the workforce (e.g., HIV/AIDS)etc.

Opportunities (favorable exogenous (external) conditions): Technological change, new international trade arrangements, or macroeconomic/political developments expanding markets.

Threats (unfavorable exogenous (external) trends): Demographic changes, globalization effects on local key sectors, political and economic risks.

The assessment should identify local public, business and non-governmental assets; collect and analyze and institutionalize existing and new quantitative and qualitative information; and, establish knowledge management systems for future use in monitoring and evaluation. The level and depth of data will depend on its availability, budget and local conditions.

Important Categories of Data

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| <ul style="list-style-type: none"> ▪ current economic activities and trends ▪ industrial sectors and trends ▪ inventory of businesses ▪ population trends ▪ physical infrastructure ▪ natural resources ▪ local geography ▪ community attributes ▪ business culture | <ul style="list-style-type: none"> ▪ local private sector development and management capacity ▪ local government capacity ▪ local leadership ▪ human resources and skills ▪ availability of finance ▪ local R&D ▪ local training facilities ▪ other local conditions affecting business |
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Also important is comparative information on the resources and activities of neighboring communities or other regional, national or international competitors.

The assessment should broadly consider a wider range of local economic development opportunities across all major sectors.

Stage 3: Creating the LED Strategy

As in comprehensive city strategic plans, the intent of the LED strategy is to achieve an *integrated* approach to LED. Professionals in local government and principal stakeholders need to balance economic development, with environmental and social, priorities. The LED strategy has a number of components.

Elements of LED Strategy

Vision. Describes an agreed stakeholders' consensus on the preferred economic future of the community.

Goals. Identify up to 6 key priority areas of action to meet the vision and specify the desired outcomes of the local economic planning process.

Objectives. Set the performance standards and targets for development. They are time bound and measurable.

Programs. To achieve goals and objectives, programs define and group together similar projects that collectively achieve particular objectives.

Projects and Action Plans. Provide a detailed project description and implement specific program components. They must be prioritized, costed, time bound and measurable.

Stage 4: Implementing the LED Strategy

LED strategy implementation is guided by three key documents:

- i. **LED Strategy (5-10 year timeframe)**
- ii. **Implementation Plan (can be annual or longer)**
- iii. **Individual Project Action Plans**

LED Strategy (5-10 year timeframe)

An LED strategy is an overall plan, which can be short, medium or long term and which sets out what is going to be achieved. The strategy will establish an agenda to develop a local area's economic,

physical, social and environmental strengths and will also address the challenges it faces.

Implementation Plan

Every LED strategy should have an **implementation plan** that in turn is driven by individual project action plans. The implementation plan lays out consolidated budgetary, human resource and other inputs, as well as any institutional and procedural implications of implementing the LED strategy. It is thus the point of integration of all projects and programs within an LED strategy. The implementation plan acts as a mediator between projects to ensure that they do not inappropriately compete for resources.

A good implementation plan will often result in more efficient and effective use of existing budgets within local government, private associations and companies. It can also be used to target funding from external sources such as national government, bilateral and multilateral donor agencies.

Individual Project Action Plans

The **action plan** lays out specifically for each project, a hierarchy of tasks, responsible parties, realistic time tables, human resource and financial needs, sources of funding, expected impacts, outcomes, performance measurement systems for evaluating each project.

Some projects will be “quick wins” that can be implemented in the short term and play an important role in building momentum and trust. Others will be medium to long term. In each case, projects should be “championed” by individuals or group of stakeholders according to interests, resources and commitment.

Developing good monitoring and evaluation techniques for integrated LED strategies and individual projects is important to quantify outcomes, justify expenditures, determine needed enhancements and adjustments, and develop good practices. Indicators will need to measure both process and impact. LED monitoring and evaluation should be undertaken at each stage of the LED planning process.

Stage 5: Reviewing the LED Strategy

Although an LED strategy is usually written for a 5 to 10 year period, the strategy should be quickly reviewed each year in case it needs to be adjusted in response to dynamic local conditions. It is not set in stone, but a dynamic instrument that should be changed as local conditions change.

The **implementation** of the LED strategy should go through a more rigorous annual assessment. This review should use established monitoring and evaluation indicators of the local economy and of the resources available for the strategy effort. The review needs to cover not just inputs, outputs, outcomes (and where possible impact), but the implementation processes themselves including levels of participation. Alongside the review of the entire strategy, systems should be in place to monitor the progress of every project. All these systems will give decision-makers the tools they need to adjust the strategy in response to dynamic local conditions.

LED PROGRAM OPTIONS

A community will need to decide upon the key programs that will become the core of its strategy. Many economic development tools are available to consider. The following programs options are typical core choices and selection will be dependent on local circumstances:

Improving the Local Business Investment Climate. This is an essential component of every strategy. Measures to improve the local climate for businesses include improving processes and procedures for business registration, taxation, etc., within City Hall. These efforts should also complement and ensure consistency with reforms or measures that may be taken at the national/state level to improve the investment climate.

Investment in Hard Strategic Infrastructure. Improving the built environment for businesses including:

- Transport infrastructure: roads, rail, air and sea

- Utilities: industrial and potable water, waste disposal, gas and electricity, telecommunication systems

Investment in Sites and Premises for Business. Enabling the provision and availability of land and sites, premises and units for productive economic and business development:

- Sites and premises: commercial and industrial sites and premises
- Managed workspace and business units

Investment in Soft Infrastructure. Improving the commercial environment for businesses through, for example, regulatory reform, skills training and business-focused education, research and development, “one-stop shop” advisory services, business networking, guidance to accessing capital and finance sources.

Encouraging Local Business Growth. Enabling the provision of advice, technical support and resources to enable existing local business to grow with the goal of retaining and strengthening existing local business.

Encouraging New Enterprise. Enabling the provision of advice, technical support, information and resources to support individuals set up new businesses.

Promoting Inward Investment. Attracting business to a community from elsewhere in the country or from other countries. This option needs careful weighing of the costs and benefits. It can be risky and at most should only form a targeted part of a broader LED strategy.

Sector (and business cluster) Development. Focuses on facilitating linkages and interdependence amongst firms (including suppliers and buyers), supporting services (including training institutions and banks) in a network of production (and sale) of products and services. Local governments can collaborate locally and regionally to become facilitators of industry networking and catalysts/brokers to bring the actors together.

Area Targeting/Regeneration Strategies. Addressing specific area-based problems such as regenerating a run-down town center, a declining commercial zone or neighborhood. Fostering promising growth opportunities where market potential is already demonstrated by emerging private investment (e.g., along area transport corridors).

Integrating Low Income or Hard-to-Employ Workers. Programs to mainstream the poor and disadvantaged populations into the economy. Ensuring that new growth industry extends employment opportunities to low-income workers (including those in the “informal sector”) and that such worker have access to, and can take advantage of, opportunities for advancement.

LED PROJECT EXAMPLES

Having selected a number of key LED programs, a community will need to identify a range of specific LED projects that serve to achieve the LED program. Clearly all choices need to be assessed for financial viability at an early stage. The list below provides two project examples for each of the 10 LED program options. All projects should be prioritized, costed, time bound and measurable.

Program: *Improving the Local Business Investment Climate*

Project: Improve municipal legislation and services through a full review of business regulations and requirements.

Project: Initiate and establish a ‘one-stop shop’ to facilitate better ‘government to business’ relations.

Program: *Investment in Hard Strategic Infrastructure*

Project: Develop a program for improving access between industrial areas and the port

Project: Develop a program for electricity and water supply installation/upgrade in industrial areas.

Program: *Investment in Sites and Premises for Business*

Project: Clean-up derelict sites for industrial redevelopment.

Project: Build a managed workspace for new businesses.

Program: *Investment in Soft Infrastructure*

Project: Provide training and support facilities to develop local business associations.

Project: Create a vocational scholarship program to encourage work-based training and education.

Program: *Encouraging Local Business Growth*

Project: Establish and promote a “Buy Local” purchasing initiative.

Project: Improve municipal legislation and services through a full review of business regulations and requirements.

Program: *Encouraging New Enterprise*

Project: Initiate and develop a micro/managed workspace.

Project: Enable seed-finance and lending program for new-start entrepreneurs and long-term jobless.

Program: *Promoting Inward Investment*

Project: Establish a cadre of international business ambassadors to promote the municipality and identify inward investment opportunities.

Project: Produce and distribute a ‘Guide to Doing Business with the Council’.

Program: *Sector (and business cluster) Development*

Project: Identify and survey key business sectors and linkages for possible cluster development.

Project: Establish a training program to develop traditional artisan skills.

Program: *Area Targeting/Regeneration Strategies*

Project: Undertake physical improvements to a specific area/district of a city.

Project: Undertake a local skills survey to identify workforce skills and develop an area-specific program to encourage related business start-ups.

Program: *Integrating Low Income or Hard-to-Employ Workers*

Project: Initiate a vocational scholarship program to encourage work-based training and education.

Project: Establish a neighborhood-specific training and job counseling program for low income workers.

INSTITUTIONALIZING LED

Because LED is so comprehensive, it involves all municipal departments as well as many other stakeholders. Care should be taken to ensure that the local economic development function is well organized and supported by the Mayor and Chief Executive as well with stakeholders. As LED strategies become more embedded in their communities, a core public-private partnerships may be constituted as autonomous or semi-autonomous entity to implement the strategy. It is important to have regular reporting arrangements to Municipal Councils as well as local partnerships.

GOOD PRACTICE FOR STRATEGY SUCCESS

Good practice in local economic development requires tailored approaches to local conditions. Good practice shows that the following are excellent guiding principles:

- An integrated approach including social and environmental, as well as economic issues.
- A carefully developed strategy built by all relevant partners and based on a shared vision.
- A range of initiatives—short, medium and long term—to catalyze partnerships and build stakeholder confidence.
- Effective local leaders who bring commitment, credibility and an ability to unite stakeholders.

- Capacity building of management and ‘on the ground’ teams is essential to program implementation.
- The LED strategy must be owned by local government with demonstrated strong political will to implement it.
- Political, financial and technical support from other levels of government adds value.
- An integrated approach to LED monitoring and evaluation.

THE WORLD BANK & LOCAL ECONOMIC DEVELOPMENT

The World Bank acts globally to promote sustainable cities and towns that fulfill the promise of development for their inhabitants, in particular, by improving the lives of the poor and promoting equity while contributing to the country’s progress.

Many departments of the World Bank work in various ways to support economic development in towns and cities. These departments include the Urban Unit, the Small and Medium Enterprise Department, the Private Sector Development and Foreign Investment Advisory Services Groups, the Rural Department and the Mining Division, all working collaboratively with cities and communities concerned with growing their economies.

The World Bank’s Urban and Local Government Strategy is based on the concept that economic vitality, social equity, environmental quality and sustainable urban finance which are integral to sustainable development of a community. Achieving all four, not least social equity and environmental quality, depends on responsible and successful local economic development action.

The World Bank and its partners support countries and cities whose national and local leadership willingly engage in broad-based stakeholder development and implementation of integrated local economic development and city strategic plans that embrace these goals.

This pamphlet was prepared using good practice from OECD and non-OECD countries, pilot programs managed by the Urban Unit and available information and good practice in local economic development, including from the following agencies and organizations:

- Association of Cambodian Local Economic Development Agencies: www.gdrc.org/icm/country/acleda.html
- Economic Commission for Latin America and the Caribbean (CEPAL): www.eclac.cl
- European Commission Directorate General of Regional Policy: www.europa.eu.int/comm/regional_policy/index_en.htm
- Institute for Development Studies, Sussex University: www.ids.ac.uk/ids/global
- International Economic Development Council: www.iedconline.org
- OECD Territorial Development Program: www.oecd.org
- Partnership for Local Economic Development: www.parul-led.or.id/e_overview.htm
- Regional Technology Strategies: www.rtsinc.org
- U.K. Office of the Deputy Prime Minister Regeneration Programs: www.odpm.gov.uk/stellent/groups/odpm_control/documents/contentservertemplate/odpm_index.hcst?n=3010&l=1
- U.S. Economic Development Administration: www.doc.gov/eda
- U.S. Agency for International Development Cities Matter: www.usaid.gov/locations/europe_urasia/dem_gov/local_gov/dgcitiesmatter/
- World Bank Local Economic Development: www.worldbank.org/urban/led

The theory and practice of local and regional economic development is becoming increasingly important to national and local governments worldwide. There are many more resources and links available through this web site. If you have ideas, knowledge or resources to share please contact us at:

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