



**USAID**  
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Making Cities Work  
Assessment and Implementation Toolkit  
Contract No. EPP-I-00-04-00026-00

# Local Economic Development

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# Local Economic Development

prepared for

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## **Overview**

Making Cities Work is the goal of the United States Agency for International Development (USAID) Urban Programs Team. This Making Cities Work Toolbox includes assessment methodologies, implementation toolkits, and other resources for three core areas: Managing Municipal Service Delivery, Municipal Finance Services, and Local Economic Development. These materials are designed to help USAID Missions from around the world better understand the needs of municipalities and the problems they face, so that USAID staff can work with cities to design and implement projects and programs that respond appropriately.

### **Managing Municipal Service Delivery**

Municipal Services – water, wastewater, solid waste, heating, and transport – are the basic building blocks of efficient, healthy, and economically vital communities. Although ensuring adequate provision of these services is a critical public sector function, many national and sub-national governments fall short. Quality of municipal services support the economic development of municipalities, while poor levels of service, interruptions, low coverage levels, and other problems can undermine the quality of life in municipalities, retard economic growth, and reduce trust between citizens and local governments.

### **Municipal Finance**

One of the principal reasons that municipal services are inadequate in almost all developing countries and transitional countries is that municipalities are not adequately financed. Even when local governments have been assigned clear service delivery responsibilities, lack of revenue-raising powers and predictable intergovernmental transfers often preclude them from discharging these functions efficiently in a way that is responsive to the local constituency. At the same time, underdeveloped financial markets (both weak capital markets and banking systems) are typically unable to provide long-term financing for essential municipal infrastructure. The amount of project funding that is available from central governments and development banks is almost always inadequate to meet the need.

### **Local Economic Development**

Cities are engines of economic growth. Traditional approaches to local economic development (LED) are supplemented by other strategies, including the development of clusters, competitiveness strategies and decentralization. Informal economies in slum settlements are a significant and viable economic force, as are small and medium-sized enterprises (SMEs).

## **Introduction**

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

The success of a city depends on its ability to adapt to the changing and increasingly competitive local, national and international market economies. Strategically planned interventions are a means for strengthening the economic capacity of an area, improving its investment climate and increasing the productivity and competitiveness of local businesses. The ability of communities to improve the quality of life, create new economic opportunities and fight poverty depends on understanding the forces of economic growth and then acting strategically to maximize their comparative advantage and strengths.

Local economic development is central to the broader USAID development agenda because all aspects of development depend to a greater or lesser degree on a country's ability to achieve a strong and growing economy. Assistance programs may promote development in a wide variety of fields – education, health, the environment, and democratic governance – but if the economy fails to develop, efforts in other fields are unlikely to be sustainable.

LED is one approach to promoting economic growth by (1) incorporating important, cross-cutting development issues and working to integrate them in collaborative ways, (2) promoting participatory decision-making through strategic planning, and (3) emphasizing the economy of a locality and the role of the local government in promoting economic growth.

LED does not take place only within the geographic confines of a municipality, nor are the economic boundaries of LED rigidly defined. However, the more obvious the boundaries, the more cohesive and clearly defined LED activities can become. While LED programs and strategies grow out of particular local opportunities and needs, their primary feature is the ability to bridge issues and bring together resources in a productive way. LED is a process that brings together resources from within and outside the community to address challenges and promote local economic growth in a systematic and organized manner.

LED emphasizes the potential of a community and strives to enhance it through public, private, and non-governmental sector collaboration. An LED project focuses on building local capacity to improve the economic vitality of a community, and has the ultimate goal of improving the quality of life for all.

### **What do LED programs focus on?**

LED first and foremost focuses on improving the enabling environment for the development of private business located in specific *places*. The roots of economic

## Local Economic Development: Introduction

development are found in individual businesses growing in response to market forces and the incentives/constraints of government policy. The grass roots of economic development are also firmly planted in a locality – region, city, town or village – where businesses draw upon local suppliers, local labor, local public services/facilities, and the local business climate to grow and develop.

Even when businesses serve a global market and depend on inputs from across an entire country (and beyond), their most substantial economic impact is on the locality where they “do business”: pay local taxes, provide income to local families, pay for local public services, and buy goods and services from local suppliers. For this reason, LED programs focus on promoting local opportunities for businesses to grow. This includes improving the business enabling environment where firms operate; creating the conditions that will generate new business or expand existing ones; encouraging value-added and higher growth activity; and linking public and private leadership and funds in a common vision and implementation strategy.

The ability of local government to work effectively with business and civil society to promote LED can have an important influence on the growth and competitiveness of the local economy, upon which all other aspects of development finally depend. It is in the interest of USAID to stimulate the roots of economic development with assistance targeted to promoting LED.

### **Why should USAID get involved?**

*Local government programs* are often an important component of a mission’s democracy and governance strategy. When this is the case, LED programs may help local governments develop the capacity to stimulate the development of their local economy. It is important to assess whether conditions are conducive (or can be made conducive) for local government to play an effective role in promoting LED. In most countries where USAID is active, local governments have not taken a substantive role in promoting LED in the past, but the trend toward greater decentralization of responsibility and authority may create the opportunity. A healthy and growing local economy is a major asset for local government leaders since it provides the basis to mobilize greater revenue (through taxes, tariffs, and user fees) needed to expand and improve services for local residents. Local governments that work actively to create a supportive business environment are likely to gain in credibility and legitimacy if the growth of major local businesses provides increased economic opportunity for a wide range of residents, including the poor. A strong and developing local economy is an essential foundation for the successful development of democratic local governance.

*Economic growth and private sector programs* are another part of a mission’s portfolio where LED programs can have an influence. Where assistance is provided to improve the national business enabling environment, LED programs can focus on impacts at the local level. Approaching LED from the private sector perspective places emphasis on identifying and ameliorating the constraints to business growth at large. It is important to assess the factors that are holding back private sector development of all kinds at the local level. Some of these factors may not be amenable to improvement through LED



### Local Economic Development: Introduction

initiatives, but others may be. Through programming at the local level it is possible take a “bottom–up” approach to improving the business enabling environment, focusing on problems at the lowest level of government, rather than trying to impose policy change from the top down. Working to create public–private partnerships between local business and local government is another way of approaching LED that will quickly reveal the legal, regulatory, and financial constraints that may be preventing economic development at the very basic level. Even when the factors constraining local economic development cannot be addressed effectively by LED assistance, the effort provides concrete guidance for work to be done in other components of the Economic Growth program.

*Poverty reduction* can be an explicit goal of LED programs. Except in rural areas, the majority of employed and impoverished populations work in informal and micro-businesses. Some poor people work in low wage formal sector businesses, but they tend to be the last-hired-and-first-fired, and hence most vulnerable to local economic downturns. Using LED programming to better integrate the poor and their businesses into the local economy can be expected to produce more results in terms of poverty reduction than social welfare programs that are financially difficult to sustain. At the local level, formal sector businesses require a supply chain for the goods and services. The degree to which the informal and micro-businesses of the poor can connect to formal sector businesses through their supply chains will determine the degree to which the poor can benefit from development in the local economy.

### Step-By-Step Guide to Using the Assessment Toolkit

The toolkit is designed to assess whether a USAID Mission should pursue an LED program and to determine which aspects of LED are most important. Because LED is fundamentally interdisciplinary and cross-cutting, it is best developed with the support and expertise of different Mission officers. This toolkit will discuss the different factors constraining or encouraging an LED program. Its approach is designed to supplement the USAID LED Primer located on the Making Cities Work website.<sup>1</sup> The Primer discusses the partnering and participatory process that a mission can use to engage with local government and other donors. This toolkit provides a more analytical assessment of issues relating to LED. Both documents should be used together, along with other key resources that are referenced here.

**From the USAID LED Primer**  
*Office of Poverty Reduction –  
 Urban Programs Team*

**LOCAL** Refers to a process of valuing the endogenous potential, making optimal use of the already existing local capacities.

**ECONOMIC** Is directed towards the identification of investment opportunities, supporting entrepreneurial activities and facilitating the access to (new) markets.

**DEVELOPMENT** Is the process that is aimed at promoting an improvement in the living and working conditions of the community through the creation of new jobs, the retention of existing jobs and the generation of income.

<http://www.makingcitieswork.org/urbanThemes>

The steps for using this toolkit are outlined below:

#### Step 1 Preliminary Assessment

The preliminary assessment is designed to enable USAID staff to determine if there is reasonable potential for developing an LED component as part of their country program and, if so, what the most significant issues would be.

##### Step 1.1 The Economy

The preliminary assessment of the economy is intended to be a relatively rapid and ‘big picture’ assessment that reviews the macro level environment and major economic trends. The first step is to read the Economy Section of the Preliminary Assessment and consider the questions posed to provide a basis for your assessment. The section is divided into subtopics, where each subtopic provides an assessment methodology, data needs and sources of data that provide practical guidance to completing the assessment.

- ▶ **Assessment Worksheets.** Complete Worksheets 1 through 6 to complete your preliminary assessment of the economy.
- ▶ **Interpret the Answers.** After familiarizing yourself with the economic issues affecting LED programming and completing the Assessment Worksheets, proceed to “Interpreting the

<sup>1</sup> [http://www.makingcitieswork.org/files/docs/LED/LED\\_Primer.pdf](http://www.makingcitieswork.org/files/docs/LED/LED_Primer.pdf)

Answers.” This section will help you determine whether or not LED is an appropriate development strategy to pursue.

### **Step 1.2 The Institutional Framework and Business Enabling Environment**

Building on the general, “big picture” information collected in the assessment of the Economy, this step begins to analyze specific factors that will influence (enhance or hinder) the LED enabling environment, and any resulting programs. Proceed to the Preliminary Assessment of the Institutional Framework and continue onto the Preliminary Assessment of the Business Enabling Environment. Read through both sections and consider the questions posed to provide a basis for your preliminary assessment of the institutional framework and business enabling environment.

- ▶ **Assessment Worksheets.** Complete Worksheets 7 through 13 to complete your preliminary assessment of the institutional framework and business enabling environment.
- ▶ **Interpret the Answers.** Proceed to the “Interpreting the Answers” section for assistance in further defining the possibility of usefulness and/or success for an LED program based on the institutional framework and business enabling environment of a given country.

## **Step 2 Detailed Assessment**

If the results of the preliminary assessment suggest that it is worthwhile to take a more in-depth look at LED programming, the next step is to undertake a detailed assessment. The detailed assessment will further analyze issues that are important in determining the feasibility of possible project components, and the potential for interventions at national and local government levels.

Note: The questions in Step 2 are designed to guide an assessment conducted by specialists with experience in analyzing local economies. The mission may want to consider hiring an outside consultant to undertake this portion of the assessment.

### **Step 2.1 The Economy**

Building off of the preliminary assessment of the economy, answering questions in this step enables you to assess the local opportunities and constraints to be addressed through an assistance program.

- ▶ **Interpret the Answers.** Proceed to the “Interpreting the Answers” section for assistance in interpreting the results obtained from the detailed assessment.

### **Step 2.2 Institutional Framework**

This step will provide a good understanding of the strengths and weaknesses of the local institutional framework available to support

LED initiatives, which is crucial to determining the emphasis of an LED program and how much can be expected to be accomplished.

- ▶ **Interpret the Answers.** Proceed to the “Interpreting the Answers” for assistance in interpreting the results obtained from the detailed assessment.

### **Step 2.3 Business Enabling Environment**

Information gained from this assessment will help USAID understand the ways in which local actors (local government, NGOs, civil society organizations, and the business community) may be able to improve the climate for business growth and investment in the locality.

- ▶ **Interpret the Answers** Proceed to the “Interpreting the Answers” for assistance in interpreting the results obtained from the detailed assessment.

**Step 3 Determine Potential Projects.** Based on the preliminary and detailed assessment, you now have an understanding of what type of LED programming may best suit your particular situation. This section provides further clarifications and suggestions for ways that LED programming can fit into overall economic growth and democracy and governance programs of the mission.

## Step 1 Preliminary Assessment

The preliminary assessment assists in answering the questions, “Can a USAID program benefit from a local economic development program component?” Any country that has experienced/ is experiencing a degree of decentralization needs to consider local economic development to ensure that cities work and continue to grow. LED promotes local solutions to problems by mobilizing local resource potential and building strategic partnerships. LED is often a broad approach to economic development rather than a specific project choice. Consequently much of the literature published by international donors does not address whether it is worthy to pursue LED; it is more or less given as an important process for local government. However, for USAID to optimize its mission resources such a programmatic decision is important.

### Step 1.1 The Economy

The first step is to determine whether the economic situation in the country is conducive to LED programming, and if local government is (or could be) able to make good use of LED assistance. If an LED program does not seem warranted, the assessment process can stop after this preliminary stage.

The assessment of the economy seeks to reveal trends in the social, economic and political structures of the country that are relevant to an LED program. This section is not designed to be a long detailed analysis, but instead a broad survey. Examining specific programmatic factors is reserved for the remainder of the preliminary assessment and the detailed assessment. As a result, answer the following questions 1) with overall, nationwide trends in mind; 2) considering whether trends exist consistently in all local jurisdictions (e.g. the *de jure* and *de facto* authority of local government); and 3) noting if specific regions or economic sectors are dominant or reoccurring themes. Considering these three levels when answering the following questions will suggest whether an LED program is feasible.

**Major Instability.** If the country is currently in the midst of a period of major economic or political instability (for example: very high inflation, trade disruptions, massive privatizations, civil conflict, unresolved regime change, droughts or other natural disasters) it is not appropriate to consider LED programming. LED programming only makes sense if the economic and political situation is stable enough to support a well thought out effort to improve opportunities in employment, to support investment in economic sectors, and to use local government authority/resources to shape the local economy. LED requires a sustained effort and therefore requires relatively stable conditions for worthwhile results.

Trends in unemployment, sector development, and the capability of local government will show the need and potential for LED assistance.

**Employment and Unemployment.** One of the principal reasons for undertaking LED programming is to address persistent high unemployment. If a particular region, city, or town lacks the economic base to generate adequate employment for its population, then LED programs may help to stimulate the existing local business community and/or

attract new businesses to the local economy. Analyzing population and employment trends over the last three to five years will help identify whether (and where) there is a need for LED programming.

1. Have there been major population/demographic shifts over the last five years to/from a particular region of the country? Has a particular demographic significantly gained or lost relative importance (e.g. working age youth, educated women, etc.)?
2. What is the general level of education in the country? Is the education system considered to be effectively administered?
3. What are the trends in unemployment by region/city over the last three to five years for which data is available? Are there regions/cities with persistent high unemployment?
4. What are the employment trends in the principal sectors of the economy over the same time period? In what sectors of the economy is employment growing?

#### *Assessment Methodology*

Examine the latest data on unemployment available by region and/or city as well as the employment data on the major sectors (e.g. agriculture, manufacturing, services, etc.) going back three to five years. Pay particular attention to whether there are consistencies or conflicts in the answers to the three questions above. If data is not readily available, interview well-informed observers such as local economists, high-level government officials, and business leaders to form a qualitative judgment on the trends in unemployment and employment.

#### *Data Needs*

- Unemployment statistics by region/city
- Employment statistics by sector or industry

#### *Sources of Data*

- Government publications from ministries such as Labor, Economy and Planning
- University studies on employment/unemployment
- Publications or studies by chambers of commerce and industry
- Publications of the World Bank and International Monetary Fund on the economy
- Interviews with well informed economic observers

**The Formal Economy.** The formal local economy is tightly tied to the national economy. When there is evidence to believe that some sectors of the economy or some regions have good prospects for the future, it can be useful to provide LED assistance. To understand the structure and potential of the overall economy, look at trends in economic sectors, and geographical regions over time. This will indicate if the economy has areas of potential to build upon or not.

1. How open or restrictive is the economic environment where formal businesses operate? Are there major trade barriers that impede the ability of firms to import

- or export their products? Does the national labor policy impede firms' ability to design their own hiring and firing practices?
2. What sectors of the economy are growing in terms of output, sales, earnings or other attainable measures? Are there particular types of businesses (industries) in any sector that show high growth?
  3. Are there particular sectors that appear to have significant value-added or growth potential (e.g. better utilizing the natural resources of a country)?
  4. In what regions/cities are the high growth sectors and businesses concentrated?

### *Assessment Methodology*

Most countries' economies are the subject of economic reviews from various sources. Review the best available economic studies to identify which sectors (e.g. manufacturing) and types of businesses (e.g. clothing producers) are consistently identified as having demonstrated significant growth over the last three to five years. After reviewing the literature, interview senior technical staff in the ministry responsible for economic planning, or other local economists, to verify your findings. Ask your interviewees to identify regions or cities where the high growth sectors/businesses are concentrated. Verify your findings about the location of high growth sectors/businesses by interviewing high level staff of the relevant chambers of commerce and industry that draw members from those sectors/businesses.

### *Data Needs*

- Information on the economic performance of the major sectors of the economy
- Information on the performance and prospects of important types of businesses
- Information on the areas where high growth sectors and businesses are located

### *Sources of Data*

- Degree of economic openness can be determined by indices such as those published by Freedom House ([www.freedomhouse.org](http://www.freedomhouse.org)), DoingBusiness reports ([www.doingbusiness.org](http://www.doingbusiness.org)), Transparency International ([www.transparency.org](http://www.transparency.org)), and the Heritage Foundation ([www.heritage.org](http://www.heritage.org))
- Economic Reviews of the country's economy prepared by the planning ministry, the World Bank and International Monetary Fund, *The Economist* (or similar publications), local and international banks, and economic policy institutes
- Interviews with planning and economy ministry staff
- Interviews with local economists
- Interviews with staff of chambers of commerce and industry

***The Informal Economy.*** It is vital to assess the importance of the informal economy (i.e. businesses that operate outside the regulatory framework of the country). The informal economy is largely (if not exclusively) the economy of the poor—micro-businesses, piecework, petty trading, etc. The informal economy can play a supportive role by providing goods and services to formal businesses on a highly competitive basis, or it may operate in isolation from the formal economy serving only the poor themselves. Having an impression of the relative importance of the formal and informal economies,

and how they interact, indicates the potential for LED programming to create economic opportunities for the poor.

1. What role does the informal sector play in the economy? Has the informal economy been growing or declining relative to the formal economy over the past three to five years?
2. To what degree do informal businesses appear to be linked to formal businesses in high growth sectors (identified in “The Formal Economy” section above)?
3. What incentives have influenced the growth of informal businesses in the economy?

#### *Assessment Methodology*

Obtaining firm, quantitative information on the informal economy will be difficult because, by definition, it operates outside of the regulatory and institutional framework and is not typically captured in official statistics. There may be studies available that focus on the informal economy, or parts of it, but most information will have to be gleaned from interviews with knowledgeable experts on the economy and poverty in the country. Start by posing the questions to economists working both inside and outside of the government. It may be necessary to be referred from one economist to another before you find ones that are knowledgeable on the informal economy. Also interview the leaders of NGOs that work with the poor (especially the urban and peri-urban poor). Focus on NGOs that provide credit to micro-enterprise. Finally, interview the leaders of formal businesses and chambers of commerce and industry for their views on the assessment questions (especially question 2).

#### *Data Needs*

- Information on the types of informal businesses active in the economy
- Qualitative information or estimates of the volume of informal economic activity compared to formal economic activity and trends in this ratio
- Examples of linkages between informal and formal businesses and estimates about their prevalence

#### *Sources of Data*

- Economic studies
- Local economists
- Leaders of NGOs and local Microfinance Institutions
- Leaders of formal businesses and chambers of commerce and industry
- CGAP: the Microfinance Gateway ([www.microfinancegateway.org](http://www.microfinancegateway.org))

***Regional and Industrial Policy and Planning.*** Successful LED programming rarely exists in a vacuum. LED assistance works best when supporting a clearly articulated national economic development agenda. It is important to determine if the government is implementing plans and policies that specifically target the development of one or more regions or cities and/or provide incentives for development of specific types of businesses (e.g. hotels in a coastal region). Understanding the government’s regional



and industrial development agenda (or lack there of) will help determine whether LED assistance can provide a useful compliment to these plans and policies.

1. Are there specifically targeted regional economic regeneration, development, or growth node policies?
2. Are certain sectors of the economy or types of businesses targeted for growth in specific regions, and do they receive any special treatment/incentives?
3. Are there integrated regional development plans? Are they linked to public investment programs? How do these relate to local plans?

#### *Assessment Methodology*

Begin this part of the assessment from two directions, if possible. First, conduct interviews with ministry staff responsible for economic, industrial, and/or physical planning to identify national plans and policies. Review the plan or policy documents. Second, contact the planning departments of regional or city governments to confirm whether national level policies/plans (previously identified) are actually being implemented locally, and to identify any regional or city level economic development policies/plans. Review any local documents for specifics, and then interview staff in the regional or city governments that have local policies/plans to ascertain how the national and local level relate to each other.

#### *Data Needs*

- Information on regional development policy and plans
- Information on sector or industry development policy and plans
- Information on incentive programs applied to specific regions and/or businesses
- Information on local development policies and plans

#### *Sources of Data*

- Regional development policy and planning documents
- Sector or industry development policy and planning documents
- Local development policies and planning documents
- National and local government planning officials

**Local Government Authority and Resources.** The decentralization of authority empowers local government with more control to manage resources. Local governments' contribution to economic development rests on its ability to support, stimulate and regulate the local business environment. Local governments may have the authority and resources to undertake actions that can affect business costs and business location decisions (e.g. through local taxes and utility service charges). To do so, they need to develop and implement local development plans, make land available to business, provide quality infrastructure, and deliver good services. Understanding the degree to which local government can potentially affect LED is essential in determining if LED assistance is appropriate. When answering the questions consider the statutory authority of local governments. If their authority significantly differs by region, special consideration may be warranted during the detailed assessment and/or project design.

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1. Are local governments responsible for the registration, licensing, and/or other forms of regulation applicable to business activity? Are these activities mandated by higher levels of government or are they at the discretion of local government?
2. Do local governments tax businesses in the locality for value-added, sales, or property values? Are these taxes fixed by higher levels of government or are they at the discretion of local government?
3. Do local governments have sufficient revenues to build and operate adequate infrastructure and deliver adequate services for which they are responsible?
4. Do local governments have the authority to establish the tariffs and fees for local services such as water, sewerage, solid waste collection/disposal, etc.? Is it common for there to be special tariff/fees for businesses?
5. Do local governments have the authority to prepare local economic plans, and/or implement incentive programs for businesses?
6. Do local governments have the authority to prepare and enforce land use or zoning plans, and/or set regulations for special development zones?
7. Do local governments have the authority to sell or lease their land and buildings, and/or pledge their property to public – private partnership activities?
8. Do local governments have the authority to publicize and market their competitive advantages to attract new business investments?

*Assessment Methodology*

After reviewing the provisions of the laws governing local government, assessing the authority of local government is best done by interviewing both central and local government officials. Start by interviewing officials in the ministry responsible for the supervision of local government. After forming an initial impression, cross check that impression by interviewing local government officials in as many provinces, cities and towns as practical. After comparing the answers, note the discrepancies in terms of whether local officials believe they have more or less authority/resources than identified by central government sources. Re-interview your central government sources to resolve questions and inquire if local government is likely to be given any additional LED-relevant authority or resources in the near future.

*Data Needs*

- Information on local government regulation of businesses in their jurisdiction
- Information on local government taxation of businesses
- Information on the general quality of local government infrastructure and services
- Information on tariffs and fees for local services
- Information on economic and physical planning by local government
- Information on local government control over land and property assets
- Information on publicity undertaken by local government

*Sources of Data*

- Senior officials in central government responsible for supervision of local government
- Senior officials in local government
- Legislation on local government

## Worksheets

To complete the preliminary assessment of the economy, complete Worksheets 1 – 6 below.

### Worksheet 1: Major Instability

The ability to pursue an LED program is first and foremost affected by macro issues that in most cases cannot be addressed by a local economic development program. The following issues would most likely disqualify an LED program, unless major instability is isolated in one particular region.

1. Does the country as a whole suffer from the following?

Major political instability? (such as revolution or regime change)	Yes	No	Region Specific (Name)
Civil war or major internal/external conflict?	Yes	No	Region Specific (Name)
Financial instability? (Including very high inflation, exchange rate crisis, etc.)	Yes	No	Region Specific (Name)
Economic instability? (including trade disruption, massive privatizations or nationalizations, etc.)	Yes	No	Region Specific (Name)
Persistent or recent natural disasters?(droughts, etc.)	Yes	No	Region Specific (Name)

### Worksheet 2: Employment and Unemployment

2. What are the employment/unemployment trends during the last three to five years? Major influx or outflow of people in a specific region (could be rapid change or steady over an extended period)? Describe:

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Is there an observable shift in demographics relating to employment?:

Aging or elderly population:	
Youth:	
Women:	
Immigrants:	
Other:	

3. What is the general level of education and education system in the country?

Percentage of the population has primary school education? \_\_\_\_\_

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Percentage of the population has secondary school education? \_\_\_\_\_  
 Percentage of the population has higher education? \_\_\_\_\_

4. Geographic Employment and Unemployment Trends

*Note: economic regions are sub-national and can be provincial, multi-city or single municipality.*

Nationally	UP	DOWN	UNCHANGED
Economic Region: _____	UP	DOWN	UNCHANGED
Economic Region: _____	UP	DOWN	UNCHANGED
Economic Region: _____	UP	DOWN	UNCHANGED

Employment by principal sector(s) of the economy:

Economic Region: _____	UP	DOWN	UNCHANGED
Economic Region: _____	UP	DOWN	UNCHANGED
Economic Region: _____	UP	DOWN	UNCHANGED
Economic Region: _____	UP	DOWN	UNCHANGED

How do the sector(s) trends relate to the main economic employment regions of the country?

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**Worksheet 3: The Formal Economy**

1. Is the economic regime so rigid that it impedes business decision-making or operating environment? Or is it liberal enough that businesses can make investment decisions and allocate resources relatively freely?

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Are overall trade barriers a significant obstacle for conducting business?

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Is the national labor policy so rigid that it impedes businesses choosing their own hiring or firing practices?

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2. Are there sectors of the economy showing growth in terms of output, sales, earnings, etc? Please list.

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Are there sectors in significant decline?

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3. Any new sectors actively being promoted or show growth potential. Briefly describe what they are and why they show potential growth.

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4. Are the growth (and new) sectors and supporting businesses concentrated in specific regions/cities? Do those regions correlate with the ones listed above in Worksheet #1?

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**Worksheet 4: The Informal Economy**

1. What role does the informal sector play in the economy?

LARGE INFORMAL SECTOR	SMALL INFORMAL SECTOR

Over the last three to five years, its relative size:

INCREASING	DECREASING

2. Are there significant linkages between the informal sector and formal businesses, especially in high growth sectors?

SIGNIFICANT/SYSTEMATIC LINKAGES	NO LINKAGES	NO SYSTEMATIC TRENDS	UNABLE TO DETERMINE

What are some examples of linkages?

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**Worksheet 5: Regional and Industrial Policy and Planning**

1. Are there national or regional economic development plans?  
Do certain types of businesses under these plans receive any special incentives?
2. Are there any investment programs that link the regional plans with economic sectors?

Geography	Sector/Business 1	Sector/Business 2	Sector/Business 3
National Plan:	Incentive	Incentive	Incentive
	Investment Program	Investment Program	Investment Program
Regional Plan:	Incentive	Incentive	Incentive
	Investment Program	Investment Program	Investment Program
Regional Plan:	Incentive	Incentive	Incentive
	Investment Program	Investment Program	Investment Program
Regional Plan:	Incentive	Incentive	Incentive
	Investment Program	Investment Program	Investment Program

Are any regional plans integrated with one another? And how do they relate to local plans?

**Worksheet 6 Local Government Authority and Resources**

1. Are local governments responsible for:

Area of Authority	Local Government Authority	Regulated by higher levels Government
Business registration & licensing		
Taxes on businesses		
Set tariffs/ fees for local services		
Collect tariffs/ fees for local services		
Land use zoning		
Sell, lease, partnership powers over local government land		
Publicizing/ marketing campaigns		
Provide special incentive programs for businesses		

2. Do local governments prepare/ have the authority to prepare local economic development plans that incorporate some of all of the above issues?

## Interpreting the Answers

After completing the Economy Worksheets, as thoroughly as possible, review the section below to determine whether or not LED is an appropriate development strategy to pursue in your particular county of interest.

*Major Instability.* If there are macro-level and national issues that cause persistent instability, an LED program is probably not suitable for the country at this time. Similarly if national policies (e.g. labor, trade, property rights) seriously constrain local businesses from making management and investment decisions, an LED program may not be very effective. Major, national policy reform is not normally part of an LED program and would be better served by other types of mission programs.

*Employment and Unemployment.* Looking at the information about employment and economic activity, it is possible to see if certain sectors of the economy are in sharp decline (for example coal mining which may be located in one part of the country, or food processing which may take place in many regions). If unemployment is concentrated in one (or only a few) regions of the country, these may be potential areas where LED assistance can have a substantial impact, but only if there is also potential for linking the region to high growth businesses. Otherwise, surplus labor will naturally migrate to regions with greater economic potential.

*The Formal Economy.* Some sectors may show evidence of growth and expansion, or have a clear future potential. These are better positioned nationally and internationally to provide the economic base for future LED programming. However, if there is one nationally dominant economic activity (for example oil extraction and refining) that is not well linked to other businesses, then LED assistance may not be effective unless there are other sectors with growth potential and a need for local suppliers of goods and services to serve as a counterbalance.

From a regional standpoint, it may be that one or two regions dominate the economy, or some regions are in sharp decline while others are expanding. Changes in the distribution of economic activity across regions are normal over time, and an LED program can contribute to regional growth or regeneration. An LED program should rest on evidence that some sectors of the economy or some regions have prospects for future growth. If not, it will be difficult to make an impact and produce sustainable results.

*The Informal Sector.* The role that informal business plays in the economy is important to the impact that LED programming can have on the poor. If informal business can play a supportive role by providing low-cost competitive support to high-growth businesses, then it can act as a fertile ground for future development of legitimate small business, and it can contribute to growth in the local economy. If there are economic sectors or geographic enclaves where the informal sector plays a supportive role (such as piecework in clothing manufacture) this can be a starting point for pro-poor LED assistance. Even if informal business is not currently well linked to high growth

businesses, if the informal sector is large and growing it is worth exploring the use of LED assistance to create greater integration of the formal and informal economies.

*Regional and Industrial Policy and Planning.* The chances for successful LED programming increase substantially if there is evidence of a clearly articulated national economic development agenda. Look for positive signals such as:

- Specific regional development strategies that involve targeted public investments, such as coastal tourism development;
- Growth pole strategies that direct public investment or land use policies into a specific area, such as satellite cities near a major city, or a new national capital;
- Industrial or economic sector development strategies based on careful analysis of competitive and market conditions.

If the national government has no articulated policy for combating declining sectors or promoting poor regions, and no program for improving the competitiveness of its existing economic base, it will be difficult for an LED program to gain immediate consensus and ‘buy-in’ from stakeholders. However, most LED projects begin with strategic assessment and participatory planning stages. From this, economic development plans centered on a locality’s vision for the future become established.

*Local Government Authority and Resources.* The decentralization process also has to ensure that local government has a reasonable degree of authority and ability to mobilize and manage resources. Local government (or a PPP consortium) is often the catalyst of LED efforts and therefore needs the authority and resources to influence economic development. The greater the degree of authority available to local government (currently or in the immediate future), the more likely LED assistance will be effective. However, if local authority is highly constrained, prospects for policy change are unpromising, and capacity for local government to fund or implement actions is undeveloped, then an LED program is probably premature.

Other situations where an LED program may not gain traction include situations where:

- a majority of the working population is engaged in either subsistence farming or informal trade;
- the majority of formal employment is in the public sector, not the private sector;
- absence of any high-growth economic sectors and/or there has been a sharp decline in a dominant economic sector;
- petty trade predominates as the main component of the informal sector.

While the existence of any one of these situations does not mean that LED assistance will not succeed, these are conditions which must be weighed in deciding whether the context is appropriate for a program.

For more information on planning LED, please see some of the resources included in Annex 2. To understand more about the various factors impacting your potential LED program, continue to the next section, preliminary assessment of the Institutional Framework and Business Enabling Environment. Assessing the factors in this section will help determine the nature and options for an LED program.



**Step 1.2 Institutional Framework & Business Enabling Environment**

If the economic context indicates need and potential for LED programming, the second step in the preliminary assessment is to determine how the institutional framework and business environment, both nationally and locally, will affect the effectiveness of an LED program. This assessment discusses the factors most important for an LED program; each issue has varying degrees of importance (depending on the country and locality) and will ultimately need to be integrated into a cohesive program during project design. For now, these factors will indicate which elements will be most challenging to address or provide the most opportunity to exploit.

Exploring the LED enabling environment with the answers to the preliminary assessment of the economy in mind will help you formulate program ideas and establish the connections (constraints and opportunities) that the various factors pose.

**Public Sector.** Local government almost always provides the support for an LED project because of its regulatory and service roles. The idea of local government leadership (institutional and individual champions) is central to LED because local challenges are best served by local solutions. If LED assistance is going to be successful, there needs to be adequate and sustained local government capacity to promote and lead an LED effort. Local government will be called upon for both the strategic planning and implementation of LED initiatives.

To play this role, local government needs to have (or develop) working relationships with the private sector and non-governmental organizations (NGOs). LED is a collaborative effort between many stakeholders who bring together diverse resources. Integrating these varying interests into a cohesive strategy is a challenge that requires good leadership and strong institutional framework. Understanding the current capability of local governments to promote LED will reveal whether they represent an obstacle or an opportunity for LED programming.

1. Do local governments generally have economic development departments? Do they have competent staff? Are there professionals at local and/or regional government level with experience in planning and administering LED policies and programs? How developed is the knowledge of economic development tools locally and nationally?
2. Do local governments generally do an economic development strategy? Is it required by law? Do local governments prepare long-term investment plans?
3. Do local governments have experience in consultation with the private sector and civil society using a participatory process for decision-making on strategies and use of funds? Are there generally structures at local and regional government levels for consultation and communication between private sector and government?
4. Do local/regional governments participate (fund, operate, regulate) in research and development? Do public enterprise institutions collaborate with private sector and/or educational establishments?

5. Are there local governments that have strong and stable public leadership committed to LED?

*Assessment Methodology*

It should be possible to obtain an overview of local government organization structures, planning practices, and staff capacity related to LED through interviews with senior officials in the ministry responsible for overseeing local government. During these interviews, try to identify if there are significant differences between large and small cities, and/or regional variations in terms of the answers to the questions. Supplement the central government view through interviews with as many local government officials and associations, such as chambers of commerce or local government associations, as possible. Probe the interrelationships of local government departments and agencies and the relationship between the municipality and the business community as well as non-governmental organizations.

*Data Needs*

- Information about local government organization structures
- Information about local government strategic planning processes
- Information about the relationships among local government, business, and civil society organizations
- Information about local government staff capacity related to LED
- Information about local government interest in and commitment to LED

*Sources of Data*

- Senior officials in the ministry responsible for overseeing local government
- Local government officials

**Private Sector and Civil Society.** In addition to local government leadership discussed previously, private sector and civil society organizations play key roles in promoting LED. It is important to determine the current capacity and climate for active participation by private sector associations to pressure for changes to the national and local enabling environment, to participate in local economic development planning, and to undertake LED activities/projects on their own or in collaboration with local government. Understanding the current private sector and civil society framework will make it possible to decide if this is an area for further development through LED programming. This factor will also suggest which types of organizations welcome LED and may provide an opportunity for collaboration while others might present a threat to LED success.

1. Are there national business associations (such as a chambers of commerce, hotel and tourism associations, micro-business associations, or industry based associations) that promote policies and programs in the interest of their members?

2. Are there regional or local chapters of business associations, and are they organized and capable of working with local government to promote LED?
3. What is the general working relationship between the private sector and local and regional government? Is there trust and communication?
4. Are there NGOs or microfinance institutions (MFIs) that focus on the economic livelihood problems of the poor, and are they organized and capable of working with local government to promote LED?
5. Are there other non-governmental institutions and structures (such as well organized civic groups, advisory boards, R&D institutions, or media organizations) through which local stakeholders collaborate on economic development agendas? Is there a history of collaboration with the local government?
6. Is there an association of local governments that supports policy reform related to LED and/or helps its members build capacity to undertake LED initiatives?

#### *Assessment Methodology*

Identify as many business associations as practical and interview their senior officials about their interest in and activities related to LED. Also identify any local chapters of these associations and interview a selection of officials from these groups about their interest in LED and determine their capability to work with local government. To identify NGOs that work with the poor on economic livelihood issues, research your country through the Microfinance Information Exchange ([www.mixmarket.org](http://www.mixmarket.org)) to locate local microfinance institutions (MFIs) who can then lead you to related NGOs and tap into local networks of NGOs. To find other types of structures that can provide stakeholder input to LED strategies and initiatives, check with local government officials and local business associations about groups they know. Local government officials will also know how to contact the association of local governments if one exists. If there is an NGO support program in the mission, they will be a good source of information on the types, distribution and capacity of NGOs.

#### *Data Needs*

- Information on national and local private sector support organizations
- Information on local structures for participation in decision-making
- Information on local government association activities related to policy and capacity building

#### *Sources of Data*

- National business association officials
- Local/regional business association officials
- USAID Project Managers and Strategic Objective teams
- Senior Managers from Microfinance Institutions
- Leaders of NGOs that focus on economic livelihood issues of the poor
- Local government officials

**Regulation of Business.** Businesses in all countries are subject to various regulations related to their operations. They can either act as constraints on businesses or facilitate business development depending on whether regulations have clear procedures and are perceived as legitimate. Improving the ‘ease of doing business’ is the regulatory goal for LED. Providing an environment conducive to business is fundamental to LED and therefore one of the most important factors to assess and improve in any LED program.

Some regulations are mandated and enforced by central government while others may be under the control of local government. Central government regulations cover labor practices, corporate registration, national tax compliance, financial disclosure, access to foreign exchange, environmental impact, export and import quotas, among others. Local government regulations may cover things like business licensing, property registration and zoning, local tax compliance, and various kinds of special purpose permits, etc. If either central or local government regulations are too onerous, or their enforcement is arbitrary and/or corrupt, they can be a constraint to business expansion, and to business start up. It is important to assess the degree to which regulation of business activity by either central or local government creates a disincentive to the establishment or growth of businesses in order to design a program which can focus on eliminating barriers and obstacles. (Also refer to the answers found in the *Local Government Authority and Resources* section of the preliminary assessment of the economy.)

1. On average, how many days does it take to obtain the registrations, permits and licenses required to start a new business? Are these issues nationwide or in particular areas you are examining? Is this considered by business to be a constraint and a heavy cost of doing business?
2. What part of the regulatory framework affecting business is decided by central government? Is enforcement transparent and perceived to be fair? For each type of regulation, to what degree do business leaders believe that the regulations constrain their ability to establish or grow their businesses?
3. What business regulations are determined by local government? Is enforcement transparent and perceived to be fair? For each type of regulation, to what degree do business leaders believe that the regulations constrain their ability to establish or grow their businesses?

#### *Assessment Methodology*

The World Bank/IFC publishes information about the business climate in about 60 countries. If available, start by reviewing this information for your country. The chamber of commerce is a good source of information on both national and local regulations. Supplement this information with interviews of business leaders and a sample from small and informal businesses, those most heavily affected by the cost of doing business due to over-regulation.

#### *Data Needs*

- Days required to establish a new business under current regulations

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- List of central government regulations affecting business operations
- List of local government regulations affecting business operations

#### *Sources of Data*

- World Bank/IFC Enterprise Surveys (<http://rru.worldbank.org/EnterpriseSurveys>)
- Business leaders
- Senior officials of chambers of commerce and industries
- Legislation

**Security and Rule of Law.** Business grows best in an environment where crime and corruption are negligible and the rule of law governs business relationships (contracts, warranties, liabilities, etc.). Security of transactions is an important factor because businesses can be handicapped by the high cost of corruption, crime, and private security to prevent crime. The economy is constrained if the judicial system does not function impartially and speedily, or if there is a high degree of corruption in business dealings with government. Organized crime and systematic corruption will negatively impact business investment and management decisions, especially when trying to attract outside investment. Corruption will also infect the collaborative and consensus-based process fundamental to successful partnerships and strategies. Understanding the condition of security and rule of law from a business perspective is important to assessing the climate for and organizing principles of LED programming.

1. Do businesses suffer significant financial costs due to crime or the need for private security?
2. Do businesses have confidence in the fairness of the judicial system? Are there other dispute resolution mechanisms that businesses have access to that do not entail going to court?
3. How long does it generally take to resolve disputes through the courts?
4. Are unofficial payments to government officials a significant cost of business? In particular, are gifts or payments to tax officials, inspectors, administrative officials, customs officials, etc. typical and are gifts or payments needed to secure government contracts?

#### *Assessment Methodology*

The assessment will determine the level of corruption and crime, and how it affects business activity; where corruption is most significant in society; and what kind of conflict resolution processes exist. This information will reveal the challenges for LED as well as the institutions most favorable for LED partnering. There is a significant amount of information about the security and rule of law questions available in the World Bank/IFC Enterprise Surveys. Start by reviewing this information. Transparency International also continuously collects information on rule of law and governance issues.

#### *Data Needs*

- Data on corruption and rule of law

- Level of confidence survey information

*Sources of Data*

- World Bank/IFC Enterprise Surveys (<http://rru.worldbank.org/EnterpriseSurveys>)
- Rule of law/governance materials: Transparency International, ([www.transparency.org](http://www.transparency.org))
- Corruption Perceptions Index ([www.transparency.org/policy\\_research/surveys\\_indices/cpi](http://www.transparency.org/policy_research/surveys_indices/cpi))
- Business Enabling Environment (BEE) survey of business leaders and business associations
- Institute of Development Studies Livelihoods project on analyzing power structures ( <http://www.livelihoods.org/info/tools/power.html>)

**Education and Training.** Education and a skilled workforce is one of the most important catalysts for economic growth, especially for the value-added and higher potential business sectors that LED targets. A growing economy needs a workforce that has the knowledge and skills required to be productive and competitive. Public agencies need competent, skilled civil servants to help government run efficiently. Since these requirements will vary enormously across businesses, a country's capacity to provide education and training needs to be flexible enough to accommodate as many of these requirements as possible. The workforce and institutions providing education and training must respond quickly to the need for up-to-date knowledge as well as for new skills. Analyzing the capability of the education and training system will show whether the system supports or constrains LED. At the same time, it is important to determine whether there are skills and knowledge sets that are deficient in the workforce.

1. Do business leaders find that workers with particular levels of education or types of knowledge (middle school, secondary, university, or post-graduate, or business or entrepreneurial skills) are in short supply? Or that the wrong kind of education is being given for business needs?
2. Are the skill/education shortages national or is there an imbalance between trained workers and where development may take place? (The point is, often it is the economically depressed areas that have the lack of skills and training, which needs to be identified.)
3. Are there education and skill training programs tailored to a national economic development strategy or regional strategies?
4. Are work-skill training programs undertaken within the educational system or elsewhere? Are they linked to a sector development policy and/or regional/local development strategies? Are there work-skill training programs available outside the system, for example through government training programs, or private sector trainee programs?
5. How easily can the poor access appropriate education and skill training?
6. Are there ways for start-up businesses to get assistance so that people can move from the informal to formal sector?

7. Are there linkages between universities, government financed research and the private sector for applied research? If so, in what sectors does this take place, and with which institutions?

### *Assessment Methodology*

While there may be statistics and studies available concerning the country's educational system, interviews with well-informed observers should provide sufficient insight for the purposes of the preliminary assessment. Discussions should be conducted with senior officials in the education ministry responsible for planning to understand the current production of graduates at various levels of formal education and skill training, and the relation of education and training programs to economic plans. Discussions should be held with business leaders (particularly those in the high-growth sectors previously identified in the *Employment And Unemployment* section of the assessment of the economy) to get a sense of what levels of education and types of skills the business community finds to be in short supply (if any). If there is a government agency that runs employment placement services, discussions with senior officials can supplement the information from business leaders. Discussions with leaders of NGOs that provide skills training or other services to the poor can provide an assessment of how easily the poor can obtain education and training.

### *Data Needs*

- Information on the availability of workers with various levels of formal education
- Information on the balance between needs and supply of various kinds of skills
- Information on the availability of work-skill training programs inside and outside the formal educational system
- Information on the levels of education and types of skills that are in short supply in the workforce
- An assessment of the business and entrepreneurial skills needed to develop the formal sector
- Information on the relationship between poverty and access to education and training.

### *Sources of Data*

- Senior officials in the Ministry of Education responsible for planning
- Senior officials in the agency responsible for employment placement (if any)
- Business leaders and managers (especially personnel managers) as part of a business enabling environment survey
- Leaders of NGOs engaged in skill training or other services to the poor
- UNESCO ([www.unesco.org](http://www.unesco.org)) – provides macro-level data.

**Access to Finance.** Businesses of all sizes typically need financing to grow. In order for LED to take place, the financial markets and institutions need to provide wide access to financing. If financial services are limited, LED will be constrained. If the financing constraint is particularly severe, it may be necessary to address it before undertaking

LED assistance. To understand how the financial markets are performing in relation to LED, look at the degree to which businesses of various sizes can access financing for growth.

1. What kind of financing is available to large businesses: a) short-term working capital loans; b) long-term loans for land, buildings, and equipment; c) trade financing facilities; and d) other types of credit? Has the number of loans to large businesses been increasing or decreasing in each of these categories over the last three to five years? What is the average maturity and size of loans?
2. Is there a stock market where large businesses can obtain equity financing? Has there been a significant volume of new stock issued in the market over the past three to five years?
3. Do banks offer small- and medium-size businesses access to the following: a) short-term working capital loans; b) long-term loans for land, buildings, and equipment; c) trade financing facilities; and d) other types of credit? Has the number of loans to small- and medium-size businesses been increasing or decreasing in each of these categories over the last three to five years? What is the average maturity and size of loans?
4. From the point of view of micro- and small business, are there constraints to accessing capital that are different than in other places? Are there requirements for minimum years in business or high collateral requirements?
5. Are there government or donor-supported business credit enhancement programs? If so, for what sector or region and what are the conditions?
6. Are there microfinance institutions that offer very small loans to micro-enterprises? Has the number of microfinance institution enterprise loans been increasing or decreasing over the last three to five years?
7. Are some parts of the country well served by credit and others poorly served?

#### *Assessment Methodology*

Most countries' financial markets and banking systems are the subject of periodic reports by the Central Bank, financial market regulators (if any), the World Bank/IMF, and banks operating in the country. In addition there are likely to be special studies from universities, policy institutes, and journals. Review the most informative of these reports and studies going back three to five years to establish the trends. Look especially at the annual reports of the two or three largest banks in the country to see what kind of business they do and the trends in that business. Supplement the information gained from reports and studies by interviewing senior officials responsible for bank inspection in the Central Bank, senior officials in the stock market regulatory agency (if any), and senior managers responsible for strategic planning in the largest commercial banks. The World Bank/IFC Enterprise Surveys also provide basic information on about 60 countries. For information about lending to micro-enterprises, interview senior managers in the most well regarded MFIs (if any).

#### *Data Needs*



- Trends in lending to large businesses from all sources over past 5 years
- Trends in lending to small and medium businesses and start ups broken down by types of loans over the last 3 to 5 years
- Average size and length of loans
- Number of MFI loans to micro-enterprises over the last 3 to 5 years.

*Sources of Data*

- Business and bank surveys
- Central bank reports
- Reports by the stock market regulatory agency (if any)
- Financial sector assessments by the World Bank and IMF
- Commercial bank annual reports
- Special studies on the banking system and financial markets
- Interviews with senior officials/managers of the central bank, stock market regulatory agency (if any), commercial banks, and an MFI (if any).
- World Bank/IFC Enterprise Surveys (<http://rru.worldbank.org/EnterpriseSurveys>)

**Infrastructure and Services.** Businesses depend on public infrastructure and services in order to operate. And well functioning infrastructure helps connect businesses in the local and regional areas where LED focuses. Therefore, the quality and reliability of the infrastructure and services has a significant impact on LED. If public infrastructure and services are of poor quality and/or unreliable, businesses have to spend more money to secure alternative arrangements (e.g. purchasing generator sets to substitute for unreliable electricity supply from the grid) and this constrains LED. On the other hand, good quality infrastructure and services make a location particularly attractive for new businesses and growth of existing businesses thereby stimulating LED. Understanding the condition of a country's key infrastructure and the quality/reliability of services essential to businesses provides an important insight into the business climate. If an infrastructure or services constraint is particularly severe, it may be necessary to address it before undertaking LED programming. (See the Managing Municipal Service Delivery Assessment and Toolkit.)

1. Is the following economic infrastructure sufficient, modern, appropriately located and maintained in good repair?
  - Sea ports
  - Airports
  - Highways connecting major population centers
  - Railway networks
  - Electric power generation and distribution
  - Telecommunication networks (telephone and internet)
2. How reliably can business obtain good quality service from the following services? Is there a large discrepancy between regions or cities?
  - Electricity
  - Telephone

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- Internet
  - Water and sewer
  - Solid waste disposal
  - Public transportation
3. Do municipalities, cities, or provinces regularly plan for infrastructure investment? Are tariffs for water, sanitation, electricity and so forth reasonable and adequate to cover the cost of good service? (See the Municipal Finance Assessment and Toolkit).

#### *Assessment Methodology*

To assess the quality of national economic infrastructure and the reliability of local service delivery, interview managers of businesses that use the infrastructure and services on a regular basis. If feasible, obtain the views of firms located in different regions and cities of the country. Their views can be cross checked with the infrastructure section of the World Bank/IFC Enterprise Survey which provides a limited review of service quality in about 60 countries.

#### *Data Needs*

- Information on quality of economic infrastructure
- Information on capital investment plans
- Information on the reliability of services at the local level

#### *Sources of Data*

- Managers of businesses that use the infrastructure and services
- Business Enabling Environment survey
- World Bank/IFC Enterprise surveys (<http://rru.worldbank.org/EnterpriseSurveys>)
- DoingBusiness reports ([www.doingbusiness.org](http://www.doingbusiness.org))
- World Economic Forum Surveys ([www.weforum.org](http://www.weforum.org))

## Worksheets

To complete the preliminary assessment of the Institutional Framework and Business Enabling Environment, complete Worksheets 7 – 13 below.

### Worksheet 7: Public Sector

1. Do local governments generally have economic development departments and capable staff (with experience in planning and administering economic development programs)?

Economic Development Departments:

YES (✓)	NO (✓)	NO TREND/ GENERALIZATION	REGIONS WHERE EXIST

Capable staff with good economic development knowledge:

YES (✓)	NO (✓)	NO TREND/ GENERALIZATION	REGIONS WHERE EXIST

2. Do local governments generally form an economic development strategy?

YES (✓)	NO (✓)	NO TREND/ GENERALIZATION	REGIONS WHERE EXIST

Do local governments generally prepare long-term investment plans?

YES (✓)	NO (✓)	NO TREND/ GENERALIZATION	REGIONS WHERE EXIST

If so, are these required by law and carried out during regular intervals?

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3. Do local governments have experience working with private sector and civil society with regards to business development, economic development strategies and planning?

YES (✓)	NO (✓)	NO TREND/ GENERALIZATION	REGIONS WHERE EXIST

If so, what are some of the structures at local and/or regional government level for consultation and communication with the private sector? (Chamber of commerce, public hearings, lobbying practices, etc.)

4. Do local and/regional governments participate (fund, operate, regulate) in R&D or public enterprise institutions with private sector and/or educational establishments?

YES (✓)	NO (✓)	NO TREND/ GENERALIZATION	REGIONS WHERE EXIST

5. Are there any local governments generally having strong and stable public leadership committed to LED?

### Worksheet 8: Private Sector

1. Are there national business associations (including chamber of commerce, hotel & tourism boards, micro-business associations, or industry/trade associations) that promote policies and programs in the interest of their members?

2. Are there any regional or local chapters of business associations, and are there organized and capable of working with local government to promote LED?

If regionally based, where are they predominantly located?

3. What is the general working relationship between the private sector and local and regional government? Is there trust and communication?

4. Are there NGOs or MFIs that focus on the economic livelihood problems of the poor, and are they organized and capable of working with local government to promote LED? (Identify some important ones).

5. Are there any non-government institutions and structures through which local stakeholders collaborate on economic development agendas (including R&D institutions, universities, business incubators, advisory boards, media organizations)

If so, is there a history of partnership with the local government?

6. Is there an association of local governments that supports policy reform related to LED and/or helps its members build capacity to undertake LED initiatives?

### Worksheet 9: Regulation of Business

1. How expedient/efficient is the regulatory process?:

2. On average, how many days does it take to obtain registrations, permits and licenses required to start a new business?

Your answer is for what area?

Is this considered by business to be a constraint and a heavy cost of doing business?

3. Do business leaders perceive regulation as burdensome/constraint or facilitating business activity? Examples included below.

Type of regulation	Local (L) or Centrally (C) enforced?	Constraint	Facilitate
Business registration			
Permits for construction			
Customs tariffs			
Labor regulations			
Tax documents and Payment			
Business Inspections			

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Type of regulation	Local (L) or Centrally (C) enforced?	Constraint	Facilitate
Licenses			
Environmental Regulations			

Is regulatory enforcement of the above regulations transparent and perceived as fair?

### Worksheet 10: Security and Rule of Law

1. Do businesses suffer significant financial costs due to crime or the need for private security?

2. Do businesses have easy access to dispute resolution mechanisms (law enforcement, courts, mediation hearings, community hearings, etc.)?

Do businesses have confidence in the fairness of the judicial system?

3. How long does it generally take to resolve disputes through courts or other methods?

4. Are unofficial payments to government officials a significant cost of business and/or necessary to secure contracts?

Unofficial Payments	Negligible	Routine	Costly/ Necessary
Tax officials			
Inspectors			
Administrative officials			
Customs officials			
Procurement process			
Police			

### Worksheet 11: Education and Training

1. What types of skills and level of education do the high growth businesses require? Do business leaders feel that workers with these qualifications are in short supply?

	Types of skills	Level of education	Short supply?
Growth Sector:			
Growth Sector:			
Growth Sector:			

2. Are skill/education shortages consistent nationwide or are there geographic imbalances? Are trained workers located in areas with economic development opportunities or are they concentrated elsewhere?

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3. Are there education or training programs tailored to the skills delineated in the national and/or regional economic development strategies?

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4. Who provides work-skill/ vocational training? The formal education system? On-the-job training or business-funded programs? Or the NGO sector and religious institutions?

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5. Can the poor access education and/or skill training, or are the middle-to-upper income classes most benefiting from the existing educational opportunities?

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6. Are there ways for start-up businesses to obtain assistance so that people can move from informal to formal sector?

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7. Are there linkages between universities, government financed research and the private sector for applied research? If so, in what sectors does this take place, and with which institutions?

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**Worksheet 12: Access to Finance**

1. Over the last three to five years, what have been the trends of the following sources of financing?

BUSINESS FINANCING MATRIX			Number of loans (✓) (or equity shares issued)			Value of loans/shares (✓) (banks often keep aggregate amounts, by type)		
			<i>Increase</i>	<i>Decrease</i>	<i>No Trend</i>	<i>Increase</i>	<i>Decrease</i>	<i>No Trend</i>
Large business financing	Stock Market	Equity Financing						
	Commercial Banks	Short term working capital						
		Long term capital loans						
		Trade financing facilities						
		Other types of credit						
Small to Mid size business financing	Commercial Banks	Short term working capital						
		Long term capital loans						
		Trade financing facilities						
		Other types of credit						
	Microfinance institutions	Very Small loans						

2. Has the number of small- to medium-size businesses been increasing or decreasing been increasing over the last three to five years?

3. What kind of constraints (amount of loan, collateral, years in business) do micro- and small businesses experience when trying to access capital?

4. Are there government credit enhancement or subsidy programs?

For which sectors?

Are they regionally constrained?

Do donors provide credit enhancement programs?



For which sectors? \_\_\_\_\_

Are they regionally constrained? \_\_\_\_\_

5. Are there microfinance institutions that offer very small loans to micro-enterprises? Has the number of microfinance institutions enterprise loans been increasing or decreasing over the last three to five years?

6. Are the above types of financing regionally confined (specify), or do they service most of the country?

### Worksheet 13: Infrastructure and Services

1. What are the availability, sufficiency and general quality of the following infrastructure? Are they maintained adequately?

Infrastructure	Generally good	Generally poor	Uneven quality-	Regionally dependent ( <i>specify</i> )
Sea Ports				
Airports				
Highways between population centers				
Railway networks				
Electrical grids				
Telecommunications Networks				

2. How reliably can local businesses obtain good quality services? (Please refer to the Managing Municipal Service Delivery Assessment and Toolkit for detailed analysis)

Services	Reliability*	Uneven reliability-	Regionally dependent ( <i>where tend to be particularly reliable or not</i> )
Electricity			
Telephone			
Water and sewer			
Solid waste disposal			
Public transportation			

\*Reliable (24 hrs/day), Variable (12-23 hrs/day), Poor (<12 hrs/day)

3. Do municipalities, cities, or provinces regularly plan for infrastructure investment? Is pricing for service competitive for business? (Please see Municipal Finance Assessment and Toolkit).

YES (✓)	NO (✓)	NO TREND/ GENERALIZATION	REGIONS WHERE EXIST

## Interpreting the Answers

It is critical to distinguish between the national and the local levels when considering the factors that contribute to the business enabling environment in order to determine if, and how, an LED program can address the issues. In your analysis of each factor, carefully determine whether it is susceptible to local or national influence and whether the effects are general or specific to localities—especially the key sectors and regions identified in the assessment of the economy.

Secondly, think about the likelihood of a constraint being addressed or changed, and how that change will come about. Perhaps the constraint could be turned into an opportunity that lends itself to expansion or leverage of economic growth. There are many problems and issues that an LED project alone cannot address, so it is important to focus the scope on the main factors that might integrate well together. Many issues can only be resolved at a national level; and therefore, a clear understanding of the limitations and strengths are important in knowing how to proceed.

*Public and Private Sector.* All aspects of an LED improvement program, depend greatly on institutional and human resources. If there are no planning structures or public sector personnel involved in LED programming and implementation, consider whether there is the potential for developing both the political and financial support needed to make sustainable institutional impact, and focus initial efforts in cities where there is strong support. Look for private sector allies; important business sectors or local businesses, and business organizations. If these are lacking, consider the reasons carefully and determine whether they can be fostered.

*Regulation of Business.* Your assessment of the regulatory environment will indicate if there are major obstacles to business growth and whether responsibility lies with local government or some other administrative unit. If there are major blockages that are under central control and due to central policies, then carefully consider the likelihood of change and how this may come about, for example through conditionality from other institutions (IMF, World Bank, WTO, etc.) or through alliances with other donor projects. Determine the forces that may lead to the potential for regulatory reform through strong support and alliances with active business and/or local government associations that lobby for change. Determine the institutional potentials and needs of such groups and how they can fit into an LED strategy.

Your analysis will probably reveal that there are regulations and restrictions that are imposed by the local bureaucracy; these provide an opening for a well focused local program to make local government more responsive to business needs. Determine if there are problems common to a number of cities that can be addressed through local interventions and become the focus of an LED project. For example, if business registrations, certifications, and inspections are burdensome and over-bureaucratic, then consider a bureaucracy reduction program. Search for problems that are within the scope of local or regional government to rectify.

*Education and Training.* For example, one effect of poor basic education can be a small pool of people available for high return industries and jobs, and reduced economic and job mobility. Furthermore, a low standard of formal education means that high-end economic development will touch only a small percent of the work force. But formal education and its financing is often a national prerogative and absorbs large national budgetary resources. However, your analysis may reveal discrepancies in the education and training of a competent workforce that can more readily be addressed through LED programs that are well targeted to local conditions. Perhaps there may be scope for orienting vocational school curriculum to specific sectors, or skills shortages. Higher education can become incorporated into an LED initiative by linking local university research institutes to particular high-tech growth industries or regional sector development areas, so that research can be directly applied to economic growth and job creation, or specialized faculties or technical schools can be established to serve a regional demand. This may be possible where there is a local university or technical college, or where there is scope for developing new high-tech sectors.

In developing countries, lower level skills training often occurs directly within the private sector, or informally through apprenticeships. If it is clear that there is a lack of a particular skill (for example, lack of computer skills) or where small business start up training or entrepreneurship training would be useful, there may be scope for NGOs or donors assistance in providing training. If your analyses indicate potential growth sectors for which there is a lack of skilled labor, look for ways of reinforcing formal training, for example through improving vocational curriculum or adding specialized courses (for example in a region with tourist potential, a national tourism training program can become involved).

*Access to Finance.* Business capital will most likely be a major constraint. If your research indicates that capital finance and credit is deficient for small businesses then parallel efforts might exist through other donors for micro-lending programs for start up and small business. If there is a government, sectoral or regional strategy, try to link your approach to promotion of easier credit finance for that sector. However, it is useful to remember, that in general, formal credit institutions rarely finance businesses lacking a track record or collateral, and interest rates will always be high for high-risk endeavors. These are mostly financed by family and informal loans and there are few other solutions available. However, if even large businesses and industries cannot access formal finance, then this may signal a macro-economic and banking sector problem which will inhibit growth generally.

*Infrastructure and Services.* Your analysis of infrastructure and service will indicate the status of major trunk infrastructure. If these are deficient, then determine whether improvements are included in regional or national strategies, and carefully consider where and when the central government intends to finance improvements so that an LED program can take advantage of such changes. If, however, you find that there is no program for improvement of poor infrastructure then economic growth assistance will be highly localized. Your analysis should indicate how well the local infrastructure meets

business needs. An LED strategy often includes a local infrastructure investment program designed to meet priority business needs, attached to a financing plan.

Situations which you should beware:

- Heavy regulation of the private sector by central government laws, restrictions and regulation
- Low general availability of business capital
- Few entry points for workers to improve skills and jobs
- High barriers for the transition from informal to formal sector, often due to over regulation
- infrastructure and communications networks ill adapted to needs of current and future national economy and lacking plans for improvement
- Inadequate financing system for local services and infrastructure

Situations which merit further study and the potential for local economic development

- Strong local leaders in both business and government sectors
- Private savings going into startups and small business
- Forces or incentives that will reduce barriers to business nationally
- Potential for local government initiative-taking

## Step 2 Detailed Assessment

Based on the findings in the preliminary assessment, the detailed assessment focuses attention on aspects with the greatest potential for LED programming. The interpretation of the information gained from the detailed assessment will lead to a clearer understanding of the implications of and boundaries for potential LED programs. It will allow USAID to determine the potential for (1) a local economic development project focused on specific cities or regions, and (2) the potential for other economic development programming that affects the cities, but which may have a broader sectoral or national focus and may form part of other mission initiatives. In answering the questions in the Detailed Assessment, a mission may require the assistance of a specialist familiar with LED and local government issues; and the framework below may provide the basis for a consultant's Scope of Work to help USAID further understand program potential and implications.

### Step 2.1 The Economy

To determine the kind of LED programming that would be appropriate in one or more local governments, it is necessary to make a determination whether local interventions can have an impact. LED projects differ substantially from other economic growth programs, be they SME development, firm-level assistance, sectoral promotion, export promotion or improvement to the commercial framework for business. LED projects generally do not provide direct support to economic sectors or to individual businesses. They support the enabling environment for growth, in particular the local environment which allows a city or region to maximize its economic potential. Local initiatives can support other business support efforts, and vice versa. Other programming may focus on national issues that affect economic growth, sectoral growth, export promotion, or tax issues that will have a significant impact on local economies, but will not be implemented at the local level.

**Employment.** The employment situation will be affected by many different factors that are not easily influenced by local government. It is important to understand the employment situation in order to have realistic expectations about what can be accomplished with LED assistance, and how it might be best programmed, whether through a program that targets certain cities or regions, or whether through a different type of program that directly stimulates the growth of sectors and businesses.

⇒ If the country or certain regions have experienced a sudden major increase in unemployment in the last year (focusing on one or more regions/cities of interest to USAID):

1. What is the primary cause of the sudden increase in unemployment? Is it the result of a contraction in one business, one sector, or across the board in many businesses and sectors at the same time?
2. Is the sudden increase in unemployment due to an external “shock” that is being addressed by changes in national economic policy? Is the business(es) or sector(s) expected to recover from the shock, and if so over what time period?

3. Is the unemployment concentrated specifically in high skilled or low skilled workers? Which types of specific skills predominate among the unemployed?
4. Are there high growth businesses that may be able to expand their own workforce enough to have an impact on reducing the unemployment? Are there local businesses that may be able to expand their workforce because they are (or could be) strongly linked to high growth businesses?
5. Is it likely that a large portion (or only a small portion) of the unemployed will relocate to other regions/cities, and if so over what time period?

⇒ If the country or one or more of the regions has been experiencing persistent high unemployment over the last three to five years:

1. Has the unemployment primarily been the result of a decrease in the number of jobs nationally, or regionally, or an increase in the number of people seeking work?
2. In addition to unemployment, is there a significant degree of under-employment, and how serious a phenomenon is it?
3. Is the unemployment concentrated specifically in high skilled or low skilled workers?
4. Are there high growth businesses that may be able to expand enough to have an impact on reducing the unemployment? Are there small businesses that may be able to expand their workforce because they are (or could be) strongly linked to high growth businesses?

**The Formal Economy.** The formal economy will include the largest businesses as well as many medium and even small businesses that are officially registered and operating legally. Some of these businesses will sell most (or all) of their goods and services outside of the local economy or even national economy, thereby bringing income into the locality. These are the locality's "exporters" (even if they only export to other places in the same country). Other local businesses will sell most (or all) of their goods and services inside the local economy; to consumers and other local businesses. These are the locality's "suppliers". Identifying who are the exporters, and who are the suppliers as well as their links to each other is important to understanding the dynamics of the local economy and how LED assistance can affect it.

⇒ If the economy includes high growth sectors:

1. Are there exporter businesses that are in a high growth sector? Where are they located? Have they been experiencing growth at the same pace as the sector over the last three to five years? Is that trend likely to continue? What are the growth/decline prospects for other major local exporters?
2. Are there major local supplier businesses? What has been their growth/decline trend over the last three to five years? Is that trend likely to continue?
3. To what extent do exporter businesses buy goods and/or services from local suppliers? Of the exporter businesses with high growth prospects, which ones buy goods and services from local suppliers?

⇒ If the country or particular regions do not include high growth sectors and businesses:

1. What are the major local businesses? What has been their growth/decline trend over the last three to five years? Is that trend likely to continue?
2. Which (if any) of the local exporter businesses (excluding those that are declining or expected to decline) buy goods and services from local suppliers?
3. Is there potential of the country or specific regions that could be attractive enough to encourage high growth businesses to start up operations there? Is attracting foreign business investment a realistic possibility?

**The Informal Economy.** The informal economy of a locality will consist of all the micro-enterprises as well as some of the small (or possibly even medium-size) businesses that choose to operate outside of the official legal and regulatory framework. In particular, the micro-businesses are the domain of the poor; these may be petty traders such as cigarette sellers, or providers of personal services such as barbers, but others may be potential suppliers of goods or services to formal sector businesses. For example, there may be tailors supplying finishing work to garment manufacturers, there may be woodworkers or metalworkers that can fabricate parts for larger companies, or there may be micro-businesses that can recycle glass, metal, or plastic to be used as industrial raw material. LED will have the greatest impact on poverty if the informal small and micro-businesses of the poor can become better linked to a growing formal economy (even if they remain informal themselves). Understanding the reasons for lack of integration into the formal economy is a starting point.

⇒ If the national economy has a large informal sector that has the potential to provide goods and services to the formal economy:

1. Do there appear to be informal businesses that could potentially provide goods and services to local exporter business or local supplier businesses in the formal economy? What kinds of goods or services do they supply?
2. Which (if any) of the local exporter businesses or supplier businesses (excluding those that are declining or expected to decline) already buy goods and services from local informal businesses? Is there potential to expand their use of informal suppliers?
3. What are the obstacles that keep businesses informal? What incentives are needed to bring them into the formal economy?
4. Are there any community-based or business-based organizations that could represent the interests of their informal business members in dealings with local government in an LED project?

**The Development Agenda.** A country's national economic development agenda will ultimately be played out in the local economy. Some local economies are more likely to benefit than others from current policies and plans, and LED programming is not likely to be able to shift the "disfavored" local economies into the "favored" column. LED

programming needs to compliment and support the national economic development agenda in order to be effective. Understanding how the national economic development agenda is likely to affect a local economy will help shape the choice of locations and sectors for LED programming.

- ⇒ If the country has policies or plans designed to stimulate the development of particular sectors, businesses, or regions:
  1. Which local economies include businesses that are supposed to be favored by national economic development policies and plans related to a) the region, b) a particular economic sector, or c) particular types of business? Which businesses are these?
  2. How significant a portion of these specific local economies are represented by businesses that are favored by national policies and plans? Is there potential to increase the size of the favored portion of the local economy?
  3. Are national economic development policies and plans being implemented in the local economy? Are they having a positive affect on local businesses? If not, why not? Are there any significant unintended consequences of the national policies and plans?
  4. Has the local government developed LED policies and plans that compliment and support the national economic development agenda? If so, in what specific ways does implementation of local policies and plans relate to national ones?
  5. Are there integrated regional development plans linked to public investment programs, and how do these relate to local plans?

## Interpreting the Answers

*Employment.* If the sudden increase in unemployment is caused by a contraction in one major employer or an important sector of the economy, then it will be difficult for LED assistance to have much impact unless there are other sectors that have the potential to expand. If such sectors exist, they may or may not require the kind of skills offered by the suddenly unemployed. The definition of LED program components should take into account the potential for absorption of unemployed in other sectors. This is true at both national and local levels. Other types of programming may be necessary such as providing stimulus to alternative sectors of the economy, or skills retraining.

If persistent high unemployment is the result of a decrease in the number of jobs, then assistance will need to focus on diversifying the local economy to include more high growth businesses. If unemployment is the result of a rapidly increasing workforce, then programming will need to support growth sectors and businesses strongly linked to them. In both cases, this could be accomplished through an LED program or a broader, sector-specific economic growth effort. Additionally, the cause(s) of unemployment may affect the choice of cities or regions in which to implement a program.

*The Formal Economy.* Exporter businesses in a high growth sector have the highest potential to serve as the engines of growth for a local economy. The design of an LED



program should take into account the support and development of the sector wherever possible. LED initiatives can assist in linking exporter businesses to internal suppliers, improving infrastructure to expand exports to markets, providing land for expansion, assisting in marketing and finding new clients, and removing regulatory obstacles. LED programs that focus on exporter businesses facing declining prospects will have little impact. Local supplier businesses that are growing well may already be linked to high growth exporters, but if there are major supplier businesses that are not growing well, LED activities can link them to other businesses, thus assisting in developing the cluster phenomenon within a region or a city while expanding small local business.

Even if the country or regions do not have high growth sectors, the local businesses are often the starting point for LED initiatives that help them overcome obstacles to growth and expand their markets both internally and externally. However, if all of the local exporter businesses are in decline, making LED successful will be very difficult. In that case, the only hope for LED is if there is potential to attract growing exporter businesses or service industries, either domestic or foreign. If such potential is identified, then making use of that potential should be the focus of LED programming. Supplier businesses that are growing may already be linked to exporters, but if there are major supplier businesses that are not growing well, LED assistance can focus on linking them to exporters that are showing growth potential; especially if those exporters are not yet buying much from local suppliers.

*The Informal Economy.* If there are informal businesses that produce goods or services of potential interest to the local formal sector, then there is an opportunity to use LED programming to reduce poverty. If the formal sector is already buying some goods and services from informal businesses, then LED can build on local models to expand these formal-informal linkages. Micro-businesses in particular will need assistance to grow into reliable suppliers to the formal sector, so the existence of support organizations are an important asset for pro-poor LED programming. If they do not already exist in the locality, then LED assistance may be able to help bring them in. The existence of community-based or business-based organizations of the poor creates an opportunity for effective participation by the poor in the planning and implementation of LED initiatives.

*The Development Agenda.* Identifying the local businesses that should benefit from the current national economic development agenda provides another perspective on potential directions for selection of the target areas for LED programs and ultimately, LED programming. (If no such businesses exist in the locality, LED assistance is unlikely to be effective.) The current scale of “favored” businesses (and their potential for expansion) in the local economy suggests the degree to which the national economic development agenda can be expected to have a positive local impact. If national policies and plans are not having a positive impact on the local economy despite the existence of “favored” businesses, the reasons why will suggest ways that LED programming may help. The existence of local and regional economic policies and plans that are being implemented in support of the national economic development agenda provides a firm foundation for LED programming.

## **Step 2.2 Institutional Framework**

After undertaking a detailed assessment of the economy, the next step is to obtain a detailed understanding of the local institutional framework available to support LED initiatives in order to determine the emphasis of an LED program. Since promotion of LED is typically a new activity for local government in developing and transitional countries, USAID may need to develop an entirely new institutional framework to support LED activities, help local governments prepare strategic plans, develop tools to implement them, and reach out to the business community (formal and informal), NGOs and other local institutions to plan and implement LED initiatives. The authority and financial capacity of local government is a prime determinant of the type of programming possible, and the more that this is understood in the beginning the better suited to the country the program will be.

### ***Local Government***

⇒ If local governments have authority to establish economic development departments:

1. Have any done so? And, if so, what kind of staff do they have?
2. Do local governments have the ability to add LED staff at their discretion? Are these regular civil service positions?
3. What kind of authority legally exists for planning and implementing programs?
4. Are local budget resources allocated to LED related activities?

⇒ If local governments have some responsibility for regulation of businesses in their jurisdiction:

1. Are there common bottlenecks? What do businesses complain about most? Do local governments try to reduce the bureaucracy?
2. Are local regulations imposed fairly? Is there a way to complain about poor treatment? Is the time taken to fulfill regulations excessive? How difficult is it to get all the basic permits and licenses to start a new business?
3. How does local regulation relate to regulations at a higher level of government?

⇒ If local governments can apply local taxes, fees, user charges or utility tariffs to local businesses:

1. What kind of other taxes or fees can be imposed? Are they sufficient to support provision of the service?
2. Who sets the fees charged for services such as building permits, business registration, construction permits, and civil documents? Are they set at a rate that relative to the value and cost?
3. Is there authority to offer investment incentives (tax breaks) or to impose new kinds of charges? This may be a way of increasing the competitiveness of a city or raising revenues for a special purpose.

Local Economic Development: Detailed Assessment—The Institutional Framework

⇒ If local governments have the authority to make local economic plans and/or land use plans, sell/lease their property, and enter into public private partnerships:

1. Do municipalities have a clear inventory of what assets they possess?
2. Is there generally unused property or underused property within the municipality?
3. Is there a precedent for selling municipally-owned property to the private sector? Is this allowed?
4. Is there a precedent for joint private sector /public sector development initiatives? What restrictions exist on profits?
5. Are local governments making land use plan? If not, who makes land use plans? Who determines building permits?

***Private Sector***

⇒ If there are national business associations operating locally:

1. Do they support their local members' capacity to expand and develop?
2. Do they also provide support to LED programs through lobbying for regulatory reforms?
3. Does the association provide member services that might support training in LED, to staff, or promotion of LED as a local government area of concern?
4. Does it lobby for legislation that improves the authority of local government to undertake LED related activities?
5. If there are multiple associations at different levels of government (for example, associations of counties, cities, villages) are they in conflict over who has authority for what and who gets which fund?.
6. Are local businessmen represented in decision-making positions within local and regional government either through elected or appointed positions? Are there formal business advisory groups that work with national or local governments?

***Civil Society***

⇒ If there are MFIs or NGOs that focus on the economic livelihood problems of the poor:

1. What is the extent of support given by MFIs to start-up and small businesses?
2. What is the failure rate of start-up and small businesses nationally?
3. Is there a need for business-related training for start-ups and small businesses to improve their success rate? Are there organizations providing this service?

⇒ If there are other relevant non-governmental institutions and structures:

1. Are there formalized means for representation of different interest groups in city decision-making?

2. In addition to elected councils are there other forms of civic and representational organizations (such as formal neighborhood or district associations or other common geographical groupings)?
3. Are there other strong interest groups that may contribute to or affect economic development, such as technical colleges, research institutes, religious institutions and what kind of role can they play in planning and implementing LED activities?
4. What support do other donors give to the non-governmental sector which can usefully support LED programs?

## Interpreting the Answers

*Local Government.* If local government has the authority to do economic development planning, then a major and principle task of an LED program will be to establish LED departments, within the framework of local government, and ensure that they are trained and competent and sustainable. Without such a planning structure, all interventions risk failure even before termination of direct technical assistance. Of utmost importance is securing funding for the staff and determining how the LED staff interfaces with other departments and with other planning and service functions. Other key actions to be undertaken in structuring the mode of implementation of an LED strategy, include delineating lines of authority and responsibility both within the government, and among governments, creating linkages between the LED functions and the business community, and creating systems for linkages with other institutions whose responsibilities intersect with and support economic development.

Development and implementation of an LED strategy, and most of the activities related to developing a good business enabling environment, depend on a local government for organization. The degree to which local governments have authority to tax and spend, and to plan and dispose of their property will determine what they might be able to do as part of their strategy. Since LED programs and projects do not provide direct assistance to enterprises or businesses for expansion or growth, it is through improvement to the supporting environment that LED will make its biggest contribution. If the analysis so far has shown that local governments do not have such authorities then there will be very little leeway to undertake economic development actions locally, since neither the necessary responsibility nor funds are present.

If local governments possess such authorities, then additional information will indicate the extent to which they are capable of undertaking the kind of programs that support economic growth and, also where additional support is needed.

Regulation is generally a major obstacle to business growth. The analysis should clearly indicate what authorities the local government has, and what kind of improvements can be initiated locally. Locally imposed regulations can be streamlined and rationalized, to reduce the number of complex, badly managed or unnecessary business regulations but determine first whether these are truly an obstacle to growth or whether the main problems lie at a higher level of government. If the latter, then a program focused on

local business regulation is unproductive and the emphasis from the start should be to tie an LED program to a commercial or economic reform program.

*Private Sector.* If the national associations that support LED are weak, institutional and technical support may be useful to assure sustainability of LED programs. Business associations, professional associations and local government associations can be very effective players as part of an LED program, providing links to the central government, providing member services and training. In the case of business associations, local or regional branches can be brought into the LED process with local government. Generally national business associations will have sub-groups formed around either issues or economic sectors. As part of a determination of the potential role of associations, it is important to ascertain the level of interest, the resources and commitment of such organizations before depending heavily on them or assuming they will become active advocates of LED.

*Civil Society.* Development of and support for city LED strategies, and implementation of different actions to improve the local economy will depend in great measure on the type of support that can be provided by the non-governmental sector. When there are already organized groups that represent various interests, they can be immediately included in LED planning. It is risky however to try to create such groups where none exist; they gain their legitimacy out of developing on their own. Actions and programs that support the informal sector, job training, education, and other types of activities will need to be both funded and implemented by non-governmental groups, rather than the government itself. Activities managed by non-governmental groups lend themselves to grant funding either through an LED project or through funds provided by USAID or other donors. Generally, it is best to focus on groups that have particular interests, such as small business development, assistance to fragile groups, and training. If there are limited possibilities to include the non-governmental sector, this will limit both “buy in” and legitimacy, and restrict the kinds of project activities that support a city LED strategy.

**Step 2.3 Business Enabling Environment**

The final step in the detailed assessment is to assess the local business enabling environment, which will largely determine whether LED will take place or not. USAID needs to understand the ways in which local actors (local government, NGOs, civil society organizations, and the business community) may be able to improve the climate for business growth and investment in the locality. Identifying the opportunities and constraints related to local action will suggest the kinds of LED programming that will be most effective.

**Education and Training.** Increasing evidence shows that education is one of the most dynamic aspects of business competitiveness strategies and sustained economic growth. Although there is continual debate over just how much education contributes to growth, human capital theory places people at the forefront—the ‘moving part’ of the economy. For technologies to be invented and land to be cultivated and businesses to compete, a competent and skilled workforce is needed. Management experts contend that above and beyond any other factor, creative problem solvers and efficient leaders are the key to building a successful business. And as an economy develops from lower tier economic activity to value-added growth (e.g. natural resource cultivation to processing and simple manufacturing to innovation/technology and design) the relative importance of education also increases. It is important to evaluate the relationship between education and job skills in order to develop programs that provide appropriate preparation.

⇒ If there are strategically targeted sectors or growing value-added sectors:

1. What are the necessary skills for potential new areas of higher growth and value-added industries? The focus here is on the needs and supply of skilled labor as the economy changes and strategically evolves.
2. What are the relative proportions of professional and management, skilled, semi-skilled, laborers, support staff, sales and marketing, and transport in the businesses surveyed? Do they differ between large and small enterprises, especially where employees are required to carry out a wide variety of tasks?
3. Are businesses able to find appropriately trained individuals?
4. Do businesses spend a lot of time and resources training individuals themselves? And how does that effect ongoing business operations (time-cost constraint or long-term benefit)?
5. Do students at secondary and higher education levels have sufficient basic skills?

⇒ If the skills that employees have match those required by businesses, but employers still have difficulty finding and hiring competent workers, there are likely problems connecting employees with jobs.

1. How do businesses ensure they are getting skilled and trustworthy employees? Is there a problem retaining skilled workers? Do businesses generally use employee referral hiring methods or other methods?

2. How important is it for a company to be located near educational or training institutions? (Local educational pools are typically important for higher skilled employment.)
3. Would businesses accept applicants from a centralized job-matching institution? Would businesses be interested in participating in the development/improvement of a job-matching institution?
4. Does the business community, through government or non-government organizations, provide input for educational institutions in the type skills it requires?
5. Are there vocational schools and/or technical schools? How responsive are they to business needs?
6. Do teachers generally appreciate business needs or understand how businesses operate? Are teachers periodically/continually trained in order to improve their capabilities?
7. Have you noticed training in the potential value-added or growth industries? Is education a core component of the economic growth strategies being prepared by the city or region?

⇒ If national/regional/city plans have already identified educational and training needs:

1. How is education funded? Who is responsible for providing and managing educational institutions?
2. Are the various educational stakeholders willing to partner and maximize their efforts?
3. Is the local workforce generally healthy and reliable or suffering from health related issues such as HIV, sanitary-environmental related diseases, and childhood disease?

**Access to Finance.** At the local level, access to finance depends on the local financial market. Unless the city is a major financial center of the country, the local market will likely consist of commercial bank branches, perhaps MFIs, and perhaps the branches of some national development banks. Capital market institutions (the stock exchange and institutional investors) and other specialized financial intermediaries (investment banks, merchant banks, etc.) are only going to be found in a major financial center of the country. While some local businesses may be able to access financing from a major financial center (especially if they are a large business), most will have to rely on the local market. Understanding whether the local financial market represents an opportunity or a constraint for LED is important for developing a program of assistance. However, LED assistance alone can not overcome businesses' problems regarding access to finance.

⇒ If the ability of business to access financing is a major factor affecting LED:

1. What financial institutions (public and private, including MFIs) are operating in the locality? What different types of financing do each provide to local businesses? What has been the trend in their lending volume over the last three to five years?

2. Are there any special lending programs available to medium, small, and micro-businesses in the locality? If so, what has been the trend in loan volume in these programs over the last three to five years?
3. Where do the following types of local businesses say that they turn for financing: a) large businesses, b) medium businesses, c) formal sector small businesses, d) informal sector small businesses, e) informal sector micro-businesses?
4. Do any of the above types of local business report problems getting access to the financing they need? If so, what kind of problems do they have (e.g. long delays, high collateral requirements, short terms, high interest rates, etc.)?
5. Do the financial institutions operating locally have the authority to make credit decisions on their own, or do they have to seek approval from their headquarters? What are the limitations on credit decision-making at the local level?

### ***Regulation of Business.***

⇒ If local regulation of business operations is a major factor affecting the business environment:

1. To what extent is the local government or local agencies allowed to instigate changes in procedures or rules?
2. Is the problem the time and number of steps to get permits, register, take care of formalities or is there another, more fundamental problem such as corruption?
3. Are the costs of carrying out the services fairly charged for but not onerous to business?

### ***Infrastructure and Services.***

⇒ If the adequacy of infrastructure and the reliability of local services is a major factor affecting LED:

1. Are local tax rates set at levels that provide sufficient revenues to improve services? Is there leeway to raise more local revenues to devote to service and infrastructure?
2. Are tax transfers and other subsidy programs providing supplements to locally generated revenues? If so, are they used for service improvements?
3. Do cities borrow for major infrastructure improvements?
4. Do local governments contract with the private sector for service provision or infrastructure development? For example, water or wastewater management, waste collection and disposal, operation of parking facilities, development of industrial zones on city owned property, leasing and redevelopment of city buildings or dilapidated property.
5. Are there special development zones with different tax and service structures?



**Security and Rule of Law.** For LED, the issue of security and rule of law should be examined from the perspective of business activity: how it relates to a business enabling environment in terms of physical security, government regulation and/or corruption, delivery of public services, conflict mediation and judicial process. The questions below are a brief overview of a political economy and security assessment, which identifies the opponents and supporters of corruption versus reform. To accomplish this assessment on a detailed/city level, distinguish the stakeholders' interests and resources relating to business as well as local government interaction.

⇒ If corruption poses problems for economic development and growth especially for businesses contemplating relocating, expanding, or investing in a locality:

1. On the whole, is government corruption petty and isolated or high-level and systematic?
2. Does it link both private and public spheres through bribery and extortion, and fraud?
3. Is corruption a matter of government cronyism or nepotism?
4. How separate is the military from government/business activity? Does it meddle in local government affairs? Is it involved in corruption?
5. Where in the government is the problem? Customs, tax collection, procurement, police? (See the Preliminary Assessment of Security and Rule of Law and Assessment Worksheet #10.)

⇒ If a lack of transparency between the public and private sector is believed to impede LED strategies,

1. Are there clear information channels for the public access information? Do private citizens have authorization of information concerning the government decision-making process?
2. How open and transparent is the government budget process?
3. How clear is government financial management including financial disclosure and audits?
4. Is there an independent or semi-independent government monitoring and accountability commission?
5. Are there methods and protection for reporting/whistle-blowing?
6. Is there independent investigative journalism/media that can provide government accountability?
7. Are there fair and impartial judicial processes and crime-appropriate sanctions? How quickly or easily are these to access?

⇒ If there is significant organized crime, especially in the informal sector:

1. What is the level of organized crime and gang-related violence? Is it isolated to certain geographic areas or sectors?
2. How would those geographic areas or sectors impact an LED program?

3. Does law enforcement enter informal settlements and formal slums? Does law enforcement have the capacity to protect businesses, especially in the informal economy?
4. If it does not, are there alternative forms of community security and justice in informal sector and slums?

## Interpreting the Answers

*Education and Training.* It may be a waste of resources to train or provide higher education if basic skills are lacking. This may seem obvious, but problems exist with educational systems that promote English instruction, for example, while local populations speak other native languages.

If businesses are able to find appropriately trained workers, there are likely other constraints in the job market (over-regulation and poor business enabling environment, inaccessible finance, inaccessible market outlets, inaccessible resources, etc.) But if the important businesses cannot find appropriately trained employees and spend significant time training or educating them, there is probably an under-skilled workforce. In this case, education and training may have to be a central component of an LED program.

Businesses often indicate that the academic curriculum does not meet job requirements. For example, mathematics courses teach algebra, geometry and trigonometry, but businesses surveyed in the United States report that they value logic, statistics, accounting and financial management skills.

Connecting business needs to school curriculum, and research development to production applications is an important way to build partnerships across often independent parts of society. Intermediary institutions that help students find jobs and employers find workers can partially serve this purpose. Government leadership is also needed with explicit educational goals set out in growth strategies or through funding channels or oversight.

Although investment in education is crucial for long-term growth, absolute levels of funding and quality of education are not directly related. More importantly is the type of education and management of it. Like other institutions, education can be rife with corruption and mismanagement which might be the most immediate constraint. There are probably disparate types of training including NGO and donor-funded training programs, as well as public, private, religious, and corporate training. Integrating these efforts in collaborative ways is important for LED programs.

Research finds that education and skill level are intrinsically linked to the health of local populations, most directly revealed through school attendance. If this appears to be a problem, USAID could better link health and education programs.

AN LED program is also not the venue to pursue basic education and skills training. Instead, LED programs should focus on those areas that will increase business capability and competitiveness, namely the existing and potential value-added and growth industries identified in this toolkit or by local strategic planning. An education component of LED will help bridge the gap (if one exists) and promote strong collaboration between stakeholders to maximize resources.

Types of LED/educational alternatives to accomplish these objectives include:

- Education-job matching institutions
- Apprenticeships
- Technology preparation programs
- Career academies and school-based enterprises and vocational training
- Integrated school-to-work programs
- Healthier schools programs
- Partnering with foreign schools for scholarships, exchanges, distant learning

USAID's most relevant program to assess and design competitive and LED related educational systems is through the Global Workforce in Transition Project (<http://www.gwit.us/>).

*Access to Finance.* The best environment for LED programming is where there is a competitive local financial market with multiple institutions of each major type offering a wide array of loan products. If there is only one financial institution offering loans to local business (or only a few, and they segment the market among themselves), LED will be constrained. The availability of specialized lending programs for medium, small and micro-businesses is important in order for LED programming to create greater integration among businesses in the local economy. What businesses themselves have to say about their ability to access finance and the problems they face will reveal a great deal about the degree to which the local financial market is prepared to support LED. A locality where most types of businesses face severe difficulty getting loans is not a good environment for LED programming until that situation changes for the better. The degree to which credit decision-making is decentralized to the local level is also important. If the local leaders of financial institutions are empowered to approve loans, they have a greater stake in the local economy and they are more likely to play a supportive role in the planning and implementation of LED initiatives with local government.

*Regulation of Business.* Onerous business regulations and bureaucratic procedures are often a problem especially for small businesses. Most often it is the number of steps involved in each process and the lack of adequate information about the papers or formalities required that are aggravating. Streamlining of regulatory procedures, including cutting out unnecessary steps, cutting down on approvals, shortening the time span for approvals, and giving out better information, can be useful when the issues involved fall within the city's jurisdiction. Business support centers within a municipality can help new businesses to deal with bureaucracy. Similarly, tax policies and fee structures can be revised to more fairly and adequately reflect both the cost of the

service to the community (for example, fees for construction permits), and to serve as inducements to business (such as rebates for providing needed services or for local job creation). However, if the business enabling environment survey shows that many restrictions to business fall outside the local domain (or the local government simply serves as the delegated authority), LED programming needs to carefully consider alternative strategies such as other economic policy reform programming, or an LED program that supports lobbying by business associations.

*Infrastructure and Services.* Local infrastructure improvements are often a component of a city economic development strategy, and, as such, specific infrastructure needs will surface during city assessments and prioritization of needs that occur while preparing the strategy. Although local infrastructure is of prime importance for business growth and the competitiveness of localities, the financing of infrastructure may intersect with other issues such as the revenue authority and revenue raising capacity of cities, and the way that services are structured. For example you would need to determine if water authorities are under local government or autonomous agencies. Often LED projects will need to assist cities to maximize their revenues, both taxes and fees so that these can be used to improve services, and develop capacity and understanding to access capital needed for the large infrastructure investments that support business. At the same time, LED programs may focus on bringing private capital and management into economic development by helping to structure public/private partnerships for infrastructure management (water), capital investments (landfills), land and building development (industrial parks, site regeneration/renewal projects, business districts).

*Security and Rule of Law.* Transparency concerning government decision-making and the budgetary process (including procurement) can avoid some issues of corruption that could affect LED. Transparency also affects citizen attitudes which are as important as levels of corruption. Diverse interest groups are less likely to partner in LED if the process does not seem clear and fair. Improving financial management, disclosure and accountability is an area that can be addressed in an LED program and can have wider rollover effects.

If alternative community security or law enforcement (i.e. local ‘big men’ or bosses) permeate informal settlements and/or the informal economy, try to assess how it could affect an LED program. AN LED program could try to incorporate parts of the informal economy into the formal economy through vertical supply chains of local/regional businesses. Are local businesses able to do this without extortion or security threats? Would local power structures/bosses be willing to engage with the formal sector? Often, the problems stem from a lack of municipal authority in a geography or sector, with the vacuum being filled by other power structures. The alternative power structures are not always at odds with the formal economy/law enforcement. But there is usually mutual resentment between government and other forms of local authority. The local power balances will probably have to be assessed by an expert to make a decision whether these alternative structures can participate and be incorporated into formal economy. Top-down approach to addressing alternative power structures will probably not be successful.

**Step 3      Determine Potential Projects: *What Kind of LED Programming Would be Most Useful?*****Step 3.1      Potential Projects for a Democracy and Governance Program**

When the development of local government and civil society are important components of a USAID missions' democracy & governance program, LED programming can provide a useful approach to achieving those objectives. Local government normally takes the leading role in planning and implementing LED initiatives. However, local government cannot successfully undertake LED initiatives alone. Local business associations, local NGOs focused on poverty reduction, local educational institutions (public, private, and NGO), the local media and other elements of civil society need to participate in the planning and implementation of LED initiatives. This provides USAID with the opportunity to program assistance in a substantive area (LED) of interest to a wide range of local government and civil society organizations and use that substantive interest to pursue a local reform and institutional development agenda that furthers mission objectives.

LED programming also provides the opportunity for creating synergy with other parts of the USAID program; most notably with the economic growth program, and even the education program (depending on the orientation of these programs at the mission). It is best if LED assistance undertaken under a democracy & governance strategic objective is carefully coordinated with the work underway in the economic growth strategic objective (and the education S.O. if one exists). LED programming represents the point of intersection between democracy and governance and economic growth programs at the local level where peoples' lives can be most directly affected by USAID.

LED assistance provided through a democracy and governance program should focus on strengthening and empowering local governments to undertake the following:

- prepare strategic plans (sometimes referred to as city development strategies or regional development strategies);
- develop tools and reforms to implement those plans; and
- reach out to the business community (formal and informal), NGOs, and other local institutions in both the planning and the implementation process.

LED assistance should be tailored to the local requirements identified through the assessment process, which may include:

- promotion of reforms that make local government more responsive to the needs of businesses in the local economy, e.g. bureaucracy reduction;
- supporting the creation of LED departments within the framework of local government and helping to ensure that these departments are appropriately staffed, trained and equipped;
- supporting the development of local and regional economic policies and plans that are supportive of the national economic development agenda;
- improving the local security and anti-corruption environment in ways that are especially attuned to the priorities of local businesses;

## Local Economic Development: Determine Potential Projects

- enabling the local government to identify and encourage economic linkages between local businesses (large to small, formal to informal);
- promoting the development of local business associations and community-based or business-based organizations of the poor to promote broad-based participation in LED;
- encouraging national business associations and associations of local governments to make promotion of LED part of their organization's agenda;
- developing local infrastructure investment programs (and financing plans) geared to meeting the priority service needs of local businesses;
- supporting educational institutions and NGOs to improve vocational training, or other types of training that facilitate small business start ups and entrepreneurship;
- linking local business needs to educational and research institutions that share an interest in the local economy; and,
- supporting local government activism in promoting the competitive advantages of their locality both nationally (and if appropriate) internationally to diversify the local economy.

**Step 3.2 Potential Projects for an Economic Growth Program**

When the development of medium, small, and micro-enterprise and/or the improvement of the business climate are important components of a USAID mission's economic growth program, LED can provide a useful approach to achieving those objectives. LED programming can compliment other kinds of economic growth programming that typically focuses on issues at the national level. LED programming provides a local perspective on business development and the local problems that constrain growth. All businesses operate in a local economy somewhere, even if they also participate in the national and global economy as well. A businesses' local economic environment can have an important impact on its national or global competitiveness. If the local economic environment is supportive, business growth is facilitated (and increased domestic and foreign direct investment is more likely). LED programming provides USAID the ability to work directly on improving the local economic environment in selected cities or regions and it can provide a local level platform for promoting the development of medium, small, and micro-businesses.

LED assistance provided through an economic growth program should focus on improving the local environment for broad based economic development in selected cities or regions. This will entail working intensively with local governments that will have to play a leading role in planning and implementing LED initiatives. LED assistance should be tailored to the local requirements identified through the assessment process, and which may include:

- supporting local government reforms that are business friendly such as: rationalizing business and property taxes; making fees and charges reflect the real cost of services to assure reliability; land-use planning with business priorities in mind; making better use of public assets to stimulate the local

Local Economic Development: Determine Potential Projects

- economy (e.g. PPP); improving infrastructure; and reducing local regulatory bottlenecks;
- supporting the creation of LED departments within the framework of local government and helping to ensure that these departments are appropriately staffed, trained and equipped;
- supporting the development of local and regional economic policies and plans that are supportive of the national economic development agenda;
- improving the local security and anti-corruption environment in ways that are especially attuned to the priorities of local businesses;
- encouraging economic linkages between local businesses (large to small, formal to informal);
- supporting activities that diversify the local economy to include more high growth businesses and linking existing businesses (especially small and micro-enterprises) to high growth businesses;
- linking local university research institutes to particular industries or regions with high growth potential;
- promoting the development of local business associations and community-based or business-based organizations of the poor to promote broad based participation in LED;
- encouraging national business associations to make promotion of LED as part of their organization's agenda;
- developing local infrastructure investment programs (and financing plans) geared to meeting the priority service needs of local businesses;
- supporting educational institutions and NGOs to improve training that facilitates small business start ups and entrepreneurship; and,
- supporting educational programs (public or NGO) that are focused on building business capacity such as: education-to-job matching; apprenticeships; career academies; school-based enterprises; vocational training; integrated school-to-work programs; scholarships; exchanges; and distance learning.

## **Annex 1: GLOSSARY OF LED TERMS**

**Brownfields:** Previously developed sites that are no longer used for economic purposes, and that may be environmentally contaminated. The redevelopment of such sites is often used to provide land, services and buildings to investors or to start-up businesses. Often brownfields are the consequence of changes in the economic structure and activity of a city or region, or as a result of privatization. Brownfields redevelopment is generally more expensive than new, “greenfields” development.

**Business Incubator:** Tool designed to help grow new businesses in a community within a specific building or location by providing flexible and low rent spaces, shared administrative and support services such as management skills training and marketing assistance. Unused buildings, often buildings belonging to a government agency (in the form of public private partnership), are used for this purpose, and other agencies or funds are used to support the services.

**Business Retention and Business Support Strategies:** Strategies designed to keep local companies at their present location. The strategies may include training, business networking, loan subsidies or access to capital, export or new market development training, and establishment of local business association.

**Clusters:** A grouping of related and economically linked industries, businesses and institutions (such as research centers or universities) in an area or region. They are inter-linked and connected in different ways—some are suppliers, some are buyers, and others provide business services or resources. Both small and large businesses and the informal sector participate in clusters. The linked industries have a synergetic relationship and collaborate and compete in the specific area of concern. Well known clusters are high tech industries in Silicone Valley, finance in New York City, and the automotive industry in Detroit.

**Entrepreneurship Training:** Programs that provide guidance on business basics such as accounting, marketing, and business finance.

**Export Development Services:** Programs set up to help businesses expand and diversify the customer base and to become more profitable by expanding operations. Services may include assessing capacity for export, market research, information services, trade regulations, trade show and exhibit promotional assistance.

**Foreign Direct Investment (FDI):** Investment from abroad. FDI can be investment requiring building a new site (greenfields development) or buying into existing businesses (acquiring an existing business). Inward investment is similar but refers to investment from within the country. These two are often seen as important ways of expanding the economic activity and creating more jobs within an area by bringing in more capital and larger markets.



**Greenfields Development:** Facilities, including factories and offices, built on undeveloped land, with the facilities designed and built for the investor rather than renovating an existing site.

**Growth Nodes:** A physical location where industry or commercial development is deliberately directed through land use policies, zoning, provision of infrastructure and social services.

**Hard Infrastructure:** Includes all the tangible assets that contribute to and underpin the economy of the city such as roads, railways, ports, airports, water, wastewater treatment, waste disposal, energy, and telecommunications.

**Informal Sector:** The sector not within the formal or legal sector. Businesses in the informal sector are not registered, do not pay taxes, are not provided with services, and are not able to use assets as collateral for loans or investment.

**Local Economic Development strategic plan:** A medium- to long-term guideline that identifies the main issues to tackle to encourage economic growth and proposes specific strategies to encourage and support growth and competitiveness. The strategy is based on an analysis of the existing situation, the strengths and weaknesses of the economy, and the opportunities it presents. The plan proposes strategies with specific actions, timetables and budgets as well as roles for different stakeholders in implementing activities to build the economy. The plan is prepared with and ratified by all stakeholders, and activities are funded through public and private sources, usually coordinated by local government or an independent economic development agency.

**Microfinance Institutions (MFI):** Microfinance institutions are non-commercial organizations or institutions that supply small loans to start-ups and small businesses that do not qualify for normal bank or commercial loans. Sometimes their terms are less onerous, for example they may offer lower interest rates, but normally their usefulness lies in the fact that they provide capital to very high-risk small businesses.

**One Stop Shop Business Service Centers (OSS):** A facility that assists businesses to obtain advice and information on facilities, to establish a business, to obtain licenses to start up or expand business, to deal with different public agencies and to gather information that may encourage new investors or expand existing businesses. Often OSSs serve the general public as well by issuing civil documents, and serving as a single point for permitting and applications. OSSs generally reduce the time and effort needed to do business by streamlining procedures.

**Public-Private Partnerships (PPP):** PPPs for LED include business improvement districts, land development for industrial expansion, and service provision. The objective is to enhance public funds and assets with private capital and development for specified objectives that improve the economy. Generally they are structured so that the municipality as well as the private investor receives a return on the investment, thus

increasing municipal revenues as well as providing a basis for growth of the local economy.

**Soft Infrastructure:** The less tangible side of LED that underpins the economic growth potential of a city such as education and training, quality of parks and housing, business networking, financial and credit services, and social services.

**Small and Medium Enterprises (SMEs):** Small businesses usually have between 5 and 20 employees, while medium-sized businesses have from 20 upwards. (Businesses with less than 5 employees are micro-enterprises.)

**Supply Chains:** The products and processes that are essential to the production of a good or a service. As an example, frozen fish supply chains include fish catching, handling, freezing and storing, packaging, and distribution. An LED strategy will try to capture as much as possible of the higher value end of the supply chain. An industry cluster is a grouping of related industries that form a supply chain.

**Regeneration Strategies and Zones:** Zones of a city or of a region that have outgrown their previous economic use or which are in decay may be the focus of a government LED regeneration strategy. This is similar to an urban renewal strategy but for business purposes. The strategy may include demolition of dilapidated structures, new hard infrastructure, business assistance programs, investment promotions and incentive programs, selling or leasing land to private sector, and special regulations for developers. Examples of regeneration strategies are in mining areas that are no longer active, ports and wharf areas that are no longer active, large industrial complexes that have failed. Downtown redevelopment districts are a form of a regeneration zone.

**Industrial Park and Business Park:** Sectors of a city that are zoned for industrial or business use and which have been supplied with all infrastructure necessary to make it easy to locate and operate a business. As public-private partnerships, parks may be established on public land which is then leased or sold with the local government receiving a share of the profits. Parks may also be established on privately owned land with infrastructure investment made by the local government which receives a share of the profits. Alternately, parks may be entirely private ventures with all costs paid by private investors. As PPPs they are often a device for attracting new greenfields companies who increase employment and the local tax base.

**Special Enterprise or Development Zones:** Similar to growth nodes, these areas are targeted for enterprise development through the use of investment incentives, subsidies to capital for investment, available land and infrastructure.

## Annex 2 Additional Resources

### General Resources and Tools

- USAID LED Primer <http://www.makingcitieswork.org/files/docs/LED/LEDPrimer.pdf>
- Making Cities Work LED Urban Theme Page  
[http://www.makingcitieswork.org/urbanThemes/economic\\_growth/local\\_economic\\_development](http://www.makingcitieswork.org/urbanThemes/economic_growth/local_economic_development)
- World Bank LED Quick Reference Guide [www.worldbank.org/urban/led](http://www.worldbank.org/urban/led)
- World Bank LED Primer [www.worldbank.org/urban/led](http://www.worldbank.org/urban/led)
- World Bank LED Strategy Case Book [www.worldbank.org/urban/led](http://www.worldbank.org/urban/led)
- *Making Local Economic Development Strategies: A Trainer's Manual*, World Bank and Cities of Change Initiative,  
<http://www.worldbank.org/urban/local/toolkit/pages/home.htm>
- Local Business Enabling Environment Survey  
[http://siteresources.worldbank.org/INTLED/Resources/339650-1122490529659/BEE\\_Survey\\_Instrument.pdf](http://siteresources.worldbank.org/INTLED/Resources/339650-1122490529659/BEE_Survey_Instrument.pdf)

### The Economy

For UN HABITAT's current work on LED strategies and planning, see <http://www.unhabitat.org/programmes/tcbb/LEd.asp>. The World Bank has the most comprehensive material at [www.worldbank.org/urban/led/index.html](http://www.worldbank.org/urban/led/index.html) including a detailed manual for developing an economic development assessment and strategy. See following citations:

- Bingham, Richard D. and Robert Mier, Eds. (1993). *Theories of Local Economic Development: Perspectives From Across the Disciplines*. Sage Publications, CA.
- Blair, John P. (1996). *Local Economic Development: Analysis and Practice*. Sage Publications, Inc.
- Canzanelli, Giancarlo. (2001). *Overview and Lessons Learnt on Local Economic Development*, Human Development, and Decent Work. ILO Universitas Working Paper. <http://www.ilo.org/public/english/universitas/publi.htm>.
- Council for Urban Economic Development. February (2000). *Local Economic Development in the CEE/NIS Region*. Overview Paper, Draft prepared for USAID.
- Council for Urban Economic Development. January (1996). *What Is Economic Development?: A Primer*.
- European Commission. (1997). *Towards an Urban Agenda in the European Union*. 'Directions for the Future'. pp. 13-17. Communication from the European Commission COM (97)197, June, Brussels  
[http://europa.eu.int/comm/urban/documents/d004\\_en.pdf](http://europa.eu.int/comm/urban/documents/d004_en.pdf).
- Harris, N. with L. Bulbul, K. Mainuddin, X. Meng, S. Haguib, S. Srinivas. March (2000). *Garment-Making and Urbanisation: An Introductory Study of Four Cases*. Urban and Local Government Working Paper Series No. 6. Urban Development Unit. World Bank. <http://www.worldbank.org/urban/publicat/uwp6.pdf>.

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- Iannone, D. (1997). *Introduction to Economic Development: A Training Course for Economic Development Professionals*, Washington, D.C.: National Council for Urban Economic Development.
- Lyons, T. and Hamlin, R. (1990) *Creating an Economic Development Action Plan: A Guide for Development Professionals*. Praeger Publishing.
- OECD. (1998). *Arresting Decline in Urban Areas* The OECD Observer No. 210 February/March.
- The OECD has published a short and informative paper on the inadequacies of urban policies in OECD countries and how in the last two decades they are moving towards a 'more integrated, multi-sector policy approach which has two main characteristics. First, they explicitly recognize the interrelationships between socio-economic factors affecting urban areas; they emphasize endogenous development and the creation of opportunities within the deprived neighbourhood' <http://www.oecd.org/publications/observer/210/005-016a.pdf>.
- OECD. *Local Economies and Globalisation*. LEED Notebook, No. 20. Good for case studies; this LEED Notebook, No 20 provides valuable information about Local Capacity Building. <http://www.oecd.org/tds/bis/leed.htm>.

### The Institutional Framework

The following are resources collected by theme and referenced by World Bank.

### The Role of Local Economic Development Agencies

- Humphreys, Eileen. (1996). *LEDA Pilot Actions: Synthesis Report*. Local and Regional Development Planning. London.
- ILO. (1995). *Lessons from the LEDA Programme*. Local and Regional Development Planning. London.

### Financing LED

- Bartik, T. (1995). *Economic Development Incentive Wars*. Employment Research, Spring 1995.
- W.E. Upjohn Institute for Employment Research. This short paper and related references provides a sound basis from which to consider monitoring and evaluation of financial incentives. [http://www.upjohninst.org/publications/newsletter/tjb\\_595.pdf](http://www.upjohninst.org/publications/newsletter/tjb_595.pdf)
- Darche, Benjamin. (1997). *Financing Mechanisms at the Subnational Level in Emerging Markets: Borrowings and Privatisations/Concessions*. Infrastructure Note FM9. Urban Development Unit, World Bank. <http://www.worldbank.org/urban/publicat/rd-fm9.htm>
- Dillinger, William. (1995). *Urban Property Tax Reform: Guidelines and Recommendations*. Urban Management Program Discussion Paper No. 1. World Bank.
- El Daher, Samir. (2001). *The Building Blocks of a Sound Local Government Finance System*. Infrastructure Note FM8-e. Urban Development Unit. World Bank. <http://www.worldbank.org/urban/publicat/fm8e.pdf>
- El Daher, Samir. (2000). *Specialized Financial Intermediaries for Local Governments: A Marketbased Tool for Local Infrastructure Finance*. Infrastructure

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Note FM8-d. Urban Development Unit. World Bank.

<http://www.worldbank.org/urban/publicat/fm8d.pdf>

- Worley International Ltd. (2000). *Strategic Municipal Asset Management*. Urban and Local Government Background Series No. 5. Urban Development Unit. World Bank. <http://www.worldbank.org/urban/publicat/001-1069.pdf>

### Strategy Review (Monitoring & Evaluation)

- Bartik, T. (2002). Evaluating the Impact of Local Economic Development Policies on Local Economic Outcomes: What has been done and what is doable? Upjohn Institute Staff Working Paper No.03-89. <http://www.upjohninstitute.org/publications/wp/03-89.pdf>
- Beauregard, Robert A. (1999). *The Local Employment Fulcrum: Evaluating Local Economic Performance*. Economic Development Quarterly, Vol. 13, No. 1. February 1999. pp. 23-28. Sage Publications, CA.
- Economic Development Quarterly. February (1999). For those interested in a more detailed understanding of contemporary issues in urban local economic development monitoring and evaluation, please note that there are a series of informative articles in this publication.
- Erickcek, G. (1996). *Developing Community Economic Outcomes Measures*. Employment Research, March 1996. W.E. Upjohn Institute for Employment Research. The Upjohn Institute is keenly interested in LED and monitoring and evaluation. This paper looks at outcome measures and how they should be used. [http://www.upjohninst.org/publications/newsletter/gae\\_f96.pdf](http://www.upjohninst.org/publications/newsletter/gae_f96.pdf)
- Iannone, D. (1999). 'An Assessment of the Costs, Benefits, and Overall Impacts of the State of Ohio's Local Economic Development Programmes'. Prepared by The Urban Centre, Maxine Goodman Levine College of Urban Affairs, Cleveland State University, for the State of Ohio Economic Advisory Committee. The study provides one of the most comprehensive assessments of local economic development programs yet published. As such, it will be very helpful to all those looking to develop national and local area economic development programs and policies and will be referred to frequently in this report. As a universal disclaimer, the contents of the report do not necessarily reflect the views of the state of Ohio or a consensus of the local economic development Advisory Committee. <http://www.state.oh.us/obm/media/articles/economicstudy.asp>
- Jenkins, N. and M. Bennett. (1999). 'Toward an Empowerment Zone Evaluation'. Economic Development Quarterly. Vol. 13 No. 1. Sage Publications, CA. An informative article on developing evaluation methods for Empowerment Zones in the US, a type of 'third-wave' strategy.
- Reese, Laura A and David Fasenfest. (1999). Key Perspectives on Local Development Policy Evaluation. Economic Development Quarterly, Vol. 13 No. 1 February. 3-7 Sage Publications. [www.oecd.org/tds/bis/brownfields.htm](http://www.oecd.org/tds/bis/brownfields.htm)

### Improving the Local Business Investment Climate

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- Stanchev, K., and Yonkova, A., Eds. *Legal and Regulatory Reform: Impacts on Private Sector Growth*. Institute for Market Economics, Sofia. [http://www.ime-bg.org/pdf\\_docs/papers/lrr.pdf](http://www.ime-bg.org/pdf_docs/papers/lrr.pdf)

### Encourage Local Business Growth

- Arzeni, Sergio and Jean-Pierre Pelligrin. (1997). *Entrepreneurship and Local Development*. The OECD Observer, No 204 Feb./Mar 1997. This article also gives an excellent account of cluster networking for SMEs.
- Bradshaw, Ted and Edward Blakely. (1999). *What are 'Third Wave' State Local Economic Development Efforts? From Incentives to Industrial Policy*. Economic Development Quarterly, Vol. 13, No. 3. August 1999. pp. 229-244. Sage Publications, CA. This article presents an analysis of the shifting emphasis of local economic development policies and practices.
- Ernst & Young. (1999). *Thematic Evaluation of Structural Fund Impacts on SMEs*. European Commission (DGXVI). This report goes into detail on the evaluation of SME support measures. It includes in-depth research methodology as well as case studies; a long, detailed, useful read. Good practice is highlighted in this report also. [http://www.inforegio.org/wbdoc/docgener/evaluation/pdf/eval\\_sme.pdf](http://www.inforegio.org/wbdoc/docgener/evaluation/pdf/eval_sme.pdf)

### Encouraging New Enterprise

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[http://europa.eu.int/comm/employment\\_social/empl/esf/3syst/vol1\\_en.pdf](http://europa.eu.int/comm/employment_social/empl/esf/3syst/vol1_en.pdf). The Third system refers to a diverse range of organizations outside the traditional public and private sectors, encompassing co-operatives, mutuals, associations, foundations, charities, voluntary and not-for profit organizations.
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## Africa

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**Latin America**

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**North America**

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