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# The Role of Local Governments in Territorial Economic Development





## UCLG Policy Paper

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## Acronyms

ILO	International Labour Organization
KM	Knowledge Management
LED	Local Economic Development
LGA	Local Government Association
LRG	Local or Regional Government
MFI	Microfinance Institution
MSME	Micro, Small, and Medium-sized Enterprises
NGO	Nongovernmental Organization
OED	Office of Economic Development
PPP	Public-Private Partnership

## UCLG Policy Paper

# The Role of Local Governments in Territorial Economic Development

## 1. Introduction

### 1.1 Purpose and context

This paper examines the crucial role of local and regional governments (LRGs) in economic development. It addresses national and supranational governments, international development partners, as well as LRGs themselves and their local government associations (LGAs). Its purpose is to identify the policy directions urgently needed by each of these actors to enable LRGs to perform this role effectively for their citizens. It parts from the premise that LRGs are political actors and they can and should influence the definition of policies, and not only in its implementation through small actions.

The need for such a discussion at this moment is evident. As we prepare for Habitat III in 2016 and the adoption of a New Urban Agenda for the 21st Century, cities, towns, rural municipalities, and their citizens face severe challenges. There is a widespread shortage of opportunities for decent work. The International Labour Organization has estimated that the number of unemployed people globally surpassed 200 million for the first time in 2013, up by nearly 5 million in one year. Young people face the greatest obstacles; in some places their rate of unemployment exceeds 50 per cent. There is increased poverty and homelessness and growing social and income inequality. Displacement of rural people from the land is driving rapid urbanization in developing countries. Squatter settlements are proliferating and crime rates are increasing. At the same time, global climate change is intensifying the vulnerability of the world's people to disastrous storms, floods, and droughts.

In this difficult period, many countries have carried out programs of decentralization, devolving responsibility for numerous governmental roles to LRGs. When this devolution is planned well, implemented efficiently, and managed competently, LRGs have shown themselves capable of taking on additional responsibilities and handling them well. In our focus in this paper on local economic development (LED), we highlight the many areas in which LRGs are the most appropriate tier of government to provide leadership and coordination, complementing the efforts of national governments.

## 1.2 Why local governments matter to economic development

There are several reasons why local governments are indispensable to the process of economic development, beginning with their traditional roles. LRGs must provide a secure and stable environment in which enterprises can flourish. They are responsible for physical infrastructure – roads, water supply, waste management, information and communication technologies – all of which are necessary prerequisites to economic activity. LRGs also address the needs of their citizens for public health, education, housing, local transportation services, cultural and recreational facilities, child care, and other public goods and services that are essential to nurturing a healthy, skilled, and reliable workforce.

In addition to these traditional roles, LRGs around the world are providing leadership in job creation and economic development in their jurisdictions. As the public institutions closest to the people, with an immediate grasp of the assets, deficits, and issues of their communities, LRGs are the most appropriate agents to convene all of the local economy's stakeholders: the chamber of commerce, the representatives of micro, small, and medium enterprises (MSMEs), trade and labour unions, primary producers, education and training institutions, agents of the departments and ministries of other levels of government, non-governmental organizations and international development partners active in the community, as well as the representatives of those who are unemployed, marginalized because of their youth, gender, disability, or ethnic origin, or who are struggling to survive in the informal economy. LRGs are the best-placed initiators, catalysts, and drivers of processes that engage these stakeholders in visioning the future, designing strategies, and implementing economic development initiatives.

Of course, local economic development is only one part of the total effort needed to create jobs and foster well-being. National development plans and policies are required for large infrastructural projects like energy grids, highways, railroads, and communications networks. National and supranational governments must also manage fiscal and monetary policies and negotiate international trade agreements. LRGs complement these national and supranational strategies, mobilizing local stakeholders to generate action from the bottom up. Here, at the local scale, there is capacity to promote participation by all sectors of the society and to launch economic development initiatives that are inclusive, sustainable, and life-enhancing.

The local level is the scale at which people meet face-to-face, create partnerships and alliances, find synergies and complementarities for mutual support, and devise strategies relevant to the particular conditions of their community. It is in recognition of this that many countries of the world have undertaken programs of decentralization, devolving to the local scale responsibility for economic development in their jurisdictions.

In many cases, however, this process of decentralization is incomplete, as it has not included clear, legislated mandates with defined roles for the various tiers of government, nor has it provided adequate human and financial resources to LRGs to meet their responsibilities. The consequences for many LRGs have been extremely stretched resources and barriers to their effectiveness as agents of development.

To achieve effective decentralization of responsibility for local economic development, upper-tier governments must establish legal frameworks that provide LRGs with clear mandates in the field of LED and ensure that local authorities and their staff have the training and the financial resources to carry out their roles.

### **1.3. Characteristics of local economic development (LED)**

Economic development is not an end in itself but one important means by which people strive to enhance their well-being. As Amartya Sen and others have argued, the meaning of development is the increasing capability of people to live the life they choose. The task of economic development practitioners is to help to make this possible.

This view of development has several important implications. Economic development is not only economic growth, important as that may be. To be developmental, it must be inclusive, providing supports and opportunities for those who are typically marginalized, particularly women, youth, indigenous people, ethnic minorities, and people with disabilities. Economic development must also be environmentally sustainable, ensuring that future generations have the same opportunities as those alive today. And economic development must be informed by cultural policies that enhance the capacity of people to assign meaning and purpose to their participation in the social and economic life of their community.

An overview of the characteristics of LED as it is practiced around the world shows that LRGs are the most aptly positioned agents to provide leadership and

coordination of economic development in their communities. Definitions of LED vary, but all have these common elements:

*LED is participative.* It is based on partnerships between local authorities, the private sector, other public sector agents, and civil society, to foster local commercial activity. This can take many forms, including social economy enterprises responding to the needs of marginalized groups, as well as micro, small, and medium enterprises (MSMEs). LED initiatives are community-led and locally owned.

*Local governments provide leadership and coordination* in the planning and implementation of LED initiatives, either directly or through delegation to community-based agencies. LRGs build social capital, connecting local governments with their communities in a myriad of ways, generating innovative solutions to local needs.

*LED plans integrate efforts across sectors,* developing both the formal and informal economy, with a view to realizing community goals, such as better quality jobs, reduced poverty, environmental sustainability, and the inclusion of marginalized groups, notably women, youth, people with disabilities, and indigenous peoples.

*LED initiatives vary widely, depending on local needs and conditions.* They may include the development of infrastructure, research and innovation, skill training, attraction of new investment, technical and financial services to new and existing enterprises, supportive procurement policies, and support for marketing.

*LED is a long-term process,* aimed at developing inclusive, resilient communities. LED practitioners recognize that it takes time to build local capacities and include marginalized groups. They therefore use a diverse variety of indicators to measure success.

In the sections that follow, we expand on the themes we have introduced here.

## 2. LED Enabling Policies

### 2.1 Decentralizing responsibility, authority, and capacity

In recent decades, many national governments have transferred responsibility for several functions of the state to local and regional governments (LRGs). Both the rationale and the methods of this devolution vary from country to country depending on local conditions.

There are, nevertheless, many common arguments for the devolution of responsibility for planning, financing, and managing a broad range of public functions to LRGs. Bringing decision making and service provision closer to the citizens can make authorities more accountable to their electorate, improve the relevance of services and public goods to local needs, give local residents greater opportunity for participation in the decisions that affect their lives, and thereby build democracy and political stability.

An important economic argument in favour of decentralization, as Francisco Alburquerque (2013) points out, arises from the advantages gained by integrating social, environmental, infrastructural, and economic policies at the local scale. In practice, all of these local systems connect, overlap, and influence one another. For example, rural grain producers need not only seeds, land, and water but also machinery, means of transport, technical support, and financial services, among other things. Urban commercial and industrial enterprises need basic infrastructure, raw materials, a labour force with appropriate skills and access to social services such as health and education, a transportation system, and a food supply. The rural and urban economies are completely interdependent, and no economic sector exists in isolation. Productivity depends on all of the sectors working together in harmony.

From an economic point of view, Alburquerque says, all of these systems can be viewed as a local production system. Analysing, planning, and managing them as one integral system facilitates decision-making on key priorities. It promotes cooperation across sectors, as actors in each of the separate systems come to appreciate their roles in relation to one another. It also allows planners to identify the points in the system that provide the greatest potential for innovation and quality improvement.

Economic development that is planned and managed locally also allows a community to build on its unique strengths, which may lie in its natural resources, its geographical location, and/or the skills of its people. At the same time, it empowers the community to protect and enhance its environmental and cultural heritage.

There may also be disadvantages to decentralization, however, and there certainly are several challenges to all of the actors involved in the process. We discuss these in Section 3.

## 2.2 Creating an enabling environment for LED

Devolution places the LRG in a key economic leadership role within its community. It gives the LRG the responsibility to create the conditions in which LED can flourish. This does not mean that the LRG should make investment decisions or plan the local economy. It does mean that the LRG is responsible for the creation and maintenance of an enabling environment in which all economic actors – investors, workers, educators, financial institutions, service providers – can make good decisions and work together to generate economic development.

To create an enabling environment for LED, an effective LRG acts on several fronts: social, institutional, environmental, and economic. The nature of the conditions faced by each LRG, and the actions these conditions call for, vary widely from place to place. There are, however, several common tasks: creating municipal institutions that are transparent and accountable, fostering relationships that generate the social capital that is critical to development, protecting the integrity of the environment and the rights of workers, and, in a variety of ways, encouraging entrepreneurship and innovation to create decent jobs in the community.

Since conditions are always changing over time, an effective LRG is constantly monitoring its environment at all scales, from global markets to national regulatory measures to neighbourhood social conditions, and adjusting its responses accordingly.

In the subsections that follow, we highlight a number of the most salient policies adopted by LRGs to create enabling environments for LED in their communities.

## 2.3 Building an alliance of partners

Local economic development, to be effective, equitable, and sustainable, requires that LRGs build and maintain an alliance of partners in the community. All groups in a community who can affect LED, or who are affected by it, have a stake in the planning, implementation, and evaluation of LED initiatives.

The composition of this group of stakeholders will vary from one community to another, but in general it is important to include representatives of the following groups:

- The LRG itself, including the mayor, other elected officials, and the relevant staff, the group providing leadership in creating the conditions for successful LED;
- National and state/provincial agency staff, as sources of advice, technical assistance, and financial resources for LED;
- The local chamber of commerce and other business associations;
- Primary producer associations: farmers and fishers;
- Labour unions and trade unions;
- Micro, small, and medium-sized enterprises (MSMEs) and the informal sector, to the extent that they are organized separately from the larger businesses and associations in the community;
- Schools, universities, and other institutions of higher learning that have the capacity to provide analysis of the local economy, training in technical skills, and input to LED planning and evaluation;
- Financial institutions: banks, credit unions, and microfinance institutions (MFIs);
- NGOs and community organizations that are active in LED;
- International development partners that are working in the community;
- Newspapers and other media, to keep the public informed;
- Any social groups in the community with a strong stake in LED because of unemployment or other forms of exclusion, for example youth, indigenous people, or ethnic minorities;
- Other persons of influence in the community, such as traditional authorities and religious leaders, as well as groups representing the interests of women, to promote popular participation, to increase awareness of groups experiencing exclusion, and to strengthen the transparency and accountability of the LED process.

These alliances need to be created early in the process of developing a community-wide strategy for LED, and maintained constantly. They build trust and form the basis of long-term partnerships. The aim is to engage these partners in the creation of a strategic plan to which they are fully committed, to ensure that the strategy is more than just a plan on paper. Several of the LED manuals noted in the Bibliography provide advice on making these processes truly participatory and the stakeholder involvement substantive.

## **2.4 Establishing structures of governance and management**

The specific methods and structures through which stakeholders participate in LED processes vary according to the size, resources, and complexity of the community and the capacities of its LRG. The normal practice is to establish a core planning group. This group convenes the stakeholders and launches the consultation process leading to the creation of a strategic plan for LED in the community.

Let us call this core group the Office of Economic Development (OED), using the terminology proposed by VNG International (Budds et al. 2013). The key functions of the OED are to:

- Convene the stakeholders and lead them in the planning process;
- Serve as the staff to the stakeholders;
- Conduct research and provide information to the stakeholders;
- Coordinate the action plan devised by the stakeholders;
- Monitor and evaluate progress and report to the stakeholders;
- In some cases, the OED itself may also implement LED projects in the community

Although an action plan assigns tasks to a wide range of individuals and organizations, the OED is responsible for coordination, and it may take on many of these tasks itself. These include such matters as: market research and feasibility studies, promotion and branding of the community, liaison between the LRG and the business community, and raising funds for LED, especially for social enterprises that may not have access to normal commercial sources.

In addition to the core group, it is also critical to establish a forum for the participation of the stakeholders beyond the initial planning period. This may serve

as the governing body of the OED, or it may be an advisory body or reference group; this decision will depend on local circumstances. The function of this forum is to give general direction to the OED, ensuring that the interests of all members of the community are represented and addressed.

## 2.5 Encouraging entrepreneurship and attracting investment

LRGs, usually acting through their OEDs, have developed a myriad of methods and tools for attracting and retaining investment in their communities and for fostering entrepreneurship. Here we will mention them only briefly; there are several excellent LED manuals listed in the Bibliography that provide detailed advice in this area.

LRGs vary in size, complexity, and endowments. In most countries of the world, the leading cities are the greatest engines of national economic development. Intermediate cities, too, make significant contributions to the economic development of their countries, particularly those with specialized roles such as university towns and high technology centres. Even small towns and rural municipalities may provide critical links in the chain of national production. In each case, an effective LRG will employ methods and tools appropriate to its conditions, but we can describe generic approaches common to all.

Business retention and expansion (BRE) targets businesses already established and contributing in the form of jobs, income, and taxes. A BRE program can help to expand employment and income, or at least prevent their loss. An OED may approach this by establishing business improvement areas, by fostering clusters of businesses that benefit from the synergies of proximity, and by conducting market research.

LRGs in many countries have set up centres to foster entrepreneurship in their communities, especially by supporting people who wish to create a new MSME (micro, small, or medium-sized enterprise). Staffed by professional counsellors, they assist with such matters as feasibility studies, market surveys, business plans, licensing, and access to capital. They may also offer workshops and seminars, especially for young entrepreneurs.

Attracting new investment from outside the community is a sophisticated undertaking with some pitfalls. When considering the best site for their direct investment, investors weigh several factors: access to a labour force with the

appropriate skills, access to land with appropriate infrastructure and services, access to resource inputs and to markets for their products, the regulatory environment, proximity to related industrial clusters and networks, tax breaks and subsidies on offer, and the cultural and environmental advantages of the community. The precise weighting given to each factor depends entirely on the investor and the nature of the business.

Most LRGs base their investment attraction strategy on the particular strengths of their community. Whatever the endowments, however, to be successful it is usually necessary to be proactive in creating conditions favourable to new investment. Many LRGs have learned to avoid tax reductions that compete with the breaks offered by other LRGs to attract outside investors, and some higher-tier governments have introduced regulations that preclude this kind of inter-city competition. Among the methods frequently used are industrial parks and corridors, assistance with site selection, virtual trade missions, workforce development programs, and municipal marketing.

Other methods for leveraging private capital include public-private partnerships, municipal bonds, regional investment funds, loan guarantees, and grants from international development agencies. For their own revenue, LRGs can introduce green taxes, such as the "congestion tax" charged on vehicles entering central Singapore, London, and Stockholm, and apply the revenue to improved infrastructure. LRGs can also draw on these revenue sources to provide seed capital for social enterprises and to facilitate the transition of informal enterprises into the formal economy.

An OECD publication has reviewed 50 methods in current use by LRGs, national governments, foundations, NGOs, IFIs, and commercial banks to provide finance capital for LED (Clark and Mountford, 2007).

LRGs can also launch their own microfinance institutions (MFIs), as they have done in Latin America with the *cajas municipales* (Jaramillo 2013). With public ownership and/or regulation, MFIs can be a valuable source of finance capital for MSMEs. Brazil's Community Development Banks, which are community-owned, provide an example of local financial institutions offering loans at affordable interest rates to well-managed MSMEs with good business plans, long-range intentions to remain in the community, and good employment opportunities (see case reference below).

### **Brazil's Community Development Banks: Making financial services accessible**

Community Development Banks (CDBs) grew out of social movements in Brazil concerned with making financial services accessible to the 40 per cent of the population who had been excluded. CDBs provide a variety of financial services, including microcredit loans for MSME start-ups, loans for vocational training, consumer loans, life insurance, and banking services.

Banco Palmas, for example, offers production loans in Brazilian currency and consumption loans in their own social currency, Palmas (P\$). The Palmas can only be spent in the 250 shops accredited by Banco Palmas, and they only circulate in the bank's own neighbourhood. The production and consumption loans thus promote local enterprise on both the supply and the demand sides. Interest rates vary according to the period of the loan and the type of currency.

Banco Palmas makes its own loan appraisals through its community loan officers and a Credit Assessment Committee (CAC). Eligibility is dependent on assessment of the business plan, previous track record, and personal reputation. The basic principles of CDBs are democratic governance and a focus on endogenous development in the community in which its based.

*Source: Meyer and Leal (2013)*

## **2.6 Nurturing innovation**

Innovation is the key to quality improvement and market competitiveness, and thereby to the creation of jobs that provide decent livelihoods. As Albuquerque (2013) points out, there are many kinds of innovation: technological, social, environmental, institutional, organizational, as well as in improvements in labour processes. All types of innovation are needed, he argues, to make progress in economic development.

Albuquerque also argues that innovation is a social process, and therefore a territorial process as well. This is because innovation does not happen in isolation; it occurs through interaction among actors across sectors and locations, from the shop floor worker to the supplier, the distributor, the university, the research and development centre, and the market analyst, among others.

Effective LRGs bring local institutions with a capacity for research – schools, colleges, universities, science and research parks – together with enterprises in the community that have the capacity to bring new innovations to market. They also promote the creation of business clusters and incubators to promote innovation through the synergies of enterprises working together, sharing resources, and learning from one another.

Innovations typically arise as solutions to problems faced by an enterprise. In an age of increasing complexity, more enterprises are looking outside of themselves for solutions through the use of open innovation methods. The case below, Quebec Seeks Solutions, describes the role played by one local economic development agency in fostering local open innovation.

### **Quebec Seeks Solutions: A local economic development agency fosters local open innovation**

Open innovation is based on the recognition that business and technical solutions can flow into an enterprise from outside and do not always have to be generated internally, and that they can flow out of an enterprise to partners and clients, and do not have to be exploited solely by the enterprise. Many large corporations use open innovation methods, but it is not yet practised by many MSMEs due to expense, lack of awareness, and lack of knowledge about the management of intellectual property issues.

Beginning in 2010, Quebec International, the economic development agency for the Quebec City region in Canada, has contributed to the development of the Seeking Solutions approach to fostering local open innovation by means of a methodology that makes it accessible to MSMEs and fosters a wide range of productive connections between enterprises and researchers.

Seeking Solutions is a four-step, locally-based process. It begins by asking the business community to submit challenging problems that they have been unable to solve by themselves. After selecting problems for study and helping to define them further, the organizers broadcast the problem via a web-based platform to potential problem solvers, including research centres, universities and colleges, science parks, and other sources of innovation in the community.

The organizers then convene a conference that brings the problem solvers together with those seeking solutions. Here, participants work to define the problem further, sometimes to reframe it, to explore a range of potential solutions and, if possible, identify which one is the best. This process, repeated three times since 2010, has increased the richness of innovation networks in the Quebec City region and has led to many direct and indirect benefits.

Local open innovation is, in itself, a recent innovation, and especially relevant to the work of local and regional development departments and agencies. Its effectiveness springs from the fact that all the actors are local: they share knowledge of their region, speak the same language, and tend to have the same values. By meeting face-to-face at a conference, and continuing to live and work in the same vicinity, they are able to build productive relationships that endure for the long term.

*Sources: Masson (2013) and Deutsch (2013)*

## 2.7 Promoting the green economy

Innovation is also key to development in “green economy” sectors. The green economy comprises enterprises that result in “improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. It is low carbon, resource efficient and socially inclusive” (UNEP 2011).

LRGs in many countries are providing leadership in green economy initiatives, even where national governments lag behind: improving energy efficiency, developing sustainable public transportation systems, recycling waste, treating wastewater, reducing air pollution, and limiting greenhouse gas emissions.

These initiatives create many new opportunities for MSMEs, such as retrofitting municipal buildings to make them more energy efficient, and installing, operating, and maintaining renewable energy systems, such as solar panels and wind turbines. An initiative in Bangladesh trains local youth and women as certified solar technicians and as repair and maintenance specialists; it aims to create 100,000 jobs. In some cases, the new green technology can itself be produced locally; in Nairobi, the Kibera Community Youth Program has created jobs in the assembly of solar photovoltaic panels for the Kenyan market.

LRGs can support these new industries by adopting policies that link environmental sustainability with local economic development in their territories, for example by mandating increased use of renewable energy and green technology in their own facilities.

Some sectors of the green economy are problematic. Worldwide, there are over one million jobs in the biofuel industry, growing, harvesting, and processing maize, sugarcane, and palm oil. In some countries, notably Brazil, Colombia, Malaysia, and Indonesia, these jobs pay poorly and have dangerous working conditions. There is also considerable controversy over their displacement of food production. Certain kinds of recycling work, particularly of used electronic products, is also hazardous and poorly paid. LRGs can play a role monitoring these industries and intervening where possible to improve the wages, working conditions, and the labour rights of their workers.

An example of an innovative green initiative is the approach to waste management adopted by the city of Dar es Salaam, Tanzania described in the case study below.

### Community-based waste management in Dar es Salaam, Tanzania

Dar es Salaam is one of the fastest growing cities in Africa. Over 70 per cent of the city's 4.3 million people live in unplanned, informal settlements, making provision of basic municipal services like water supply, transport, and waste disposal a major challenge. In 1997, with support from the ILO, the Dar es Salaam City Council (DCC) contracted with about 70 community-based enterprises for waste disposal services in the city's neighbourhoods. The DCC conducted sensitization campaigns, staged neighbourhood meetings, and enlisted the support of local elected ward leaders to explain the arrangement to the residents and to ensure fee payment by the households and businesses served.

Despite some issues with fee payment, this arrangement has worked well. It provides a living wage to over 1500 workers, mostly women and youth, while also improving environmental sanitation and public health conditions. Over the years since that time, the enterprises have added composting and recycling to their operations, providing compost to the city's urban gardeners and raw materials to local manufacturers, reducing pressure on the city's landfill sites, thereby adding to their revenue streams. They have come together to form the Dar es Salaam Waste Management Association (DAWAMA) and have received assistance from several international organizations for training and equipment.

*Source: UN-Habitat and Sustainable Cities International*

## 2.8 Mitigating poverty, inequality, and social exclusion

In many cities, towns, and villages of Asia, Africa, and Latin America, most people pursue their livelihoods in the informal economy, that is, by economic activity that is outside of government regulation, taxation, and observation. Estimates of its extent range from at least one-third to over half of all economic activity in many countries of the Global South. It is, therefore, critically important for LRGs to attend to the informal economy in their LED plans and practices.

The informal economy comprises an extremely diverse set of activities, including such work as street food vending, small artisanal production, home-based garment work, pedicab driving, waste disposal, domestic service, and construction work paid "under the table." The term also includes primary producers – fishers and farmers – who produce primarily for subsistence and sell their surplus informally. Typically, people working in the informal economy have very low incomes, little or no protection from exploitation and unsafe working conditions, and no social safety net.

The growth of the informal economy in recent decades has a number of causes. Rapid urbanization, notably migration to cities by rural residents, has been coupled with slow growth, volatility, or decline in the formal economies of many countries. Rigid,

bureaucratic, and complex processes for registering businesses contribute to the problem, as do the efforts of entrepreneurs to avoid, taxes, regulations, and minimum wage laws.

The informal economy does not provide a path out of poverty for the millions of people who must make their livelihood in it. The vast majority of occupations in the informal economy offer meagre incomes in highly competitive sectors with very low productivity. The first response of an LRG might be an attempt to drive out informal enterprises or force them into the formal sector, but experience has shown that it is better in many instances to tolerate the existence of the informal economy and find ways to support its enterprises, protect its workers, and engage with its entrepreneurs to enhance their productivity and incomes, with a view to integrating them gradually into the formal economy as more productive enterprises providing decent livelihoods.

LRGs can support and strengthen enterprises in the informal economy in many ways. The best method for determining which interventions will be most effective is to ask the informal economy participants themselves. This can be done most effectively by including its representatives in LED planning processes. LRGs and their community-based partners can extend technical services to informal enterprises, developing their skills, upgrading their technology, and assisting them to connect with other enterprises as upstream suppliers or downstream distributors, retailers, or waste processors. They can also provide direct support to workers in the informal economy through health and education services and by upgrading the physical infrastructure – roads, markets and other public spaces, water supply, sanitation – that facilitates informal enterprises. The International Labour Organization has provided helpful guides for LRGs working with the informal economy in their jurisdiction (see Bibliography).

One approach used widely is support for "social economy" enterprises that create jobs by using business methods to address social, economic, cultural, and health needs in a community or region. Also known as the "solidarity economy" and the "third sector," enterprises of this kind take a variety of forms, such as producer cooperatives, credit unions, and non-profit corporations. Common features include democratic governance and an orientation to serving community needs rather than private capital accumulation. Typical enterprises include childcare, elder care, waste recycling, cooperative housing, cultural production, food production and distribution,

and financial services. These provide local employment as well as goods and services of direct use to the community.

LRGs in many countries include social economy enterprises in their planning processes and support them with start-up funding, technical assistance, skill training, and, where legal, preferential treatment in procurement contracts. The enterprises themselves, once established, invest their surplus in training, quality improvements, and expansion of their services.

## 2.9 Fostering local culture

Cultural policy refers to the approaches taken by governments, including LRGs, to encourage and protect activities in their jurisdiction that are defined as cultural. In a narrow sense, culture refers to artistic activities such as drama, literature, painting, sculpture, photography, music, and dance. Governments are one important source of support for culture in this sense. In a larger sense, culture includes the broader "cultural industries," including radio, television, film, music recording, book publishing, and new media. Governments typically play a major role in encouraging and regulating these industries in their jurisdictions, not only for economic reasons but also to defend and promote the identity of their people.

In its broadest sense, the term culture refers to the entire way of life of a society: not only its artistic activities and creative industries but also its values, beliefs, capabilities, customs, social relations, language, gender roles, and so on. Governments play a major role in shaping, defending, and in changing the culture in this sense, and must be conscious of the ways in which the existing culture both limits its options and presents it with opportunities.

LRGs play a major role in the culture of their communities, in all three senses of the term, and in each case this has implications for local economic development.

Most directly, many artistic activities are also economic activities, generating employment and income for those who take part in them. They provide content for the creative industries, including cinema, radio and television, book and magazine publishing, the internet, and video games. They also have indirect effects, attracting tourists and bringing customers to hotels, restaurants, and retail shops.

In places endowed with outstanding natural beauty or a compelling historical heritage, tourism can be a major economic sector. In such cases, artistic enterprises of all kinds can thrive from the patronage of tourists. In other cases, the reverse may be true: a community that becomes known for its publicly-funded festivals, live music, art galleries, or public art will attract visitors and contribute to the branding of the community, making it a desirable destination.

In recognition of this, many LRGs, as a matter of policy, allocate a portion of their annual budgets to support artistic activities in their communities, and elicit contributions from the business sector as well.

But culture is far more than a commodity to be packaged and sold to tourists. Artistic productions of all kinds provide a community with a sense of identity, fostering social cohesion, and adding a sense of meaning and purpose to life in all its aspects, including its economic life. This contributes to the resilience of a community, something essential in a time of crisis brought on by natural or man-made disasters.

Young people who enter into cultural production develop self-confidence, creativity, and imagination – key aspects of entrepreneurship. These are especially important capabilities for members of vulnerable groups in a community; their participation in cultural activities can foster new, positive perspectives on their lives and futures.

Cultural activities are also ways to create dialogue across different segments of a community, building trust, the social capital that is so critical to the success of LED initiatives. They raise awareness of alternative ways of viewing an issue, and of collective responsibility for the well-being of the community, and thereby catalyse public action.

All of these activities affect the community's culture in the broadest sense of the term, usually for the better. Taken together, they provide a compelling set of arguments for LRGs to support artistic activities and cultural enterprises. In cases where these cannot be self-supporting, they may be established as non-profit, social economy enterprises with financial support from the LRG as well as from foundations, businesses, and volunteers.

## **2.10 The social economy, solidarity economy and the third sector. Another economy is possible.**

Talking about social economy is talking about a phenomenon that is experiencing a spectacular growth due to its concept of development, linked to the concepts of solidarity and economic democracy, due to the production areas in which it operates and its forms of democratic organization work. The social economy and solidarity economy are responses to jobs crisis contexts. However, this origin has led to a kind of companies that have value in themselves and that along with the necessary economic profitability, required for survival, they go with a strong conviction in values that make them profitable socially.

The Social Economy is distinguished by its democratic organization of labor or consumption. Cooperatives, labor societies, and other legal forms serves the same principle of economic democracy in the organization of the company. Services and consumer cooperatives also are in line with this principle, starting by the partnership for commodity consumption but getting even to the association to generate cooperative banking projects.

Solidarity Economy born of the common trunk of the social economy, goes further and it aims to build production, distribution, consumption and financing relationships based on justice, cooperation, reciprocity, and mutual aid.

Alongside enterprises "for profit" and taxation linked to this type of entity, organized from the criteria of the social and solidarity economy, we find other "nonprofit" entities (associations, foundations) which, however, serve the community by transforming productive activities or services. The NGO should be considered as part of the famous "third sector". The fact that they are "non-profit" institutions means that do not share profits among its member. But this condition of "non-profit" entities, does not exclude them from being a major actor in local economic development.

Therefore, social economy enterprises, solidarity economy and "non-profit (associations and foundations) entities represent a great opportunity and great potential allies of LRG in driving LED strategies.

## 2.11 LED AND THE GENDER FOCUS

The social roles assigned and exercised by women and men aren't the result of "natural" biological differences, or sex differences, but the result of social and cultural constructions historically assumed.

It's widely recognized that the topic of gender is one of the main borders of exclusion. So, when we are proposing LED policies with a territorial approach it's essential to include a gender approach.

The role of the gender focus in LED policies and strategies, implies to consider three complementary scopes: reproductive, productive and community.

### GENDER ROLES IN THE DEVELOPMENT

REPRODUCTION	Tasks necessary to ensure the reproduction, the renovation and the maintenance of the work force.
PRODUCTION	All of the work that produce a surplus in the form of products, payments or salaries, including food production.
MANAGEMENT COMMUNITY	Maintenance works – Society functions: water supply, healthcare services and education.

Source: NORAD. Norwegian Agency for Development

When talking about Economic Development, the role of women has usually been invisible, both in the time spent on management tasks of the community and in the reproductive tasks. And in the case of productive tasks, the difficulties of women's access to decent working conditions is even greater than those existing for men.

However the role of women in entrepreneurial initiatives of MSMEs, social economy, solidarity economy, non-profit organization or informal economy is very large.

These weaknesses and opportunities should be considered when addressing gender issues in the local economic development proposals, and generate tools from LRGs and strategic plans.

## 2.12. EVALUATION AS A LED'S TOOL.

It should also be noted that any initiative of local economic development requires creating their permanent EVALUATION MECHANISMS. However, indicators of success of these initiatives are not only quantitative. Also the indicators on the construction of social and institutional capital required in these local development initiatives must be added. All this brings us closer to the understanding of the technical, social, institutional, environmental, political and cultural dimensions of the DEL. These QUALITATIVE ASPECTS can be measured through the number of local entities incorporated and consolidated, the degree of participation of actors in the different initiatives, resources contributions made by the different local actors to these entities,... among others aspects. The degree of private and public involvement in local economic development initiatives, both in formulating projects and in the implementation of them, is likewise a good indicator of their success.

In the same way, another important indicator on Local Economic Development experiences is given by the creation of the "*institutionality*" which formalizes existing private-public agreements, through bodies such as Local Development Agencies or Local Development Offices. The promotion of local economic development needs political willingness, encourage dialogues, build public and institutional agendas, create territorial networks and to take and share responsibilities. The efficient INSTITUTIONAL COORDINATION between the various sectorial departments of

public administration and between the different territorial levels of the same, is a fundamental issue.

LOCAL DEVELOPMENT policies are not just limited to MUNICIPAL development. Likewise, although it may seem an obvious question, municipal development refers not only to the urban center of the town, but to the entire population scattered throughout the territory. This is a fundamental issue when they are responding, above all, the demands of the dispersed population, often ignored or marginalized from development processes.

Sometimes the local scope extends for several municipalities with similar economic, labor and environmental features. Thus, the boundaries of LOCAL PRODUCTION SYSTEMS don't have to coincide with municipal boundaries. Therefore it's important to identify appropriate units of action, for which it's necessary the use of "Geographic Information Systems" (GIS), a task that the different territorial initiatives should start sooner rather than later and for which GIS are an important tool for analysis and decision making.

## 3. Challenges

### 3.1 Building capacity

The early years of the 21st century have witnessed economic turmoil in many parts of the world, with rising levels of unemployment, inequality, and widespread resort to precarious livelihoods in the informal economy. Globalized production and trade regimes put pressure on national economies to diversify and update their productive base, while concerns over climate change and environmental degradation point to the necessity of sustainable approaches to development.

This is the broad context in which LRGs have taken on the expanded roles in economic development described in Section 2. Citizens now expect their mayors and elected local representatives to create jobs, protect the environment, and mitigate inequality. This presents LRGs with enormous challenges, some of which they have always faced in performing their traditional roles, and some of which they are now addressing for the first time. All can be viewed as challenges of capacity.

To carry out their roles in economic development effectively, an LRG's leaders must develop ways of working with all sectors of their community to develop consensus on, and commitment to, a vision of the future and a plan for achieving it. They must build technical capacity into their administrations in all of the areas reviewed in Section 2, especially in the coordination of key economic actors and the nurturing of social capital. This in turn requires a deep understanding of the social, cultural, and economic reality of their constituency, and an appreciation of its potential.

An LRG also need to build capacity in the larger community by cultivating entrepreneurship, expanding the skills of the workforce, promoting awareness of social and environmental issues, and identifying sources of finance capital.

With their expanded roles in economic development, LRGs need to add their voices to national dialogue on economic priorities and strategies. National development is taking place in their local jurisdictions and, given their experience in nurturing it, they have interests to defend and wisdom to offer.

Some LRGs already have advanced capacities in all of these fields, but many others do not. In some cases, devolution has not been designed or implemented effectively

and central governments have transferred responsibilities to LRGs without clear, legislated authority, access to the necessary financial resources, or sufficient skill transfer.

In every country, development is uneven. Some LRGs are relatively well endowed due to their size, location, economic base, or historical heritage, while others have a weak economic base and limited revenue, skills, and experience. In such cases, devolution without compensating policies of financial redistribution and skill transfer tends to intensify historical inequities.

### 3.2 Responding to the challenges

Each of the actors to whom we address this paper has a constructive role to play in addressing these challenges.

LRGs and their local government associations (LGAs) must be proactive, taking all possible steps to upgrade the knowledge and skills of their elected representatives and staff in their new responsibilities. They can improve the transparency and accountability of their administrations, a necessary prerequisite to successful engagement of community stakeholders in LED initiatives, and they can investigate new potential sources of revenue for their activities in support of LED.

It is particularly important for LRGs and LGAs to engage in dialogue with national governments and international development partners to make their needs and concerns clearly known.

National and supranational governments can provide clear, legislated mandates when they devolve responsibility to LRGs for economic development in their jurisdictions. The principle of subsidiarity holds that functions should be assigned to the lowest tier of government that can perform them efficiently and effectively, but the appropriate of division of responsibility will vary among different countries and requires careful analysis. Moreover, responsibility, authority, and capacity must be devolved together if devolution is to be effective.

LRGs need sources of revenue adequate to their responsibilities. National governments can address this need in ways that are appropriate to their circumstances and in accord with national policy. Possible instruments include routine fiscal transfers from the central government, expanded local authority to

impose taxes on property, sales, and businesses, authorization to issue bonds, and loan guarantees. National governments also have a responsibility to redistribute revenue from relatively well-off regions to disadvantaged LRGs.

National governments can reinforce the technical skills of LRG staff by seconding staff from relevant ministries and agencies. They can help to build the institutional capacities of LRGs in the field of LED, providing skill training, mentoring, and other forms of support that LRGs themselves identify, such as knowledge management systems.

International development partners have a valuable role to play in capacity building. Working through LGAs, with a strong appreciation of local knowledge and skills, and with respect for local values and goals, they are well-positioned to provide workshops, study tours, and demonstration projects for the key LED actors in a community or region.

Some LRGs have established knowledge management (KM) systems that capture the learning from their own experiences and also provide access to knowledge from outside their community. These might be simple devices such as fact sheets and regular knowledge-sharing events. When resources allow, they can also include more extensive databases and Internet sites and portals that open a vast range of knowledge to anyone who wishes to use them. Assistance with setting up and maintaining KM systems is another useful role for international development partners.

Considering rapid innovations in technology, in business practices, in methods of financing LED, and in social enterprise, a global observatory on local economic development would perform a useful service, aggregating and diffusing knowledge that is useful to LED practitioners around the world. This would be another helpful contribution from international development partners.

## 4. Conclusion and recommendations

The economic challenges of the 21st century are daunting. Rapid urbanization resulting from large-scale displacements of populations, with attendant crises of mass poverty and unemployment, threaten to persist well into this century, especially in the Global South, driven by changing production systems in the countryside, soil depletion, water shortages, climate change, and population growth itself. There are looming dangers arising from current economic turmoil and consequent social inequality; these include homelessness, food insecurity, and widespread recourse to informal livelihoods and crime.

In the struggle to tackle these issues, to mitigate their worst effects and to move towards a world in which people may live the life they choose, the public institutions on the front lines are local and regional governments.

The elected officials and staff of LRGs work where the people live, meet them face to face every day, and know their capacities, their needs, and their aspirations. They are ideally situated to provide the leadership needed to generate inclusive, sustainable economic development in their communities. By working directly with all sectors of their local societies, mobilizing them to analyze their circumstances, devise strategies, and initiate solutions, LRGs can provide the necessary complement to national and supranational policies, plans, and programs.

But to say that LRGs are ideally situated is not to say that they are adequately resourced, quite the contrary. Too often, LRGs are required to bear responsibilities without the necessary legal mandate, institutional support, skill training, or financial resources.

The purpose of this paper has been to call attention to the vital role played by LRGs in economic development, to point out the kinds of policies and tools now in wide use by LRGs around the world, and, above all, to identify the policies urgently needed by national and supranational governments, international development partners, and LRGs themselves and their local government associations, to enable them to perform this role more effectively for their citizens. We conclude, therefore, with these recommendations:

*We call on local and regional governments (LRGs) and their associations (LGAs) to:*

- Engage in dialogue with national and supranational governments to ensure that the needs and concerns of LRGs are clearly understood and supported by relevant policies and programs;
- Ensure that their local economic development strategies, plans, and initiatives are well coordinated and developed within the framework of country development strategies that take into account the local cultural context and national priorities;
- Ensure that the full range of the community voices is heard by promoting participatory processes in their approaches to economic development.

*We call on national and supranational governments to:*

- Ensure that clear enabling legal frameworks are in place to allow LRGs to provide leadership in the economic development of their communities;
- Provide LRGs with access to sources of funding sufficient to play effective roles as initiators, catalysts and drivers of local economic development in their communities;
- Provide LRGs with support to develop institutional capacities and skills to play their roles in economic development effectively.
- Further recognize local and regional governments (LRGs) as key development actors and support their full-fledged participation, consultation and engagement in national and sectoral policy dialogues on economic development.

*We call on international development partners to:*

- Support LRGs and their LGAs in their efforts to build institutional capacity and skill in all aspects of their roles in LED;
- Include LRGs and LGAs in international forums and dialogues on economic development.
- Consider institutional support at the global level, for example by creating a global observatory on local economic development to aggregate and diffuse knowledge useful to LED practitioners around the world.

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