

UCLG Policy Paper

The Role of Local Governments in Local Economic Development

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Acronyms

BRE	Business Retention and Expansion
FCM	Federation of Canadian Municipalities
ILO	International Labour Organization
KM	Knowledge Management
LED	Local Economic Development
LGA	Local Government Association
LRG	Local or Regional Government
MFI	Microfinance Institution
MSME	Micro, Small, and Medium-sized Enterprises
NGO	Nongovernmental Organization
OED	Office of Economic Development
PPP	Public-Private Partnership
UCLG	United Cities and Local Governments

UCLG Policy Paper

The Role of Local Governments in Local Economic Development

1. Introduction

1.1 Context

As we prepare for Habitat III in 2016 and the adoption of a New Urban Agenda for the 21st Century, cities, towns, rural municipalities, and their citizens face severe and daunting challenges. There is a widespread shortage of opportunities for decent work. The International Labor Organization (ILO) has estimated that the number of unemployed people globally surpassed 200 million for the first time in 2013, up by nearly 5 million in one year. Women and young people face the greatest obstacles; in some places the youth unemployment rate exceeds 50 per cent. There is increased poverty and homelessness and growing social and income inequality. Displacement of rural people from the land is driving rapid urbanization in developing countries. Squatter settlements are proliferating and crime rates are increasing. Global climate change is intensifying the vulnerability of the world's people to disastrous storms, floods, and droughts.

Within this harsh reality, there are opportunities and room for optimism. On September 25 2015, the Member States of the United Nations agreed on the 17 Sustainable Development Goals (SDGs) of the Post-2015 Development Agenda. As stated in UCLG's document 'What local governments need to know about SDGs' « The inclusion of Goal 11 to "Make cities and human settlements inclusive, safe, resilient and sustainable" is, in large part, the fruit of the hard-fought campaign by local governments, their associations and the urban community. SDG11 marks a major step forward in the recognition of the transformative power of urbanization for development, and of the role of city leaders in driving global change from the bottom up ». In the years ahead, SDG 11 will guide LGRs' actions in economic development.

1.2 Purpose

The purpose of this paper is to call attention on the vital role played by local and regional governments (LRGs) in local economic development (LED), to point out the strategies and tools now in use by LRGs around the world, and to identify policies urgently needed by national and supranational governments, international development partners, and LRGs and their local government associations (LGAs), to enable all actors to perform their role more effectively.

This paper's focus on LED is intended to identify the many areas in which LRGs are the most appropriate tier of government to provide leadership and coordination, complementing the efforts of national governments.

1.3 Why local governments matter to LED

There are numerous and compelling reasons why local governments are indispensable to the process of economic development. LRGs are on the front line of the challenges faced by their citizens and can be leaders in identifying and implementing solutions to those challenges. Elected officials and staff of LRGs work where people live, meet them face-to-face every day, and know their capacities, needs, and aspirations. LRGs can provide the leadership needed to generate inclusive, sustainable economic development and can complement national and supranational policies, plans, and programs.

LRGs' key roles

LRGs' traditional roles include providing a secure and stable environment in which enterprises can flourish. They are responsible for physical infrastructure – roads, water supply, waste management, information and communication technologies – all necessary prerequisites to economic activity. LRGs also address the needs of their citizens for public health, education, housing, local transportation, cultural and recreational facilities, childcare, and other public services that are essential to nurturing a healthy, skilled, and reliable workforce.

LRGs around the world are increasingly engaged in job creation and economic development. LRGs are the most appropriate agents to convene all of the local economy's stakeholders¹ to develop inclusive and appropriate strategies. LRGs are the best-placed initiators, catalysts, and drivers of processes that engage these stakeholders in visioning the future, designing and implementing strategies for economic development.

As political actors, LRGs not only implement strategies and actions within their jurisdiction, but they also can and should be involved in the definition and influence of policies required to further enhance LED.

In summary, LRGs perform four key roles that are linked to LED:

- They provide the direct link to citizens and provide the voice and leadership in the development of communities
- They provide essential public infrastructure services that are crucial to a flourishing local economy

¹ These include the chamber of commerce, representatives of micro, small, and medium enterprises (MSMEs), trade and labour unions, primary producers, education and training institutions, other levels of government, non-governmental organizations and international development partners active in the community, representatives of those who are unemployed, marginalized particular women, youth, those with disabilities or of minorities.

- They are involved in the provision of health, education, social and cultural services that are essential to peoples' livelihood security
- They act as catalysts, conveners and drivers of local processes in synergy with other levels of government and international actors.

Decentralization and its impact on LRGs

The local level is the scale at which people meet face-to-face, create partnerships and alliances, find synergies and complementarities for mutual support, and devise strategies relevant to the particular conditions of their community. In recognition of this, many countries have undertaken processes of decentralization, devolving responsibility for economic development to LRGs. From once being solely within the purview of national governments, the task of creating a strong economic environment now lies with local governments, social and educational institutions, and businesses.

When this devolution is planned well, implemented efficiently, and managed competently, LRGs have been able to take on additional responsibilities. In many cases however, LRGs have not received the adequate support and many LRGs have been faced with extremely stretched resources and barriers preventing them from adequately exerting their roles. In order to fulfill their responsibilities, LRGs need sources of revenue adequate to their responsibilities.

Effective decentralization requires upper-tier governments to establish legal frameworks that provide LRGs with clear mandates in the field of LED and ensure that local authorities and their staff have the institutional support, training and financial resources necessary to carry out their roles.

LRGs complementing national and supranational strategies

At the national level, governments are responsible for developing a policy framework to support economic development through programs and services delivered locally by LRGs. They are also responsible for determining the level and type of investment, as well as the social return on this investment. Moreover, coordination and funding must be organized at the supranational level in order to ensure efficiency among countries and across regions.

LED is only one part of the total effort needed to create jobs and foster vibrant local economies. National development plans and policies are required for large infrastructural projects like energy grids, highways, railroads, and communications networks. National and supranational governments must also manage fiscal and monetary policies and negotiate international trade agreements. LRGs complement these national and supranational strategies, mobilizing local stakeholders to generate action from the bottom up.

2. Call to Action

All actors to whom this paper is addressed - LRGs and their associations, national and supranational governments, international development partners – have a constructive role to play in addressing the challenges of LED and in building synergy to enable greater capacity.

LRGs and their local government associations (LGAs) must be proactive to upgrade the knowledge and skills of their elected representatives and staff in their new responsibilities. They can improve the transparency and accountability of their administrations, a necessary prerequisite to successful engagement of community stakeholders in LED initiatives, and they can investigate new potential sources of revenue for their activities in support of LED.

We call on local and regional governments (LRGs) and their associations (LGAs) to:

- Engage in dialogue with national and supranational governments to ensure that the needs and concerns of LRGs are clearly understood and supported by relevant policies and programs;
- Ensure that their LED strategies, plans, and initiatives are well coordinated and developed within the framework of country development strategies that take into account the local cultural context and national priorities such as gender equality, environmental sustainability and democratic governance; and
- Ensure that all community voices are heard by promoting participatory processes.

National and supranational governments can provide clear, legislated mandates when devolving responsibility to LRGs for economic development. The principle of subsidiarity holds that functions should be assigned to the lowest tier of government that can perform them efficiently and effectively, but the appropriate of division of responsibility will vary among different countries and requires careful analysis. Moreover, responsibility, authority, and capacity must be devolved together if devolution is to be effective.

We call on national and supranational governments to:

- Ensure that clear enabling legal frameworks allow LRGs to provide leadership in LED;
- Provide LRGs with access to sufficient sources of funding to allow them to play effective roles as initiators, catalysts and drivers of LED; possible instruments include routine fiscal transfers, expanded local authority to impose taxes on property, sales, and businesses, authorization to issue bonds, and loan guarantees;

- Provide LRGs with support to develop institutional capacities and skills through such things as training, seconding staff from relevant ministries and mentoring; and
- Further recognize LRGs as key development actors and support their full-fledged participation, consultation and engagement in national and sectoral policy dialogues on economic development.

International development partners have a valuable role to play in capacity building. Working directly with LRGs or through LGAs that have a strong appreciation of local knowledge and skills, international partners are well-positioned to provide skills and capacity building support for key LED actors.

We call on international development partners to:

- Support LRGs and their LGAs in their efforts to build institutional capacity and skills in all aspects of their roles in LED, including assistance in setting up and maintaining knowledge management systems;
- Include LRGs and LGAs in international forums and dialogues on economic development; and
- Consider institutional support at the global level, for example by creating a global observatory on LED to compile, analyze and disseminate LED knowledge around the world.

3. Characteristics of Local Economic Development (LED)

LED is a locally-owned, bottom-up process by which local stakeholders from the public and private sector and civil society work together to support sustainable economic development. Economic development is not an end in itself but one of the important means by which people strive to enhance their well-being. As Amartya Sen and others have argued, the meaning of development is the increasing capability of people to choose and sustain a viable livelihood.

LED strategies vary greatly but should be based on the following ***common principles***:

LED is participative and inclusive. LED initiatives are based on the inclusion of marginalized groups and communities, notably women, youth, people with disabilities, and indigenous peoples and promote local ownership and leadership, community involvement and joint decision making.

LED strategies must prioritise job creation, poverty alleviation and environmental sustainability, using local resources and skills.

LRGs are the best placed to provide leadership and coordination in the planning and implementation of LED initiatives, either directly or through delegation to community-based agencies.

LED plans integrate efforts across sectors, developing both the formal and informal economy, and is based on partnerships between local authorities, the private sector, other public sector agents, and civil society.

LED initiatives vary widely, each locality using approaches best suited to local contexts. LRGs can use many instruments including the development of infrastructure, research and innovation, skill training, attraction of new investment, technical and financial services to new and existing enterprises, supportive procurement policies, and support for marketing.

LED is a long-term and flexible process, aimed at developing inclusive, resilient communities.

4. LED Enabling Policies

4.1 Creating an enabling environment for LED

As stated earlier, decentralization places LRGs in key economic leadership roles and gives LRGs the responsibility to create the conditions in which LED can flourish. LRGs are not responsible for making investment decisions or for planning the local economy, but they are nonetheless key actors working in synergy with other tiers of government. LRGs are responsible for the creation and maintenance of an enabling environment in which all economic actors – investors, workers, educators, financial institutions, service providers – can contribute to sound decisions and work together to generate economic development.

LRGs need to act on several fronts – social, institutional, environmental and economic. Each LRG faces specific conditions that demand a wide variety of responses, but several tasks are common to all LRGs: creating transparent and accountable municipal institutions; fostering relationships that generate the social capital critical to development; protecting environmental integrity and the rights of workers; and encouraging entrepreneurship and innovation to create decent jobs and a flourishing economy in the community.

To be effective, LRGs need to monitor its environment at all scales, from global markets to national regulatory measures to neighbourhood social conditions, and need to adjust responses accordingly.

4.2 Building capacity

Within the broad context of the 21st century, national economies have to diversify and update their productive base, while concerns over climate change and environmental degradation point to the necessity of sustainable approaches to

development. LRGs have taken on expanded roles in economic development and citizens now expect their mayors and elected local representatives to create jobs, protect the environment, and mitigate inequality. This presents LRGs with enormous challenges largely related to capacity.

LRG leaders must work with all sectors of their community to build consensus and enhance the commitment to a vision of the future and a plan for achieving it. They must build technical capacity into their administrations in a number of specific areas (see section 5). The coordination of key economic actors as well as harnessing social capital require that LRG leaders have a deep understanding of the social, cultural, and economic reality of their constituency, and an appreciation of its potential.

LRGs must also find ways to build capacity in the larger community by cultivating entrepreneurship, expanding the skills of the workforce, promoting awareness of social and environmental issues, and identifying financial capital.

Some LRGs have established knowledge management (KM) systems that capture and disseminate the lessons learned from their own experiences. The tools include fact sheets and knowledge-sharing events, and with adequate resources, they can also include more extensive databases and Internet sites and portals making knowledge accessible to a wider audience.

LRGs need to add their voices to national dialogue on economic priorities and strategies. National development is taking place in their local jurisdictions and, given their experience in nurturing it, they have interests to defend and wisdom to offer.

Some LRGs already have strong capacities in all of these fields, but many others do not. In some cases, devolution has not been designed or implemented effectively and central governments have transferred responsibilities to LRGs without clear, legislated authority, access to the necessary financial resources, or sufficient skill transfer.

LRGs vary widely some being relatively well endowed due to their size, location, economic base, or historical heritage, while others have a weak economic base and limited revenue, skills, and experience. Devolution without adequate support and financial redistribution and skills transfer tends to intensify inequities.

5. Key Strategies and Tools

5.1 Building an alliance of partners

LED, to be effective, equitable, and sustainable, requires that LRGs build and maintain a dynamic alliance of community partners. All groups who can affect LED, or who are affected by it, have a stake in the planning, implementation, and evaluation of LED initiatives.

The composition of this group of stakeholders will vary from one community to another, but representatives of the following groups should be included:

Stakeholder	Roles
LRG elected officials and staff	Provide leadership; convene and create conditions for successful LED
National and state/provincial staff	Advice, technical assistance, financial resources
Local chamber of commerce and business associations, including producer associations, and women-led associations as well as Micro, small, and medium-sized enterprises (MSMEs) and the informal sector	Involvement in consultation and promotion of LED initiatives
Labour and trade unions	Represent the interests of workers
Education institutions	Provide analysis of the local economy, training and input in planning and evaluation
Financial institutions, including banks, credit unions, and microfinance	Provide financial support to LED initiatives
NGOs, community organizations and interantional partners	Support LED processes and initiatives
Media representatives	Public awareness and LED promotion
Social groups with strong stake in LED (especially women, youth, indigenous people) traditional authorities	Promote inclusion, participation and ensure transparency and accountability

These alliances should be created early (at the inception of a strategic plan) and maintained throughout the process. They contribute to trust building and form the basis of long-term partnerships. Several of the LED manuals (see Bibliography) provide advice on making these processes truly participatory and the stakeholder involvement substantive.

5.2 Establishing governance and management structures

The specific methods and structures through which stakeholders participate in LED processes vary according to the size, resources, and complexity of the community

and the capacities of its LRG. A common practice is to establish a core planning group to convene stakeholders and conduct a consultation process leading to the creation of a strategic plan for LED. This plan will assign tasks to a wide range of individuals and organizations.

Example of structure:

The core planning and can be called the Office of Economic Development (OED), using the terminology proposed by VNG International (the Dutch association of local governments)(Budds et al. 2013). The key functions of the OED are to:

- Convene stakeholders and lead them in the planning process;
- Serve as the staff to the group;
- Conduct research and provide information to stakeholders;
- Coordinate the action plan devised by stakeholders;
- Monitor and evaluate progress and report to stakeholders; and
- In some cases, the OED itself may also take on many other tasks: implement LED projects in the community; market research and feasibility studies, community promotion and branding; fundraising.

It is also critical to establish a forum for the participation of stakeholders beyond the initial planning period. Depending on local circumstances, this may serve as the governing body of the OED, or it may be an advisory or reference group. This forum gives general direction to the OED, ensuring that the interests of all members of the community are represented and addressed.

5.3 Encouraging entrepreneurship and attracting investment

LRGs have developed a myriad of methods and tools for attracting and retaining investment in their communities and for fostering entrepreneurship. Several excellent LED manuals (see bibliography) provide detailed advice in this area.

LRGs vary in size, complexity, and endowments. In most countries, the leading cities are the greatest engines of national economic development. Intermediate cities make significant contributions to economic development, particularly those with specialized roles such as university towns and high technology centres. Small towns and rural municipalities may also provide critical links in the chain of national production. An effective LRG, regardless of size, will employ methods and tools appropriate to its conditions.

Business retention and expansion (BRE) targets businesses that are already established, contributing jobs, income, and taxes. A BRE program can help expand employment and income, or at least prevent their loss. An OED may establish business improvement areas, by fostering clusters of businesses that benefit from the synergies of proximity and by conducting market research.

LRGs in many countries have set up mechanisms to foster entrepreneurship, especially by supporting the creation of new MSMEs (micro, small, or medium-sized enterprises). Staffed by professionals, they assist with feasibility studies, market surveys, business plans, licensing, and access to capital. They may also offer workshops and seminars, especially for women and young entrepreneurs.

Attracting new investment from outside the community is a sophisticated undertaking with some pitfalls. External investors will weigh several factors when choosing a site: access to a skilled labor force, access to land with appropriate infrastructure and services, access to resource inputs and to markets, the regulatory environment, proximity to related industrial clusters and networks, tax breaks and subsidies on offer, and the cultural and environmental advantages of the community.

Most LRGs base their investment attraction strategy on the particular strengths of their community. Whatever the endowments, it is usually necessary to be proactive in creating conditions favorable to new investment. Many LRGs have learned to avoid tax reductions that compete with the breaks offered by other LRGs, and some higher-tier governments have introduced regulations that preclude this kind of inter-city competition. Among the methods frequently used are industrial parks and corridors, assistance with site selection, virtual trade missions, workforce development programs, and municipal marketing.

Methods for leveraging private capital also include public-private partnerships, municipal bonds, regional investment funds, loan guarantees, and grants from international development agencies. LRGs can introduce green taxes, such as the "congestion tax" charged on vehicles entering the center, and apply the revenue to improved infrastructure. LRGs can also draw on these revenues to provide seed capital for social enterprises and to facilitate the transition of informal enterprises into the formal economy.

An OECD publication has reviewed 50 methods in current use by LRGs, national governments, foundations, NGOs, IFIs, and commercial banks to provide finance capital for LED (Clark and Mountford, 2007).

LRGs can also launch their own microfinance institutions (MFIs), as they have done in Latin America with the *cajas municipales* (Jaramillo 2013). With public ownership and/or regulation, MFIs can be a valuable source of finance capital for MSMEs.

Brazil's Community Development Banks: Making financial services accessible

Community Development Banks (CDBs) grew out of social movements in Brazil to make financial services accessible to the 40 per cent of the population who had been excluded. CDBs provide a variety of financial services, including microcredit loans for MSME start-ups, for vocational training, consumer loans, life insurance, and banking services.

Banco Palmas, for example, offers production and consumption loans in their own social currency, Palmas (P\$) at affordable interest rates. The Palmas can only be spent in the 250 shops accredited by Banco Palmas, and they only circulate in the bank's own neighborhood. These loans thus promote local enterprise on both the supply and the demand sides. Interest rates vary according to the term of the loan and the type of currency.

Banco Palmas makes its own loan appraisals through its community loan officers and a Credit Assessment Committee (CAC). Eligibility is dependent on assessment of the business plan, previous track record, and personal reputation. CDBs are based on democratic governance and adhere to the principle of endogenous community development.

Source: Meyer and Leal (2013)

5.4 Nurturing innovation

Innovation is key to quality improvement and market competitiveness, and thereby to the creation of decent jobs. As Albuquerque (2013) points out, there are many kinds of innovation: technological, social, environmental, institutional and organizational (including labor processes). All types of innovation are needed, he argues, to make progress in economic development.

Albuquerque also argues that innovation is a social and territorial process. Innovation does not happen in isolation; it occurs through interaction among actors across sectors and locations, from the shop floor worker to the supplier, the distributor, the university, the research and development center, and the market analyst, among others.

Effective LRGs bring local institutions with research capacity – schools, colleges, universities, science and research parks – together with enterprises that have the capacity to bring new innovations to market. They also promote innovation through the creation of business clusters and incubators by encouraging synergies of enterprises working and learning together, while sharing resources.

Innovations typically arise as solutions to problems faced by an enterprise. In an age of increasing complexity, more enterprises are looking externally for solutions through the use of open innovation methods.

Quebec Seeks Solutions: A local economic development agency fosters local open innovation

Open innovation is based on the recognition that business and technical solutions can be found by reaching out to an enterprise's partners and clients and are not generated solely internally. Many large corporations use open innovation methods, but it is not yet practised by many MSMEs due to expense, lack of awareness, and lack of knowledge about the management of intellectual property issues.

Quebec International, the economic development agency for the Quebec City region in Canada, has developed the Seeking Solutions approach to foster local open innovation using a methodology that makes it accessible to MSMEs and fosters a wide range of productive connections between enterprises and researchers.

Seeking Solutions is a four-step, locally-based process. It begins by asking the business community to submit challenging problems that they have been unable to solve by themselves. After selecting

problems for study, the organizers broadcast the problem via a web-based platform to potential problem solvers, including research centers, universities and colleges, science parks, and other community-based sources of innovation.

Organizers convene a conference bringing problem solvers together with those seeking solutions. Participants work to further refine the problem to explore a range of potential solutions and attempt to identify the best ones. Since 2010, this process was used three times and has resulted in enriching innovation with many direct and indirect benefits.

Local open innovation is especially relevant to the work of local and regional development departments and agencies. Its effectiveness is founded on the fact that all the actors are local: they share knowledge of their region, speak the same language, and tend to have the same values. The face-to-face conference and the fact that they live and work in the same vicinity, allow them to build long-term productive relationships.

Sources: Masson (2013) and Deutsch (2013)

5.5 Promoting the green economy

Innovation is also key to the “green economy” sector to develop enterprises engaged in “improved” human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. It is low carbon, resource efficient and socially inclusive” (UNEP 2011).

LRGs in many countries are providing leadership in green economy initiatives, even where national governments lag behind: improving energy efficiency, developing sustainable public transportation systems, recycling waste, treating wastewater, reducing air pollution, and limiting greenhouse gas emissions.

These initiatives create many new opportunities for MSMEs, such as retrofitting municipal buildings to make them more energy efficient, and installing, operating, and maintaining renewable energy systems. An initiative in Bangladesh trains local youth and women as certified solar technicians and as repair and maintenance specialists; it aims to create 100,000 jobs. In some cases, the new green technology can itself be produced locally; in Nairobi, the Kibera Community Youth Program has created jobs in the assembly of solar photovoltaic panels for the Kenyan market.

LRGs adopt policies that link environmental sustainability with LED, for example by adopting increased use of renewable energy and green technology in their own facilities.

All areas of the so-called green economy are not as constructive. Substantial controversy exists concerning some sectors of the green economy. For instance, there are over one million jobs in the biofuel industry, growing, harvesting, and processing maize, sugarcane, and palm oil. In some countries, these jobs pay poorly and have dangerous working conditions. There is also considerable controversy over the displacement of food production by the biofuel industry. Certain kinds of recycling work, particularly of used electronic products, are also hazardous and poorly paid. LRGs should monitor these industries and intervene to improve wages, working conditions, labour rights and the environment.

Community-based waste management in Dar es Salaam, Tanzania

In Dar es Salaam, over 70 per cent of the city's 4.3 million people live in unplanned, informal settlements, making provision of basic municipal services like water, transport, and waste disposal a major challenge. In 1997, with support from the ILO, the Dar es Salaam City Council (DCC) contracted about 70 community-based enterprises for neighbourhood waste disposal services. The DCC conducted sensitization campaigns, staged neighbourhood meetings, and enlisted the support of local elected ward leaders to explain the arrangement to residents and to ensure user fee payment by households and businesses.

Despite some fee payment issues, this arrangement has worked well, providing a living wage to over 1500 workers, mostly women and youth, while also improving environmental sanitation and public health conditions. Over the years, the enterprises have added composting and recycling to their operations, providing compost to urban gardeners and raw materials to local manufacturers, reducing pressure on the city's landfill sites and generating revenue and saving money.. They have formed the Dar es Salaam Waste Management Association (DAWAMA) and have received technical assistance and equipment support from several international organizations.

Source: UN-Habitat and Sustainable Cities International

5.6 Mitigating poverty, inequality, and social exclusion

Informal economy is the lifeline of a majority of people in many cities, towns, and villages of Asia, Africa, and Latin America. This economic activity is outside of government regulation, taxation, and observation; its workers are self-employed or within unregistered enterprises and are not protected. It should also be noted that women are over-represented in the informal economy. Estimates of its extent range from at least one-third to over half of all economic activity in many countries of the global south. It is, therefore, critically important that LED strategies take the informal economy into account.

The informal economy comprises an extremely diverse set of activities, including such work as street food vending, small artisanal production, home-based garment work, pedicab driving, waste disposal, domestic service, and construction work paid "under the table." It also includes primary subsistence producers – fishers and farmers – who produce and sell their surplus informally. This economic activity does not provide a path out of poverty for the millions of people whose livelihood depends on it. The vast majority of occupations offer meagre incomes in highly competitive sectors with very low productivity.

The growth of informal economy in recent decades stems from rapid urbanization and rural out migration to cities. It has also been coupled with slow growth, volatility, or decline in the formal economies of many countries. Rigid, bureaucratic, and complex processes for registering businesses contribute to its proliferation, as do the tendency of entrepreneurs to avoid taxes, regulations, and minimum wage laws.

LRGs response to informal economy might be to drive out informal enterprises or force them into the formal sector. However, experience has shown that it is often better to tolerate the existence of the informal economy and find ways to support

its enterprises, protect its workers, and engage with its entrepreneurs to enhance their productivity and incomes. The aim should be to integrate them gradually into the formal economy and build more productive enterprises providing decent livelihoods.

LRGs can support and strengthen enterprises in the informal economy in many ways. Informal economy participants should be consulted within LED planning processes. LRGs and their community-based partners can extend technical services to informal enterprises, to develop skills, upgrade their technology, and assist to connect them with other enterprises as upstream suppliers or downstream distributors, retailers, or waste processors. They can also provide direct support to workers through health and education services and by upgrading the physical infrastructure – roads, markets and other public spaces and services. The International Labor Organization (ILO) has provided helpful guides for LRGs working with the informal economy (see Bibliography).

Social economy and solidarity economy (described below) are positive alternatives to informal economy. LRGs in many countries include social economy enterprises in their planning processes and support them with start-up funding, technical assistance, skill training, and, where legal, preferential treatment in procurement contracts. The enterprises themselves, once established, invest their surplus in training, quality improvements, and expansion of their services.

It is widely recognized and accepted that women, especially poor and minority women, are confronted with barriers to their full inclusion and fair participation in economic development. Women's contributions to family livelihood are of outmost importance, yet women derive the least benefits and their work is often invisible. Taking into account the needs, priorities and opinions of both women and men of the territory, to ensure that all benefit equally from LED initiatives, is essential to the success of any LED strategy. The promotion of gender equality needs to be explicit within all aspects of LRGs planning of LED.

Obtaining the full participation of women in all LED processes will require addressing deeply rooted discriminatory attitudes and practices. LED strategies should include specific and targeted initiatives that address women's access to decision making, services, training, capacity building and support to organization.

5.7 Fostering local culture

Cultural policy refers to the approaches taken by all levels of government to encourage and protect cultural activities in their jurisdiction. In a narrow sense, culture refers to artistic activities such as drama, literature, painting, sculpture, photography, music, and dance. In a larger sense, culture includes the broader "cultural industries," including radio, television, film, music recording, book publishing, and new media. Culture also refers to the entire way of life of a society: its values, beliefs, capabilities, customs, social relations, language, gender roles, and

so on. Although national governments are key players in shaping and promoting culture, LRGs play a major role in all aspects of culture in their communities with implications LED.

Many artistic activities are also economic activities, generating employment and income for those who take part in them. They provide content for creative industries, including cinema, radio and television, book and magazine publishing, the internet and video games. They also have indirect effects on tourism, attracting customers to hotels, restaurants, and retail shops.

In places endowed with outstanding natural beauty or a compelling historical heritage, tourism can be a major economic sector where artistic enterprises of all kinds can thrive from the patronage of tourists. A community that becomes known for its publicly-funded festivals, live music, art galleries, or public art will attract visitors and contribute to the branding of the community.

Many LRGs, as a matter of policy, allocate a portion of their annual budgets to support artistic activities in their communities, and elicit contributions from the business sector as well.

But culture is far more than a commodity to be packaged and sold to tourists. Artistic productions of all kinds provide a community with a sense of identity, fostering social cohesion, and adding a sense of meaning and purpose to life in all its aspects. This contributes to the resilience of a community, something essential in a time of crisis brought on by natural or man-made disasters.

Through culture, young people develop self-confidence, creativity, and imagination – key aspects of entrepreneurship. These are especially important capabilities for members of vulnerable groups; their participation in cultural activities can foster new, positive perspectives on their lives and futures.

Cultural activities are also ways to create dialogue across different segments of a community, building trust, the social capital that is so critical to the success of LED initiatives. They raise awareness of alternative ways of viewing an issue, and of collective responsibility for the well-being of the community, and thereby catalyse public action.

Cultural activities provide compelling arguments for LRGs to support artistic activities and cultural enterprises. In cases where these cannot be self-supporting, they may be established as non-profit, social economy enterprises with financial support from LRGs as well as foundations, businesses, and volunteers.

5.8 The social economy, solidarity economy and the third sector

Social economy is a phenomenon that is experiencing spectacular growth due to its concept of development linked to solidarity and economic democracy, due to the production areas in which it operates and its forms of democratic organization of work. The social economy and solidarity economy are responses to economic and jobs crises, but this type of economic organization is also value based on social and economic profitability.

The social economy is characterized by its democratic organization of labor or consumption. Cooperatives (both service and consumer cooperatives), labor societies, and other legal forms are all based on the same principle of organizational economic democracy.

Solidarity Economy is part of social economy, but goes further as it aims to build production, distribution, consumption and financing relationships based on justice, cooperation, reciprocity, and mutual aid.

Other "nonprofit" entities (associations, foundations) serve the community by transforming productive activities or services. The NGO should be considered as part of the "third sector". As "non-profit" institutions they do not share profits among its members, but they play an important role in LED.

All of these enterprises - social economy enterprises, solidarity economy and "non-profit (associations and foundations) entities - represent a great opportunity and great potential allies of LRG in driving LED strategies.

5.9 Evaluation as a LED Tool

LED initiatives require permanent evaluation mechanisms that allow for both qualitative and quantitative indicators of success, including for instance indicators relating to the social, technical, institutional, environmental, political and cultural aspects of LED. Examples of qualitative indicators include the number of local entities incorporated and consolidated, the degree of participation of actors in the different initiatives, the level of private and public contribution by different local actors.

Another important indicator on LED success relates to the 'institutionalization' of LED through formalizing existing private-public agreements, through bodies such as Local Development Agencies or Local Development Offices. The promotion of local economic development is based on political will, encourages dialogue and shared responsibility, builds public and institutional agendas and creates territorial networks. Efficient institutional coordination within the public sector and amongst different governments is also fundamental. LED should not be limited to the center of town but respond to the entire territory of the locality to respond to the dispersed population, often ignored or marginalized from development processes.

Finally, several municipalities often share local and production systems, requiring that shared data (using for instance geographic information systems) is used in analysis and making decisions. Collaboration between LRGs would be beneficial.

6. Conclusion and key messages

Through this document, UCLG has attempted to draw attention to the vital role played by the LRGs in economic development, to propose policies and tools that are widely used now by LRGs around the world and that could be expanded upon in the future. Above all, the paper stresses the need for policies to be adopted by national and supra-national governments, international development partners and LRGs and their associations of local governments enabling them to perform their role more effectively with their citizenship in response to the universal development agenda.

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