



**International tripartite conference on urbanization challenges
and poverty reduction in African, Caribbean and Pacific countries**

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Local economic development

I. Challenge

1. Invariably, cities worldwide contribute the largest share of gross domestic products. Cities generate up to 55 per cent of gross domestic product in some low-income countries and up to 85 per cent of the gross national product for some high-income countries. Industry and business are attracted to cities because they offer markets, skills and labour and inter- and intra-sector linkages. Their density, size and diversity create agglomeration economies and spill-overs of knowledge and innovation.

2. While numerous developing countries, and especially those in East Asia, have witnessed rapid economic growth, most countries in sub-Saharan Africa have been unable to exploit the new situation to their advantage. Urbanization in this area is characterized by rapid urban growth of between 3 and 7 per cent per annum, but also by stagnant or low economic growth, resulting in rising unemployment. Evidence of continuing high growth rates in slum populations in many countries is an indicator of urbanization of poverty in the region.

3. Unemployment affecting young people is a key challenge facing many African, Caribbean and Pacific countries. A growing youth population bulge projected in the overall demographics of developing countries (the United Nations Population Fund projects 60 per cent of the urban population of developing countries to be aged under 18 by 2030) calls for extraordinary efforts in creating employment and economic opportunities. Globally, the 15–24 age group accounts for 25 per cent of the population, but 50 per cent of all unemployed. The large majority of these are found in developing countries. Migration is a major challenge facing some African, Caribbean and Pacific countries. For example, the Dominican Republic hosts the largest proportion of international migrants in the Latin American and Caribbean region.

4. The economic and social contribution of cities contrasts with administrative, financial and physical barriers, such as infrastructure, regulations and access to credit and land. This impinges on the potential of the formal economy, and promotes the continued growth of the informal sector. While the informal economy provides livelihoods and essential sustenance for the urban poor, it also entails a high degree of uncertainty in terms of access to markets, raw materials and finance.

5. The very nature of an informal economy hampers local governments in their efforts to tackle properly the challenges faced by the sector and its participants. Since most urban poor live and work informally, they are often left out of programmes and policies that should specifically target them, often because the urban poor as a group are not properly identified and engaged.

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6. If properly regulated and engaged, the informal economy could offer better opportunities for the poor and contribute to enhancing the fiscal base of local governments. It could also open better business and growth opportunities, including through, for example, subcontracting and ancillary activities that link the formal and informal sectors.

II. Response

7. The local economic development approach seeks to stimulate inclusive growth in a participatory process in which local people from all sectors work together to increase local commercial activities, resulting in a resilient and sustainable economy. It is a way to help to create decent jobs and improve the quality of life for everyone, including the poor and marginalized.

8. Responses using this approach have developed in three phases:

(a) Initially, the approach focused on attracting outside investment by offering financial incentives, inexpensive land, infrastructure services and labour;

(b) In a second step, approaches combined business attraction with retention and community development;

(c) Today, initiatives are based on strategic planning and have a territorial and integrated approach, rather than a sectoral approach.

9. The approach encourages the public, private and civil society sectors to establish partnerships and collaboratively find local solutions to common economic challenges.

A. Advocacy

10. Local economic development practice in developing countries, particularly in sub-Saharan Africa, remains in its infancy. A number of key challenges undermine its application and effectiveness. These include the shortage of skills and organizational capacity to undertake sound local economy assessment and to design and implement strategies, weak governance structure and processes to engage stakeholders and partners and weak civil society organizations that should articulate, represent and meet the needs of communities, particularly the poor and the disadvantaged. In many sub-Saharan African countries, narrowly-focused, community-based social development initiatives are often perceived as local economic development practices, leading to the decoupling of economic growth and social objectives. This is unfortunate, since local economic development should deliver both growth and equity objectives.

11. There are, however, examples of good practices to be found in developing countries and countries with economies in transition, which can illuminate the potential of local economic development in attaining the twin objectives of economic growth and poverty reduction. Examples given in the box below highlight the application of local economic development in three contexts, namely: a small city with limited capacity, slum upgrading and city-wide planning.

Local economic development and poverty reduction: examples

(a) Small city with limited capacity:

Horezu, Romania: The story of Horezu, a small town in Romania, a country with economy in transition, highlights how even small communities with limited capacity can use local economic development to search and articulate alternative development concepts and strategies. Following the closure of its single largest employing company, Horezu faced growing social and economic distress. High unemployment and out-migration were evident manifestations. Through the local economic development process, the community examined its economic base and potential, identified unexploited economic opportunities and embarked on a series of project initiatives that began to halt and reverse the situation. In the process, a strong bridge was built between the municipality and the community. The town was also able to gain access to funding and technical support from universities, development partners and foundations.

(b) Local economic development in a slum upgrading context:

Ismailia, Egypt: Though often as an after-thought or as an add-on, slum upgrading initiatives increasingly include local economic development projects. In slum upgrading involving a fisherfolk community in Ismailia, there was an explicit local economic development objective of realizing alternative economic opportunities to the targeted community. This was necessitated by growing environmental degradation that continued to erode the fisherfolk's resource base and the grim prospect that fishing offered as a source of livelihood. The slum upgrading project offered skill development and access to microcredit opportunities. Given the narrow focus on particular interventions, however, the results of the initiative were modest.

(c) City-wide local economic development

Local economic development experiences from relatively well-endowed cities hint at the potential contribution of local economic development to slum prevention. The strategy employed in Durban articulated explicit objective and support interventions targeted at its large informal economy. Egypt, on the other hand, embarked on country-wide strategic planning for cities and villages, with a pro-poor focus and components that tied together housing, local economic development and basic urban services. This was later complemented by a participatory budgeting initiative aimed at implementing the strategic projects, including that of local economic development, through inclusive decision-making processes. The process offered an enormous opportunity for learning and capacity-building. The initiative for Lake Victoria, in East Africa, brought together local, national, regional and international stakeholders for a concerted intervention in a range of areas, including agroprocessing, marketing, energy and waste management. It also included urban planning schemes.

12. Tackling local economic development challenges therefore requires concerted efforts, innovations and the scaling-up of good practices. The challenge lies in the fact that those who need to spur economic growth and development are also those who lack sufficient organizational and human capacity. The fiscal and institutional capacities of low-income countries and even of those of middle-income countries are relatively weak to meet the growing demand for the infrastructure and services that are critical for economic growth and development. The small and intermediate cities in which over half of the urban population lives will continue to be the prime drivers of urbanization, but are also most in need of the requisite capacity for inclusive economic growth and development.

13. Advocacy for action and coherent capacity-building to promote local economic development, specially targeting small and secondary cities, should be based on lessons learned from good practices and contextualized to local situations. Success factors should be identified, validated, shared and promoted to inform policy and action. For this purpose, the collection, access to and organization of information and data in a usable way are important. Developing web-based informational portals is one way to manage and use knowledge.

B. Policy

14. One of the main policy challenges facing national and urban authorities in developing countries today is formulating a regulatory policy framework that will eliminate or at least minimize the negative aspects of informal activities while strengthening its potential to create jobs and income-generating opportunities. A more broad policy issue is the formulation of an effective urban

policy and strategy that harnesses agglomeration economies and urban-rural linkages, promotes sustainable economies and thereby prevents slum formation.

15. Policy and regulation pertaining to tax, land and housing, infrastructure and service provision affect local business activity. Creating a business and entrepreneur enabling environment depends on clear, accessible and stable or predictable policies and regulations. Efficiency in procedures and processes affecting business start-ups and operation are crucial.

16. As cities continue to grow, increased focus has been placed on efficiency, transparency, accountability, public participation and local needs. Decentralization has correspondingly been an international development priority for much of the past three decades, with various degrees of success.

17. Local economic development mobilizes Governments, businesses and communities around their common aspiration and therefore plays a positive role in this process. If done well, a local economic development process provides a way to clarify competitive advantages, identify cooperative opportunities, craft innovative options and generate strategies that better meet local needs.

C. Programmes

18. Emerging local economic development practice promotes strategic thinking and planning and features territoriality, job creation and retention, participatory governance and integrated approach as its key attributes. Job creation and retention are central to such strategies. In more developed economies, specific emphasis is placed on jobs with high earnings. Cities embarking on local economic development initiatives would use their national or regional economy or some other cities and territories with similar economic structure as benchmarks against which to assess their performance and design appropriate strategies, programmes and projects.

19. *Settlement-specific interventions:* Area-specific local economic development initiatives are a critical component of a slum upgrading programme. Some of the relevant tools include community contracting for infrastructure and housing projects, skills and enterprise development, local purchases favouring small contractors and informal operators, social and economic profiling, asset mapping and community consultations, livelihood development strategies, income generation and diversification through better access to microcredit, work space, skills and marketing, community organizational capacity-building, social enterprising and development permits linking high-return investments elsewhere with investments in low-income settlements or slums. In addition, specific initiatives can be directed to young people's and women's groups or vulnerable groups and households.

20. *City-wide local economic development strategies:* A holistic local economic development initiative tackles economic governance, locality development, business development, human capital development and livelihood development. City-wide strategies, if calibrated well, can spur pro-poor growth. Pro-poor city-wide strategies could include investments in basic urban services, a policy environment tolerating the informal economy, support services to microenterprises and small-sized enterprises, local procurement policies that favour small contractors and suppliers, pro-poor public-private partnerships, skill development, job bank initiatives and strategies centred on job creation, growth driving centres and clusters.

D. Capacity-building

21. Typical capacity-building needs for local economic development includes stakeholder analysis, mobilization and communication, economic analysis and planning (assessment, forecasting and strategy), marketing and finance (promotion, project development, financial planning and financial packaging) and developing human and community resources (profiles, education and training and community services).

22. In response to this need, UN-Habitat in 2005 developed a series of training materials designed to assist local political leaders and local economic development practitioners in designing and implementing relevant programmes. The approach conceptualized in this series is based on a strategic planning process and brings together the theory and practice of negotiation, decision-making and local economic development action ideas. It builds on the current global thinking and practice of local economic development, which emphasizes the territorial approach, local ownership, partnership, integrated development, an enabling business environment and investment on various fronts in soft and hard infrastructure.

III. Key players and roles for effective implementation of local economic development

23. By definition, local economic development is territorial and effective functional economic space that often transcends municipal or administrative jurisdictions. Such initiatives, in their variety of forms, can, however, be implemented at various scales and levels. In the context of participatory slum upgrading programme, such initiatives should be calibrated to link complementary interventions at the city and neighbourhood levels and centred around pro-poor strategies and projects. The local economic development process seeks to empower local communities to use effectively business enterprise, labour, capital and other local resources to achieve local priorities (e.g., to promote good-quality jobs, reduce poverty and generate municipal taxes).

24. The local economic development approach implemented through the Participatory Slum Upgrading Programme therefore promotes stakeholder participation and engagement. It is a process-oriented and non-prescriptive endeavour that takes into account:

- (a) Local values (poverty reduction, basic needs, local jobs, the integration of social and environmental values);
- (b) Economic drivers (growing and emerging sectors, export market opportunities, value addition to local resources, regional cooperation and human capital);
- (c) Development (quality of development, the role of structural change).

25. Successful local economic development requires a concerted effort by all tiers of government. At the local level, the key stakeholders include local governments, civil society organizations, chamber, trade and industry associations, informal sector organizations, local development non-governmental organizations, vocational training centres, microfinance institutions and business development support organizations.

26. In the context of local economic development, local governments have three types of roles to play: facilitator, entrepreneur and stimulator. As facilitator, they can enable communities in slums to articulate, design and implement livelihood and income generation projects and exploit business and job opportunities. As entrepreneur, they can use public investments to leverage resources for poverty reduction goals. Lastly, as stimulator, they can stimulate investments and direct them through incentives to sectors and areas that create economic value and prosperity for all. A credible organizational set-up to coordinate the process is key. There is no single organizational model for local economic development, as it depends, among other things, on the level of trust and history of collaboration between local governments, the private sector and community organizations.

27. At the national level, key stakeholders are the relevant ministries, sector development agencies, local government associations, social funds, universities and knowledge centres. National frameworks that promote integrated local planning, pro-poor development strategies and decentralized local governance offer an enabling environment for this approach. In addition, a healthy macroeconomic situation and business climate offer a good foundation. When public investment, social development funds, planning processes and fiscal transfers are linked to targets compliant with the Millennium Development Goals, they can be favourable for pro-poor initiatives.

28. At the global and regional levels, technical and financial support for such initiatives, particularly for small and intermediate cities with limited endowment, infrastructure and organizational capacity, is crucial. Support in documenting lessons learned and in facilitating peer learning and networking is also critical. The recently established local economic development network for Africa, part of United Cities and Local Governments and a result of collaborative efforts by many development partners, provides an excellent example.

29. The participatory slum upgrading programme benefits from the local economic development approach and also includes a training component in that regard.

IV. Conclusion

30. Cities drive economic growth because, as a result of their density, size and diversity, they offer markets, spill-overs of knowledge and innovation, economic linkages and pool of specialized labour and skills. City and city regions form the backbones of national economies. These potentials, must,

however be harnessed, captured and exploited for growth. Moreover, making growth beneficial for all, including the poor and the disadvantaged, requires proactive planning and engagement. In the pursuit of inclusive development and poverty reduction, local economic development is one such potent tool that can be employed by local governments and their partners.

31. Though still evolving, over the past three decades, the practice has come a long way. The current practice emphasizes territoriality, governance, integration and sustainability. At a more specific level, it focuses on jobs and the prosperity of the community, promotes the principles of strategic planning, partnerships, stakeholder and community involvement and business and territorial networks. Typical strategies, programmes and projects include a mix of actions and tools targeted at economic governance, business development, locality and infrastructure development, human capital development and livelihood and community development.

32. Local economic development in African, Caribbean and Pacific countries, while young, is a potent tool that can complement other development approaches. Examples from the region and elsewhere demonstrate that economic growth and poverty reduction strategies can be implemented through a local economic development process. The present paper has shown that these initiatives can be implemented in slums and cities, while linking the two offers an ideal situation. It has also highlighted some of the pro-poor implementation tools. A blanket promotion of local economic development should, however, be regarded with caution. While prosperous, accessible and well-connected urban regions are likely to design and implement local economic development strategies and benefit from their favourable hardware, software and orgware factors, smaller and remote areas that are poorly endowed therewith would need national and international support to benefit as much. In the latter case, capacity-building is critical.

33. The Participatory Slum Upgrading Programme aims at enabling local leaders, practitioners and other stakeholders in African, Caribbean and Pacific countries to integrate local economic development into their overall slum upgrading strategies. Through the Programme, stakeholders will be introduced to effective approaches for assessing their local economic situation and dealing with their priority issues. The Programme offers an opportunity for learning from good practice and adapting such to local realities.
