Debates on Approaches to Local Economic Development: Implications for the role of Local Government in Development

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Abstract

In Africa, Local Economic development (LED), as a strategy for development, has gained momentum over the past fifteen years. While in advanced or industrialized countries LED has achieved significant successes, it is largely in its infancy in most of the African continent, with the exceptions of South Africa. The design and implementation of LED by local government is complicated by a number of factors such as differences in the understanding and interpretation of the concept, differences in the ideological paradigms which inform the chosen path of LED and variations in terms of the design of the strategy. All these facets have important implications for local government who, in many countries, are expected to deliver the strategy and achieve not only economic growth but also social and equity goals. The main objectives of this paper are: (i) to critically review the literature on LED, with a view to assessing the different conceptualization(s) of LED; (ii) to review the different approaches to LED and the theoretical paradigms which underpin them; (iii) to draw the implications of these differences in terms of the role of local government in LED. The paper argues that, whilst LED is a relevant and useful strategy for local development, its success critically depends on a much broader understanding of the concept itself, the role of the state vis-à-vis the private sector, the nature of, and the institutional framework for, LED, the dynamic and complex nature of local economies and the interaction of the various spheres of government. The paper relies on secondary sources of information on LED from developing as well as some developed countries.

Key words: Local Economic Development, Local Government, Local Community

Introduction

LED is an important strategy which local governments are increasingly using in order to stimulate the growth of local economies. The World Bank (2004), defines Local Economic
Development (LED) as "local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in the community. The 'community' here can be defined as a sub-district, city, town, metropolitan area, or sub national region." Based on this definition, the World Bank identifies the common characteristics of LED as inclusion of government, private sector, not-for-profit sectors, and the local community, working together to “improve the local economy, building on local strengths and opportunities, while working to minimize local weaknesses and threats”.

This understanding of LED is reinforced by Nel (2000) and Rogerson (2005), among others. However, the understanding is evolving in response to the dynamic and complex environments within which LED takes place.

LED has generally been effective in countries such as the United States, the United Kingdom, Australia and Ireland. Since the collapse of the former Soviet Bloc of countries, a number of East European countries have adopted the LED model in order to deal with problems of stagnant economic growth, unemployment, and poverty. In South Africa, LED was introduced after 1994 as one of the government’s strategies to address the socio-economic challenges of inequality, poverty, and marginalization, particularly with regard to the black population, who had suffered discrimination in the era of apartheid.

Although a potentially powerful development tool, LED is limited by a number of factors. Firstly, although the strategy is now adopted in many African countries, there is no clear or common understanding of the concept. Secondly, there is disagreement concerning whether there should be a uniform or standard approach to LED. Thirdly, there are different approaches on how to achieve LED. Finally, there are questions on what should be the strategic focus of LED. These appear to be informed by the different ideological foundation(s) which underpin the particular LED approach. Although it originally emerged as a response to the failure to achieve development at the macro-economic level, and economic-growth oriented strategies, some critics contend that LED is still predominantly an economic growth tool rather, than a strategy to promote social and human development.

The key question is how do these apparently different ‘voices’ impact on local government and its capacity to deliver on LED?

The paper attempts to review the debate on LED, based on these parameters. It reasons that in the African context, where the neo-liberal, purely market-driven model has
failed to solve the problem of poverty and inequality, a more ‘developmental’ approach to LED is necessary.

This paper points out that since the 1980s, when structural adjustment programs were implemented, and when African countries moved away from the state-interventionist policies of the 1960s and 1970s, there seems to be a trend that LED seems to be more about business/enterprise growth rather than about development. Bristow and Wells (2005) observe that most of the policy prescriptions which contemporary LED follows appear to be based on an internal logic which is dominated by market liberalization.

If the development of local government is about how to ensure that LED stimulates growth of the local economy, while at the same time achieving local developmental goals, then a more critical review of orthodox LED approaches is necessary. This paper argues that the model of ‘pro-poor’ LED must be the guiding and underpinning model of LED, in the context of developing economies in Africa. That focus will inevitably require the state to be more actively involved, but without replacing or stifling the role of the private sector. The key debate is just what should the role of a developmental state be? Because there is a danger that, if this is not defined clearly, the role of the private sector can be eroded. Both need each other to ensure the success of a sustainable, pro-poor LED.

**The concept of LED**

The literature abounds with definitions of LED. On the surface, some of the definitions appear similar. However, some differences exist in terms of the conceptualization of the forces which should drive LED.

Helmsing (2001:64) defines LED as “a process in which partnerships between local governments, community-based groups and the private sector are established to manage existing resources in order to create jobs and stimulate the economy of a well-defined territory.”

Zaaijer & Sara (1993:129) see it as “a process in which local governments and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each other, to create new jobs and stimulate economic activity in an economic area”
The World Bank (2004) defines LED as “Local economic development is about local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in the community.”

In essence, LED is viewed as a process in which local government mobilizes the private sector and communities in order to harness local resources in order to achieve economic and social goals. However, there are some who are not so convinced about convergence. For example, Reese (1997), and Danson et al (2000) in Helmsing (2001), argue that defining LED is not easy, primarily because of the fluid and dynamic nature of the concept. Understanding of the concept varies across countries and time.

Other conceptualizations put more emphasis on the objective of achieving equity through LED. For example, in South Africa, the Department of Provincial and Local Government (DPLG) considers LED as an important strategy for “creating robust and inclusive local economies that exploit local opportunities, address local needs and contribute to national development objectives such as economic growth and poverty eradication” (DPLG, 2005, pp.10). The issue of inclusivity is a key element which the government emphasizes in its LED interventions. This is important in the context of an economy in which unemployment and poverty are major challenges.

Concerned about the predominance of economic rather than social goals, the concept of ‘pro-poor’ LED has emerged in order to emphasize that the economic growth which is promoted by LED is not an end in itself, but rather a means to an end, that is, ending poverty and its related maladies. One of the major champions of pro-poor LED in South Africa is a non-profit organization called Khanya-Acid. The organization distinguishes between growth-oriented LED and pro-poor LED. It argues that “it is well-established that approaches which just promote growth do not necessarily reduce inequality and address poverty. In the context of developing countries with high levels of poverty it is important that approaches to growth are implemented which reduce inequality. This means that measures also need to address the informal sector, where much of the African population operate.”

What tends to be unclear in most of the definitions is just what is meant by “local”? Because a municipality typically assumes the role of facilitating LED, local is often interpreted as being confined to a municipal area or jurisdiction. However, there are some who challenge that definition of the local. Beer et.al. (2003:5) prefer to deal with Local and
Regional Economic Development (LRED), because of the inevitably interrelationship between the local and the regional.

Local economic development is concerned with the creation of an environment which will engage stakeholders in implementing strategies and programs. This perspective had to be aligned with the country's macro-economic strategy, which focused on re-entering the global market, providing a climate which is amenable to international investments, enhancing the role of the private sector, and reducing the role of the state (DBSA, 2000). The increasing status of locality in the global economy, and the rising emphasis on local and community decision-making in democratic states have, paved the way for the development of LED.

**Debates on approaches to LED: Evolution of the LED discourse**

The GTZ (2008) notes that in the early stages of LED, activities largely focused on the marketing of locations for external investors. Incentives such as tax breaks and/or reduced costs of public services (e.g. water, electricity and infrastructure) were provided. LED was also largely driven and subsidized by the state. In the second phase, there was a shift towards more endogenous economic potential, with a focus on enhancing the competitiveness of existing firms and promoting the creation and expansion of new businesses. Then, in the 1990s, there was a shift towards a more ‘holistic approach’. Emphasis was on business support and sectoral development approaches, creation of a more conducive environment to economic development, more business networking and collaboration. Today, there are a number of variants of LED, all of which emphasize different aspects or preferences.

**Market-based or orthodox LED**

The market-based, market-driven or ‘orthodox’ LED advocates the supremacy of markets in resource allocation, because markets promote competition which leads to efficiency. In Africa, in the 1960s and 1970s, state-driven development was the dominant model. However, the inefficiency of state-owned enterprises, the poor macro-economic performance of many countries, among other factors, showed that it was not sustainable for the state to assume a more interventionist role in the economy. In the 1980s, most African countries were compelled to embark on Structural Adjustment Programs (SAPs), which were market-driven programs financed by the World Bank and the International Monetary Fund (popularly known as the Bretton Woods institutions). SAPs called for trade liberalization, financial sector reform, public sector reform, which included local government, and labor
market reforms. Although evidence shows that SAPs were not successful because of their poor design and poor timing, the issue is that they represented the impact of globalization in shaping African economies. Public sector reforms, which called for “small government”, fiscal efficiency, and a more business-oriented approach to public sector management also had implications for local government. They were required to streamline the role of the ‘local state’ and aim to achieve efficiency in their operations. The role of local government was to provide basic services (water, electricity, and sanitation services) and also improve local infrastructure. In terms of local economic development, local government was to be a facilitator and not to be directly involved in business activities. Its task was to create an environment for the private sector to invest in the local economy. Market-driven LED emphasizes that LED should focus on increasing economic growth of an area by promoting business growth. As the local economy grows, jobs will be created and incomes improved. This seems consistent with the ‘trickle down’ perception of orthodox economics. The approach is referred to as neo-liberal, because of the perception that market approaches have been ‘imposed’ by globalization forces such as SAPs, and the changing global trading and financial environment, whose rules increasingly require states to open up their economies.

Market approaches emphasize that governments should aim at making their local economies more ‘competitive’ with respect to other locations. Hence, the emphasis on intense ‘place marketing’ or ‘locality attraction’. The emphasis on competition has been criticized by some authors. For example, Bristow and Wells (2005) argue that, inevitably, most localities are doomed to failure because competition will not always achieve a win-win situation. Some will be winners and others will be losers. They therefore emphasize an “inter-locality” approach which can be enhanced through spatial development planning.

Beer et al. (2003) explain the rise of LED as a reflection of widespread acceptance of neo-liberal ideas and rhetorical devices which stress that national governments no longer have the resources or the ability to counter the impacts of globalization. Increasingly, the region is being seen as the appropriate level for strategies to improve business competitiveness and create employment. They also state that neo-liberal ideology holds that large-scale government bureaucracies are too inflexible and too slow moving to deal with the demands of a rapidly changing global environment. Local agencies respond faster. It is local agents that are better positioned to mobilize resources, build social, capital and attract business to an area.


Pro-poor or developmental LED

Villacorta, in CIIR (2002), offers an interesting perspective on LED in the context of Latin America. In that region, LED is deeply rooted within a developmental framework. She stresses the multi-dimensionality of local development in terms of economic growth, ecological sustainability, solidarity, gender, and age justice. She reinforces the vision of local development as “a space and a field for democratic transformation and a seedbed for sustainable development”. She adds that “the local space must be transformed into a living source of innovative economic, political, social and cultural proposals, with the potential to increase and multiply”. This conceptualization of LED is holistic and inspiring and should be the guiding framework for LED.

The underlying principles of this approach are very clearly articulated by Khanya AICdd, a leading champion of development in South Africa. The following are the key principles which characterize a sustainable and pro-poor LED approach:

- Understand the livelihoods in a community, as well as of individuals;
- Recognize the importance of human capabilities as central to the debate on poverty; understand the different types of capital (or assets) that people have and their vulnerabilities;
- Understand how policies, institutions, and processes support/hinder access to these capitals, and increase or diminish people's vulnerabilities;
- Understand the parallel worlds of formal and informal, urban and rural, Westernized and African and that municipal economic development must work with both;
- Identify and build on the preferred outcomes of people (and not decide them for them);
- Understand people's livelihood strategies and how they can be enhanced;

LED officials also need to conceptualize the broader range of interventions which impact on poverty as being part of LED.

By understanding communities and individuals, their aspirations, and their capabilities, and by consulting and working with them, it is possible to design LED.
Sustainable LED

Sustainability is critical in LED, because if the local environment is damaged by pollution and other harmful activities by business or communities, then the future capacity of the local economic base will be eroded. Environmental considerations must therefore be integrated in the design of LED. It should also be noted that sustainability goes beyond environmental considerations. Participation of people, of communities, of businesses, are key elements of sustainability. That is why local government has to invest in building strong and effective partnerships with community organizations, business associations or networks, international organizations and the public sector at large. Finally, financial sustainability must also underline LED. If LED is to be developmental, community projects or interventions should be able to sustain themselves beyond, for instance, in the case of South Africa, any grant support from the LED fund.

New Generation LED

Increasingly, in response to the different concerns about LED interventions becoming overly more economic growth-focused rather than developmental, some authors advocate a more integrated approach, which ensures that issues of growth, development, equity, and environment are embedded in LED. For example, Helmsing (2001) writes about what he refers to as the new generation LED. Distinctive features of the new generation of LED:

- It is multi-actor. Success critically depends on collaboration between public, private and community sectors.
- It is multi-sector. There is active participation of the public, private and community sectors.
- It is multi-level. In the context of globalization, LED has to harness the opportunities which are offered by the global “economy” and use them for the advantage of the local economy. Local government needs to harness knowledge and expertise from successful local governments from other regions.

Cognizant of the need to promote economic, social and equity goals, the new model is anchored around three critical components of local development. Firstly, it has a strong community-based economic development element which focuses on poor urban and rural households, with a view to identifying and supporting self-help and sustainable sources of
income, creating jobs, creating safety nets and improving community services. It focuses primarily on the economy of the community.

The second component of the new generation LED model is business and enterprise development. This aspect seeks to develop the local economic base of an area. The World Bank (2004) presents the key elements of this strategy as:

Improving the local business climate

A major impediment to business consists of the bureaucracy involved with obtaining business licenses and permits and other documentation. In order to improve the business environment, it is necessary to improve processes and procedures for business registration and taxation.

Making investments in hard strategic infrastructure

Hard strategic infrastructure consists of the built environment for businesses, including transport infrastructure (roads, rail, air, and sea) and utilities (industrial and potable water, waste disposal, gas and electricity, and telecommunication systems).

Facilitating access to sites and premises for business

Local government should provide and make available land and business sites, workspaces, and business units. Information should be packaged in a way that it is accessible to prospective businesses.

Supporting development and provision of soft infrastructure

Business also requires support in the form of regulatory reforms which enhance business growth, skills training, and business-focused education, research, and development, Beverley and Sherraden (1997) have argued that investments in basic needs and human capital will yield positive social returns in the form of increased participation, connectedness, and social stability, whilst economic returns yield increased productivity, economic growth, and reduced income and asset inequality. Support also includes the provision of ‘one-stop shop’ advisory services, business networking, guidance to accessing capital, and finance sources.

Promoting business growth and retention
The provision of advice, technical support, and resources enables existing local business to grow, with the goal of retaining and strengthening existing local business. Inter-firm cooperation is also promoted, in order to encourage knowledge and information sharing. A range of business support services is part of this milieu.

New enterprise development and promotion

Start-up businesses need much support, in the form of advice, technical support, resources, access to finance, and information on registration and licensing. LED should have a component which addresses such needs.

The third aspect of the new model is locality marketing. This concerns the management of the entire territory. This emphasizes spatial development plans and their implementation. Its primary objective is to attract business to a local area. Its key elements include:

- Physical planning and development (development of spatial plans), zoning, and regulations. Introduction of one-stop services for permits and licenses.
- Urban planning and design (upgrade of commercial centers, improvement of commercial sites and premises), typically referred to as ‘town-scaping’. Development of shopping malls to attract business.

Infrastructure and socio-economic overhead capital

Social overhead capital (public, non-profit, private institutions in education, training, research and technology)

Attracting business to a local area should be encouraged if they add value to a local area. Consistent with pro-poor growth, businesses which have a potential to create jobs should be encouraged.

Supporting development of business clusters

Focuses on facilitating linkages and interdependence amongst firms (including suppliers and buyers), supporting services (including training institutions and banks) in a network of production (and sale) of products and services. Local governments can collaborate locally and regionally to become facilitators of industry networking and catalysts/brokers to bring the actors together.
Regeneration of commercial and community zones

Addressing specific area-based problems such as regenerating a run-down town center, or a declining commercial zone or neighborhood. Fostering promising growth opportunities where market potential is already demonstrated by emerging private investment (e.g. along area transport corridors).

More Radical Critiques of LED Models

Most of the approaches to LED presented above are largely rooted in what critiques of traditional LED models refer to as the “prescriptive and standardized” approaches to LED. These approaches in their view, are not likely to succeed because, in their prescriptiveness, they miss out the uniqueness of each locality, and therefore prescribe strategies and interventions which do not address the complexities and dynamics of the development of a locality. Rowe (2009) explains that the discipline of local economic development is a complex mix of concepts, practices, and rhetoric. He points out that traditional development theory has failed when it has been applied to local economic development because of its focus on abstract macro issues and not on the specific. This shortcoming is significant, because regions and contexts for local development are different, such that there cannot be blueprints for their development. Boland, in Rowe (2009), states that:

the tendency to copy generic solutions has resulted in cities adopting the same economic development tool-kit….at a time of the theoretical emphasis on the role of innovation in local economic development. What actually emerges as local economic development policy lacks any real innovative, imaginative or original thinking because the policy priorities contained in the strategy documents are effectively identical.

He emphasizes that the practice of LED is “an ensemble of social relations, networks and nodes of dynamic and often inventive social interaction, patterned by legal, government and professional systems, and by customs and habits build up over the years” Rowe (2009).

Deleuze, in Rowe (2009), echoes these sentiments: “we learn nothing from those who say: ‘do as I do’.”
Foucault (2005) adds: “I believe that economic development does not have a general theory because traditional positivistic approaches cannot adequately theorize the complexity of the chaos of markets, global forces and multiple actors.”

The essence of the argument of the critics of traditional LED approaches is rooted in the idea that the practice of local economic development must be rooted in an in-depth understanding of the complexity and uniqueness of each local situation. The design of policies and strategies must be based on this kind of understanding, otherwise they will not be effective in achieving the goals of LED.

**Implications for local government**

From the discussion, it is clear that there are different perceptions about what LED is. In order for local government to be effective in implementing LED, it is important to have consensus on the definition of the concept. That common understanding must integrate the economic, social, and equity goals. In essence, there has to be an understanding that economic development and social development and action are not mutually exclusive. On the contrary, they are complementary and therefore local government should promote both simultaneously and in a coordinated manner. LED therefore has to be a growth path or trajectory, which operates to achieve *simultaneously* the goals of enhanced competitiveness, on the one hand, and of poverty reduction, on the other. LED should not just focus on or prioritize economic growth programs without also integrating poverty reduction objectives. In that regard, strategies to attract and promote business growth should target the SMME sector, which has the potential for creating jobs.

The debate on whether LED should be market-based or driven largely by the state through local government is a pertinent one. While recognizing the important role and contribution which the private sector can play in increasing local economic growth, there is also the danger that a wholesale private-sector driven LED may, in the end, focus on pro-growth strategies at the expense of developmental goals. To guard against that, a developmental state (at local government level) must be actively involved in guiding and coordinating LED strategies which will also promote social development. Local government is better placed to ensure that the community-based economic development dimension of LED is prioritized. It is a reality that some localities may not be competitive or attractive due to their economic status, state of infrastructure, resource endowments, and so on. Their revenue base may be too limited to undertake large investments in LED. A private-sector
driven LED agenda in such a context may not work, as business may not be responsive. Local
government will have to make major investments to improve infrastructure, improve the
business environment and create the partnerships required in LED before any tangible
economic and developmental outputs are realized.

The importance of a supportive policy environment cannot be overemphasized. A
developmental local government approach is critical. Bagchi (2000 pp. 398) defines
developmental local government as one that puts economic development as the top priority
and is able to design effective instruments to promote such an objective. The instruments
identified are, *inter alia*, forging new formal institutions, the weaving of formal and informal
networks of collaboration among citizens and officials, and the utilization of new
opportunities for trade and profitable production.

In countries like South Africa the policy framework is clear and comprehensive.
However, it appears that most other African countries have not achieved that goal, and so it
will be necessary for them to develop clear policy and regulatory frameworks to guide LED.
The service culture of local government also has to change. Despite the proliferation of
literature which emphasizes the importance of efficient services, from utilities to business
licensing and registration, commercial sites, for example, many municipalities are still
characterized by heavy bureaucracy, inefficiency, and corruption.

It increasingly appears that the market-model is gaining ground, particularly due to
globalization. These forces are increasing pressure on the state to pull back. Whilst
acknowledging the important part that business or the private sector can play in achieving
LED, the state should still be actively involved or take a lead role in order to ensure that
development takes place at the local level. If things are left entirely to the private sector, there
is no guarantee that LED will take place, because business only responds to some areas and
not others. That is why rural areas are lagging behind, because they lack the necessary
infrastructure and supportive environment which can induce the private sector to invest.
Building that infrastructure and a nurturing environment requires leadership by competent
and well-resourced local government machinery. In short, whilst African countries should
embrace markets and the contribution of the private sector, they should be careful not to
abandon their leadership role as champions of a people-centered, pro-poor, developmental,
and sustainable development agenda.
The argument presented by scholars like Foucault and Rowe, who are radically opposed to traditional approaches to LED, which, in their view, tend to be prescriptive and standardized, must be given serious thought because of their convincing argument. They opine that because local economies are complex spaces which are shaped by a ‘multiplicity’ of forces, it is critical for local government to ensure that the designs and implementation of LED have to be rooted in an in-depth understanding of those realities. This inevitably requires a lot of time and resources, but, given the positive spin-offs of taking this route, this is a methodological approach which local governments should seriously consider in their approach to LED.

Implementation remains a major challenge in local government, largely due to capacity constraints, and so it will be necessary for national and provincial governments, with support from private business development service providers, to strengthen the capacity of local government to deliver LED. Adequate budgets and human resources are key to effective LED units or departments in the municipalities.

One of the limitations of some LED implementation is the restricted participation of the private sector, and so the creation of partnerships between public and private sectors will enhance the effectiveness of LED. The establishment of Local Economic Development Agencies (LEDAs) should be able to facilitate that process and, in particular, to promote greater cooperation and synergy with different spheres of government. National governments should ensure that local government is adequately resourced, so that it takes leadership in designing and promoting LED.

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