Local economic development*

Decentralization and economic globalization is creating a new paradigm, for which communities and their respective leaders must be prepared. Cities are able to facilitate economic growth in partnership with regional and national governments and, in today’s global economy, transnational urban systems.1

There are immense challenges to this new paradigm. Communities are caught in the cross hairs of transforming governing structures of countries and the globalization of national economies. Local leaders must deal with the fact that people are freer to make independent choices as country after country moves to more decentralized governing structure. Further, leaders in today’s communities must acknowledge that technology has cut firms loose from the traditional location factors, such as proximity to raw materials and markets. In addition, the breakdown of old power structures has resulted in the formation of new coalitions that advocate and represent multiple interests found in communities; coalitions that can and do affect local development policy. These changes require new approaches to decision making: they require new leadership practices.

Today’s community leaders “are pushed and pulled in many directions, the problems he or she faces are interconnected and the role involves a series of intractable strategic dilemmas in matching individual desires with the political, social and budgeting priorities of cities.”2 As community leaders seek to define their economic development strategies, a process by its very nature that requires distribution of community goods controlled by different coalitions, they must understand how the dynamics referenced above influence the strategies, the goals set, and the outcomes achieved. Firms and people are demanding that their interests are accounted for and must be convinced that it is in their best interest to make investments in a particular place at a particular time. Tomorrow’s leaders must concentrate on making a contribution rather than claiming success. There will be many who want to participate, and, because of changing political and economic structures, can. Old dogmatic power structures will be tested as new leaders create inclusive, participatory systems. Effective leaders will need to listen, ask questions, and become informed about societies and interests outside their

1 Saskia Sassen (2000) “Cities in a World Economy,” Pine Forge Press: Thousand Oaks, CA, pg 4. Sassen contends that in today’s economy, urban systems, as defined by economic exchange, are virtual in nature, with production inputs traversing national borders and ordered by information technology.

comfort zone; qualities once relegated to the weak and powerless. Multiple skills, resident in different people, will be needed to address the many expectations and demands of conflicting constituencies. Different situations will require different skills; tomorrow’s leaders will need to integrate all required for holistic outcomes. Leadership, in short, is fluid, some might say even messy. Effective processes must be in place to realize the promises that good leadership can bring. All of these issues will be considered in the context of culture, political structure, history, economic resources and the degree any one person has to exercise independent judgment.

**Déborah Kimble,**
Advisor on Local Governance and Economic Development,
Center for International Development and Governance, The Urban Institute

---

**Local economic development: a snapshot of capacity building needs and lessons**

By Gulelat Kebede, UN-HABITAT
gulelat.kebede@unhabitat.org

In the recent years LED has been emerging as one of the central themes of local development both in the developing countries and in countries of economic transition.

In the developing countries, increasing unemployment and poor local revenue base combined with progress towards decentralization has prompted local authorities to take interest in LED initiatives. Structural changes and challenges stemming from transition to market economy have induced local communities and authorities in transition economies to embark on similar initiatives. Globally the movement for poverty reduction and sustainable local development has provided impetus for LED.

In response to this surge of interest in LED, international programmes and agencies including ILO, GTZ, OECD, SDC, UNIDO, UNCDF, UN-HABITAT and The World Bank have responded with tools and capacity building support initiatives. Knowledge sharing networks and platforms are also evolving. In this small piece about LED we highlight capacity building needs, requisite knowledge, skills and tools, and lessons learned, informed by the writer’s first hand experience with the UN-HABITAT LED training and capacity building activities.

**Capacity Building Needs**

At the risk of simplification, key capacity building needs or challenges facing local authorities and their local development partners who embark on LED initiatives can be summarized as follows:

- Often different actors and groups have different perspectives and understanding of LED. Whilst there is a degree of consensus on the end results, perceptions are fuzzy on what really constitutes LED or where the emphasis should be, and how to go about it.
- There is divergence in LED objectives and expectations among different actors and stakeholders. This stems partly from their conceptual and perception differences and partly from their differing interests, objectives and priorities. Also local contexts and geographic scale and scope vary, and as a result the LED tools have to be calibrated to realities.
- A critical technical capacity gap facing cities and communities when embarking on LED initiatives is the capacity to discern and understand their local economy. Cities decided to harness and sustain their competitiveness need to understand where they stand in terms of their business climate, the structure of their local economy and its performance and the salient features of their human capital and physical and natural endowments.
- There is a tension between those who are focused on LED outcomes and those who emphasize on the process. Both are important, and the challenge for cities embarked on LED is calibrating a process that yields locally owned and doable strategies, programmes and projects. The challenge is also designing a framework that brings together information, analysis, fact and value based decision making process and sector specific expertise in a coordinated fashion.
- Though globally the LED practice has come a long way from the traditional sector driven and infrastructure based approach, local authorities in many contexts tend to focus on physical infrastructure and little on economic governance, entrepreneurship development and institutional aspects which are equally crucial for a successful LED.
- Financing constraint is a common challenge for most cities, especially those in developing countries. Many other wise good strategies and programmes remain on paper and often the reason we are given is lack of finances. There is also a tendency to focus on external funds and investment and not enough on local assets and opportunities.

**Potential Capacity Building Responses**

The above capacity building needs demand interventions at both human and institutional development levels. The relevant basic knowledge, skills and tools can be highlighted in a simple framework of a LED planning process presented below.
Lessons
For a LED initiative to be successful it has to be clearly defined around economically functional space, and should be locally owned and championed. Leadership is key to bring together shared vision, actors and resources. The generic processes, approaches and tools have to be adapted and contextualized. The scale of economic space, economic structure and base, the trigger for LED and its expected objectives, the quality of leadership, institutional set up and existing capacity should inform the LED programme design and process.

Capacity building for LED should target both substantive (e.g. economic assessment, value chain analysis, etc) and process (e.g. Prioritization) aspects, both elected leaders and professionals, quick-wins and long term institutional milestones, plus local government, private sector and community stakeholders with high stake and influence. Special focus should be on the weakest links between planning and implementation, particularly on institutional capacity and financing instruments.

### The Local Economic Development Agency Question: ———

**The Case of Aden, Yemen**

Sameh Wahba, Senior Urban Development Specialist, and Catherine Lynch, Consultant, MNSSD, Banque mondiale

swahba@worldbank.org - clynch@worldbank.org

---

Yemen represents one of the largest development challenges in the Middle East and North Africa Region. It is a country endowed with scarce water, limited arable land and declining oil reserves that are projected to be depleted in less than 10 years. The urgency of expanding non-oil growth, combined with significant migration anticipated from the water-scarce highlands to coastal areas, places a particular onus on the development of Yemen’s port cities to be able to attract investment, create employment opportunities and deliver improved services to residents and investors. The success of Aden—Yemen’s largest coastal city and declared commercial capital—as a growth pole is especially important in this regard.

The Port Cities Development Program (PCDP), with financial support from the International Development Association (IDA), began in 2003 with the objective of transforming Yemen’s strategic port cities into regional centers of economic growth. Achieving this requires working with the public and private sectors, developing soft skills...
and capacities, carrying out reforms at the local and national levels, and upgrading the quality of infrastructure and services locally. This final task, in particular, is constrained by very weak local revenue generation capacity. In Yemen, cities finance most local infrastructure investments through own-source revenues, while the central government assumes responsibility for covering the bulk of local administrations’ operating costs, namely wages. This has resulted in low amounts of capital investment at the local level, significantly impacting the quality of life for citizens and the cities’ ability to attract investors.

Authorities in Aden are keen on seeking out means to promote local economic development and boost local revenues that can be used to improve infrastructure and services. Against this background, the Local Economic Development Department (LEDD) was established in 2005 as an agency that would have the capacity to oversee three main inputs to local economic development: (i) the strategic use of public assets to spur economic growth and generate revenue for the city; (ii) partnership with the private sector to tackle growth constraints, identify economic opportunities, and facilitate “shared goods” that could help to expand the city’s overall economy; (iii) the collection and analysis of economic data as a means of identifying market trends and informing policy decisions; and (iv) city promotion and branding.

To demonstrate the potential revenue impact of public asset management, and to ensure the financial sustainability of the Aden LEDD, PCDP funded the rehabilitation of two city assets – the Sirah Fish Market and the Investor Services Center. The Sirah Fish Market rehabilitation and expansion delivered the infrastructure to triple the market size and number of jobs. The management was outsourced to the Fishermen’s Association. What was once a liability for the neighborhood is now a tourist destination that generates revenue for the city through rental fees. It also triggered private investment in the surrounding area. In addition, the Aden Governorate allocated a vacant public building adjacent to the Governorate complex to serve as headquarters for the LEDD and as an Investor Services Center. Several important functions have since taken place at the Center including two Cabinet sessions, stakeholder workshops, and meetings with visiting investor delegations from neighboring Gulf States. Under the PCDP-funded Aden Administrative Modernization study, work is underway to streamline business start-up procedures and to set up a One-Stop-Shop at the Center.

In 2006, in a move to strengthen investment planning and consultation with the private sector in Aden, the Governor established the Aden Advisory Council for Investment (AACI). The Council is chaired by the Governor and includes the LEDD Director (as Secretary), heads of local authorities and executive offices, and representatives of the private sector active in the key business clusters identified in the Aden LEDD Strategy (e.g. industry, tourism, marine services, etc). An innovation in Yemen, the Governor and the AACI established the 3P Fund to leverage private financing to support Aden’s reconstruction efforts. The fund has now raised over US$ 350,000 in private contributions. As an example of an investment in a ‘shared good,’ a portion of the 3P Fund was used to build an IT training center to address a lack of local labor with strong IT skills. The center was outsourced to a private management company, and the lease proceeds flow back to the city. A portion of the lease proceeds from the Fish Market and Training Center are channeled to the LEDD to supplement its operating budget.

Other historic public assets are currently being rehabilitated, including Sirah Castle and the Legislative Council Building. The identification, oversight and funding are, however, still largely managed by PCDP rather than the Aden LEDD. The capacity to identify public assets with revenue generating or market activating potential is still quite limited within the agency, and may reflect a need for more private sector involvement in regard to determining the market viability of projects.

The Aden LEDD has made great strides in compiling economic indicators, but is hindered by the lack of available data and cooperation with government agencies and the limited capacity to analyze and package the data in an effective way to help shape local policy. To enhance cooperation, in late 2007, the LEDD established a Coordination Committee with local data source agencies and ministry branches. The LEDD is also launching a publication that will highlight new real estate and commercial investments in Aden as a means of better engaging the private sector and to serve as a marketing tool for the city.
Local Economic Development programs in Philippines CDS cities: The Local Investment Market Place

Elisea-Bebet Gozun, CDSEA, Philippines
Bebet Gozun, Project director, Vickie Antonio, National Project Coordinator
bgozun@cdsea.org - vantonio@cdsea.org

The CDS programme was introduced in the Philippines in 1999 simultaneously with Indonesia, China, Thailand, Mongolia and Vietnam as part of the World Bank’s new urban strategy. The various initiatives announced in the article shows that the local economic development is a priority in an approach that must be integrated.

A quiet neighborhood street in Marikina, a city of about half a million residents east of Manila, has been experiencing an economic boom ever since the City Government completed the road widening and drainage system in the area. In the meantime, the smoked fish industry of Calbayog City in Samar is getting a boost from the orders coming in from the Middle East, while the number of tourists coming to Sorsogon Province to see the whale sharks in Don sol, the hot springs in Mt. Bulusan and the beaches in Bacon has been increasing steadily over the last five years. Zamboanga City in the island of Minda-niao, on the other hand, is rediscovering its heritage and promoting itself worldwide as “Asia’s Latin City.” These are just a few examples of local economic development programs initiated by local government units throughout the Philippines. The common denominator among these cities is their all having gone through the City Development Strategy (CDS) Program of Cities Alliance. A CDS is a strategic action plan formulated in partnership by the city government and local stakeholders in mapping out their development priorities for the city. It promotes a comprehensive and integrated approach to development to ensure that investments are maximized and benefits are spread out across all sectors. Because it involves a highly participatory approach that engages even village residents in the decision-making process, it fosters greater ownership for the programs, and ensures their support in project implementation.

The CDS program was introduced in the Philippines in 1999 simultaneously with Indonesia, China, Thailand, Mongolia and Vietnam as part of the World Bank’s new urban strategy. Starting with an initial pilot of seven cities, it has since grown to more than 60 cities nationwide, representing half of the country’s cities.

CDS came at an opportune time when the decentralization law was just taking root. R.A. 9170 or the Local Government Code established a good foundation for CDS to take root as it provided the legal and institutional framework that allowed local government units (LGU) to assume a corporate identity. Provincial, city and municipal governments now had the power to generate local revenues through taxation and establishment of economic enterprises, avail of credit financing, engage in joint venture partnerships with the private sector, and explore a wide array of mechanisms towards improving the living and investment environment in their localities.

While local economic development is not an alien concept to Philippine cities, it became a priority concern of CDS city mayors with the realization it plays an integral role in their development initiatives. City Mayors carried on the parochial approach brought on by many years of the central government rule, where economic development is defined by administrative boundaries and urban management is limited to what happens within their backyard. Local government units relied on national government transfers to finance capital investments, the responsibility for the basic services was taken on entirely by the public sector, while local businesses were confined to the localities in which they were registered. Economic linkages, whether with adjacent local government units or among business establishments within a province were very limited. Even with the enactment of the LGC, only a handful of local chief executives explored the provisions of the law.

CDS introduced a new approach to urban management and the local government code provided the platform by which they could implement their strategies. Cities that have gone through CDS have noted several components of the process that have allowed them to put a bigger emphasis on local economic development.

Understanding the local economy

The first step of the CDS process, which is the assessment phase, allows cities to take an inward look at the unique activities that fuel the local economy at the same time identify potential investments. The analysis that accompanies the data collection helps them understand the unique features of the local economy. Balanga City, for example, discovered their potentials for eco-tourism when a visiting ornithologist accidently found a huge flock of migratory birds in their mangrove areas. At the same time, the large concentration of tertiary education facilities in their city also presents an opportunity for establishing Balanga as the provincial education center. Calbayog City on the other hand found that about a third of the population was dependent on fishing and yet they had no programs on coastal resource management, limited post harvest facilities, and very little support was available for product development.

Recognition of the city as economic space

Understanding what makes the local economy “tick” leads to a clearer definition of its role within the larger context of the metropolitan and provincial areas. Identifying its competitive advantages allows the city to leverage this with other LGUs who would need their services/products
In response to the socioeconomic crisis that swept through Argentina at the beginning of the decade, Rosario put in place management mechanisms based on public-private cooperation not only to cope with the consequences of the crisis, but also, more fundamentally, to define development strategies. The coherent nature of the approach has established the City of Rosario as a regional centre for innovation. This historically agro-industrial city has become host to new production activities which have dynamized and diversified the local economy. For example, technol-
ogy companies now provide work for more 2,000 highly qualified workers. These new features are the first fruits of the municipality’s conception of local economic development. The local authority perceives development as being increasingly endogenous, depending on the ability of local leaders to create initiatives and coordinate activities. It involves the thrust of political action and constitutes an intervention strategy and a way of managing public affairs. This approach allows us to identify and dynamize local capacities to exploit external resources most effectively within the context of a coherent local strategy. In short, it is a question of improving the ability of local society to provide an organized response to the global context.

**Rosario’s participation in international networks**

In order to meet the demands of this new environment, it is necessary to identify the factors that govern the international scene and develop ties and programmes that link cities and regions. Rosario’s experience in the area of international cooperation has been extremely fruitful for strategic local development. This explains why we have taken over the coordination of the Urban Strategic Planning Commission of United Cities and Local Governments (UCLG). This recently formed commission is open to cities from all parts of the world. Consequently, dialogue can take place, recommendations can be made to international players, and progress in this area can be recognized. The mutual support provided by this framework encourages members to learn about strategic planning procedures and generates synergies that ensure the viability of local development projects.

**Strategic planning and development**

The existence and implementation of policies and instruments for managing development have proved a distinctive asset for Rosario in a national context marked by instability and institutional weakness. This social learning process has enabled us to find new responses to local problems. This approach to public management has gained fresh impetus since 1995 when the city decided to face up to a new challenge: the setting of consensus strategic objectives. This resulted in the creation, in 1998, of the Rosario Strategic Plan, with an ambitious series of projects drawn up by more than 200 institutions and expressing the aspirations of local stakeholders. Eighty percent of the projects in the first plan were carried through, with public investment playing a decisive role. Subsequently, in 2005, US$1,150 million of investment was attracted, for the agro-food, motor vehicle, metal-lurgical, hotel and the retail sectors in particular.

The current challenge is to create and put into action the Rosario metropolis + 10 Strategic Plan, which is a new approach to the management of local development at regional level. This plan to link the public and private sectors has managed to bring coherence to the planning of regional policies with the involvement of 250 institutions and 60 towns and cities in the region.

**Rosario’s development model**

In a general way, Rosario’s development model can be said to be based on the following principal components:

- New institutions
- The process comprises a socio-institutional dimension which gives rise to the creation of new joint bodies, for example:
  - the Regional Development Agency, which is responsible for improving the productivity and competitiveness of local firms;
  - the Rosario Technology Park, whose role is to bring about scientific development and innovation, and which brings together technological firms, the public sector and educational and research Institutions;
  - the Office of Tourism, which aims to promote tourism in the city as a strategic activity.
- Consolidating an environment that is conducive to innovation

Perhaps the major challenge of our time will be to construct a city that can assimilate the changes imposed by the so-called “society of knowledge”, which will give rise to a complex and advanced social process whose impact on social, economic and political relationships is becoming more decisive all the time. The municipality has adopted this point of view and used it as a basis for the development of political plans and programmes with a clearly strategic dimension:- construction of the science and technology park, which is made up of R&D centres, technology service providers, the National University of Rosario and technological firms;
- high quality sites for industrial logistics and tertiary sector firms, created using private investment in the framework of a concerted policy with the Municipality;
- strategic partnership with the authorities, universities and economic agents in order to design and implement sectoral strategies.

**Information and knowledge for development**

While it is true that Argentina has experienced a marked economic recovery, some indicators provide a particularly clear indication of the coherence and sustainability of the local development process in Rosario:

- growth in the number of private sector jobs: these increased by more than 20% between August 2001 and August 2007, which exceeds the national rate;
- reduction in poverty: poverty fell from 29.3% (in the first half of 2003) to 5.5% (in the first half of 2007);
- reduction in the size of the population below the poverty threshold from 54.6% (in the first half of 2003) to 18.3% (in the first half of 2007).

These indicators have been systematized and integrated with the Development Information System (DIS) which enables us to state that a city which is organized and mobilized to promote development makes the best use of the opportunities provided by the macroeconomic and international context. At Rosario City Hall, we are committed to managing and optimizing the development process, which is constantly gaining new features. With the coordination of the UCLG Urban Strategic Planning Commission, we wish to extend and reproduce this experience with a view to improving urban policies and their impact on the creation and strengthening of the factors that play a part in local economic development.
Fourth session of the World Urban Forum (WUF4)
Nanjing, China 2008

Land Markets, Social Inclusion and the Right to the City
A high-level policy dialogue proposed by Cities Alliance

Description: A high-level panel will discuss the difficulties of socially and physically integrating the urban poor into cities, with a particular focus on land markets and on legal interventions. The event will explore the obstacles that many cities and countries face in integrating the urban (and urbanizing) poor into existing cities and social formations. Each of the countries involved - Chile, South Africa, Ethiopia, Philippines and Brazil - have faced enormous practical, financial, legal and social obstacles to overcome fragmented and divided urban development, as well as distorted land markets. Each has explored different methods of trying to overcome these obstacles, including utilizing legislative mechanisms.

Contact: amerrick@citiesalliance.org
Andrea Merrick, Programme Officer
Tel. 202-473-4051

Understanding Your Local Economy:
A Resource Guide for Cities
Funded by the Netherlands Ministry of Foreign Affairs, the Guide presents practical approaches to conducting citywide and regionwide economic and competitive assessments. It includes advice on how to choose local economic development (LED) indicators and tools that can assess a local economy's competitiveness. Drawing on 15 case studies, this methods and experiences of Cities Alliance members and partners, this publication offers practical guidance to the basic components of local economic assessments and how to undertake them. It should promote the development of better informed city strategies, and help improve the economic performance of cities. We expect the French version to be available by late September/early October 2008.

www.citiesalliance.org

Bouger pour vivre mieux
Guby Patrick, Lê Thi Huong et d’autres.
Hanoi : Université nationale d’économie, 293 p.

This book is the fruit of a research project, on intra-city mobilities in Hô Chí Minh City and Hanoi, led in the frame work of Urban Development research Programme (PRUD). The book deals with different aspects of the issue in a comparative approach between the two cities: methodology and lessons from the census of 1999 related to intra cities migration. The conclusion highlights similarities and differences between the two metropolises. Insufficiency of infrastructures in the suburban area with a recent urbanisation and urban transports problems are underlined.

Contact: Mme Nguyên Thị Thiêng thiengnt@neu.edu.vn

Local and regional authorities in the new mediterranean governance, June 2008.
This report was drawn up by the Institute de la Méditerranée (Institute of the Mediterranean) at the request of the steering committee established in order to organise the forum of Mediterranean Local and Regional Authorities, which was held on 22 and 23 June 2008 in Marseille.

A scientific committee led by the institute de la Méditerranée was set up in order to express its views and provide the necessary information for the report. This committee comprised representatives appointed by the networks belonging to the Interregional Mediterranean Commission of United Cities and Local Governments.

Contact: l.griette@commed-cglm.org

Fourth session of the World Urban Forum (WUF4)
Nanjing, China 2008

Land Markets, Social Inclusion and the Right to the City
A high-level policy dialogue proposed by Cities Alliance

Description: A high-level panel will discuss the difficulties of socially and physically integrating the urban poor into cities, with a particular focus on land markets and on legal interventions. The event will explore the obstacles that many cities and countries face in integrating the urban (and urbanizing) poor into existing cities and social formations. Each of the countries involved - Chile, South Africa, Ethiopia, Philippines and Brazil - have faced enormous practical, financial, legal and social obstacles to overcome fragmented and divided urban development, as well as distorted land markets. Each has explored different methods of trying to overcome these obstacles, including utilizing legislative mechanisms.

Contact: amerrick@citiesalliance.org
Andrea Merrick, Programme Officer
Tel. 202-473-4051

Understanding Your Local Economy:
A Resource Guide for Cities
Funded by the Netherlands Ministry of Foreign Affairs, the Guide presents practical approaches to conducting citywide and regionwide economic and competitive assessments. It includes advice on how to choose local economic development (LED) indicators and tools that can assess a local economy’s competitiveness. Drawing on 15 case studies, this methods and experiences of Cities Alliance members and partners, this publication offers practical guidance to the basic components of local economic assessments and how to undertake them. It should promote the development of better informed city strategies, and help improve the economic performance of cities. We expect the French version to be available by late September/early October 2008.

www.citiesalliance.org

Bouger pour vivre mieux
Guby Patrick, Lê Thi Huong et d’autres.
Hanoi : Université nationale d’économie, 293 p.

This book is the fruit of a research project, on intra-city mobilities in Hô Chí Minh City and Hanoi, led in the frame work of Urban Development research Programme (PRUD). The book deals with different aspects of the issue in a comparative approach between the two cities: methodology and lessons from the census of 1999 related to intra cities migration. The conclusion highlights similarities and differences between the two metropolises. Insufficiency of infrastructures in the suburban area with a recent urbanisation and urban transports problems are underlined.

Contact: Mme Nguyên Thị Thiêng thiengnt@neu.edu.vn

Local and regional authorities in the new mediterranean governance, June 2008.
This report was drawn up by the Institute de la Méditerranée (Institute of the Mediterranean) at the request of the steering committee established in order to organise the forum of Mediterranean Local and Regional Authorities, which was held on 22 and 23 June 2008 in Marseille.

A scientific committee led by the institute de la Méditerranée was set up in order to express its views and provide the necessary information for the report. This committee comprised representatives appointed by the networks belonging to the Interregional Mediterranean Commission of United Cities and Local Governments.

Contact: l.griette@commed-cglm.org