

**Local Economic Development as an alternative  
approach to economic development in Sub-Saharan  
Africa**

**(A report for the World Bank)**

**by**

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## Introduction

It has often been argued that Africa, in general, and Sub-Saharan Africa (SSA), in particular, is 'different' and that it therefore requires 'exceptional' solutions to its development problems. The report set out to prove whether this claim is true and – in view of the outcome – whether a standard development tool increasingly applied throughout the developed and developing world, such as Local Economic Development (LED), could serve as a complement or as an alternative to economic development in SSA.

## 1 New development challenges: is Sub Sahara Africa different?

The analysis of some of the main economic and socio-political challenges and trends affecting low- and middle-income countries shows that the evolution of trade, urbanization, territorial inequalities, and decentralization in SSA is broadly in line with that of other parts of the world, and especially with that of other low- and middle-income countries, making the Continent less exceptional for development purposes than what has generally been claimed in the past.

The only area where SSA seems to be clearly out of step with other countries with similar starting conditions is in economic performance. Whereas in the rest of the world rapid urbanization and – perhaps more controversially – openness to trade seems to be associated with high economic growth, in SSA GDP per capita has stagnated and, in some cases, fallen since the mid-1970s. The report focuses as well on the extraordinary variations in trade, urbanization, investment, and decentralization patterns both across and – whenever possible – within Sub-Saharan African countries. These huge variations are generating a very heterogeneous territorial organization, a factor which is likely to jeopardize the returns of blanket or general development policies for large parts of the Continent.

The combination of strong internal heterogeneity with general trends similar to those experienced elsewhere in the world make LED strategies as likely to succeed in SSA as in most other low- and middle-income countries. LED can thus be considered as a complement or an alternative, to existing development strategies in the Continent.

## 2 Implications for Development Strategies: LED as an alternative in

### Sub-Saharan Africa?

Although there are some grounds to claim that some structural problems are graver in SSA than elsewhere in the world, overall the socio-economic processes experienced by other low- and middle-income countries are present in SSA as well, raising doubts about the validity of the assertion that 'Africa is different'.

This section argues that strategically-planned LED may thus provide a more flexible

and effective approach to simultaneously enhance economic growth and reduce poverty. Across SSA LED strategies may be able to offer a more people-centred and locality-specific alternative to the structural adjustment programmes that have dominated the development policy panorama for SSA in the past decades (Schuurman 1993; Binns and Nel 1999: 389), and which seem to have failed to adequately address the changing reality of the Continent.

LED strategies have their origins in the high-income countries of the North. They emerged in the last thirty to forty years as a response to the social and economic problems that resulted from the persistence of locality-specific development problems (Nel 2001: 1004). The disappointing results of traditional top-down, supply-side sectoral development strategies in combating the resulting rise in unemployment and regional inequality drove the search for alternative development strategies that would offer opportunities for growth to all areas (Roberts 1993).

In the South, LED has been gradually emerging as a development strategy for similar reasons. The persistence of problems of slow economic growth and poverty, combined with the changes in the national and international economic environment, and the effective inability of many central states to intervene at the local level have provided a strong impulse towards more locally based initiatives. In many developing countries, the situation was aggravated by factors such as the debt crisis, imposed structural adjustment and massive currency devaluation, and other natural and political shocks (Nel 2001: 1004).

In this context, the term 'local economic development' has been used to describe a growing number of initiatives, ranging from industrial policy and regional planning to community development, which, although part of a LED strategy, cannot entirely be considered as LED. LED only refers to those development strategies that are territorially-based, locally owned and managed, and aimed primarily at increasing employment and economic growth (Rodríguez-Pose 2002). Some definitions of LED are provided in Box 2.1.

### **Box 1: Local Economic Development – Some definitions**

1. "Local Economic Development is a process where the local actors shape and share the future of their territory. We could define it as a participatory process that encourages and facilitates partnership between the local stakeholders, enabling the joint design and implementation of strategies, mainly based on the competitive use of the local resources, with the final aim of creating decent jobs and sustainable economic activities." (Canzanelli 2001: 9)
2. "Local Economic Development (LED) is the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life for all." (World Bank Urban Development Unit 2003: 4)
3. "Local economic development refers to the process in which local governments or community-based (neighbourhood) organizations engage to stimulate or maintain business activity and/or employment. The principle goal of local economic development is to stimulate local employment opportunities in sectors that improve the community, using existing human, natural, and institutional resources" (Blakely 1994: xvi)
4. Local economic development "is essentially a process in which local governments and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area." (Zaaijer and Sara 1993: 129)

There are several key differences between traditional development strategies and

strategically-planned LED. First of all, traditional development strategies have tended to adopt a sectoral approach to development, while LED takes a territorial approach: it focuses on the development of a region or locality rather than an industrial sector. Secondly, development strategies are generally top-down, with the central government deciding where intervention is needed with little or no input from local actors. In contrast, the LED approach focuses on development from below and advocates the need for promoting economic development in all areas. While national institutions are often too remote to be able to respond effectively to the rapidly changing local and regional needs, local institutions can be much more flexible and can more easily interact with other local economic and social actors. This allows them to formulate development strategies in co-operation with local stakeholders, making them better tailored to local needs. Finally, traditional development strategies have tended to focus on large industrial projects or infrastructural investments, using financial incentives to attract large firms in the hope that this would, in turn, foster additional economic activity.

LED strategies, on the other hand, seek to exploit the development potential of each area and to stimulate the adjustment of local economic systems to the changing economic environment. LED aims to develop local strength and overcome weaknesses in order to allow the locality to successfully confront the opportunities and threats it faces from the external environment. (Rodríguez-Pose 2002: 1-10).

LED strategies present a number of potential social and economic benefits. They combine an economic and social dimension that is frequently hard to identify in traditional development strategies. LED seeks to join together the objectives of generating sustainable growth and addressing the needs of the poor in the territories in which it operates. The fact that LED strategies are mainly developed by the local government and a broad range of local stakeholders, means that LED strategies can help empower local societies and dynamise local resources. They allow local people to adopt a more proactive stance with regards to their own future, even if they are living in areas of the world that have until recently had little say or control over the economic activities that take place in their territory. The active involvement of a variety of stakeholders not only helps to develop a stronger local civil society, but can also contribute to make local institutions more transparent and accountable. Secondly, successful LED strategies can help to create an environment that stimulates the creation of more sustainable and higher quality employment opportunities.

However, as with every policy, these benefits may not occur if policies are badly designed or implemented. If a small group of actors manages to capture the policy-making process, LED strategies may be geared towards the private interests of the few, rather than the collective or social interests of the locality as a whole. But even without such problems of policy capture, the challenges a locality faces may be too great or complex for local governments to handle. Although problems of lack of authority or resources obviously play a role here, the results also depend on the quality and reliability of local institutions and on the policy-making process in itself. *In general, the more adequate the diagnosis and the design of the strategy, the greater the chances of medium and long-term success.*

The flexibility and adaptability of LED approaches has made them increasingly popular across the developing world. Localities, regions, and even states in Latin America and Asia have implemented or actively encouraged LED strategies in order to address

persistent development problems. These strategies generally combine the economic and social dimension of LED. The perceived 'exceptionalism' of SSA has acted as a limit to the diffusion of LED strategies throughout the Continent. In comparison to Latin America and Asia, examples of LED in SSA are still relatively scarce. And what is more, LED experiences in SSA frequently tend to focus on the social dimension of LED to the detriment of its economic side. They thus often become local development, more than true local *economic* development strategies.

*In SSA, LED has become often identified with self-reliance, survival, and poverty alleviation, rather than participation in the global economy, competitiveness, and finding market niches* (Binns and Nel 1999:390).

This use of the term LED across SSA in order to define what is one of the constituent parts of LED, but not the whole, is creating unnecessary confusion and contributing to give the wrong impression that the goals of growth and poverty reduction are somehow mutually exclusive.

LED thus becomes assimilated in SSA with what is more appropriately referred to as community or local development. These pro-poor LED strategies are essentially about achieving social rather than economic goals. They address important problems, but tend to concentrate on short-term survival issues and on remedial action for the alleviation of social problems, leaving many of the economic issues that lie at the basis of underdevelopment virtually untouched.

True LED cases in SSA are thus hard to find. In South Africa, for instance, these so-called 'pro-poor LED' strategies are relatively widespread. In most instances, local governments do not even involve the local business community in the process of developing these strategies, and instead initiate much more limited pro-poor initiatives, such as sewing schemes or craft production. As these strategies are generally presented as LED, their success is often measured both in terms of social and economic indicators. Unsurprisingly, the results of these efforts in the areas of job creation and economic growth are often judged as disappointing (Hinderson 2003), thus contributing to give a bad name to LED.

LED strategies primarily aimed at increasing economic growth, however, also share the goals of poverty alleviation and of a greater inclusion of previously excluded groups in social and economic life. On a general level, many studies show that welfare indicators, such as life expectancy at birth, and literacy and mortality rates, are strongly correlated with income levels, especially in low and middle-income countries. This suggests that economic growth may indeed have a trickle down effect that leads to the achievement of other social goals (Anand and Ravallion 1993; Kakwani 1993b; Pritchett and Summers 1996). More specifically, the inclusive character of the LED process encourages the creation of strategies that seek to strike a balance between the interests of local firms and highly skilled, easily-employable individuals and other stakeholders, like informal enterprises, the poor, women, or other traditionally marginalized groups. As some of the case studies presented in this paper show, this process can lead to win-win situations, within which economic growth and other social goals can go hand in hand.

However, this sort of LED approach, which is customary in the developing world and

across Latin America and Asia has been almost absent in SSA. Examples of LED strategies that properly combine a pro-growth with a pro-poor dimension in SSA are rare, and often confined to countries, such as South Africa (see Box 2.2), that already have a significantly more developed and diversified, globally linked and urbanized economy than the rest of the Continent, making its greater progress in LED not particularly surprising.

### **Box 2: LED in Sub-Saharan Africa? Evidence from a ‘front runner’ (South Africa)**

South Africa is one of the few countries in Sub-Saharan African region that has been officially embarking on LED projects for over a decade. A focus on so-called LED strategies was introduced shortly after the end of Apartheid. Although most of these projects can be considered to be community development or so called pro-poor LED projects, the larger metropolitan areas in South Africa, such as Johannesburg and Durban, have initiated LED interventions similar to those in Western Europe, North America, or parts of Latin America and Asia. So far the results of these efforts have been mixed; while some cities, like for instance Durban (see Box 2.5), have achieved considerable successes, many projects have failed to live up to expectations (Rogerson 1999; Nel and Rogerson 2005a).

The lessons that seem to be emerging from the South African experience are in many ways similar to those found in other parts of the world. Issues that are also common within LED projects in the North, such as internal constraints, lack of local resources and skills, have been found to have an effect on the success of LED strategies in the SSA context too. However, on top of these more common problems, the frequent loss of a locality's economic base and the low appeal of the country as a whole to external investors in the wake of the demise of Apartheid created a more difficult development environment for local governments. Especially since these challenges are combined with a near absence of state-assistance for LED, local initiatives often fail to deliver the necessary employment opportunities (Binns and Nel 1999; Nel 2001).

The South African experience may hold valuable lessons for the broader application of the LED approach in SSA. Although South Africa is arguably in a better position than most Sub-Saharan African countries, especially in terms of GDP per capita and transport infrastructure provision, it is facing a similar development environment (Nel and Rogerson 2005b), and many of the problems encountered by LED strategies there may be reproduced elsewhere in Africa.

The next four sections discuss the four most important dimensions of LED strategies and evaluate their potential in the Sub-Saharan African context.

### **The territorial dimension**

LED strategies differ fundamentally from most traditional development strategies in that they approach development as a local rather than a sectoral problem. This focus on the territorial aspect of development is a response to the increased localization of the economy as globalization forces in combination with advances in transportation and communication technologies now allow firms to take greater advantage of urbanization and localization economies. As a consequence, economic activity has tended to become more concentrated than hitherto. As a result, it can be argued that sub-national regions rather than countries are now competing with each other for investment, economic activity, and labour. The enhanced competition between localities, coupled with the trend to decentralize authorities and resources to lower tiers of government, create an opportunity for LED policies.

The trend away from traditional development models towards a more custom-made, locally-based approach has two main consequences. Firstly, the LED approach leads to a wider variety of development strategies. Best practices are still used, but the focus on local stakeholder involvement means that they are thoroughly adapted to local conditions before being implemented.

A second effect of the shift to territorial policies is that development policies now emphasise the efficiency rather than the equity side of development. Whereas traditional top-down sectoral policies were almost always conceived with an implicit balance between economic efficiency and territorial equity in mind, the LED approach focuses more on efficiency (Cheshire and Gordon, 1998; Brenner, 2003). As decision-making is shifted to smaller territorial levels, the impact of development strategies is measured in narrower borders. These locally-defined goals may lead to increases in territorial inequity as stronger and more prosperous regions are likely to be both more actively involved in and more successful at competing for economic activity than their less-prosperous counterparts (Cheshire and Gordon 1998). This is in part due to the fact that the relatively favourable local conditions in more prosperous cities and regions puts them in a better position to generate economic activity and employment opportunities. Government officials in these areas may also be better able to develop and implement LED strategies.

*Therefore it is important to remember that, although local policy makers take more and more responsibility for the efficient spending of public funding at the local level, national governments still need to assume responsibility for coordinating policies and ensuring a degree of spatial equity support that prevent the economic, social, and political problems that an territorial disparities can cause.*

Although not necessarily equity-increasing, the territorial focus of LED can be very attractive since it allows for a more efficient use of public funding. It can generate economic efficiency gains in two main ways. First of all, increased competition and autonomy can encourage governments to find more efficient and cost-effective ways of producing goods and services, thus increasing producer or x-efficiency (Lever and Turok 1999: 791; Martínez-Vázquez and McNab 2003: 1603).

Secondly, it can be argued that policies that are formulated by local governments tend to be more responsive to local needs and preferences in the allocation of resources, leading to consumer or allocative efficiency gains (Lever and Turok 1999: 791; Martínez-Vázquez and McNab 2003: 1603). The need to compete with other localities forces governments to analyse the local situation more thoroughly and engage more with local stakeholders in a bid to tailor public services to local needs (Tiebout 1956). Local governments are in general better suited to the task of tailoring policies to local needs, since they have better access to local information and can more easily identify and liaise with representatives of other local stakeholders (Musgrave 1959; Oates 1999).

As economic activity has become much more mobile, competitive localities, which efficiently produce locally-tailored public goods and services, can be of great importance to the national welfare, not only because they increase the competitiveness of national firms, but also because they can help to attract and retain activities that would otherwise have been located outside of the national territory. However, caution is needed in applying the approach as evidence from developing and developed countries shows that, although the LED approach can offer a real opportunity for stimulating local economic growth and employment opportunities, its contribution to such development goals is far from certain.

### **The governance dimension**

There has been a growing awareness that the quality of governance has an important impact on the ability of governments to design and implement successful

development strategies. Good governance in this context involves both the provision of adequate voice and exit options and the capability to successfully manage the social and economic development challenges within the territory (Huther and Shah 1998). In the context of globalization and localization, these issues are no longer purely national.

The importance of the locality in development and the resulting increasing reliance on LED strategies have augmented the need for good governance at all governmental levels. Where traditional development strategies relied mostly on national systems and on the capabilities of central government officials, the success of LED strategies depends, to a large degree, on the existence of appropriate local and regional institutional systems and on the availability of the necessary frameworks and skill-levels at all government tiers. This reliance on good governance at all levels can be advantageous in that it can stimulate the involvement of local interests, enhance interaction among different stakeholders, empower local civic groups and the population in general and facilitate spillovers into other policy areas. However, the level of cooperation and co-ordination needed can be difficult to achieve and costly to maintain, especially in the context of low and middle income countries.

Locally, horizontal cooperation between a wide range of stakeholders is essential. High quality and inclusive institutions are particularly important to the success of the LED approach, as it relies heavily on the participation of a wide variety of stakeholders to identify local opportunities and threats and formulate strategies to address them. This participation can take several forms, from voting in regional or local elections to participating in strategy-formation meetings and knowledge sharing exercises. As discussed earlier, decentralization has created new layers of governments in many countries which may facilitate this participation. The introduction of local or regional elections reduces the distance between politicians and their electorates, which may, in turn, increase political accountability, transparency, and participation (Putnam 1993; Klugman 1994; Azfar, Kähkönen et al. 1999; Thießen 2003: 241; Rodríguez-Pose and Gill 2005: 12). It can be argued that, since local and regional governments are closer to their electorate and deal with less complex agendas than central governments, citizens are better able to understand the policy issues at hand, monitor the behaviour of politicians, and hold them accountable for their actions (Blair 2000: 22).

On the other hand, the closer ties between politicians and their electorates may in fact render them more vulnerable to capture by particular interests and corruption (Banfield 1979: 98; Prud'homme 1995: 211; Manor 1999: 101-102; Rodríguez-Pose and Bwire 2004: 1911). On top of this, regional and local elections may not provide much clearer information about local preferences than national elections do. Voting patterns may simply follow the national pattern. This can be the case because sub-national elections are often perceived as essentially second-order elections, in the sense that the outcomes are determined by the political situation in the first-order – i.e. the state-wide political arena – or because citizens do not reveal their true preferences, but rather vote on the basis of personal, tribal, or political party loyalties (Prud'homme 1995: 208). The overall effect of local elections on the quality and fairness of governance therefore remains to be seen.

The potential success of the LED process is also highly dependant on the horizontal cooperation between the local government and other local stakeholders. The ability of local governments to stimulate the participation of a variety of stakeholders in the

formulation and implementation of public policies, as well as the pre-existence of formal and informal organizations of key local stakeholders with which local governments can liaise, are therefore likely to have an impact on the success of LED strategies (Klugman 1994; Narayana 2005) (see Box 2.4 on the impact of efforts to encourage participation of local stakeholders in India). This sort of horizontal co-operation also can contribute to the inclusion of certain groups or sectors, such as the informal sector, which are underrepresented in formal channels and which would otherwise have little or no voice in the development process (See Box 2.5)

### **Box 3: Local governance and participation: the case of Kerala and Tamil Nadu (India)**

In spite of India's long history of parliamentary democracy at the federal and state level, a largely bureaucratic system has long been dominant at the local and regional level. Important changes in the system were introduced in April 1993, when amendments to the Constitution obliged states to create local government institutions, called Panchayati Raj. Panchayats are responsible for the preparation and implementation of certain schemes for economic development and social justice, as well as levying and collecting the appropriate taxes, duties, tolls, and fees. They are intended to increase participatory rather than representative democracy, by raising the participation of those citizens generally excluded from decision-making process for social, economic, or gender reasons.

The effect of these amendments on the participation rate of women, the scheduled castes and tribes, and the poor has varied from state to state. In the state of Kerala, for instance, the scheduled castes and the poor are over-represented at the Panchayat level compared to other societal groups. Although the participation rate of women is still behind that of men, it is generally higher than in most other Indian States. In the state of Tamil Nadu, on the other hand, only the scheduled castes are proportionally represented at the Panchayat level, while the poor and women still largely under-represented.

An OECD Study (Narayana 2005) into the origins of these differences concluded that:

1. Literacy and newspaper reading aided efforts at raising awareness amongst citizens, but were in themselves not sufficient to ensure participation.
2. The existence of strong ties amongst members of excluded groups, for instance in the form of self-help groups, did not always lead to higher participation rates. The nature of these groups (formal or informal), the frequency of their meetings, and the topics that are discussed (political or non-political) all influenced the effects on participation.
3. Where scheduled castes and tribes and the poor were already actively involved in political parties, their participation in the new local governance structures was found to be higher. Where political parties were instead dominated by the elite, the opposite result was found.
4. The size of local government was not found to influence the participation, casting doubts on the idea that larger governmental units would discourage the participation of previously excluded groups.
5. Where the devolution of resources and powers to local governments was more extensive, participation tended to be higher.

This study shows that the success of institutional reforms aimed at increasing political participation, in general, and of excluded groups, in particular, depend both on the specifics of the reforms themselves and on local conditions. In the Sub-Saharan context, generally low levels of literacy may present an obstacle to participation, particularly in the case of the poor, women, and rural populations. The ability of existing self-help groups to facilitate greater participation is likely to differ greatly both between and within countries, and will therefore need to be assessed on a case-by-case basis. Even where self-help groups provide a useful springboard for formerly excluded groups, history suggests great care is needed in designing local government structures in such a way as to prevent the domination of the political process by existing social or economic elites (The Commission for Africa 2005:141-142).

In summary, the Indian experience seems to suggest that the devolution of powers and resources can be an effective instrument in increasing participation, but it also shows that local conditions and design issues need to be closely examined before embarking on such a strategy.

Source: <http://rural.nic.in/panch.htm> and (Narayana 2005)

In the Sub-Saharan African context, ensuring such a wide participation may be particularly difficult to achieve. For instance, a recent UN-Habitat study found that in many African cities the widespread insecurities in terms of tenure, livelihood, and personal safety

have made many residents “reluctant to invest time and resources into institutionalising a sense of place” (Simone 2002: 18). Similarly, the recent African Governance Report (Economic Commission for Africa 2005) finds that, in general, the private sector is often not involved in policy-making on development issues. This report, however, also found that, contrary to expectations, private sector involvement has been increasing in 14 of the 28 African countries examined. Good examples, such as Mauritius, where 71% of respondents said that the private sector was usually involved in policy-making, provide hope for the potential future success of LED strategies in SSA (Economic Commission for Africa 2005: 18).

On top of that, the number of civil organizations has been found to be rapidly increasing in most Sub-Saharan African countries over the last decade. These new organizations potentially provide local governments with credible partners in the LED process, both during the strategy formation and the implementation phase. However, many of these organizations “may still suffer from weak capacity, poor transparency and lack of accountability, particularly where their work becomes influenced by the agenda of their funders” (The Commission for Africa 2005: 145). Therefore efforts will need to be made in order to develop both the human resources and the institutional capacity of existing organizations and stimulate the creation of organizations of currently underrepresented groups to allow them to successfully fulfil their potential role in the LED process.

#### **Box 4: LED as a strategy for the informal economy? The case of Durban (South Africa)**

After the end of Apartheid, South Africa underwent a far-reaching process of decentralization. The 1996 Constitution grants local governments extensive responsibilities in the realms of LED and citizen participation in local governance. The city of Durban used these newly acquired powers to set up a local project in support of the informal sector.

The informal sector has traditionally been a very important part Durban’s economy, not only due to the important employment opportunities it offers, but also because it provides accessible and affordable shopping outlets to the many commuters that live in the informal settlements that surround the city. Previously, the city had already undertaken steps to support street traders. Although these efforts led to some improvements, they ignored the important home-based part of the informal economy and lacked an overall vision for the sector.

In 1999, the city decided to address these problems with the creation of a Technical Task Team consisting of representatives of local governments. The task team produced a draft document, which was subsequently subjected to a broad local consultation process. The process included representatives of informal and formal business organizations, trade unions, civic groups and development forums. The resulting Informal Economy Policy is remarkable in several ways. First of all, it strongly acknowledges the importance of the informal sector and the strong ties that exist between the formal and the informal aspects of the city’s economy. Secondly, it is much more inclusive than previous centrally-planned policies, as it looks both at street traders and home-based work and seeks to make existing support services, such as basic business skills training and legal advice, available to all. Finally, it recognizes the importance of worker organizations in the informal economy. Policy interventions aimed at supporting these types of organizations have strengthened the capacity within the informal sector to formulate the problems informal workers face and engage with local government officials in search of solutions to these problems.

Examples like this one suggest that the local level may indeed be the appropriate scale for governments to engage with the informal sector. These sorts of initiatives, which embrace the importance of the informal economy, involve stakeholders from all walks of life in policy-making, and seek to create policies that help rather than hinder informal activities, may be an important element in the fight against urban poverty.

Source: (Durban Unicity Council 2001) and (Skinner and Valodia 2003)

Apart from the horizontal cooperation between local stakeholders and government

officials, LED strategies are also dependant on horizontal and vertical co-ordination between local, regional, national, and supranational or international institutions (Rodríguez-Pose 2002: 9). Although economies are progressively becoming more localized and moves towards further decentralization are noticeable around the world, many of the factors that determine the economic potential of a locality are still outside the control of local or regional governments. In order to achieve their development goals, local governments will therefore have to work together with the central government, donors, and international organizations.

In addition, as administrative units are usually based on historical or geographical factors, rather than on present economic reality (Cheshire 1999; Oates 1999), localities will often have to work together with other local or regional governments to address common problems. Bennett's (1997) division between truly-bounded, over-bounded, and under-bounded structures of government is useful to illustrate this point. In theory, regions and localities are often assumed to be truly-bounded in the sense that their functional borders match those of an administrative or political unit. (Bennett, 1997: 326). In this case, horizontal co-ordination among administrative units is not necessarily crucial. This is also the case for over-bounded regions whose functional borders are contained within the limits of an administrative or political unit. Under these circumstances, the co-ordination of the local authorities within the region will suffice.

On the other hand, such over-bounded regions are more likely to contain a diversity of interests, which in turn may make it more difficult to achieve consensus and formulate LED strategies. However, the most common case is that of the under-bounded region or locality, within which the functional boundaries encompass several similar level administrative or political units (Bennett, 1997; Scott, 2001b: 820). Under these circumstances coordination between different administrative units becomes imperative to the success of the LED strategy.

Vertical co-ordination requires a great deal of organizational capacity at different levels of government, which may not always be available. In the Sub-Saharan African context, in particular, this dependence on organizational capacity may hinder the formation and implementation of successful LED strategies. In part, the capacity-lag can be linked to the skill-level of civil servants, but can also be attributed to the lack of basic equipment that is needed for such co-operation, such as computers and functioning telephone systems (The Commission for Africa 2005: 140).

### **The integrated dimension**

Top-down national development policies are designed to fit the needs of the entire country and therefore run the risk of not being able to respond to the needs and priorities of individual localities well, especially in larger and more heterogeneous the countries (Tiebout, 1956; Oates, 1972). If growth generated in one locality or region will eventually trickle down to benefit all regions in the country, this incapacity to cater for differentiated geographical needs may not be a problem. However, empirical evidence suggests that is may not be the case, since geographical trickle-down effects rarely occur and are often outweighed by backwash effects (Hanson, 1998; Hanson and Harrison, 1999; Puga, 2002; Persky, Felsenstein, Carlson, 2004). In a globalised world, the concentration of economic activity indeed seems more frequent than its dispersal. The LED approach addresses this problem by catering for the specific needs and preferences of the local population (Paddison, 2002: 12).

While traditional top-down policies have tended to rely mostly on financial support, incentive packages, and subsidies in order to attract economic activity, the inclusive nature of the LED process creates the necessary conditions for more integrated policies. Based on an analysis of the local strengths and weaknesses, local government officials, together with local stakeholders and outside experts, aim to devise a strategy that improves the basic conditions for the development of indigenous and the attraction of inward economic activity.

### **Box 5: Local SWOT analysis in the Sub-Saharan African context**

In order to formulate a successful LED strategy, the local context within which such initiatives take place needs to be assessed. Perhaps the most commonly used tool for such assessment is the so-called SWOT analysis (World Bank Urban Development Unit 2003). Originally developed as a management tool for firms (Weihrich 1982), SWOT analysis can easily be adopted to meet the needs of LED planning. The aim of the SWOT exercise is firstly to identify the key local assets or strengths and main local obstacles to growth or weaknesses.

Secondly, it seeks to detect the main opportunities and threats that are posed by the external environment. This local SWOT analysis can then, in turn, be used to formulate strategies that will allow the locality to make the most of its internal strength and the external opportunities and minimize the negative effects of weaknesses and threats.

In appearance a relatively simple exercise, local SWOT analysis is often tricky for local governments, who tend to find it difficult to perform it correctly. A good example of this problem in the Sub-Saharan African context is provided by the Cape Town Integrated Development Plan (2003-2004). Although the local government officials in Cape Town could be considered to be amongst the more skilled in the region, the SWOT analysis shows the difficulties they encountered when trying to distinguish between the internal and external factors that affect the city's economic potential.

The fact that the city owns land which it could sell in order to finance certain projects is, for instance, presented as an opportunity, rather than as a strength. In addition, strengths and weaknesses in their analysis are very much focused on the prospects for better service delivery, rather than economic growth.

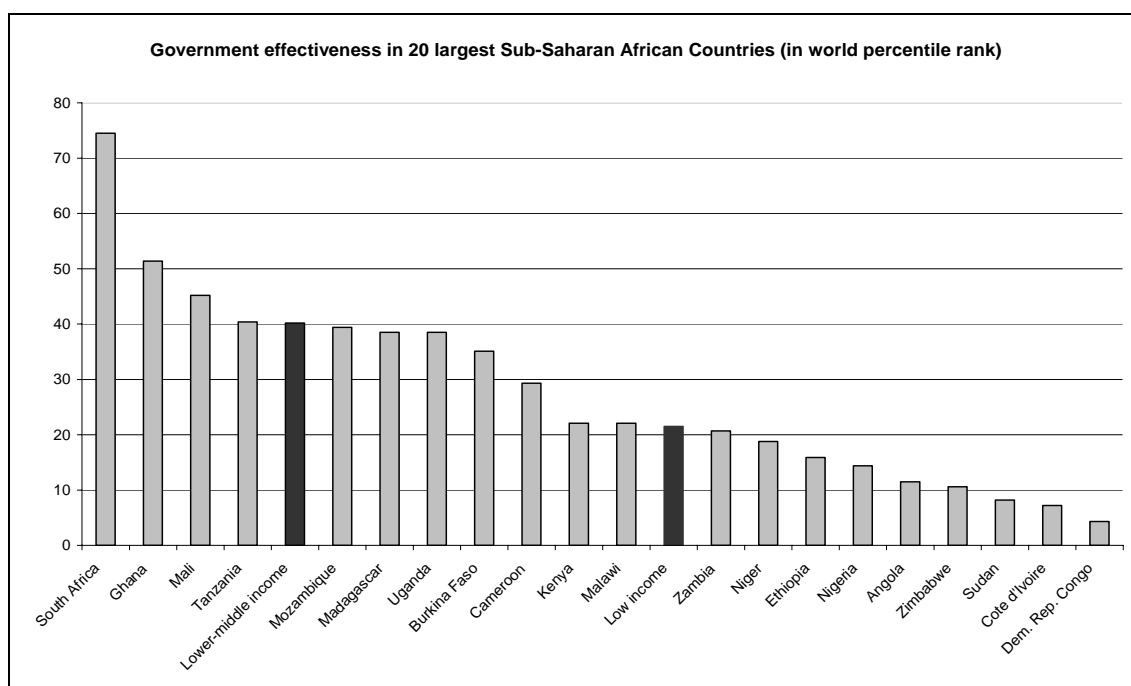
The aim of LED is to create comprehensive and balanced local development strategies. Such strategies are usually centred around four main axes: the improvement of the competitiveness of local firms, the attraction of inward investment, the upgrading of human capital and labour skills, and the upgrading of local infrastructure (Rodríguez-Pose 2002: 9). Through a careful analysis of the economic potential of the area, development bottlenecks in the local structure can be identified and addressed in order to allow the locality to take advantage of opportunities for growth and employment.

However, intervention in any of the four axes should be matched by sufficient capability in the other three. If, for example, steps are taken in order to attract inward investment, the effect of such measures on economic growth and employment will depend to some extent on the strength of the local economic fabric, the local infrastructure, and the human resources available. Putting too much emphasis on attracting inward investment, while local firms are uncompetitive and skilled labour is scarce, is likely to create low-skilled, low-paid employment and foster a greater dependency on external economic actors. If skill levels are adequate and local firms are capable of producing quality inputs for external producers, a strategy aimed at attracting inward investment is likely to produce higher quality employment and additional opportunities for local firms. Similarly, any improvements along the other three axes will need to be balanced with efforts to boost the remaining factors to a level that will allow the local economy to take full advantage of these improvements. If this is not the case, a strong emphasis on local firm

development will only lead to the subsidizing of non-competitive firms, while focusing solely on labour skills development, without creating suitable jobs within the locality, can cause migration and brain drain. Finally, large infrastructure investments, particularly if they aim to connect a relatively remote to a more advanced area, may only provide competitors with easy access to the local market (Rodríguez-Pose 2002: 9-11).

The risks of relying too much on one policy instrument are significant. In order to be able to develop a balanced strategy, local governments need to have the capacity to correctly identify the locality's main strengths and weaknesses, as well as the opportunities and threats it faces. In the Sub-Saharan African context this may not always be the case. As Simone (2002:19) argues, "municipal authorities and department staff often lack important data regarding demographic profiles, land registration, enterprises, and population related investments that could help inform policy and program development". And even when the necessary data are available, local government officials may not have the skills to analyse the information and translate it into viable policy options. Weak government capacity is a problem in most Sub-Saharan African countries, but as Figure 2.1 shows, the situation differs from one country to another. Overall, local government capacity in SSA is not worse than the lower-middle and low-income average. In fact, low-income countries in SSA, such as Ghana, Mali, and Tanzania, and to a lesser extent Mozambique, Madagascar, Uganda, Burkina Faso, and Cameroon, rank well above what might be expected considering their income levels (Figure 2.1).

**Figure 1: Government effectiveness in the 20 largest Sub-Saharan African countries (in world percentile rank)**



Source: World Bank Governance Indicators 2004 (Kaufman, Kraay et al. 2005)

*Despite these encouraging signs, lack of government capacity is likely to remain an obstacle for the success of LED in many countries within the region* (see Box 2.7 for an example on how this problem is being circumvented in Zambia). Particularly at the sub-national level and in the more remote areas, attracting and retaining qualified staff is difficult (The Commission for Africa 2005: 137-144). This factor can be partially attributed to the poor state of African higher education, both in terms of physical infrastructure and human resources. African universities do not have the capacity to educate a large enough sector of the population to meet the demand for skilled workers. There is also a substantial brain drain from Sub-Saharan African countries to the developed world, due to the generally low wage level and difficult circumstances within the region. This problem is often worse in the public sector. In many countries, inflation and fiscal austerity programmes linked to structural adjustments have caused a decrease of public sector wages to below living standards (Helmsing 2002: 318).

With low wages, the public sector is failing to attract the most capable people and civil servants are often forced to combine their public sector job with other forms of employment or, in some cases, corruption. Jointly these trends are limiting the capacity of Sub-Saharan African states, in general, and local and regional governments, in particular. This, in turn, affects the likelihood that LED initiatives conducted by local governments without the help of outside experts will lead to well-balanced and correctly targeted LED strategies.

**Box 6: Managing local capacity problems? The Zambia Social Investment Fund**

The Zambia Social Investment Fund (ZAMSIF) started out as a traditional social fund; a largely top-down development policy aimed at developing small-scale projects that would benefit the poor and other vulnerable groups. Although community participation was initially limited, the focus changed in the second

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stage of the programme. Implemented from 1996 to 2000, the aim of ZAMSIF II was to involve local governments in identifying, designing, and implementing local projects. In the original plan, full authority for the programme was to be transferred to elected local governments by the year 2000.

Since then, tasks have been progressively delegated to district councils. However, this process has uncovered substantial gaps in the technical and managerial capacity of the responsible councils. The third phase of ZAMSIF now aims to address these capacity deficits and gradually devolve project cycle activities to local governments when they have reached the required capacity. In addition to its efforts to try to strengthen the capacity of the districts, the ZAMSIF also funds small-scale community-led projects.

Although ZAMSIF has social rather than economic goals, and the projects it funds tend to be small-scale community development programmes rather than LED, experiences from these types of programmes can be used to develop LED strategies as well.

Similar problems of lack of capacity at regional and local level may jeopardize the success of such projects.

The ZAMSIF's strategy of gradually devolving responsibilities to districts that have proven to be able to perform policies effectively could become a useful tactic for increasing the success rate of LED-initiatives in SSA. The idea of devolving responsibilities only to the more advanced districts may however have potential implications for regional inequalities, as the more prosperous regions are also more likely to already have or be able to quickly acquire the necessary skills.

Source: <http://www.zamsif.org.zm> and Binswanger and Aiyar (2003)

Even where local governments have the capacity to properly analyse and assess the local environment, they may choose to devise development strategies that are overly reliant on one or two of the key development axes. This is because political cycles tend to be relatively short and public opinion often fluctuates with the short-term effect of policies. LED strategies – like any other development policy – are, in contrast likely to yield results only in the medium-term. This mismatch between political and development cycles creates incentives for decision-makers everywhere to seek and implement simple, highly visible policies, more capable of producing results in the short term. This need for fast and visible returns is one of the factors behind the tendency of local, regional, national, and international policy-makers alike to develop strategies too reliant on infrastructure investment and the attraction of inward investment, often to the detriment of medium and long-term more balanced and tailor-made strategies.

### **The sustainability dimension**

In the 1970s and early 1980s, environmental protection and economic development were often seen as conflicting goals. The introduction of the idea of sustainable development represented a move away from such a simple dichotomy. Although the concept of sustainability has since been rapidly embraced by international organizations and national, regional, and local governments, it has proved difficult to define. In its most narrow sense, sustainable development aims to reconcile economic growth with maintaining non-renewable environmental assets or natural capital.

Natural capital here refers to “any stock of natural assets that yields a flow of valuable goods and services into the future” (Roseland 2000: 78). However, there has been a growing recognition that these economic and environmental objectives should be complemented by social goals, like increasing the fairness of the distribution of economic and environmental gains and losses and augmenting political accountability and participation (Harris and Goodwin 2001; Harris, Wise et al. 2001; World Bank 2004).

LED strategies are particularly well placed to address sustainability issues for several reasons. Firstly, the processes of economic globalization have not only increased the localization of economic activity, but also the spatial concentration of social and environmental problems. Especially in developing countries, the trend towards further urbanization has resulted in localized problems of poverty, social exclusion, and

environmental degradation within urban areas (Kajumulo Tibaijuka 2004).

Secondly, the multidimensional character of the sustainability concept presents a range of difficult trade-offs. In this context, an LED approach offers an opportunity for residents and other local stakeholders to voice their opinion and devise a strategy that fits the particular needs of their locality. This may be particularly important for those developing countries, whose economic and social problems tend to be more severe and where environmental degradation often has a greater and more immediate effect on health and general well-being (Kumar Duraiappah 2004: 10).

Finally, the participatory character of the LED process in itself can help create a more socially sustainable system, by encouraging the inclusion of previously excluded groups in the policy-making process and making government more transparent and accountable. The local environment, in economic, social, and environmental terms, affects a broad spectrum of interests. By encouraging direct and indirect participation of different stakeholders, the LED approach can promote the formulation of more inclusive development strategies that take due account of the current situation within the locality and the social and environmental consequences of different policy options.

### **Box 7: Combining environmental goals with the reduction of unemployment and poverty: The case of the city of Mutare (Zimbabwe)**

Within a national context of high unemployment, poverty, and hyperinflation, the city of Mutare, the fourth largest city in Zimbabwe, is attempting to promote sustainable development. Rapid urbanization has led to increasing problems of environmental degradation and rising inequality and unemployment. The poorest members of the community, living in the suburb of Sakubva, have been hardest hit by these developments. Problems of unemployment, underemployment, and poverty are concentrated in this area and have led to a rapid growth of unserviced shacks. Environmental problems were further aggravated by the fact that the highly overused municipal rubbish dump was located in this area. Since the city was unable to cope with the volume of rubbish it generated, rubbish was often burned at the roadside or left to rot, inevitably creating environmental and health problems.

As a result of the 1992 Rio de Janeiro Earth Summit and the Agenda 21 blueprint for sustainable development, Mutare City Council was twinned with the Dutch city of Haarlem. In 1996 this partnership resulted in a waste management initiative. One of the consequences of the participation of a broad range of stakeholders, including non-governmental organisations and representatives of industry and commerce, was that the plan that resulted from the community consultation process focused, not only on waste reduction, but also other aspects of sustainable development, such as community development and employment. As the city's rubbish consisted mainly of organic material and paper, a composting and recycling scheme was set up to tackle the waste disposal problem. However, these measures had other benefits too. Many households in the relatively poor Sakubva area of the city, which heavily relied on small-scale subsistence agriculture to supplement their income, benefited from the finished compost produced by the composting schemes, helping thus to increase the yields of local plots. Recycling also produced employment opportunities by tapping into formerly unused local markets for waste paper. Due to its location near the Eastern Highlands, Mutare has a relatively large timber processing industry.

As part of that industry, board and paper mills produce soft-board. Since demand for soft-board often exceeded wood supply, waste paper was used to supplement the wood. Until then, this paper was imported from elsewhere. The new initiative allowed for the product to be bought locally, thereby simultaneously creating benefits for local firms (cheaper raw materials), the local residents (employment), and the environment (less waste).

Although the scale of the project was too small to really solve the waste problems in the City, the high level of coordination between different stakeholders, including low-income communities, business and city council, and the relative success of the project, in terms of the local employment opportunities and environment benefits created with relatively little funding, provide hope for similar implementations on a larger scale.

This project shows that the different elements of sustainability can go hand in hand. The key feature of its success was the involvement of a wide variety of stakeholders with different priorities, skills, and areas of knowledge.

## The importance of an enabling environment

The discussion above begs the question under what circumstances the LED approach represents a viable addition or alternative to traditional development policies. There is no straightforward answer to this question. LED can produce noticeable efficiency improvement in public spending, but it can only do so under certain conditions. *The national, regional and local starting conditions and potential of the territory where the LED strategy is designed and implemented will play a crucial role in the likelihood of success.*

The local environment clearly impacts upon the likelihood of success. In general, it can be argued that fairly large and prosperous regions, with leverage with the central governments, developed civic, public, and private institutions, and relatively good initial factor endowments stand to gain most from the approach.

In contrast, LED is less likely to be successful within smaller, less well-endowed localities that cannot draw on strong pre-existing institutions and an informed and involved civil society. However, even though LED is a locally-owned and implemented programme, the national and regional environment within which a locality is imbedded will impact greatly on its ability to create economic growth and employment. In general, the national environment will tend to be more favourable in countries which already possess a relatively large stock Vázquez Barquero (1999) calls economic 'hardware', 'software', and 'orgware'.

The availability of economic 'hardware' such as transport and communication networks, as well as infrastructure for the development of human capital, such as education, health, and cultural facilities, greatly facilitate the success of LED for a number of reasons. Firstly, basic transport and communication infrastructures facilitate the working of agglomeration economies. In the SSA context, physical infrastructure is often generally poor and unevenly spread over different regions within a country. Although this may not be an insurmountable problem, it can affect the potential gains of the LED approach and the spatial distribution of such gains. Secondly, strong local stakeholder capacity is needed to analyse the situation, formulate viable strategies and coordinate interventions. Human capital infrastructure plays a key role in creating such capacity. Many SSA territories suffer from poor human capital structures. Special care therefore needs to be taken to assess the local capacity level and, if needed, devise programmes to address gaps in human capital infrastructure that hinder LED development.

Related to the provision of human capital infrastructure is the idea that economic 'software' enabling features, i.e. the availability of the necessary ingredients to diagnosis local comparative advantages and resource bottlenecks and develop LED strategies, enhance the chances of success. Lack of data and information and capacity at all levels can hinder the creation of viable and appropriate development strategies.

Although the SSA region performs better in many indicators than would be expected given its average income level, the presence of capacity problems clearly poses a threat to LED effectiveness and efficiency. That being said, it can be argued that capacity does not necessarily need to precede decentralization of policy responsibilities (Litvack *et al.*, 1998). The LED approach involves local actors in such a way that it stimulates a constant process of learning-by-doing, which, to a degree, can make up for initial lacks in human capital infrastructure.

Finally, the availability of organizational capacity or 'orgware' which fosters the involvement of local stakeholders, develop networks and partnerships, and co-ordinate

actions at different levels of government is of importance too. The LED approach itself and the trend towards increasing decentralization of government are favouring the creation of regional and local institutions which may facilitate the success of LED in the future. *The organizational capacity at all levels of government is however put under increased strain and may need to be improved to ensure the emergence of well-balanced, coordinated programmes.*

### **Box 8: Local, regional, national, and international actors in LED: the Case of the Manica Province (Mozambique)**

The LED programme in the Manica Province of Mozambique was initiated in 1998 as a part of a nationwide UN Interagency Programme. Since then, and given the LED nature of the process, regional, national, and international actors have been involved.

During the initial phase of planning the LED effort, ILO and UNOPS staff joined forces with national universities and research centres in order to gather the local information that was needed to inform the LED process. While international organisation staff provided technical expertise, the involvement of local academics added intimate local knowledge about local socio-economic conditions, existing economic development initiatives, and the legal and regulatory framework, as well as information on institutional and political matters and on the dynamics between local stakeholders.

Once the territorial analysis had been completed, the key local stakeholders were approached and brought together to discuss the findings of the study. Among the stakeholders involved were representatives of the local public and private sector, civil society, and funding agencies involved in the area. These meetings created valuable opportunities for exchange of information between groups which were not normally in close contact with one another. This interaction helped to increase awareness of the LED project and create a more comprehensive understanding of the local issues.

To increase coordination among programmes and ensure a degree of professionalism, a seminar on LED was organised in the provincial capital. During this seminar, representative of the government presented current policies that had an impact on LED, while technical staff from international organizations presented some of the key elements and methods of the LED approach. Afterwards, local stakeholders were able to discuss key specific issues in greater detail within smaller groups. This opportunity for local stakeholders within the LED process to meet and exchange ideas is invaluable for the coordination and ultimate success of the LED effort.

After a phase of information gathering and consensus building, the local stakeholders identified the key development objectives in their area and the major strategic fields of action for the achievement of those objectives. Technical staff from the international organizations involved provided information about experiences with such measures in other regions. As a response to this information, it was decided more research was needed into one of the actions, the provision of a local credit service. More detailed research into the local demand for and supply of financial services was undertaken by local universities. As a result of this exercise, the local forum decided to go ahead with the financial service part of the LED programme.

In summary, the case of the Manica Province shows that, although LED is very much a locally-owned approach, it requires the involvement of actors at all levels throughout the process in order to facilitate information and knowledge-sharing, ensure coordination of policies, avoid overlap of activities, and, ultimately, guarantee informed decision-making by local stakeholders.

Source: van Boekel and van Logtestijn (2002)

*The influence of the presence of hardware, software, and orgware factors has on the likelihood of success of development strategies implies that LED may be a more fruitful approach in some areas and localities than in others.* In high and to a lesser extend middle-income countries, the initial level of endowments and the presence of relatively developed and well-functioning civil societies creates a fertile soil for LED. In this context, larger and more prosperous regions may stand to gain more, but a great number of localities are likely to have the initial conditions that facilitate LED. In low-income countries, in general, and low-income SSA countries, in particular, this may be more problematic. In this context only the most prosperous, accessible, and well-connected urban regions are

likely to have many of the elements for the successful bottom-up generation and implementation of a LED strategy already in place. A pure LED approach may prove less viable for smaller and/or more remote areas in many SSA countries. Their poorer endowments, smaller sizes, and less developed civil societies and institutions are likely to require that the governance-based part of the approach be complemented with alternative top-down policies aimed at addressing some of the shortcomings that would prevent LED strategies from working properly or at generating capacity building. The role of International Organisations in this process – as was the case of the Manica province in Mozambique (Box 2.8) – is likely to prove vital in order to initiate the process and to ensure the viability of the strategy in many intermediate areas city-regions in SSA. In some cases, however, rural regions may be so remote and lack the basic institutional and socio-economic pillars that LED strategies may not be suitable at all and pure pro-poor intervention or migration policies may represent the only viable solution.

### **3 Conclusion: LED as an alternative**

SSA has its specificities, but its behaviour in terms of openness to trade, urbanization, decentralization, and regional disparities is more similar to that of other lower- and lower-middle-income countries in the world than many Africanists would want to believe. In recent years the joint forces of globalization and localization of economic activity have been dramatically changing the environment within which African development takes place. Increases in international trade and investment, the rising agglomeration and urbanization of economic activity, the rapid growth of cities, growing decentralization of government across the Continent, as well as poor records of macro-economic practices, have challenged the African nation-state's ability to manage the national economy. This vacuum has been, in part, filled by international organizations. But the importance of localities and city-regions across SSA as actors in economic development is on the rise.

Similar conditions elsewhere in the world have allowed for LED strategies to flourish. In SSA a tradition of designing and implementing 'exceptional' policies for what was conceived to be an 'exceptional' case, together with an emphasis on pro-poor local or community development packages have prevented a similar LED boom. Development policies in SSA have thus been generally at the two ends of the spectrum: either a combination of macro-economic stability packages with supply-side sectoral measures applied throughout the Continent with little regard for specific local conditions, or piecemeal development projects aimed at guaranteeing the survival of individuals often in extremely precarious conditions. These development strategies have also been applied at two very different geographical scales: the nation, in the case of the macro-packages, and the neighbourhood, village, or community for project-based actions. The goals have also been different: economic growth, in the case of the former, social goals, for the latter. In between these two extremes, LED, with its combination of economic and social objectives, its territorial, governance, integrated, and sustainable dimension, has found it difficult to surface<sup>1</sup>.

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<sup>1</sup> Many of the objectives and values of LED are also claimed for the other development approaches too. For example, the Agenda 21 planning processes popularized in the 1990s also valued integrated, participatory, inclusive, locally-

This report has looked at why this has been the case and has explored the potential of LED as an alternative and/or complementary approach to economic development in SSA. The report has shown that, despite claims of exceptionalism, SSA shares with other low- and middle-income countries many of the conditions under which LED strategies have emerged. However, as urbanization and decentralization trends show, these processes have been uneven and it is important not to generalize them for the region as a whole.

SSA is only really an outlier in terms of economic growth and poverty reduction; while many other developing countries have been able to reap the opportunities globalization and localization have to offer, most Sub-Saharan African countries have experienced exceptionally slow economic growth and poverty reduction rates. On top of this, much of the new economic activity has taken place in the informal sector.

*Taking into account these factors, LED can indeed be a complement, if not an alternative, to existing development strategies in the Sub-Saharan African context.* The potential benefits of the approach, such as stronger participation of local residents and stakeholders, the formulation of more balanced development strategies, and greater emphasis on the sustainability of development, offer a potential relatively new way for tackling some of the main problems faced by SSA's urban centres and city-regions. However, the generally difficult development environment local and regional governments face, combined with the lack of funding and government capacity, both in terms of skills and infrastructure, is likely to limit the ability of sub-national institutions to develop and implement successful strategies, especially in those areas where capacity constraints are greatest.

*Poor resource endowments, poor accessibility, and relatively weak civil societies are likely to determine the viability of LED outside the wealthier and most prosperous areas of SSA.* Many smaller urban areas and intermediate regions and city-regions in the Continent have some of the basic preconditions for LED already in place, but further capacity building is needed in order to guarantee success. Some external top-down support – an area in which International Organisations can play a crucial role – could help overcome these initial problems and initiate the whole process. Finally, the approach may not be relevant for the poorest and most remote parts of SSA, where the weakness of existing conditions does not provide the bases on which to build such development strategies.

Great care therefore needs to be taken when evaluating the local situation and likelihood of success before embarking on LED strategies. Evidence seems to suggest that International Organizations may have an important role to play in encouraging the emergence of a local, regional, and national environment which will enable successful LED processes. This involves not only governmental capacity-building and providing expert help to local and regional institutions, but also the encouragement of local organizations and civil society, as a way to empower and promote the representation of the interests of local stakeholders.

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focused dialogues and strategic visions, albeit more focused on issues of the local environment rather than on the local economy.

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