

*THE WORLD BANK APPROACH  
TO LOCAL ECONOMIC DEVELOPMENT*

# 1. What is LED?

## Defining LED

**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. "Community" is here defined as a city, town, metropolitan area, or sub national region.**

Local economic development (LED) offers local government, the private sector, the not-for-profit sectors and the local community the opportunity to work together to improve the local economy. It focusses on enhancing competitiveness, and thus increasing sustainable growth; and also on ensuring that the growth is inclusive. LED encompasses many different disciplines, such as planning, economics, and marketing. It also encompasses many local government and private sector functions including planning, infrastructure provision, real estate development and finance. The practice of local economic development can be undertaken at different geographic scales. A local government pursues LED strategies for the benefit of their jurisdiction. However individual communities, and thus individual areas within a local governments jurisdiction can also pursue LED strategies to uplift their own communities. These are most successful if pursued jointly with the local government strategies.

LED is thus about communities continually upgrading their investment climates to improve their competitiveness, retain jobs and improve incomes. Local communities respond to their LED needs in many ways. There are a wide variety of LED initiatives including:

- ensuring that the local investment climate is functional for local businesses
- supporting small and medium sized businesses (SMEs)
- encouraging new enterprise
- attracting investment from elsewhere (within the country and internationally)
- investing in physical (hard) infrastructure
- investing in soft infrastructure (including human resource development, institutional support systems and regulatory issues)
- supporting the growth of particular clusters of businesses
- targeting particular parts of the city for regeneration or growth (spatial targeting)
- supporting survivalist (often informal) businesses
- targeting certain disadvantaged groups

## A Brief History of LED

Since the 1960s, LED has passed through three broad stages or 'waves' of development. In each of these waves LED practitioners have developed a better understanding of successful and unsuccessful programs. Today LED is in its 'third wave'.

Although LED has moved through each of these waves, elements of each wave are still practiced today. The following tables summarizes the three waves of LED:

<b>Three Waves of Local Economic Development</b>		
<b>Wave</b>	<b>Focus</b>	<b>Tools</b>
<b>First:</b> <b>1960s to early 1980s</b>	<p>During the first wave the focus was on the attraction of:</p> <ul style="list-style-type: none"> <li>mobile manufacturing investment, attracting outside investment, especially the attraction of foreign direct investment</li> <li>hard infrastructure investments</li> </ul>	<p>To achieve this cities used:</p> <ul style="list-style-type: none"> <li>massive grants</li> <li>subsidized loans usually aimed at inward investing manufacturers</li> <li>tax breaks</li> <li>subsidized hard infrastructure investment</li> <li>expensive "low road" industrial recruitment techniques</li> </ul>
<b>Second:</b> <b>1980s to mid 1990s</b>	<p>During the second wave the focus moved towards:</p> <ul style="list-style-type: none"> <li>the retention and growing of existing local businesses</li> <li>still with an emphasis on inward investment attraction, but usually this was becoming more targeted to specific sectors or from certain geographic areas</li> </ul>	<p>To achieve this cities provided:</p> <ul style="list-style-type: none"> <li>direct payments to individual businesses</li> <li>business incubators/workspace</li> <li>advice and training for small- and medium-sized firms</li> <li>technical support</li> <li>business start-up support</li> <li>some hard and soft infrastructure investment</li> </ul>
<b>Third :</b> <b>Late 1990s onwards</b>	<p>The focus then shifted from individual direct firm financial transfers to making the entire business environment more conducive to business.</p> <p>During this third (and current) wave of LED, more focus is placed on:</p> <ul style="list-style-type: none"> <li>soft infrastructure investments</li> <li>public/private partnerships</li> <li>networking and the leveraging of private sector investments for the public good</li> <li>highly targeted inward investment attraction to add to the competitive advantages of local areas</li> </ul>	<p>To achieve this cities are:</p> <ul style="list-style-type: none"> <li>developing a holistic strategy aimed at growing local firms</li> <li>providing a competitive local investment climate</li> <li>supporting and encouraging networking and collaboration</li> <li>encouraging the development of business clusters</li> <li>encouraging workforce development and education</li> <li>closely targeting inward investment to support cluster growth</li> <li>supporting quality of life improvements</li> </ul>

### **Links to Other Planning Processes**

LED is a holistic discipline. A successful LED strategy will articulate with almost all local authority strategies. Importantly, investors should not have to deal with conflicting interests within the local authority. Such an articulation ensures that investors will not be confronted by conflicting interest within the local authority. The LED strategies articulation with other council plans will enable a competitive local business environment.

Successful sustainable cities are able to balance the competing needs of all local strategies. It is important that professionals in local government balance the economic development needs of an area with its environmental and social needs. Local government plans that should influence, and be influenced by, the local economic development agenda potentially include:

- City strategic plan
- Planning, zoning, resource management and land use development strategies
- Transportation strategies
- Leisure and recreation strategies
- Housing strategies
- Anti-poverty strategies
- Education and training strategies
- Crime and public safety strategies
- Environmental strategies and Agenda 21
- Waste disposal and pollution control strategies

The national government has a key role to play in stimulating an environment within which local communities can practice local economic development. In addition to looking at the relationships that LED has with other local plans, there is a need to look beyond the local area to other national and regional plans, rules and regulations that will impact upon the local economic agenda. These will include national and/or provincial laws and policies, for example:

- Telecommunications deregulation
- Financial regulations
- Environmental standards
- Taxation
- Land and property laws
- National government infrastructure investment plans

## Context for LED

The success of communities will depend on their ability to adapt to the changing and increasingly competitive environment. At the *international level* the drivers of this change include:

- **Economic**
  - The declining importance of commodities
  - The impact of global strategic alliances between multinational corporations on their investment and buying behaviors
  - The oversupply of manufacturing production in key global sectors
  - Increasingly mobile capital, making finance easier to access nearly everywhere
  - The changing employment dynamics from primary and manufacturing to the service sectors
- **Technological**
  - Technological advances and increased efficiency in production processes etc.
  - Major advances in logistics giving rise to reduced need for, and costs of, shipping
  - No national boundaries to internet communication, e.g., e-commerce and e-government
  - Importance of information services and information technology in all sectors
- **Political, governmental and regulatory**
  - Falling trade barriers
  - The impact of global environmental and labor standards
  - The impact of regional trade groupings and regional integration

At the ***national level*** issues include:

- Macro-economic and political stability
- Fiscal and political decentralization (a worldwide trend)
- Widespread privatization of whole industries and decentralization of government services
- Increasing democratization that brings increasing pressures and expectations from individuals and groups
- National industrial and economic policies
- Industrial incentive schemes
- Taxation and regulatory reform

Few businesses look to locate or expand in a community based only on the advantages of a particular town or city. They look wider to what the region has to offer. Whilst communities in a region will compete to attract investment, there are also many opportunities for collaboration between communities and regional institutions.

## **2. How to Organize an LED Strategy**

### **LED Strategic Planning**

Ideally, the development of a LED strategy should be an integral part of the broader strategic planning process for a subnational region, city, town or rural area. Sound strategic planning ensures that priority issues are addressed and scarce resources are well targeted. The five-step planning process detailed should be tailored to correspond with other local planning processes. The process is not prescriptive and should be adapted to meet the needs of each individual community.

#### **Step One: Organizing the Effort**

A community begins the LED strategy planning process by identifying the people, public institutions, businesses, community organizations and other groups with vested interests in the local economy. This is often led by the local government, usually the Mayor or the Chief Executive Officer (CEO). The skills and resources that each of these stakeholders bring to the strategy process provide a critical foundation for success. The identification of these individuals and organizations assumes some basic knowledge of the workings of the city economy. A resource audit is a necessary input into the strategy. This audit would include identification of financial, human and other capital resources that can be applied to the LED strategy. Working groups and steering committees can be established to ensure that both formal and informal structures are in place to support strategy development and implementation. Other issues that need to be tackled in the early stages are establishing a LED staff teams and political supporting processes.

#### **Step Two: Conducting the Local Economy Assessment**

Each community has a unique set of local attributes that advance or hinder local economic development. This includes its economic make-up, its human resource capacity to carry out economic development, as well as how 'friendly' the local government's investment climate is for economic activities. The aim of the local economy assessment is to: identify the community's strengths and weaknesses including its human resource capacity and the local government's 'friendliness' to all types of business from corporate to informal survivalists; and identify the opportunities and threats to the local economy. The goal of the assessment is to create an economic profile of the community that highlights the basis of its comparative advantage. Also important in the local economy assessment process is the development of comparative information on the economic position of neighboring communities and other regional, national or supranational competitors.

#### **Step Three: Developing the LED Strategy**

The LED strategy includes development of a shared economic vision for the community and determination of goals, objectives, programs, projects and action plans. This process ensures that all major stakeholder groups are given the opportunity to define what is to be achieved, how it is to be achieved, who will be responsible and the time frames associated with the implementation of the strategy. Most importantly, the LED strategy and action plans must be finely assessed against the human resource capacity to carry them out, as well as the budgetary constraints. Ultimately the strategy's action plans should be incorporated into the work and budgetary program of the local authority and appropriate elements taken on by other stakeholders (e.g., business associations, utilities, educational institutions, etc.). The aim is to leverage strengths, overcome weaknesses, exploit opportunities and deal with threats.

#### **Step Four: Implementing the LED Strategy**

Strategy implementation is driven by the action plans. Ongoing monitoring is provided through the formal structures set up under step one, and evaluation of specific project outcomes ensures that the strategy continues to lead to the achievement of the LED vision, goals and objectives. Within strategy implementation, it is important to remember to set up the correct institutions to carry out the plans.

#### **Step Five: Reviewing the LED Strategy**

Good monitoring and evaluation techniques help to quantify outcomes, justify expenditures, determine enhancements and adjustments, and develop good practices. This information also feeds into the review of the total strategy. The LED strategy should be reviewed at least annually to ensure that the overall strategy itself is still relevant. It may be that conditions have changed or that the initial assessment was incorrect to the local conditions. The LED strategy should evolve continuously to respond to the ever changing competitive environment.

## Step One: Organizing the Effort

Successful LED depends on the collective efforts of the public, private and community sectors. Formal and informal structures and processes should be established to ensure all stakeholders are involved and the planning process is well managed:

- **Establishing a 'Home' for LED within the local government**  
 'Someone' has to take responsibility for starting a focus on LED in the local area. Often (although not always) this is the local government. Even if the initiator is not the local government, it is crucial to have local government support for the process. In almost all successful city economic development case studies, a responsible person, often in either the Mayor's office or in the office of the Chief Executive Officer (CEO), is initially appointed to take responsibility for LED. (This may expand into a specific unit or department at a later point.) The responsible initiator(s) may spend much of his/her time upfront obtaining a sufficient understanding of the local economy to identify important stakeholders.
  
- **Management of the stakeholders**  
 Stakeholders are individuals, firms and/or organizations in the public, private and not-for-profit sectors that have an interest in and ability to contribute to strategizing and operationalizing. The stakeholder management process recognizes that all stakeholders are important and that some will be able to participate more than others. It must be determined:
  - who the key stakeholders are
  - what their interests are likely to be
  - the best way to involve them in the LED activities

The benefits of involving stakeholders include:

- Stakeholders bring specialist knowledge and different perspectives making the planning process more robust
- They bring professional, financial and physical resources to the table
- They legitimize the process by being involved
- They forestall problems by being engaged in the process
- Business partners are likely to know much more than local government representatives about the true state of the competitive position of the community
- By involving higher tiers of government, strategies are likely to benefit from their support (including financial)
- Local community representatives are likely to be best informed about local problems and opportunities that could be addressed by the LED strategy
- By involving communities, it is more likely that a volunteer effort could be established to support LED implementation programs
- Jobs and economic growth are created in the private sector. Government is usually merely a facilitator in this process

Potential stakeholders include:

Public Sector	Private Sector	Community Sector
<ul style="list-style-type: none"> <li>▪ Local government</li> <li>▪ State government</li> <li>▪ Health Authority</li> <li>▪ Transportation Authority</li> <li>▪ Institutions of higher learning</li> <li>▪ Education Board/Authority</li> </ul>	<ul style="list-style-type: none"> <li>▪ Chamber of Commerce</li> <li>▪ Board of Trade</li> <li>▪ Business associations</li> <li>▪ Large corporations</li> <li>▪ SME representatives</li> <li>▪ Private developers</li> <li>▪ News media</li> <li>▪ Professional</li> </ul>	<ul style="list-style-type: none"> <li>▪ Individuals</li> <li>▪ Neighborhood groups</li> <li>▪ Church groups</li> <li>▪ Youth groups</li> <li>▪ Environmental groups</li> <li>▪ Voluntary service groups</li> <li>▪ Historic societies</li> </ul>

<ul style="list-style-type: none"> <li>▪ Utilities</li> </ul>	<ul style="list-style-type: none"> <li>associations</li> <li>▪ Higher learning establishments</li> <li>▪ Utilities</li> <li>▪ Town center improvement groups, etc.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cultural and arts groups</li> <li>▪ Educational groups</li> <li>▪ Groups representing minorities</li> </ul>
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**However, the ultimate configuration of the stakeholder group should really be determined by a strategic assessment of the local economy and the important local economic actors.**

- **Establishment of a Steering Committee**  
The Steering Committee should include key stakeholders from all sectors including the local authority. The local authority will usually provide institutional support for this committee. This provides them with a degree of control that may be needed in the early days of establishing the LED strategy and partnerships.
- **Establishment of a group within the local authority to oversee the LED process.**  
This group should include people from across the various local authority departments that are likely to have an interest or professional, technical, political or financial responsibility for matters affected by the LED strategy. Membership should be at both Elected Member and at officer levels. There should be terms of reference and a formal reporting system for the group. Transparency and public access to information used or generated by the group is important to its credibility.

## Step Two: Conducting the Local Economy Assessment

**A thorough local economy assessment provides the foundation for successful LED strategy development.**

### LED Information

To develop a LED strategy, the community must be fully informed about their own town or city, their own region and their national economy. Conducting a local economy assessment involves collecting strategically important information and then analyzing it strategically. Some useful types of information are:

- *Demographic information*, i.e., information about the people in the community, what they need and what they are capable of.
- *Economic information*. This information will provide an understanding of the local economy.
- *Investment climate information*. This will inform on how the local government treats its business community.
- *Hard Infrastructure information*. This will inform about the status of water, electricity and wastewater provision. The focus should be on economic areas.
- *Regional and National information*, to gather information on what is happening in other areas that impact on the community.

This table shows examples of the types of information that can be collected in each of the categories.



<b>Local Economic Development Information</b>	
<b>Demographic</b>	<p><b>Population :</b> By size, age, growth rate, projected growth rate, household size, population density. This could include a poverty mapping exercise to identify demographic characteristics by subdistricts in the city.</p> <p><b>Employment :</b></p> <ul style="list-style-type: none"> <li>• Employees by industrial activity -- compare regionally and nationally, and note changes over time, if possible</li> <li>• Age structure of the employed and the occupation breakdown of employed and unemployed</li> <li>• Structure of employment (full/part-time/male/female) -- compare nationally and over time</li> <li>• Average gross weekly earnings by gender and full- and part-time employment</li> <li>• Unemployment figures, by numbers, age, duration</li> <li>• Numbers and other information on people and activities in the informal sector</li> </ul> <p><b>Education:</b></p> <ul style="list-style-type: none"> <li>• Numbers and types of schools, numbers of teachers (full-time equivalent) and class sizes</li> <li>• Further and higher education establishments by type and numbers attending.</li> <li>• Educational attainment levels by numbers and types -- compare nationally</li> </ul> <p><b>Training:</b></p> <ul style="list-style-type: none"> <li>• Numbers and types and age groups of technically qualified individuals and those going through training programs.</li> <li>• An assessment of skill/occupational shortages/oversupply.</li> </ul>
<b>Economic</b>	<ul style="list-style-type: none"> <li>• Numbers and sizes of firms, broken down by sectors numbers of full-time equivalent employees, in time series, if possible</li> <li>• Number and type of recent (e.g., last 10 years) firm closures, by size, sector and date</li> <li>• Number of inward investments, foreign and domestic (both Greenfield and existing companies) by employee size, sector and date</li> <li>• Number of new business startups, by size, sector/activity and longevity</li> <li>• Number of companies that export/to where/ by what sector/company size</li> <li>• Top 50 (or so) companies by size -- employment and/or turnover -- by sector and named</li> <li>• Business tax income</li> <li>• Rental/purchase costs for vacant industrial and service sector units, by time series and size groupings</li> <li>• Vacancy rates of industrial and commercial space by size, location, absorption rates</li> <li>• Port/airport/rail cargo/passenger statistics</li> </ul>
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<b>Regional and National</b>	<ul style="list-style-type: none"> <li>• What neighboring cities are doing in terms of their local economies</li> <li>• How neighbors are competing</li> <li>• How they are, or could, collaborate</li> <li>• What is happening at the national level</li> <li>• Opportunities available through the national government</li> <li>• Opportunities and threats presented by regional government</li> </ul>

**Data collection can be ongoing forever and can sometimes consume the entire LED budget.**

**Successful cities are often strategic about the TYPE of information that they collect. When collecting information it is useful to ask 'What will this informational material be used for?' If there is not enough budget for a thorough data analysis, then focus groups with researchers, the chamber of commerce and other knowledgeable people can be a useful option.**

### Analysis of the Information

The information collected provides the basis for an assessment of the community's economic situation. It should also begin to point to the projects and programs that are (i.) required and (ii.) possible.

There are various strategic tools that can be used to analyze the information. One of these is the SWOT (strengths, weaknesses, opportunities and threats) analysis. The important part of this process is that ALL aspects are considered. Several levels of SWOT analysis can occur.

- First, a SWOT of economic conditions of the "community" can occur. This will focus on the strengths, weaknesses, opportunities and threats to the economy. It will assist in pointing out what the focus of a strategy should be.
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The linked documents below contain a more detailed discussion on what a local economy assessment is, methodologies and tools for conducting a local economy assessment. At a more practical level, the city of Cali has also recently collected economic information towards a local economy assessment. (See link below for Cali's terms of reference, as well as the first round of economic data). Notice that the Cali report is descriptive; the analytical SWOT is not included. The Durban local economy analysis has taken this one step further. Their report (see link below) tries to present the data in a succinct form aimed at drawing out their comparative advantages; this forms the basis of decision making in the city.

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### **Step Three: Developing the LED Strategy**

The intent of step three is to achieve an integrated or global approach to LED. Strategy making involves:

#### **1. Creating a vision**

A vision should be developed and agreed on by all stakeholders. The vision should be a description of the stakeholders' preferred economic future for the community. While the vision may not be fully achievable, it does give the community a clear sense of direction. It is on the basis of the vision that goals, objectives, programs and project plans will be developed.

#### **2. Developing goals**

Goals point more specifically to the outcomes the community seeks to achieve. Goals are much more descriptive and concrete than a vision statement and should be directly related to the findings from the local economy assessment.

#### **3. Developing specific objectives**

Objectives are even more specific. They should be time bound and measurable. The aim is to leverage strengths, overcome weaknesses, exploit opportunities and deal with threats identified during the local economy assessment.

#### **4. Developing programs and projects to achieve the objective**

Programs and projects are the specific actions the community will take to achieve the vision, goals and objectives. Attention should be given to identifying a broad base of projects, some of which should provide 'quick-wins' for the strategy. These projects should include agreed actions for all stakeholders (not just the local authority).

#### **5. Documenting the strategy**

The strategy should be documented and made accessible to all members of the community. Feedback on the LED strategy should be encouraged and taken into account. In communities where stakeholder participation has been limited, the strategy document could be developed in draft format and used as the basis for further consultation before finalization of the LED strategy

### **Step Four: Implementing the LED Strategy**

Strategy implementation is driven by action plans. Key issues to consider here are:

- ▪ Who takes responsibility for each program or project?
- ▪ What are the targets in terms of outputs, timing and funding?
- ▪ What steps need to be taken to achieve the targets?
- ▪ What will be the reporting structures (including to stakeholders)?
- ▪ What are the performance monitoring and evaluation systems and processes?
- ▪ What has to happen to ensure they are in place and used?
- ▪ What are the budgetary and human resource requirements for the sustained delivery of the project or program?

Most broad-based, comprehensive LED strategies are delivered through public/private sector partnerships that are strongly driven or led by the local authority. The private sector is often keen to manage initiatives aimed at improving the vitality and viability of town centers or to be involved with business development initiatives. Community groups may seek to lead initiatives to improve the health or housing conditions of a target group of disadvantaged individuals.

**Strategy implementation is never as clear-cut as the strategy development itself. It often takes longer than expected and involves a consistently changing environment. Within each project and program that is being implemented, strategic thought will occur at every step of the way. This will often focus on how to best advance the project in an often rapidly changing environment.**

### **Step Five: Reviewing the LED Strategy**

Reviewing an economic development strategy is normally done on an annual basis, usually in conjunction with the local authority's financial planning cycle. Both the local authority group and the steering committee should be involved in the review process.

Issues include:

- ▪ Is the SWOT analysis still valid or have circumstances changed?
- ▪ Is there more information at hand that changes the view of the issues?
- ▪ Are changes required in the vision, goals or objectives to reflect changing circumstances?
- ▪ Are projects achieving what was hoped they would achieve?
- ▪ If not, what should be done?
- ▪ Are the performance indicators being met?
- ▪ If not, why not?
- ▪ What changes need to be made?
- ▪ Should the indicators be changed?
- ▪ Should there be more action on projects?
- ▪ Should the projects be changed?

Even though Local Economic Development is a relatively new discipline, there is no shortage of examples of bad practice that should be highlighted to remind one of the potential for wasteful mistakes. Most of the mistakes can be directly attributed to just a few causes:

- Politics (including exclusion of key interest groups, inappropriate zoning and so on);
- Lack of strategic thought (resulting in inappropriate strategies);
- Inadequate research, monitoring and evaluation (resulting in inappropriate strategies and initiatives);
- Grant chasing;
- Following the latest fad (blindly).

**The LED strategy should change continuously to respond to the competitive environment.**

### **Funding a LED Strategy**

Funding a LED strategy is often very difficult. One of the reasons for this is that local authorities often do not have a statutory responsibility to deliver LED services. When it comes to budget time, LED is competing for scarce resources with departments such as housing, health and education. Sometimes, it is difficult for elected officials to justify spending scarce resources on LED efforts because short time horizon responses are often perceived as more important than the LED initiatives that often have longer time horizons, and whose benefits may not be immediately apparent.

The LED strategy should have a budget. In selecting particular programs and projects, care needs to be taken to ensure that funds are available for the entire length of each project as projects are likely to span several financial years. Forward or exit strategies should also be developed.

Sources of funding for LED initiatives include:

- local authority revenue raised from the usual sources including property taxes and user fees
- sale or renting of local authority-owned industrial or commercial buildings and land
- national and state government intergovernmental transfers
- international donor grants and loans
- private sector funding such as corporate donations
- foundations, especially for environmental improvements, human resource initiatives and

### 3. LED Tools

Many of the processes that support local economic development (LED) strategy development and implementation may be supported by tools and techniques already developed by others. Here are some of the tools that can be used in strategy development.

#### The Role of Local Economic Development Agencies (LEDA)

The first LEDAs were set up in Europe at the end of the 1950's. LEDA are promoted by various European governments as well as by the ILO.

##### I. Objective

- Foster the economic development of the territory where it works; tap the endogenous potential of a territory.
- Capitalize on endogenous resources and concentrate on support for those groups with the most difficult access to regular economic and financial circuits.
- Foster integration and coordination of local institutions and associations around a shared vision of local economic development.
- Promote local small and medium sized business; create entrepreneurial culture.
- Plan and bring into being a system of services to public and private organizations that can support local economic development.
- Pay special attention to identifying the most vulnerable social groups and identifying poverty traps.

##### II. What is a Local Economic Development Agency

- Sets up, runs, and supports an endogenous network able to catalyze development. The essential mission of LEDA is to:
  - create jobs.
  - promote and support small and medium-sized businesses in the various branches of production.
  - improve the economic context and opportunity of the territory.
  - Promotes free competition among healthy businesses.
  - Provides tools for economic development that include the weakest and most vulnerable.
  - Uses businesses as a weapon in the fight against poverty.
  - Develops relationships of collaboration and cooperation across sectors.
  - Allows the local government to be the direct actor.

##### Several core characteristics of a LEDA are:

- **It is an organized structure.**
  - LEDAs have their own legal structure and functional autonomy; it has a legal framework.
  - They involve local actors from both the public and private sector; consortium of public and private sector groups.
  - Non-profit association.
  - Bundles services together: financial services, technical assistance, training of potential entrepreneurs, territorial service.
  - Institutional entity -- plays a role in the local and national political picture.



- Contractual entity -- independent access to funding, to subcontracts and services, to national and international programs.
- Administrative entity -- implement projects and provide services and credit.
  
- **It is a territorial structure.**
  - Tool for development policy in decentralized states.
  - Provides practical support for national policies concerning the decentralization of economic development decision-making and services.
- **Forum for social dialogue.**
  - Forum where local actors can promote and determine their own processes of economic development.
  - LEDA - autonomous and democratic quality: public institutions and local associations are participants, but LEDA is not accountable to individual parties but to the general assembly.
  - Space for decision-making
  
- **Coordinates local economic development planning and implementation.**
  - Assembles all the actors in order to design a strategy for local economic development.
  - Indicates the most promising sectors, priority interventions and their configurations.
  - Provides technical assistance to the local administrations responsible for planning.
  - Assists the entrepreneur to find a good idea and develop his or her business plan, ascertaining its feasibility.
  - Assists businesses both during start-up and in their initial period of activity.
  
- **Weapon against poverty.**
  - Credit is accessible to all: LEDAs act as guarantors with the banks, providing collateral for the poor.
  - Associative structure enables all territorial organizations to participate and play a role in the decision-making process.
  - Vehicle for small producers to market products outside the local area.
  
- **Provides Credit.**
  - Helps to finance business plans.
  - Credit disbursed on the basis of feasibility of project.
  - LEDAs currently boast high loan repayment levels.
  
- **Sustains enterprise development and sustainability.**
  - Helps the beneficiary to draw up business plans and provides inexpensive credit.
  - Helps in formulating reliable business plans, credit disbursement and post-financing assistance.
  
- **Social Benefits.**
  - Protects and enhances the environment. Business plans that capitalize on environmental resources and introduce new environment friendly, energy-efficient "The challenge is to find the rules and the institutions for stronger governance -- local, national, regional and global -- to preserve the advantages of global markets and competition, but also to provide enough space to ensure

that globalization works for people, not just for profits” (Human Development Report, UNDP, 1999). Technologies receive a higher score for their financing.

- Is an additional resource for women; i.e., many offer subsidized credit lines to assist the creation of businesses and projects that address their deep-felt needs.
- **Has links with national and international networks.**

### III. Who Belongs to a LED Agency?

- All the local public and private-sector entities that want to participate are involved in the decision-making bodies: community groups and civic associations, trade unions, producer’s organizations, business associations, service centers, city governments, the local offices of ministries, specialized public structures, vocational training institutes, banks, universities, etc.
- Is comprised of a governing structure and operational structure.
- Governing structure:
  - General Meeting Assembly.
  - Executive Board actually runs the LEDA; handles administration, drafts internal regulations, makes decisions on projects and programming:
    - Consists of 5-10 members and is elected from general assembly.
    - The board’s term of office is usually one or two years. Responsibilities within it are subdivided, with the election of the chairman, the treasury and the secretary.
- LEDA branches are staffed by specially trained personnel and provide a narrower or a broader set of services depending on the state of communications from the head office.

### IV. Procedures to Set-Up and Build a LED Agency

- **Promoting the Idea & Making Contacts.**
- Promote the idea with potentially interested parties.
- Identify possible founding members.
- Seek their consensus and encourage their dialogue and participation in designing and implementing the project.
- Hold individual meetings with the different groups to hear different viewpoints (i.e. public authorities and local administrations, local offices of State or public-interest institutions, universities, trade associations and unions, international development agencies, etc.).
- **Organize Local Meetings & Establish a Committee.**  
The purpose of the LEDA committee is to draft a plan for the LEDA:
- Organize a profile of the structure, setting out objectives, organization, functions, legal form, budget, projects and activities.
- Formulate a plan indicating the main operational stages.
- Draft by-laws-basic rules for governing (esp. by-laws that facilitate the entry of new members).
- **Presenting the LEDA.**
- Contact competent national authorities and institutions in order to present the idea to them and define the relationship between the LEDA and national policies.
- **Equip the LEDA With Necessary Instruments to Operate.**

- a short-term plan of operations ( The steps needed to establish procedures, find offices, etc, the activities for training its members and future technical staff, promote LEDA in the territory).
- a formal budget and initial investment in the LEDA; costs must cover the following:
  - capital formation expenses
  - operating expenses
  - program expenses
- procedures for managing the credit fund.
- operating procedures that are clear, defined, adopted and ensure qualitative standards, such as transparency and democracy.
- personnel selection procedures.
- offices and equipment; the LEDAs headquarters needs to be recognizably autonomous (headquarters are always located in the territorial capital, up-to-date computers and Internet connection should be implemented whenever possible).
- initial external visibility.
- legal personality: legal consultants and support from central government.
  
- **Give Priority to Initiatives that Maximize Visibility or Respond to Emerging Needs.**
- build credibility as an institution that responds to concrete local needs.
- for instance, the reconstruction of a road of strategic importance for marketing local crops, improvement of transportation systems or the opening of a credit line from agricultural commodities.
  
- **Technical Team Does a SWOT (Strengths, Weaknesses, Opportunities & Threats) analysis.**
- identify the local economy's most promising sectors and the main impediments to the unfolding of its potential.
- business plans should exploit the area's potential and respond to the needs of the population.
- expand the local economy to the benefit of the entire population.

## V. What do LED Agencies do? What Programs do LED Agencies Implement?

### What LED agencies do:

- Integrate the business in the lines of production that are the center of the endogenous local development.
- Assist the entrepreneur to find a good idea and develop his or her business plan by providing information on business opportunities and offering specific technical assistance.
- Assist businesses both during start-up and in their initial period of activity ( Supply support in organizing production, perfecting technology and administration, managing markets, and marketing).
- Provide financial support, facilitating access to credit on reasonable terms.
- Prepares a consolidated plan for local economic development that constitutes a reference point not only for its members but also for national and international organizations interested in investing in the territory.
- Launches key lines of production for the territory, by creating a significant number of new enterprises and financing and reinforcing existing ones.
- Introduces Special Training Programs.

### Programs that LED agencies implement:

- territorial development plans.
- studies and surveys directed at local and territorial organization.
- specialized technical assistance for local institutions.
- enhanced coordination of different actors engaged in this area.
- orienting international cooperation and national development programs.
- overall business support: formulation of territorial and business development plans, locating potential sources of funding, applying to the appropriate bodies for finance and following through on the applications.
- local marketing campaigns.
- provide information on area's resources and potential, laws, regulations, and consumption.
- encouraging the creation and spread of other specialized services, such as financial and commercial services.
- research and education of entrepreneurial activities.

## VI. Case Studies

- **Nueva Segovia, Nicaragua -- Collaboration.**  
The LEDA has collaborative relations with national organizations (i.e., ministry for agriculture and livestock, National development bank, Center for exports and imports, etc.) as well as carries out projects for international organizations (UNDP, ILO, OXFAM, etc).
- **South Africa -- Inventory of Local Opportunities.**  
A successful method of inventorying local opportunities was adopted in South Africa:
  - identification of business ideas, analysis of the demand for and supply of goods and services in the community.
  - ideas analyzed as opportunities, with considerations for sustainability and impact.
  - ideas are presented to the population and LEDAs stimulate the participants' interest in starting their own business.
  - transformed into projects, with technical and financial support of the local organizations.
- **Central Bosnia -- Evaluation Scheme to Offer Credit.**  
The parameters of the evaluation scheme focus on the sector of activity, beneficiaries, creditworthiness of the entrepreneur, investment/employment ration, degree of product and process innovation. A score is assigned to each parameter and the business plans that have the highest scores get the priority for funding.
- **Mozambique -- Observing Other LEDAs.**  
The country sent a delegation from different provinces within the country to El Salvador and Portugal so that local officials and officers and ministers could understand the mission, and management of the LEDAs.
- **Morazan, El Salvador -- A Successful LEDA.**  
The LEDA in Morazan is established with many associations as members, various services supplied, projects under way, projects under study, and relations with numerous national and international organizations.

## Summary of Urban Economy Assessment

### What is Urban Competitiveness?

In assessing the state of the Urban Economy, **Urban Competitiveness** is the ability of an urban region to produce and market products when competing with comparable products from other urban regions. Local Economic Development refers to the "New Competitiveness," or the belief that cities need to develop their own LED strategies to prepare for the benefits and potential negative economic impacts of opening/accessing their markets to the world markets.

The key reason for increasing urban competitiveness is to raise the standard of living for people who live in the urban areas. By increasing the economic productivity of an area and marketing its most productive goods and services, the community can develop and grow at its greatest potential. Economic investment, well targeted and strategically focused, is a proven method for improving the vitality of a community. Given that strong export economies make the city more competitive, it is beneficial for the city to support the export economy of the city. Moreover, if a city increases its competitiveness, the standard of living for the people in the urban region will rise.

### **What Categories are Used to Measure Competitiveness?**

There are four assessment categories used to measure competitiveness:

- ▪ Economic Structure;
- ▪ Territorial Endowment;
- ▪ Human Resources;
- ▪ Institutional Milieu.

Competitiveness can be measured through various lenses. Each measurement indicates a valuable incentive to invest in the area. If an area rates high in any of these categories, than that category is an asset of that area. These categories are not separate or interchangeable but are mutually necessary for determining urban competitiveness. The following are measurements of competitiveness:

- ▪ Economic structure - economic composition, productivity, output and value added, and investment-foreign and domestic;
- ▪ Territorial endowment - non-tradeables, such as location, infrastructure, natural resources, amenity, cost of living and doing business, and an urban region's image;
- ▪ Human Resources - extent to which activities in cities can move up value chains;
- ▪ Institutional milieu - business culture.

### **Implementation Techniques**

As indicated above there are four categories to measure competitiveness. Each index is measured using the following measurements:

- ▪ Economic Structure can be determined through variables such as: analysis of output, employment and investment data. There are several technical methods for this analysis, including location quotient, shift-share analysis, economic base analysis, productivity analysis, regional income indicators, investment indicators, etc;
- ▪ Territorial Endowments are measured through hard infrastructure such as: assets of a place, including markets, location and access, infrastructure, amenities, capital and finance, cost structures, and city image;
- ▪ Human Resources are the most important factor in determining the competitiveness of a region. It is measured through education, training, skills, work experience, entrepreneurship, creativity, and risk tolerance;
- ▪ Institutional Milieu is not as easily quantified, but social scientists have defined it by the following: social capital, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions. It is evaluated by governance, champion institutions and individuals, networks and interconnectivity, and norms and convention.

### **Assessment Under Varying Urban Regional Characteristics**

- ▪ Assessments need to be modified according to the characteristic of the cities. There is a difference between pre-industrial, industrial versus knowledge economies, intermediate versus large urban regions, transitional cities, crisis cities, etc;
- ▪ The data and amount of time and resources available to conduct the assessment will determine how extensive or thorough the assessment should be.

### **How is Competitiveness Assessed?**

There are three assessment modalities or methods:

- ▪ Regional economics;

- ▪ Benchmarking;
- ▪ SWOT analysis.

Each assessment method for determining urban competitiveness has its strengths and weaknesses. The following methods are used by policy experts, local officials, city planners, etc. to measure the status of the city's competitiveness. As cities constantly change, it is necessary for the measurement method to be dynamic and strategic.

- ▪ Regional economics - focuses on the quantitative analysis of a city region's economy. Key variables include economic structure and costs of production in differing locations with particular emphasis on transportation and labor costs. The benefits of this method are that it effectively assesses the competitiveness of traditional industries, labor intensive industries, identifies the economic comparative advantage and identifies factor prices. The shortcomings of this method is that it ignores important factors, such as political stability and labor production, and also ignores the contribution of the informal sector;
- ▪ Benchmarking - identification of comparable mentor cities to format goals and use as vision and guidance. As mentor cities change, the country that is attempting to model the mentor city can dynamically envision the future of its own city. The weakness of this approach is it locates causal relationships between policies, behaviors and outcomes in mentor cities, but is unable to identify means to its desired ends;
- ▪ SWOT analysis - strengths, weaknesses, opportunities and threats. Analysis in the context of strategic planning. The benefits of the SWOT approach is that it does not have a fixed objective and it utilizes many forms of information, such as media reports, interviews, etc. On the negative side, the approach may vary depending on the personnel who oversee it.

### Urban Economy Assessment Process

The following is the process to determine urban competitiveness. This process incorporates an analysis of the urban region and the development of a competitive strategy based upon the assessment.

Step 1 Determine issues and concerns relevant to competitiveness. Does a Mission statement on competitiveness exist?

Step 2 Conduct stakeholder focus groups on competitiveness of city.

Step 3 Undertake pattern analysis of economic structure, specialization, labor force, investment.

§ Utilize secondary data;

§ Time series;

§ Review surveys of informal sector.

Step 4 Identify comparable cities for benchmarking purposes.

Step 5 Undertake analysis of local endowments, e.g., location, infrastructure, amenities.

Step 6 Identify pillars of economic strength (specialization, clusters, etc.).

Step 7 Assess external drivers affecting city: opportunities and threats:

§ Scenarios formulation;

§ Domestic, regional, global.

Step 8 Assess internal strengths and weaknesses:

▪ Networks, institutions, champions;

§ Identify levers that city controls and focus on these; often amenity and infrastructure;

§ Undertake surveys, focusing on: key firms and institutions;

§ Individuals with influence.

Step 9 Identify realistic competitive strengths and weaknesses

Step 10 Develop competitive strategy (i.e. investment driven export base)

Step 11 Establish benchmarks, policy indicators, and monitoring mechanisms

### Future

In order to increase the positive impact born from implementing good practices and increasing marginal productivity within the urban context, the current methods of analysis needs additional development. By

increasing the range and the depth of evaluation of the current indexes, and developing new measurement methodologies, developing country urban regions will be able to progress and develop to meet the challenges economic growth in the 21st century. The following are ways to develop the urban competitiveness assessment analysis:

- ▪ Refocus competitiveness analysis on sub-national units;
- ▪ There is a need for guidelines, manuals, and best practice summaries on urban economic assessment/competitiveness profiling for developing cities;
- ▪ Develop methods to assess institutional/cultural milieus;
- ▪ Assess the value of informal sector;
- ▪ Survey current competitiveness profiling in developing cities;
- ▪ Need to develop approach and technique to assess the urban competitiveness of developing country urban regions.

## Glossary of LED Terms

Local Economic Development (LED) has its own language and terminology. Terms such as capacity building, empowerment, indigenous development and social capital are common and are used by a variety of actors in the local economic development field. However, many of the terms surrounding local economic development require a considerable amount of interpretation, comprehension and negotiation when applied 'on the ground' in different institutional settings. In recognizing that some of these terms are not universally understood, the following provides an understanding to this terminology by describing the more commonly used words and acronyms.

**Additionality:** The principle that funding from a particular source is additional to that provided by national and local authorities. The additionality principle requires that funds awarded for a project should not be used merely to substitute or replace existing funds, but for additional projects and activities.

**Brownfields:** This is a general term used for sites that have been developed in the past that may or may not be contaminated. Sustainable economic development strategies encourage the beneficial reuse of these sites, even though this may be more expensive than building or developing (new, to date undeveloped) Greenfield sites.

**Business Incubators:** A business incubator is an economic development tool primarily designed to help create and grow new business in a community, within a specific building or location. Business incubators help emerging businesses by providing various support services such as assistance with: developing business and marketing plans, building management skills, obtaining capital and access to more specialized services. They also provide flexible space to rent, shared equipment and administrative services in managed workspace.

**Business Retention Strategies (BRS):** BRS are systematic efforts designed to keep local companies content at their present locations within the city area. Strategies include helping companies cope with changing economic conditions, addressing new markets and even assisting with internal company problems. **Business Start-up Support:** Business support includes the full range of services available to people starting in business for the first time. Initiatives include: training, business advisory support, business networking and mentoring and financial assistance (grants, loans, interest rate subsidies are traditional methods; a more innovative approach to financial support is to try and attract as much private sector investment as possible, rather than public sector).

**Clusters:** An industry cluster is a grouping of related industries and institutions in an area or region. The industries are inter-linked and connected in many different ways. Some industries in the cluster will be suppliers to others; some will be buyers from others; some will share labor or resources. The important thing about a cluster is that the industries within the cluster are economically linked, they both collaborate and compete and are, to some degree, dependant upon each other; and ideally, they take advantage of synergies.

**Entrepreneurial Training:** Programs that provide guidance and instruction on business basics (such as accounting and marketing) so that businesses improve their chances of success.

**Export Development Services:** Export assistance programs can help businesses to diversify their customer base, expand operations and become more profitable. Export services include: assessing company capacity for exporting; market research; information services (on exporting, trade regulations, transportation, etc.); international lead generation and trade shows/exhibitions or promotional marketing trips.

**Foreign Direct Investment (FDI):** FDI is investment that is attracted from abroad. It can mean either Greenfield investment (i.e. investment in building new facilities on hitherto undeveloped sites) or portfolio investment (i.e. buying into an established business). Inward investment can take similar forms (either Greenfield or portfolio). However it could include investment from within your country as well as from abroad.



**Greenfields:** Refers to factories and offices being built on land that has hitherto not been developed. Greenfield investments also imply that facilities are designed and built for investors, rather than the investor buying a facility already built.

**Growth Node:** A physical location where industry and/or commercial development is deliberately directed; done either to reduce growth pressures elsewhere in the city or to redistribute growth within a city.

**Forward Strategy:** Is an arrangement to continue the life of projects after initial project funding stops. Sometimes described as an exit or succession strategy. This should be established at the outset of all projects that are likely to need ongoing capital or revenue resources after the initial period of establishing the project.

**Hard Infrastructure:** Hard infrastructure includes all the tangible physical assets that contribute to the economy of a city. For example, transport infrastructure (roads, railways, ports, airports), industrial and commercial buildings, water, waste disposal, energy, telecommunications etc. See also soft infrastructure below.

**High Road Techniques:** High road techniques stress the need to make more efficient use of resources and invest in processes, technological innovation and employee skills. It views labor as an important commodity and skill enhancement as a crucial, targeted investment. It entails the mobilization and upgrading of local resources and the maximization of local strengths and advantages to balance relatively higher wage rates.

**Indicators:** Proxy measures to provide operational definitions to the multidimensional components of LED. Indicators are expected to serve the function of defining policy problems and informing policy formulation. They should provide a basis for policy discussion and planning.

**Indigenous Businesses:** Local businesses, usually those that have developed in the community. Increasingly, the term refers to all businesses in an area whether they are 'locally grown' or not.

**Informal Sector:** Not within formal or legal sector and therefore not raised and not provided with services. Not able to use assets as collateral for new productive investment.

**Labor Market Information:** The body of data available on a particular labor market, including employment and unemployment statistics, occupational statistics, and average hours and earnings data.

**Local Economic Forum:** A coordinating mechanism set up to achieve the streamlining and improvement of local economic service delivery.

**Low Road Techniques:** Low road techniques promote an area economic position through the lowering of production costs, especially wage rates; this is not a sustainable approach.

**Mobile Manufacturing (or service sector) Investment:** Where manufacturing (or service) companies have a wide choice of location choices. Consequently they are in very strong negotiating positions when it comes to choosing where to locate their businesses.

**One-stop Business Service Centers:** Facilities where business persons can go to obtain advice and support to help them establish and expand their business. Sometimes these centers also issue licenses and permits needed by

businesses to start-up, operate or expand. These centers improve the local business environment by reducing the number of separate agencies and offices a business may need to approach for advice or to apply for various licenses and permits. They save public and private time and improve efficiency as a result.

**Soft Infrastructure:** Soft infrastructure relates to the less tangible aspects of LED such as education and training provision, quality of life infrastructure such as park, leisure and library services, housing, business support, business networking and financing services etc.

**SMEs:** This is the acronym for 'small and medium-sized enterprises'. There is no definitive delineation between a small and medium sized business. As a general reference, small is often from 5 to 20 employees, medium from 20 up to 200. Businesses with fewer than 5 employees are usually called micro-enterprises. This is a guide only.

**Stakeholders:** Individuals and groups who have an interest in the issues in hand. They normally represent their own interests as stakeholders.

**Supply Chains:** The products and processes that are essential to the production of a good or service. For example, to produce frozen fish, the supply chain inputs will extend from fish catching, handling, processing, and freezing to packaging, storing and distribution. These are all elements of a supply chain. Integrated LED strategies will try and capture as much as possible of the higher value end of the value chain in their area. In this case fish processing, packaging, storing and distribution will be adding value and therefore be seen at the higher end of the value chain. An industry cluster is a grouping of related industries and institutions in an area or region. The industries are inter-linked and connected in many different ways. Some industries in the cluster will be suppliers to others; some will be buyers from others; some will share labor or resources. The important thing about a cluster is that the industries within the cluster are economically linked, they both collaborate and compete and are, to some degree, dependant upon each other; and ideally, they take advantage of synergies.