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# Creating Prosperous Towns

**How to launch and sustain  
local economic development  
in developing and  
transformation countries**

**Jörg Meyer-Stamer**

mesopartner is a consultancy partnership that specialises in local and regional economic development. It was founded in December 2002 and registered in April 2003 by Dr Ulrich Harmes- Liedtke, Dr Jörg Meyer-Stamer and Christian Schoen. Frank Wältring, Shawn Cunningham and Colin Mitchell have since joined the firm.

We are a specialised niche provider of expertise on territorial development (local economic development, regional economic development, value chain initiatives, etc.). We work primarily in developing and transformation countries, but we also have experience in working in advanced countries. We have ample experience in translating experiences from one type of country to a different type.

Our main focus is to develop, test, and disseminate participatory methodologies around the topic of territorial development. Our main revenue stream is generated by development and adjustment of methodologies, driven by the needs of our customers, and by training and coaching local practitioners in developing and transformation countries.

We do not manage long term projects on behalf of donor agencies. We rather provide know-how to those companies that manage projects, and to donors themselves.

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## Foreword

This book is designed to give you practical guidance to conduct local economic development (LED) activities in your town. We assume that we do not have to convince you why LED is important. We expect that you are already confident that LED is a useful exercise. Perhaps you have been instructed by your superiors to do LED. In any case, this book will give you orientation and concrete tools to actually do LED.

The focus of this book is on towns, as opposed to cities. In the academic literature, it has now become common to define a city as locality that is defined by the specific services it provides to the global economy, while a town is a locality that is defined by the interaction it has with its hinterland. Thus, town vs city is less an issue of size and more an issue of the business sectors that drive a locality. Often, but certainly not always, towns are centers of rural areas, where agriculture and agriprocessing play an important role and where many LED activities will target agriculture and agriprocessing.

If this is not the first LED monograph that you look at, you may have noted that there are different schools of thought on how to do LED. Let us just mention three:

- There is the LED through strategic planning approach. It is supported by organizations such as the World Bank. It argues that LED needs to be based on broad-based participatory strategic planning exercises.
- There is the Local Economic Development Agency approach. Some international agencies promote this approach. It argues that in areas with weak government and weak business associations and other organizations, it is useful to create a dedicated organization that manages LED.

- There is the LED as an organic process approach. This approach is linked to concepts such as PACA and is supported by donor agencies such as GTZ, as well as organizations and practitioners in many developing and transformation countries. It argues that LED needs to be informed by business principles. In this view, LED needs to be nimble, flexible and responsive. It has to respond quickly to opportunities or problems.

The three approaches are not necessarily alternatives. However, the “organic process” approach is particularly useful when you start with LED for the first time, or when you have tried one of the other approaches without much success. In an organic LED process, strategy and the creation of an Agency are issues that move onto the agenda at a later stage, when your LED process has become mature and robust.

This book is guided by the “organic process” perspective at LED. It will help you to get an LED process going quickly. It will tell you how not to spend too much time and money on research. It will explain how to move into practical activities within a short period of time. There is a good chance that you will have some tangible and visible results after just a few months if you follow this approach.

Underlying this book is the insight that LED is a social process. The critical ingredients of successful LED are motivation and communication, rather than research findings and instructions. If and when a group of local stakeholders is highly motivated to pursue an LED initiative, and if and when they manage to involve a variety of other stakeholders into a meaningful communication process, other issues get sorted out relatively easily. For instance, access to funds turns out to be a challenge that is much smaller than expected – many activities are much cheaper than expected, some local players have more funds available than expected, and otherwise there are many funding organizations who are waiting for convincing project proposals that are backed by a robust coalition of local stakeholders. Also, access to specialized know-how turns out to be easier than expected, for instance because much more know-how than expected is actually available locally, and some local stakeholders can draw in ex-

ternal expertise without paying the usual daily rates of specialized consultants.

The biggest obstacle to successful LED is not lack of funds and expertise, but rather petty politics, envy and greed. This book therefore focuses at the question: How do you organize an effective communication process around the topic of local economic development? Policy guidelines and manuals often contain recommendations like “it is essential to establish effective communication between local government and local business”. Unfortunately, they often do not explain how to do this. Some individuals have a natural talent to connect people. Most persons don’t have this talent, so that they need concepts, methods and tools that help them to connect people and establish effective communication. This is what this book is meant to provide.

This book is written for practitioners in local government or other public sector organizations that operate at the local level. It is not designed as an academic publication, neither in terms of the language it uses nor in terms of referring to lots of other literature. It is meant to be practical. It includes instructions on how to run brief or not so brief workshops. Behind this is the experience that workshops which are facilitated and use visualization techniques tend to be much more effective and efficient than traditional meetings. Linked to this is the strong suggestion that you, the reader who is about to become an LED practitioner, should define yourself as a facilitator rather than an administrator.

# 1 Introduction: Why and how conduct Local Economic Development?

Why have you been instructed or encouraged to do LED? And why now? LED is an approach that has received increasing attention by governments in developing and transformation countries, as well as by donor agencies, since the 1990s. There is a number of reasons for this:

- Many countries have seen a partial withdrawal of higher levels of government from sectoral, targeted development activities, for instance as a result of orthodox structural adjustment policy. This created a latitude for policy makers at the local level, as well as a necessity to respond to increasing unemployment and poverty. Local politicians who want to be re-elected had better do something to create jobs and income opportunities for their voters.
- As governments have concentrated on creating an enabling environment where markets can work effectively, the spatial disparities have grown – in many countries, rich regions grow richer, poor regions get poorer. In growing regions, local stakeholders engage in LED to sustain and accelerate the growth process. In stagnating or declining regions, local stakeholders try to move onto a growth trajectory.
- Many countries have gone through decentralization processes, and with that local government was encouraged or even mandated to take an active role in economic development.
- In the past, many developmental activities were designed and implemented in a top-down way that did not necessarily allow for ad-

aptation to specific local circumstances. Many top-down programs did not bring the expected results. LED is supposed to be an approach that is to a large extent shaped by actors at a local or regional level according to their needs and preferences. It takes developmental activities from top-down to bottom-up.

This book is written for technical staff of institutions and organizations who are involved in LED. It is supposed to guide them in the design, promotion and management of LED initiatives. It addresses both the *How*, i.e. the activities involved in mobilizing stakeholders, initiating activities and sustaining the LED process, and the *What*, i.e. what can be done to promote a local economy.

## 1.1 What is Local Economic Development?

A number of different organizations have formulated definitions of LED. For instance, the World Bank uses the following definition:

“The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation.” (Swinburn, Goga and Murphy 2006)

UN-Habitat uses the following definition:

“Local economic development (LED) is a participatory process where local people from all sectors work together to stimulate local commercial activity, resulting in a resilient and sustainable economy. It is a tool to help create decent jobs and improve the quality of life for everyone, including the poor and marginalized. Local economic development encourages the public, private and civil society sectors to establish partnerships and collaboratively find local solutions to common economic challenges. The LED process seeks to empower local participants in order to effectively utilize business enterprise, labour, capital and other local resources to achieve local priorities (e.g., promote quality jobs, reduce poverty, stabilize the local economy generate municipal taxes to provide better services).” (Trousdale 2003)

USAID uses the following definition:

“Local Economic Development is a process of strategic planning through partnerships between local government, the business community and NGOs. Its objectives are to stimulate investments that will promote sustained high growth in a local community. LED focuses on the region’s potential and identifies specifically what local stakeholders can and need to do to ensure their local community reaches its potential. In this context, Local Economic Development assesses a community’s comparative advantage, identifies new or existing market opportunities for businesses, and reduces obstacles to business expansion and creation. LED activities should have an impact on the economic viability of the entire city and surrounding region not just a particular sector of the local economy.” (USAID 2004)

There are three aspects that these definitions have in common:

- They highlight the importance of territory, i.e. a locality or region.
- They emphasize the need to involve a variety of stakeholder groups.
- They define both growth and equity as key objectives of LED.

In order to put these statements into perspective, it is useful to look at what LED is not, and in what respect it is different from earlier approaches.

- In the past, territorial development / regional development was often a top-down activity, whereby central government offered fiscal incentives and subsidies to stimulate companies to invest in peripheral regions. By contrast, LED is a bottom-up activity (which may be encouraged, but is usually not guided, by higher levels of government).
- Economic development, as a spontaneous process that is driven by entrepreneurs and markets, has always been happening in specific locations. Companies never float in space and rarely on the open sea. Economic development processes have a strong influence on the way a country is organized in spatial terms. Also, in one way or another, there has always been some kind of local economic development. But in the past local decision-making often happened between local business leaders and political decision makers behind closed doors,

in an exclusive and non-transparent way. By contrast, today’s LED is supposed to be inclusive and transparent, involving not only local government and the business community but also other groups who have something to contribute to economic development.

- In the past, economic development efforts were often based on the expectation of trickle-down. Existing economic sectors were promoted and new industries created with the expectation that this would create jobs and ultimately benefit, directly and indirectly, also the poor. By contrast, LED is supposed to take an active effort to involve poor people from the outset and generate initiatives that directly benefit poor people.

It is important to note, though, that the LED approach as suggested by World Bank, UN-Habitat and USAID is not simple and straightforward, and is not free from internal contradictions. We will address the trade-offs, tensions and contradictions involved in LED in the course of this book.

## 1.2 The conceptual framework for this book

This book is organized around a revised version of the “Hexagon of Local Economic Development”. The Hexagon is a concept to organize thinking and action around LED. The original Hexagon was formulated in 2000, and a lot of learning has occurred since then. This is reflected in the revised version of the Hexagon of LED in towns.

The Hexagon consists of six triangles. Underlying this is the insight that thinking and practice on LED can be organized around six elements, and each element around three factors. Joining six triangles creates a Hexagon. Table 1 on the next page gives a more detailed overview of the structure of the Hexagon, highlighting the factors that establish each triangle and the main messages linked to the respective triangles.

**Table 1: The six triangles of the Hexagon of LED**

No.	Name	Three corner points	Main messages
	Policy focus and synergy	Business promotion focus Poverty alleviation focus Planning / agronomic focus	Usually tensions exist between the main disciplinary approaches in LED It is important to understand them, to manage them, and to look for synergies
	Process design and management	Diagnosis and planning Implementation M+E	LED is an iterative process, not a sequential one LED involves important learning-by-doing and trust building processes which must be systematically addressed and encouraged
	Governance	Market Hierarchy Network	LED practitioners tend to have an instinctive preference for relying on hierarchy or network to address a given issue A sober analysis of the most adequate governance mechanism for a given issue is essential
	Locational factors	Tangible factors Intangible factors, relevant for producers and companies Intangible factors, relevant for individuals	LED aims at creating an enabling environment The enabling environment is created both through tangible and intangible factors
	Target group	Existing producers and companies External investors Start-ups	LED must address all three groups LED must seek synergies through connecting the three corner points
	Sustainable development	Economic perspective Environmental perspective Social perspective	The triangle of sustainable development provides a strategic perspective for LED It can also guide the search for quick-win innovative activities

The Hexagon is related to the “competitive advantage” approach to economic development, advocated by prominent researchers such as Michael Porter.<sup>1</sup> This approach suggests that, both at the level of companies

<sup>1</sup> See his website at [www.isc.hbs.edu](http://www.isc.hbs.edu).

and of locations, economic success is based on the ability to create a unique advantage that cannot be easily replicated by competitors. In this perspective, the objective of LED is to create a unique profile, and thus a competitive advantage, for a location.

### 1.3 LED in towns

The focus of this book is at LED in towns. What do we mean by “town”? Intuitively, one would tend to define a town as a settlement that is bigger than a village but smaller than a city. But there is a more analytical way of capturing the essence of a town from an economic angle. A town is a locality that is defined by its relationships to a hinterland. A city, and in particular a “world city”, is not defined by its hinterland but rather the integration into the international division of labor.<sup>2</sup> A town provides services to its hinterland, and it connects the hinterland to the world at large. A city provides services to its nation, and often to the regional or global economy.

Is LED in towns, and in particular in towns in rural areas, different from LED in urban settings? The answer is both a Yes and a No. It is not fundamentally different regarding the basic orientation, namely the intent to create a competitive advantage. It is also not different as far as other basic categories are concerned. The three factors that establish each triangle of the Hexagon apply to cities, towns and rural areas. Their specific meaning changes, though. The fact that development outside urban agglomerations often faces serious bottlenecks in terms of infrastructure and capacity is just one of the issues. In a global city, LED in order to strengthen the local competitive advantage will often involve highly sophisticated and specialized activities, while in a town in a rural area many activities will be rather basic, like creating the infrastructure that is the entry ticket to the rat race of globalized competition.

<sup>2</sup> For an in-depth discussion of this point see the research of the Globalization and World Cities Research Network, available at [www.lboro.ac.uk/gawc/](http://www.lboro.ac.uk/gawc/).



There are also differences from a practical angle. In regions where agriculture is an important sector, especially those where producers bring in one harvest per year, the time line for activities and outcomes is different from an industrial setting. And there is definitely a different situation in terms of governance. Doing LED in a city of 5 million creates quite different challenges in terms of governance than doing LED in a town of 50,000, where in principle all interested stakeholders still fit into a medium-sized ballroom.

## **How to organize and manage LED**

## 2 Policy focus and synergy

Let us assume that you live a local community in a country that has gone through a decentralization process. In the past, everybody looked at and everything depended on the capital of your nation. The headquarters of all government institutions were located there. Policies and programs were formulated there. Government officials at the local level rarely ever took initiative on their own, but rather waited for guidance from national level.

Now, with decentralization, everything has changed. National government formulates only few sectoral economic development policies, and those are little more than general orientation and guidelines. The director of the local office of the planning ministry has been renamed into local planning director. She is not entirely comfortable with the new situation and is still in the process of finding out what exactly she is supposed to do now. To some extent, she receives guidance from local government and in particular councilors who come up with all sorts of proposals – build a road here, pave a road there, connect that community to the electricity grid, and so on. But this is a piecemeal, ad-hoc approach that does not appear to have a long-term development effect.

A discussion has started among local stakeholders about local economic development, or LED. Some government officials have recently attended workshops where an LED concept was presented. Some representatives of community organizations have participated in different workshops where a different LED concept was discussed. Some business people have not attended any workshops, but indicate that they know exactly what LED is all about. The problem is that everybody has a different concept of what LED means, and what it is supposed to achieve. By and

large, there are probably three different approaches that are championed by different stakeholders.

**LED as poverty alleviation:** For some stakeholders, it goes without saying that LED is primarily about income-generating activities for poor communities. In this view, LED is run through projects that address poor individuals, families, groups or communities. Projects initially depend on government grants, and usually also on some degree of government or NGO facilitation, but hopefully turn into sustainable business activities over time.

**LED as integrated local development:** For other stakeholders, LED is an evolution of what in the past used to be done under the label of “integrated rural development” (IRD), or what is still done under labels such as town planning or regional planning. The agricultural people are convinced that with LED, IRD can finally fulfill its promise, since LED suggests a bottom-up process that is owned by local stakeholders. In this perspective, LED is about mobilizing communities, conducting participatory appraisals of local production systems, and re-orienting or creating agricultural extension services that are specifically targeted at the local reality. The objective is to improve the productivity of local producers and thus improve the income at all levels, from poor families to those that are better off. The town planners are convinced that nothing has changed, really, except maybe that now they must not only draw blueprints of new business districts but also blueprints of how the different stakeholders involved in LED should be put together in a coherent governance structure.

**LED as business development:** For yet other stakeholders, LED is about promoting business. In this perspective, LED is about competitiveness. It involves activities that support the effort of firms to improve their competitiveness, for instance through the provision of specific skills or services to promote technological upgrading. LED is also about creating a competitive advantage that is based in the location, for instance by specializing local production, stimulating constant upgrading, creating a set of support organizations, and thus generating an advantage that cannot be

easily replicated by other locations. Any business that wants to be active in this specific niche had better move his or her operation to this location.

Each of these approaches makes sense and can make a contribution to local development. However, it is important to understand that they are intrinsically different, and that there are tensions between the approaches. Lumping all of them together under the label “LED” is not a good idea. It is more useful to conceptualize each approach as a valid approach under the umbrella of **local development** (note the absence of the term “economic”).

This book focuses on the economic part of local development. It addresses **LED as business development**. In this section, we will first look at the tensions between the three approaches. We will then look at the institutional implications of the three approaches. We will also look at possible synergies between the three approaches.

## 2.1 Understanding the tensions between the three approaches

At first glance, it is not necessarily plausible that the three approaches should be separated. Isn't integrated rural development addressing businesses and poor communities? Of course it does. But it does so from a specific angle. Each of the three approaches has been designed from a specific disciplinary angle and it is defended by professionals with a specific disciplinary background. Each approach is related to specific values, has specific objectives, and proposes specific priorities – and it is about these priorities that tensions and conflicts tend to erupt.

### 2.1.1 Local social development

Local social development and community development is driven by professionals who often have a background in social work, sociology, pedagogy, and related fields. Since it is an approach that addresses weak, marginalized and disadvantaged groups, it is not infrequently linked with a critique of the predominant political and economic system. Individuals

who prefer this approach tend to have a somewhat complicated relationship with business people.

Local social development typically involves an effort to organize and empower poor groups. It tries to activate their self-help potential and their ability to advocate their interests vis-à-vis government and other societal groups. The objective of local social development is to improve the standard of living of poor groups, both by raising their income and by directly addressing social issues.

Addressing social issues relates to activities such as education (e.g. basic alphabetization) and efforts to care for elderly, kids, disabled or seriously ill persons (e.g. victims of HIV/Aids). It can also include an effort to upgrade the quality of living in shantytowns, for instance by upgrading the infrastructure or creating public spaces, as well as other activities.

Efforts to raise income tend to involve projects to develop skills so that poor people can produce something or find a job, as well as income-generating activities (including, but not limited to, food-for-work programs).

Developmental interventions that target social activities and income-generating activities need to be carefully designed and implemented. They must not have a negative impact on the evolution of the local economy. A negative impact can be the result of one of the following approaches:

- Skills development programs for poor groups are not necessarily driven by a sound understanding of market realities. For instance, imagine that an NGO trains small farmers, who so far have mostly done subsistence agriculture, on how to raise chickens. This is based on the assumption that a market for chickens is easily available. This, however, may or may not be the case. In many regions, chicken production these days is a highly organized and professionalized activity, and there is hardly a market niche for chickens of unpredictable quality and hugely variable size and weight. The result of such a program are then individuals with a new skill that they cannot exploit

commercially. This, obviously, leads to frustration among the targeted individuals.

- Social activities are often supported with grants by government, donors or NGOs. To some extent, they address issues that are also addressed by private businesses. For instance, in South African townships childcare and care for individuals terminally ill with HIV/Aids are among the relevant local business activities. In such a setting, a grant-funded intervention to provide the same service creates unfair competition for existing local businesses (which are typically vulnerable microenterprises) and may actually drive them out of business. This, in turn, would discourage potential entrepreneurs in the future. If the grant is only temporary, the local community can be worse off once the grant money has been spent – the money is gone, existing businesses have gone out of businesses, and new businesses are not launched because perhaps there is another grant coming and creating more unfair competition.
- Income-generating activities often suffer from similar problems as the social projects mentioned above. Imagine an NGO that is organizing a few families in a village to jointly manage a vegetable garden. This will quite likely create competition for existing producers, who have to get along without anybody subsidizing their production. Again there is a risk that a subsidized project puts existing producers out of business. In particular, there is a significant risk that it creates unfair competition for small-scale producers who are not able to connect to sophisticated formalized distribution channels, and who, just like the income generation project, sell their produce at the roadside, through hawkers or at weekly markets.

Even if a project is well managed and fundamentally works well, it may damage the local economy directly by creating unfair competition for existing producers and service providers. It can also create indirect damage by creating disappointment and de-motivate local people to get involved in future developmental activities. The problem with socially motivated approaches is often that they are neither informed by business

principles nor based on a robust understanding of market processes, thus creating unsustainable businesses that temporarily distort and ultimately destroy markets.

### **2.1.2 Localized integrated rural development**

Integrated rural development is driven by professionals who have a background in agronomics and neighboring fields. Their concern tends to be with production systems, i.e. the skills of farmers, the technologies used by them, the quality of soil and the climatic features of a given location, and the quality of infrastructure. They tend to be torn between different approaches, e.g. profound scientific analysis and a scientific approach to intervention as one extreme (often connected with the use of geographical information systems), and participatory, bottom-up methods as the other extreme (often informed by the participatory learning & action school of thought). The focus is often on poor farmers and small-holders.

The intervention focus tends to be on the supply-side, i.e. working directly with farmers and trying to improve their productivity and the quality of their products. This includes an effort to improve infrastructure. Early IRD approaches tended to be based on a rather technical approach, emphasizing the need for technological and infrastructure upgrading. Later IRD approaches emphasized the need for local ownership, the importance of bottom-up processes and the necessity to conceptualize IRD as a learning-based process rather than something that can be planned in a detailed way in advance. More recent IRD documents also highlight the need to understand market processes, as well as market failure, and to not only strengthen supply capacity but also address the connection of producers with markets.

One cannot necessarily take for granted, though, that development practitioners with a background in IRD have followed the evolution of concepts and absorbed them into their work. It is not rare to find IRD practitioners whose thinking and acting revolves around the direct interaction with producers, without necessarily addressing the business principles

involved in agricultural production and understanding the structure of markets. Indeed, practitioners may sometimes hesitate to appreciate how important it is to understand markets.<sup>3</sup> Thus, development practitioners with an IRD background may not intuitively understand, and support, an approach to agricultural development that emphasizes business principles and business thinking.

### **2.1.3 LED as business development**

LED as business development is the subject of this book, approached from the basis of a conceptual framework and action approach that connects business development with social development, locational improvements and environmental care. This approach is based on business principles and a sound understanding of the importance of competitiveness as the most important criterion to thrive, or at least survive, in competitive markets. LED from this angle is definitely not about substituting businesses with unsustainable projects, and it is not primarily about lengthy handholding exercises that ultimately raise a few individuals to a level of competence that permits them to compete.

LED is rather about two things. First, it tries to create an enabling environment that makes it easier for any kind of business to thrive. This includes an effort to make markets work effectively, as opposed to creating local monopolies. Second, it involves collective efforts by businesses, service providers and promotion organizations to take the effort of creating a competitive advantage to a level beyond that of the individual firm. Each business owner constantly seeks ways to improve his or her position in the market. There are lots of things that business owners can

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3 Take, for instance, the following quote: “In the initial stages of economic development, agricultural market information may not play a very important role. A need for an information service first appears with rising market production and a falling significance of subsistence production.” (Source: “Creation of an enabling environment for small-scale farmers in Chris Hani”, part of the document “Comprehensive Agricultural Development Plan for Lukanji”, prepared by a number of consultants and the University of Fort Hare, South Africa, 2003)

do inside their firm, and they can rely on a variety of commercial service providers – from the extension agent of the suppliers of agricultural inputs to tax advisors – in their upgrading effort. But there are areas where commercial service providers are not, or not yet, available. This is where local producers and companies depend on collective efforts, for instance regarding specialized skills development, technological development of innovative products, or long-term finance. LED aims at attracting service providers that strengthen the profile of the local economy, at creating organizations that provide services which are not provided by private service operators, and at creating structures for collective action that address issues where markets don’t work.

## **2.2 Separating and re-connecting the three approaches**

Because of the tensions between the three approaches, it is useful to separate them – not only conceptually, but also organizationally. In the context of a local development effort, this would imply aiming at three different initiatives: a social development initiative, an integrated rural development initiative, and business promotion initiative. There is one thing you want to avoid and two things you want to do when conceptualizing LED. First, you don’t want to discuss the approaches in an either/or manner. Second, you want to develop a clear focus for each of the three approaches. Third, you want to look for synergies between the three approaches.

### **2.2.1 Pursuing each of the three approaches**

Many an LED process has taken long to get going because of endless disagreements in a local stakeholder forum or some similar body, or perhaps in the local council, about the pros and cons of each approach. Defenders of the different approaches tried to promote it while trying to shoot down the other approaches. Things get even more difficult if the discussion seems to be linked to party politics, for instance with the local

left party suggesting a social approach and the local liberals defending a business approach.

This is a most unfortunate constellation. Discussing the three approaches in an either/or manner is just as useful as discussing the pros and cons of sunshine and rain as if one could run agriculture with only one of them. It is essential for local communities to pursue all three approaches at the same time. There need to be interventions that follow a social logic, addressing poor and excluded communities. There also need to be interventions that aim at creating or strengthening a competitive advantage. And most of the things suggested by integrated rural development are quite essential for either of the other approaches.

### 2.2.2 Focusing each approach

However, each approach needs to have a clear focus.

With your **social interventions**, you want to solve social problems, not reinforce them. It appears trivial to say this, but as argued above, socially focused interventions have often left their addressees, and sometime the entire local community, worse off in the end. Applying a number of criteria helps to avoid such blunders:

- If you conduct skills development activities, make sure that those skills are either marketable in the labor market or create the basis for a sustainable business. You can hire a consultant to do a comprehensive analysis of the labor market and economic opportunities. But you can also simply run a workshop with local business owners and commercial farmers to do a quick scan of their needs; this is the swifter and cheaper approach.
- If you run income generating projects, consider the following:
  - Analyze the possible displacement effects before starting. Check whether your producers are going to produce something that is also provided by commercial operators, in particular micro,

small and medium enterprises. If you find a market niche that is undersupplied, you may still consider going for it. But you don't want your poor community to be the 62<sup>nd</sup> supplier of spinach in spinach high season, thus driving prices further down.

- Manage expectations consistently. If your intervention is about helping poor people produce and sell something, and if those people have no business experience and few skills, then it is unlikely that your project will become a self-sustaining community business, unless you have grant money to support it for several years, until some group members have ridden down the entrepreneurial learning curve. Highlight to recipients of the grant that this is only a temporary activity. Explain to them that they must not use the income they derive from the project as collateral to get indebted.
- If you have convincing reasons to believe that your project can turn into a sustainable business activity, try to make sure that you have confirmed orders before your producers even prepare the land.

With your **business promotion interventions**, you want to have a clear focus at business, markets and competitiveness. How to do this is the subject of this book.

Your **integrated rural development** will to some extent have socially motivated intentions, and it may have a business rationale. But the underlying logic tends to be driven by a technical and engineering logic. When agronomists look for local potentials, then tend to investigate the fertility of soil and the annual rainfall, and they will probably not do a Readiness for Change Assessment of local organizations and actors (for the simple reason that agronomists are agronomists, not change management specialists). The technical perspective of agronomists is perfectly legitimate. The focus should be for local practitioners to excel in their core field of competence, rather than spreading their effort across the-

matic fields that can be more effectively addressed by professionals from other disciplines.

### 2.2.3 Looking for synergies

So far, we have argued that you should separate the three approaches. You should run social projects, IRD activities, and proper business-focused LED in such a way that they do not thwart each other's objectives. Achieving this is the first main objective in local development – and achieving it is no small challenge.

Once you have your local development process up and running, and practical activities are rendering results in all three areas, you would also want to look for synergies. Of course you will be tempted to do that from the outset, but beware – it is practically much more difficult that you may imagine. Just picture sitting with a social worker, an agronomist and a business promotion professional around the table, trying to agree on an approach for a joint project, and you can start to imagine what you're up against. It is a much safer bet to get activities under each of the three approaches up and running first. We will argue over and again that at the outset, one of the most important goals is to get quick wins – to motivate those who support your local development effort, to show the bystanders that it is worthwhile to get involved in developmental activities, and to convince the eternal skeptics and nay-sayers that it may be a good idea to pursue a local development effort. It is easier to achieve quick wins by implementing clearly defined, not too ambitious activities under each of the three approaches.

Once your local development effort has become reasonably robust, you want to look for synergies. Table 2 indicates a number of possible synergies.

**Table 2: Possible synergies between the three approaches**

	<i>Social</i>		<i>IRD</i>	<i>Business</i>
<i>Social</i>		Pulls poor communities out of subsistence agriculture, turns them into clients for agro-extension		Pulls poor communities out of subsistence agriculture, turns them into potential suppliers for local agriprocessing
<i>IRD</i>	Provides know-how on locally appropriate varieties and production methods that can guide income-generating activities			Provides know-how on locally appropriate varieties and production methods that can guide agribusiness development
<i>Business</i>	Generates demand for products of poor communities		Generates demand Gives orientation to technological development effort	

From a practical angle, what is the best way to look for synergies? One option is this. You invite a number of active stakeholders from the three areas to a workshop. Try to have a group that is not too big, say between ten and 15 persons. Start the workshop with a warm-up exercise, for instance by inviting each person to describe their most rewarding experience in local development in no more than one minute. After that, work on the main topic: How to create synergies? You need a device to visualize the work that you will do now. A whiteboard may be okay, but will probably be too small. Rather consider having a wall where you cover two by four meters with brown paper, and then have the participants write their ideas on cards in format 10x21 cm (often known as “ZOPP cards”). You then run two rounds of generation of information. In the first round, you ask: What are the things that we, with our approach, can contribute to the other approaches? You organize the cards on the brown paper in a matrix that is organized like this:

**Things that we can contribute to the other approaches**

	A – Social	B – IRD	C – Business
A – Social		A to B	A to C
B – IRD	B to A		B to C
C – Business	C to A	C to B	

In the second round, you ask: What are the things that we expect to get from the other approaches? Again, you organize the cards on the brown paper in a matrix that is organized like this:

**Things that we expect to get from the other approaches**

	A – Social	B – IRD	C – Business
A – Social		A to B	A to C
B – IRD	B to A		B to C
C – Business	C to A	C to B	

In the next step, you look for matches between the two matrixes. You would try to prioritize those matches that are both the most convincing and the most significant. This would then take you into action planning, where you would look at how to operationalize the two or three highest scoring matches.



Local economic development is a learning process. For local stakeholders who have not done it before it appears like a huge challenge. At an early stage, it is crucial to develop a clear understanding of the principles of LED, and the differences between LED and other approaches that also contribute to local development. At this stage, it is useful to clearly separate activities. “Integrated development” is a convinc-

ing and important concept, but it is quite difficult to implement practically. It requires a high level of skill and experience, it requires confidence and trust among a very diverse group of stakeholders, and it requires very competent facilitation. It is crucial to allow some time for local actors to develop their skill and experience in the three main areas of local development, and to develop respect for each other’s competencies and achievements. You want to move towards an integrated approach only after some time – and we are talking about years here, not weeks. First of all, it is important to get a proper LED process running. The following chapter explores the activities and instruments involved in achieving this.



### 3 Process design and management

Imagine that you are working in local government. Your mayor has recently been criticized for not doing enough to deliver jobs and raise incomes of local people. The mayor has now tasked you with writing a proposal for local economic development. How to you start?

First and foremost, don't start by sitting down and defining a step-by-step work plan for the first half year. You need to work on the assumption that LED is an organic process. What do we mean by that?

- It is a process that “lives” (and, if not managed properly, dies all too easily).
- It is a process that cannot be fully planned in advance, just like you cannot plan the growth of a plant (and if it is a plant that you have never grown before you can't even be sure how quick it will grow, and in which direction).
- It is a process that grows over time. And just like a plant, it does not grow faster if you pull it. You have to look after it. You must water and fertilize it. And you need to be patient.

Before we look at how to launch such a process, let us briefly look at the difference between the terms *process* and *project*. A *project* is defined by a comprehensive set of unique conditions, such as a clearly defined goal, limitations regarding time, finance, staff, separation from other activities, and a specific organizational arrangement. An LED project is an activity that can, and indeed must, be planned in advance. It has a clear starting point and final point. When it's over, the goal may or may not have been achieved, but in either case the project is over. In LED, a project can be anything from one briefing session where microfinance providers brief small business owners to the planning and creation of a major agroproc-

essing facility, and the opportunities created by it. A project is not defined by size, but by the fact that it has a starting point, a tangible goal and an end.

An *LED process*, by contrast, may have a clear starting point, but it should not have an end. It will lead to the formulation and implementation of projects. Each successfully implemented project may create opportunities that lead to one or a few new projects. A process is difficult to plan, and insistence to plan it in advance for a certain period of time (say, more than one year ahead) may indeed create a straitjacket that limits the ability to exploit emerging opportunities, and to respond to emerging challenges and problems. Wikipedia defines process as “a naturally occurring or designed sequence of changes of properties/attributes of a system”. An LED process is thus a consciously initiated change that will induce further change.

When contemplating on how to launch an LED process, an LED practitioner can benefit from the thinking of experts on change management. One of them, Peter Senge, highlights the following five principles for the launch of a change process (Senge et al 1999, 55 f):

1. While nothing happens without commitment, initial commitment is almost always limited to a handful of people.
2. Start small, grow steadily.
3. Intended results and useful tools are more important than a detailed plan.
4. If you're short of time and you're up against the wall, fix the crisis first.
5. Remember that leverage lies in the limits and that they will come.

Let us have a closer look and investigate what these principles mean at the outset of an LED process.

1. Commitment: Even when there is widespread agreement that something needs to be done to stimulate the local economy, it is unlikely that

you can immediately mobilize a huge group of active supporters. Rather try to identify likeminded people in different sectors and create a core group that initially drives the LED process.

2. Start small, grow steadily: Don't start your LED process with a huge effort to mobilize each and every stakeholder for a Vision & Strategy Event. Also don't start with a huge and costly research effort. Rather involve the core group in a rapid assessment of the local economy, identify quick-win activities, and implement them. Success breeds success. If other stakeholders see that LED is actually delivering results, more will come on board.

3. Results and tools vs plan: As long as you don't know who is going to support you, there is no point in preparing a comprehensive plan. Again, it is quick wins that count, and after that more achievements. Make sure that you use available methods and tools when you organize workshops or events, in particular to avoid series of boring and unproductive meetings that turn off those highly motivated individuals who want to do something rather than just talk about it.

4. Fix the crisis: Imagine that it is not the nagging of some councillors which has the mayor order a local government official to do something about LED. Imagine that instead the starting point is the declaration of the largest local employer that it will shut down its factory shortly. In such a situation, the advice to grow an LED process organically over time obviously does not apply. Instead, you must respond massively – send the mayor to corporate headquarters to try to change the decision, send the mayor to the capital so that political pressure can be exerted, or contract a consultant to check whether a management buy-out may be an option.

5. Limits and leverage: There is only so much the core group can do. In fact, its members may reach the limits of their skills and time availability quickly. This, however, is not necessarily a crisis but rather a strong incentive to learn and to actively seek other stakeholders who can be in-

involved in the process. New stakeholders bring more skills, more resources, and more creativity.

### **3.1 Issues to consider before even starting**

Before you go about organizing an LED effort, you should do a sober assessment of the preconditions, since they have important implications for the design of the LED approach and process. Issues that you want to consider include the following:

- What is the credibility of local government in the private sector and with local communities?
- Are there party politics involved in the relationship between local government and the private sector?
- Have there been earlier efforts to launch a local development effort, for instance a local skills initiative or an initiative to create a local development organization (e.g. in technology extension)?

#### **3.1.1 Credibility of local government**

One of the first things you want to do it is to conduct a credibility check. Public officials often assume that they are credible because they are public officials, i.e. THE AUTHORITY. However, that is often not the case – their credibility may be much lower than they thought. It may even be non-existent. Business people often perceive the public sector primarily as a source of problems, and therefore try to minimize interaction with it. Rather than assuming that you are credible with the private sector, you want to check your credibility. One way of doing that is in a strictly informal way, for instance by having a drink with business people you happen to know privately and raising the issue during this conversation.

Another way to check your credibility is to ask yourself a few blunt questions and give yourself honest answers:

- What kind of customer are we, i.e. local government? For instance, do we pay bills in a timely manner, or do we often throw businesses into liquidity problems because we only pay after long delays?
- Do we interact with business in a fair and transparent way, or is there some incidence of corruption?
- When we force businesses to interact with us, e.g. to register or to apply for building permits, do we deal with them in an efficient and consistent way?
- Have we in the past responded to the declared needs of businesses, for instance in terms of infrastructure development?
- Do we have no habit of squeezing local businesses for funds, for instance by sending out inspectors to fine them when we are short on cash? And do local politicians refrain from coercing election campaign contributions from them?

If you can honestly answer all or most of those questions with a Yes, then it is safe to assume that your credibility in the private sector and among producers is not bad. Otherwise, you want to check how badly the credibility of local government is damaged. If you find that your credibility is low, you want to address that problem before you invite the business sector to get involved in LED. One way of doing that is to address one of the problems mentioned before (e.g. delayed payment of bills, or red tape around registration and permits) in a very public, visible way. We will get to the *how-to* below.

### 3.1.2 Party politics

If you want to start an LED effort, you need to engage with local business leaders. Your ability to do so is not only influenced by your credibility. Things are particularly complicated in a situation where local business leaders are engaged in a political party that competes with your mayor's party. If collaboration between rivaling parties is possible in the local political culture, it is still an option to engage with those business

leaders. If the local political culture is defined by antagonistic relationships between rivaling parties, where every party is busy trying to shoot down the other parties' initiatives, it is unlikely that those business leaders will support your LED initiative. In fact, in such a case you will battle to launch an LED initiative at all.

If you start LED and engage only those businesses that are politically aligned with the mayor, you severely damage the credibility of LED as a developmental activity, since it now would appear as a tactical maneuver in the context of party politics and power games. What you still can try is a unilateral approach, for instance launching an effort to make the local public administration more business friendly.

### 3.1.3 Earlier experience with local development

There is another issue that you want to check before you start, namely whether there have been earlier efforts to launch a local development effort that had some kind of economic or business angle to it – be it a public sector project or a private sector initiative, be it a major investment project or a small business initiative.

The fact that you have been instructed to start with LED in all likelihood means that there is no ongoing LED effort, at least not from local government's side. If there were earlier activities which have been discontinued, you want to know why. This is for the following reasons:

- Perhaps there has been an initiative that failed. For instance, imagine that a couple of farmers tried to create a purchasing cooperative. The main supplier of inputs did not like that initiative and shot it down by offering preferential prices to a few of the involved farmers. If something like that has happened, local producers and business people will know about it, and will look at any new development effort with skepticism – even if that earlier failure happened decades ago.
- There has been an LED effort in a past, but it was discontinued after a change in local government. Let us hope that it was not discontin-

ued by your mayor, since if it was you're in trouble – local stakeholders outside the public sector don't like this kind of stop-and-go pattern, especially if it is motivated by party politics.

- Maybe there was some local development effort, but it has run out of steam – some of the objectives were achieved, and then the champions who drove the effort lost interest. This is actually not a bad situation, since you can refer to that earlier experience to explain to local stakeholders what you intend to do.

If there has been any local development effort in the past that failed or withered, you not only need to know about it. You need to frame your LED effort in a way that anticipates the grumbling of local stakeholders. You need to explain why things are different this time, how they are different, and why stakeholders who have been disappointed in the past should get involved again this time.

### 3.1.4 Ongoing activities

Before you start with your own LED effort, you want to check whether there is already something like an LED effort going on. This may sound silly. However, we have often observed that LED practitioners only after some time stumbled upon LED-related activities that had gone on for some time. Local stakeholders tend to assume that at the local level everybody knows everybody else, and everybody knows what is going on. Nothing could be further from the truth. It often happens that communication between public sector and other players does not flow well, so that local government is not aware of activities initiated by business chamber, a sectoral business association or an NGO. But also information flows inside the public sector are not necessarily good, and it is perfectly possible that some national or provincial ministry or para-statal organization is running development activities in a given location without having consulted or even informed local government.

Moreover, at the early stage of LED many stakeholders have no clear idea of what LED stands for. They do not necessarily understand that on-

going infrastructure development, skills development or agricultural extension work can have a close connection to LED. If you inquire with other organizations whether they do something that is related to LED, you need to explain carefully what you mean by LED.

## 3.2 Launching an LED process

The first question you need to ask yourself when you are about to actually launch LED activities is whether you want to facilitate it yourself or rely on a professional facilitator. You would want to facilitate the process yourself if one or more of the following criteria apply:

- You don't have any money to contract a facilitator.
- You have experience in facilitation and are comfortable facilitating. Note that facilitation means more than chairing a meeting.
- You have good credibility and rapport with local stakeholders.

Conversely, you would want to contract a facilitator if one of the following criteria applies:

- You are not comfortable standing in front of the group and facilitating its work.
- You don't really know any facilitation techniques beyond the simple chairing of a meeting.
- You suspect that some local stakeholders, in particular in the private sector, do not ascribe much credibility to you, for instance because you are a public servant.

In this section we will assume that you are going to facilitate the process yourself. In this case, what do you do? The first decision you have to take is whether you want to start the process with the major event to identify interested stakeholders, or whether you already have a pretty good idea which stakeholders you can involve in the core group. The next two subsections describe a major event and a workshop format for a small group.

### 3.2.1 The LED Café

A robust workshop format that you can use at the outset of an LED process is the LED Café.<sup>4</sup> It is a workshop format where you can engage with anywhere between 30 and far more than a hundred local stakeholders. It is based on the “World Café” format (see [www.theworldcafe.com](http://www.theworldcafe.com)). The underlying idea is very simple: Participants sit around small tables, i.e. are divided into groups of four to six individuals. You organize three rounds of conversation between these small groups of individuals. Each round takes 30 to 40 minutes. At the end of each round, each participant except one “host” per table moves to a different table. Through three rounds of conversation, you can look at a given subject from different angles, and you can assure that stakeholders who have not discussed the subject before have a meaningful conversation about it.

Compared to other frequently used formats, such as a formal meeting with a series of speeches by local dignitaries or a motivational speaker, the LED Café format has a number of advantages:

- It is very robust and relatively simple to apply. It is not very demanding in terms of facilitation.
- A large part of the time, participants can talk rather than having to listen. Conversations at each table are usually intense. The format appeals to local stakeholders who dislike listening to speeches, especially if those speeches are given by local politicians and officials who speak quite often.
- To the extent that the chosen subject is of interest to the participants, the format is usually appreciated by stakeholders.
- Individuals who would normally not meet can have a meaningful conversation.

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<sup>4</sup> A detailed handbook that describes every step in the LED Café is available at [www.mesopartner.com/publications/LED-Cafe.pdf](http://www.mesopartner.com/publications/LED-Cafe.pdf).

- The workshop generates positive energy. You can use it to identify volunteers that subsequently form the core group.

### 3.2.2 Creating a core group

You don’t want to run the LED process alone. In fact, there is more than one reason why you want to involve other stakeholders:

- You want to use the time of other stakeholders, since you cannot work much more than 60 hours per week.
- You also want to use the creativity of other stakeholders, who have a different background and a different way of looking at things.
- You want to involve stakeholders who are credible in their respective communities. You need the members of the group to communicate your activities and to mobilize other stakeholders in their respective peer group.

When you select members for the core group, it is essential that you apply the following criteria:

- They must represent different sectors and groups in the local economy.
- They must be credible in their respective peer group.
- They should have an intrinsic interest in LED.
- They should have some time available.

You will often face a simple trade off: A number of individuals fulfill those criteria, except that they have no time to spare. In that case, you would ask them to make a person that they trust available for the core group.

We often observe that the creation of a core group is not easy, in particular in locations where the local society is highly fragmented, be it along social, ethnic, or religious lines. In that kind of place, running an

LED Café can be particularly useful in order to create an opportunity for individuals from different backgrounds to volunteer for participation in the core group.

### 3.2.3 Identifying alternative futures

When the core group starts its work, it can be useful to organize a workshop that identifies different possible future. Doing this is important in cases where stakeholders can only imagine one future, and in particular when that future is not a better one. You may decide to involve only the core group in the workshop or also invite some other local stakeholders (such as people who are intrinsically good at lateral thinking or who have specific experience, for instance because they have worked abroad for some time).

The format for this workshop is very straightforward. You have a brainstorming on the factors that will shape the future of your location. You agree on the two most relevant factors. You find two opposing expressions for each factor. This takes you to a matrix with four quadrants. Each quadrant is defined by two expressions. You now develop a brief story for each quadrant where you look from a distant point in the future back to the presence. With a result of this exercise is the formulation of four possible and plausible futures. The result of this exercise is the insight that there are different possible futures, and that to a significant extent it is up to local stakeholders to shape the future of the local economy.

A step-by-step explanation of the workshop format is given in the Annex.

### 3.2.4 Management of expectations

Management of expectations is a term that you do not hear often in development activities. In our view, this is a main reason why development efforts so often fail. Development practitioners tend not to reflect on expectations, let alone manage them. A typical scenario involves project

preparation. To prepare a project properly, you need fact-finding. As you, or more likely the consultants you have contracted, go out to do fact-finding, the people who know the facts will ask the consultants why they want to know the facts. The consultants will justify their curiosity with the upcoming project. In fact, they will be tempted to use the future project, and the funds attached to it, as a carrot to buy the time and cooperation of fact-knowers. In this way, they are creating expectations. These expectations may, or may not, be realistic.

Another typical example involves technical assistance people driving into some poor rural community with their fancy 4x4 vehicle which proudly displays big logos of their organization. Their appearance necessarily will create expectations in this local community, especially if it has been a beneficiary of technical assistance before.

In the technical assistance field, one specific technique of management of expectations has been increasingly employed in recent years: do not give anything away for free. Always charge, even if the fee is only symbolic. If the “beneficiaries” are not willing to pay, your contribution is most likely worthless. However, if they pay, a clear relationship has been established, with commitments from both sides. This distinguishes symbolic fees from simple handouts: the handout creates commitment only on one side, namely that of the entity that gives the handout. Charging, on the other hand, creates a business relationship with relatively clear expectations on each side.

How can you handle management of expectations in LED? There are a couple of opportunities:

- In the build-up phase, you must communicate consistently what you want to achieve with LED, who is expected to contribute what, and what you expect from local stakeholders. This is particularly important when you make appointments with local stakeholders for workshops. They will tend to ask: Why should I waste my time for this? In order to persuade them to share some of their time with you, there

is always the temptation to make promises – which just so often you won't be able to fulfil.

- When you conduct a rapid appraisal of the local economy, the participants in mini-workshops and the interview partners should be informed that proposals derived from the processed information collected during fieldwork will only be successfully implemented if they are driven by motivated local stakeholders or a network of local actors who are keen to make a difference and improve the business environment in their specific location. You don't want to give the impression that local government will take care of everything.
- Another issue relates to the tension between public and private stakeholders, in particular the different time horizons in their thinking and acting. A businessperson is often used to act instantly on an idea, and instantly can mean: tomorrow, or at least next week. A public sector stakeholder, on the other hand, will probably have to consult with various political and institutional stakeholders, and would perceive it as a major achievement to include a given activity into next year's budget. There are thus very different expectations as to what "immediately" means, which can create a feeling of being seriously annoyed on either side. It is essential for the core group to address this tension explicitly, so that both sides can align their expectations.

### **3.2.5 Analyzing the local economy and defining initial activities**

You want your process to get going quickly. Thus, you need to define practical activities that lead to visible results in a relatively short period of time. In order to do that, you have two options. First, a simple brainstorming within the core group can take you to the definition of a small number of tactical activities. Second, and more likely, you will need to do some fact-finding on the local economy in order to define possible activities. Regarding methods for the fact-finding there are different options.

#### *3.2.5.1 SWOT*

One option is to conduct a simple SWOT analysis of the local economy, which can be based on different formats:

- an effort of the core group that is based on internal discussions and additional interviews with relevant players in the local economy,
- a major workshop that involves a representative group of stakeholders from different sectors of the local economy,
- a series of workshops with local stakeholders, organized by sector and complemented with interviews.

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. The SWOT framework can be operationalized in two different ways:

- Strengths and Weaknesses addressing local factors, Opportunities and Threats addressing external factors,
- Strengths and Weaknesses addressing current factors, Opportunities and Threats addressing future events.

The advantage of SWOT is that it is a relatively simple, straightforward framework. The disadvantage is that it often leads to a random collection of factors that does not highlight critical bottlenecks and opportunities, and thus does not lead naturally to the definition of practical activities. Moreover, local stakeholders, especially in the business community, may have gone through so many SWOT analyses that they find the whole exercise utterly boring.

#### *3.2.5.2 Participatory Rural Appraisal*

Another option is the application of participatory rural appraisal methods. There are numerous manuals available for free that explain robust PRA tools.<sup>5</sup> PRA tools are useful under all circumstances, and they are par-

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<sup>5</sup> E.g. [www.fao.org/participation/bibdb/retrieval/index.asp](http://www.fao.org/participation/bibdb/retrieval/index.asp)

ticularly useful when you need to interact with individuals who are illiterate or semi-literate. Note that PRA is not limited in its applicability to agriculture and rural locations.

Possible uses of PRA methods in an LED diagnosis include

- understanding the production system of producers and the way they are linked to buyers,
- mapping the local value chain in order to understand which players are involved in a given subsector, how they interact, and what of relations exist among them,
- identifying over- or under-exploitation of existing resources.

### 3.2.5.3 PACA

Yet another option is to conduct a Participatory Appraisal of Competitive Advantage (PACA). PACA is a method that combines PRA principles with the competitive advantage concept.<sup>6</sup> You can use it for a variety of purposes, including

- to introduce LED as a new activity, for instance as part of a decentralization program or a program to strengthen local government,
- to refocus or energize ongoing LED activities, for instance in places where earlier approaches overwhelmed the capacity of local actors and ultimately paralyzed them,
- to make a strategic planning process that has resulted in comprehensive planning documents but little action unstuck, i.e. to identify points of entry for high priority activities identified during planning,
- to launch a local or regional cluster or value chain initiative, since the PACA principles and tools have proved to be very effective in this regard,

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<sup>6</sup> See [www.paca-online.org](http://www.paca-online.org).

- to connect the public and the private sector and motivate them to collaborate on territorial development.

PACA has a strong quality as a research method, while at the same time it stimulates communication among local stakeholders. Its key tool, the Miniworkshops, have been specifically designed to match with three criteria:

1. don't create the impression that there is the risk that the participants will waste a lot of time,
2. generate relevant information,
3. do this in a way that is not only relevant for the PACA Team but also insightful for the participants, so that the Miniworkshop immediately creates value for them.

But there is more to it. Miniworkshops often pull a group of local people together (be they businesspeople from the same sector, representatives of business support institutions, or others who share a common interest) who often feel that they should have met a long time ago. We often observe that a Miniworkshop ends up not being mini at all, as the participants signal that they are more than happy to spend more than the 90 minutes that had initially been indicated because they find the process very stimulating. And it is not rare to find that some time after the Miniworkshop has officially ended some of the participants are still around, engaged in intense business discussions. So, when we assess the impact of PACA, local actors tend to highlight the opportunities for goal- and action-oriented communication as the most important result.

A PACA Exercise, consisting of a series of Miniworkshops and interviews and resulting in a presentation of findings and action-planning workshops, typically takes around two weeks and is conducted by a team that consists of two experienced PACA facilitators and a few local stakeholders from different local communities, such as the business community, the tourism community and local government.



#### 3.2.5.4 *The purpose of fact-finding*

Irrespective of the method that you apply, the main question is: What are the main objectives of the exercise? Let us start by looking at what is not the purpose of fact-finding. It is not supposed to be profound research that complies with academic standards. It is not supposed to provide a comprehensive in-depth analysis of the local economy, including all its subsectors.

What is then the purpose of fact-finding?

- You want to draw an up-to-date and reasonably precise picture of the local economy.
- You want to identify problems and obstacles that stand in the way of growth and job creation.
- You want to identify business opportunities that are not yet exploited.

More specifically, the questions that will guide your diagnosis are the following:

- Who are the main actors that are relevant for economic development in our location, and who of them can be motivated to participate in LED activities?
- What are the main sectors in our local economy, what is their competitive advantage, and who can do what to strengthen their competitive advantage?
- How are the main sectors connected to markets? What is the structure of the value chains they are connected to? And who are the key players in those value chains? Can we involve some of them in local activities, or get guidance from them regarding local upgrading needs or business opportunities?
- What kind of support and promotion organizations do we have at the local level, and how effective are they? Do they overlap, or are there

critical gaps in service provision, and how can we fix this? How can we better connect them with potential clients?

- What are the main problems that are mentioned by producers and companies, and how can we turn them into opportunities? Which problems and bottlenecks are actually business opportunities, and who can do what to assure that those opportunities are taken up?

The measure of success of the fact-finding is not the number of pages of the report that you prepare. The measure of success is rather the identification of opportunities for practical activities that can be implemented swiftly, and the identification of local stakeholders who volunteer to assume responsibility for their implementation. Remember that you need quick win activities to get the process going. You may come across major problems or big opportunities, yet addressing them would take a long period of time, so they are not your first priority at this stage. You will come back to them some months from now.

Of course, with your fact-finding you want to do more than just scratch the surface. You cannot take the observations and complaints of business owners and other stakeholders at face value. You need to question and to cross-check all the information that you collect. If you come up with quick win activities that address symptoms rather than causes of problems, you are not achieving quick wins but just wasting time. Thus, you must not confuse the rapid appraisal with “quick and dirty”.

#### 3.2.6 **Thinking in occasions**

One of the important yet usually underestimated categories in LED is “occasion”. It is important in all types of locations, but it is particularly important in locations where business is not thriving. Such locations are often poor in more than one respect: more than average poor citizens, poor infrastructure, poor institutional structure, poor business networks and associations, etc. One of the defining characteristics of poor places is the shallowness of business networks and the lack of communication around business and business opportunities.

Ironically, lack of networking and communication may establish a vicious circle. Because a business is not part of a dense network where all sorts of information is easily available, the owner has to spend a disproportionate amount of time on identifying suppliers, customers, service providers, technical solutions, etc. – and has thus less time to engage in networking events. For this reason, advertising a networking event for its own sake will often fail to attract those business owners who most need it.

The lack of networking and interaction between local stakeholders often is linked to low social capital, with stakeholders not trusting each other, or in some cases needing a lot of convincing to join in a conversation about a common issue. LED practitioners sometimes battle with this issue. Typical LED proposals include “More collaboration between local business” or “More communication between business and local government”. The problem with such proposals is that they confuse a means with an end. Interaction and communication are means, not ends. This is not meant to dispute that lack of interaction and communication are serious problems. In fact, they are the typical key obstacles in local development. However, suggesting to promote interaction for the sake of interaction, or to communicate for the sake of communication, is not going to convince local business people. Local players will not buy into this. They probably have good reasons for communicating less than you would expect them to do, such as time constraints, personal aversions or a general dislike of meetings. So you need to come up with an occasion so that they can meet and communicate.

What do we mean by occasion?

- Joint purpose: You identify a pressing problem that can only be solved through collaboration. Collaboration then becomes the means, not the end. It is an occasion for a couple of local stakeholders to work together to address a specific issue – and if they like that exercise, they may decide to take their collaboration further. Your role is then to facilitate this discussion not only to solve the issue at hand,

but to also reinforce good local practices like trust building, information sharing etc.

- Events: It is crucial to provide a strong incentive to attract business owners to networking events. Offering drinks or food is a soft option, and it is rarely a good idea, except in those places where producers and business owners are really hungry and thirsty. Everywhere else, the attraction must be something more substantial. A chance to participate in a discussion with the mayor can be a strong attraction, as can be the chance to participate in a seminar with a prominent business leader. Another option is a series of monthly presentations around a given theme, like new technological developments in a given sector that can be an occasion where participants not only get relevant input but also have an opportunity for informal communication on business issues. The reality is that most business people seem to respond better to topical issues relating to specific problems or constraints, so this “problem pressure” must be kept in mind when arranging these events.
- Reinforcing or refocusing existing events: Using existing events that occur on a regular basis can also be a powerful way of getting existing institutions to think in a broader way. An example would be to use a “tourism association meeting” to invite small suppliers to display their products in the foyer outside the meeting room, or to invite some key champions to join in a discussion with the municipal directors after an official meeting. Events like local marathons, festivities or celebrations can also be used to foster collaboration, information sharing and trust building.
- Informal get-together: Things like a business breakfast (for instance every second Tuesday in the month) can create an occasion for informal communication on business issues or other important topics. And no, government should *not* pay for this.
- Government-business communication: One way of providing for this is, again, a business breakfast. Another way is a more formal event,

where government invites interested businesses at a given time to a central place, like a community hall, to voice their concerns; in this case, it may be useful to have an external, neutral facilitator. At the same time government is often blamed of not communicating, and when they do communicate through events, business people don't show up. Your role as facilitator could be to try and bridge these gaps by making events more valuable for all the players involved in a way that appears non-threatening to all stakeholders. By focusing on certain topics or issues you can stimulate co-operation rather than finger pointing.

Creativity and innovation is needed to turn otherwise "traditional" meetings and events into an occasion. As facilitator you would have to take your local stakeholders through a process of thinking of regular events and then through a creative process of turning these events into occasions. At the same time you must take otherwise disconnected local stakeholders and create spaces where different people can connect and communicate, leading to increased local social capital and trust.

Why do we address the issue of occasions in this section, at the early stages of an LED process? You want to stimulate communication, in particular communication around business issues, for two reasons. First, lack of communication is a weakness of a location. It is more difficult to establish business contacts and identify business opportunities. Lack of business communication makes a location less attractive. Second, you want to stimulate a conversation on the situation of the local economy, and on ways and means of making it more attractive and dynamic. A single workshop, or a series of "strategy workshops", may contribute to this objective. But in order to move towards alignment of perspectives of local stakeholders, you need more communication and conversation that you can achieve in a workshop.

### 3.2.7 Small activities vs. big aspirations

One challenge you may confront in your LED process is this: You conduct a rapid appraisal and come up with practical proposals. And then lo-

cal stakeholders, and sometimes also individual members of the core team, find that the proposals are unexciting, insignificant, and too petty.

Before looking at options to address this challenge, let us reiterate the reason why we try to limit the proposals to clearly viable activities:

- We want quickly implementable activities with a visible impact because we need quick success stories – to keep the momentum, to re-inforce the motivation of stakeholders, to get the buy-in of more stakeholders. We do not want local actors to get lost and demotivated in endless strategizing and planning efforts.
- We want to build a local economic development process, where actors move from simple, quickly implementable activities to more complex activities that need more time to plan and implement.
- We want to avoid overwhelming the planning and implementation capacity of local actors. A given proposal may have worked very well in one location, where you find competent development organizations, while it is a daydream in another place where local players have little planning and implementation capacity.

The problem, however, is that some actors feel that they are underwhelmed by "trivial" proposals. Ironically, we have seen some of them pursuing more ambitious proposals – and failing miserably. Nevertheless, we must accept the fact that some players just tend to be a bit on the optimistic side when assessing their own capacity, resources and latitude for action.

So what can you do to address these issues? Actually, there is a number of options:

- When presenting an apparently "petty" proposal, explain that it is addressing a critical bottleneck. For instance, we often find that local businesses or entrepreneurs don't exploit business opportunities because they are not easily visible. We then come up with some practical proposal to address this, for instance the elaboration of yellow

pages as a business opportunity that leverages many other business opportunities. It is useful to point out that such a limited intervention can have a big impact.

- When presenting a proposal, explain what the longer-term objective behind it is. We often present proposals that have something like a “hidden agenda”. For instance, our main objective regarding a given proposal may be to create an occasion for businesses to practice collaboration among themselves, with government or with supporting institutions. It can be useful to make the bigger, long-term objective explicit.
- Apart from the “trivial” proposals, try to formulate one plausible and appealing “Flagship Project” or “Landmark Project”, i.e. one activity (but usually no more than one activity!) that is more ambitious and that addresses a critical issue. A flagship project should make a major contribution to business growth.
- Concerning potential medium and long term proposals that might be valuable but are not easily implemented, there are two possibilities: (1) When you present proposals for action to the local community, mention some medium and long term proposals, but clearly state that initially the main focus should be on quick, visible and feasible proposals. There is a risk that medium or long term proposals might attract higher attention, as they might sound more impressive than the small ones. This has to be managed very carefully. (2) You can also forward long term proposals to relevant stakeholders in separate meetings. For instance, provincial or national bodies may be interested in such proposals.

### 3.2.8 Initiating LED: A possible time-line

We have looked at the initial phase of an LED process in a very detailed way. There is a simple reason for this: Things can easily go wrong at the early stage, and if they do, it is not easy to re-launch an LED effort. For instance, imagine that you try to launch your LED effort by inviting all

sorts of stakeholders to an initial workshop, but that you don’t know an appropriate format to involve and energize those stakeholders. The workshop is opened by the mayor who speaks for half an hour, after which some participants are close to falling asleep and others are irritated because the mayor is their political opponent. Then you have a round of question-and-answers, where some people who are known for their negative attitude come up with long complaints and criticism of local government. Then you try to run a brainstorming on the question “What can we do to promote the local economy”, but at this stage more people are tired and frustrated, and the brainstorming comes up with a random collection of ideas, many of which have been discussed for a long time already. Then you wrap up the workshop, and everybody goes home with the feeling that this was a waste of time. When you try to invite the participants of this workshop to another workshop, you will find that many refuse to be invited and many others accept but come up with last minute excuses to stay away.

This is why at the initial phase, it is so important to use proven methods, for instance robust workshop formats that don’t frustrate participants. What does a time-line for the initial phase look like? It may look like this:

Week 1	Tuesday	The mayor instructs you to start an LED effort
	Friday	After some investigation of possible approaches, you have decided that you want to run an LED Café to kick off the process
Week 2	Monday	You invite a number of credible local personalities for a meeting to discuss whom and how to invite for the LED Café. Result: Date, time and venue are defined; responsibilities for who will invite whom are defined
Week 3	Thursday afternoon	LED Café is conducted. A number of local stakeholders volunteer for the core group
Week 4	Thursday late afternoon	First meeting of the core group: You present options in terms of sequencing the process. The core group members opt for an initial focus at one subsector of the local economy. The group defines a work plan: One diagnosis workshop will be organized, additional information will be collected through a few interviews and from the Internet

Week 5		You reserve a venue for a diagnosis workshop. Various core group members approach relevant stakeholders in their peer group to participate in the workshop
Week 6	Thursday	The diagnosis workshop is run, using the SWOT method
Week 7		Core group members conduct interviews
Week 8	Thursday	The core group meets for the whole day to summarize the results of workshop and interviews. They run out of time, and on
	Saturday	The core group meets again to conclude the work
Week 9	Thursday	The core group gives a presentation of the findings to stakeholders from the subsector. They conduct a workshop to define initial quick-win activities. At the end of the workshop, five concrete activities and responsible persons are defined

At this stage, two months have passed since you were put on your mission by the mayor, who has probably inquired repeatedly how things are going. So far, you have only been talking. Now you need to get into doing. That is, hopefully other local stakeholders – core group members, other volunteers – will take responsibility for actually implementing specific activities; we may call those people “LED champions”. It is okay if you personally are responsible for one or two activities, but it should not be more than that. Your main responsibility is to stay in touch with the LED champions. Of course, you don’t want to give them the feeling that you are trying to control them. You rather want to signal that you care, and that you are available for trouble-shooting in case they run into problems. Experience has shown that LED champions, in particular genuine volunteers, tend to give up rather quickly if they feel that they have to confront significant or silly problems (e.g. public officials refusing to do something, or to permit something, without giving any good reason) plus when they feel that they are left alone and that nobody cares.

### 3.3 Sustaining and managing an LED process

As you move from investigating your local economy into planning action and then into actually doing things, your main task will be to make sure that those individuals who volunteered to implement a specific activity

actually do something. In other words, you need to come up with an effective way of monitoring the process. While doing that, you will probably run into some problems regarding the availability of volunteers.

The main concern at the early stages of implementation is getting results. Only at a later stage, you will develop a concern for evaluation and the establishment of mechanism to take corrective action in a systematic, organized way.

#### 3.3.1 Monitoring activities

The more you rely on volunteers, including professionals who participate in LED as part of their paid work yet who could also decide not to participate in your LED process, the less conventional your monitoring approach will have to be. For instance, it would be difficult to enforce the kind of reporting requirements that are a routine element of formal projects. Your concern is to motivate volunteers to actually do what they promised to do, and you don’t want to de-motivate them by harassing them with what appears to be a bureaucratic nuisance.

In fact, the more rewarding your monitoring system appears, the better. You want to create positive incentives. How can you do that?

- You can establish a “jour-fixe”, i.e. a regular event where people who are actively involved in the LED process can meet. For instance, this can be a regular breakfast, lunch, or dinner on a defined day every month or even fortnight. As a couple of people commit unpaid time to the process, it is only fair that local government foots the restaurant bill for these events.
- You can inform the local public about the activities that have been launched and the progress made. For instance, it may be possible to have a monthly, bi-weekly or even weekly column in the local newspaper for that purpose. Also, if there is a local radio station, they may be interested in regular program, for instance a mix of talk show formats and features of successful activities. Perhaps you can also set

up a website to inform about the progress of activities and about upcoming events.

### 3.3.2 Voluntaries and professionals

Localities that have launched their LED effort decades ago tend to have at least one dedicated institution, and often indeed a whole set of institutions, that address various aspects of LED. When you start with your effort, you have no such thing. Instead, you have three different types of players:

- Some of the individuals who support your effort will be paid to do so. A typical example would be a professional of a vocational training center, an agricultural research station or a technology extension center who gets involved in LED because she immediately detects the benefit she, and her organization, can derive from it since it gets easier to connect to clients and thus to fulfil the mandate of the organization.
- Some of the individuals who support your effort are elected office holders in organizations such as a business chamber, a sectoral business association or an NGO. For them, the incentive is to make their organization's voice heard and to support activities that generate tangible benefits for their members.
- Some of the individuals who support your effort will be genuine volunteers. They may be persons who get involved because of altruistic motives, or perhaps because of boredom (like in the case of retirees who have more available time than they are comfortable with). They may also be persons who get involved because they expect a direct benefit, which is the most relevant motive for business people to get involved in LED.

What most of these people have in common is that they were reasonably busy before you started with your LED effort. The time they need to allocate for LED competes with time needed for other activities. Thus, as

soon as they start to get frustrated with LED, for instance because they make little headway due to what they perceive as obstructive behavior by other local actors, they will be tempted to pull out. This is another reason why it is so important that you create an effective monitoring mechanism that includes convincing rewards. You want to make sure that you notice immediately when a given person is tempted to pull out. If the person is frustrated with the obstacles she faces in her LED activity, you would try to find a way of getting those obstacles out of the way.

Over time, though, you would want to move towards professionalization of your LED effort. You certainly don't want to sideline the volunteers. Yet you want to rely less on volunteers and more on professionals who are paid to implement LED activities since this makes your LED process more robust. This, however, will only happen after some period of time, and you will definitely not reach this point in the first year of your LED effort. You should resist the temptation to create an LED institution too early. The effort to create such an institution will be a major distraction. It will leave you with little time to actually do LED. If you don't do LED, you get no results, so that you cannot build credibility for LED. Focus at getting results. Once you get them, it will be much easier to convince other actors that it would be useful to have a specialized institution.

### 3.3.3 Involving more stakeholders

With the creation of a core group and the involvement of additional volunteers during and immediately after your diagnosis, you are creating an in-group that will initially drive the LED effort. Cohesion of this group makes LED easier. But it also creates an in-group / outsider constellation, which may create resentment, for instance among other stakeholders who only later notice the LED process and would like to get involved. Thus, you would want to make sure that more people can enter the core group over time. A practical way of doing this is to organize events where the achievements of the LED process are celebrated and where outsiders are explicitly invited to join the core group.

The in-group / outsider problem is a typical issue that emerges when social networks emerge. It can turn into a major problem. We will come back to the typical problems of networks in the chapter on governance.

### 3.3.4 Performance management

After a first round of activities has been completed and tangible results become visible, it makes sense to combine the launch of a new round of activities with the introduction of a more systematic performance management system. Performance management means to provide the relevant communication and action so that you make progress against the goals that you have set yourself. A performance management system can be a combination of procedures and a huge complex and costly software system. This is not what we would advise, though. What you want is a relatively simple, robust and straightforward performance management system that involves a limited set of procedures.

One such system is the Compass of Local Competitiveness. The format is adapted from the “Balanced Scorecard” method. It is organized around a set of workshops. In each workshop one group of local stakeholders from a specific subsector (e.g. the local fresh vegetable sector, the local floriculture sector, the local dairy sector etc.) assess the progress they have made with their LED activities, identify the critical success factors for growth of their subsector and identify further LED activities. Stakeholders may also decide to formulate key performance indicators.

A detailed introduction to the Compass is given in the Annex. One of the advantages of the Compass is its ability to address several issues at the same time. Since it assesses achievements it involves monitoring, evaluation and learning. The conversation on critical success factors is at the same time a conversation on strategy, and it facilitates a process of alignment on strategy among stakeholders. The identification of activities also has a much stronger strategic focus than the opportunistic prioritization at early stages of the LED process. If the stakeholders involved take the effort to formulate key performance indicators, they create the basis for a more systematic monitoring effort.

## 3.4 Strategic interventions

We have emphasized that initially the focus of your LED effort should be at quick-win activities – to build relationships and trust, to create credibility, to build a momentum, and to initiate a learning-by-doing process. As your LED process matures, there will always be quick-win activities that address acute threats or opportunities.

Over time, though, you would want to move to a more strategic approach to LED. You want to create opportunities for new business sectors to emerge and to grow, and you want to address bottlenecks that stand in the way of serious growth processes.

### 3.4.1 What is the meaning of “strategy” in LED?

LED manuals often have the term “strategy” in the title, or at least mention the issue of strategy on one of the first pages, often combining it with the term “planning”. We have not looked at strategy so far since in our view strategy is something that emerges over time in an LED process. This has to do with our concept of strategy. Let us quote the management guru Henry Mintzberg to explain our view:

*“Strategic planning is not strategic thinking. Indeed, strategic planning often spoils strategic thinking, causing managers to confuse real vision with the manipulation of numbers. And this confusion lies at the heart of the issue: the most successful strategies are visions, not plans.”*  
(Mintzberg 1994, 107)

“Strategic plans” that are formulated at the beginning of an LED process tend to state the obvious – the need to extend the physical infrastructure, the intention to bring electricity even to the more remote rural communities, the desire of citizens to have better shopping facilities closer by, the necessity to upgrade skills at all levels and in all sectors. These are perfectly plausible aspirations, but they do not really reflect an economic development strategy. In the context of LED, the issue of strategy is about one, and only one, issue: What can stakeholders at the local level do to collectively create a competitive advantage? Remember that LED is

about business, and it is about business-related issues that go beyond the reach of individual entrepreneurs.

Local stakeholders who get involved in LED for the first time are often battling with the concept of competitiveness and competitive advantage. For some of them, it is quite obvious that local companies have to compete in the larger national or even international market. For many others, though, this is not obvious at all. Producers who sell mainly in the local market tend to be concerned about the lack of purchasing power, and they do not see this as a competitiveness issue. And rarely have local stakeholders ever compared their location with other locations, and even more rarely tried to objectively assess the competitive advantage of their own location compared to other, similar locations. Thus, an LED process involves an important element of learning on the harsh realities of today's globalized economy. It tends to take some time for local stakeholders to start asking: Who exactly are we competing with? What are the factors that determine our competitiveness? Do we have any competitive advantage? What can we do to build or strengthen a competitive advantage? Once the last question is raised by local stakeholders, it is time to address the issue of strategy in an explicit way.

### 3.4.2 Initiating a conversation on the local competitive advantage

There is a simple tool you can use to question local stakeholders' definition of the local competitive advantage. Imagine that you run a Mesocard-based brainstorming on the local competitive advantage. [An explanation of how to run a Mesocard-based brainstorming is given in the Annex.] In this exercise, you will usually get a substantial number of responses that do not really address a competitive advantage but rather natural conditions. Typical examples would be "climate", "soil conditions", "clean air", "beautiful scenery" or "beaches".

What is wrong with this? These responses are inadequate for a simple reason: In most of the cases, these advantages are not unique, so that a location that relies primarily on them may find itself left in the dust by

other locations who build a specific advantage on top of the natural advantage. Local stakeholders are often somehow aware of this issue, yet it often is not something that drives them to action.

What can you do in a workshop to address this issue? You put up the question: "What is the competitive advantage of our location?" You organize the cards that are coming up under three headers: "natural resources", "generic advantages" and "unique advantages". A typical result would be to have 60% of the cards under "natural resources", 35% under "generic advantages" and 5% under "unique advantages". This tends to have an eye-opening effect on local stakeholders.

What exactly do we mean by each of the three categories? **Natural resources** are factors that are given by nature. Apart from the examples given above, this would also include factors such as soil quality and rainfall, or the availability of specific raw materials (e.g. good quality clay, or limestone, or wood), but also factors like geographic location (e.g. close to relevant markets or an important transport corridor). If you have a local wood processing cluster that is based on nothing more than chopping down trees that have grown spontaneously and cutting them into boards in a rather inefficient way, then you have only natural resources but no competitive advantage. The same is the case if you have lots of, say, mango trees and local people do little more than waiting for ripe mangoes to fall down.

**Generic advantages** are man-made competitive advantages that you find many locations. Typical examples are "experienced workers", "long history of the sector" or "good quality products". In a sector like tourism, "restaurants", "hotels" and "beach activities" are usually generic advantages. To take the example of the wood processing cluster again: If the companies have skilled workers and a reasonable level of quality control, so that the size of boards is consistent and the amount of loss (sawdust and chips) has dropped from 30% to 10%, this still establishes no more than a generic competitive advantage. Or regarding mangos, if local people prune the trees regularly and pick the mangos before they fall down (and get damaged), they may establish a generic competitive advantage.



**Unique advantages** are man-made competitive advantages that are specific to the location and that are really difficult to find elsewhere. Examples, again taken from tourism, would be “Guided hiking tours to Bushman paintings”, “Gold panning competition” or “PGA golf course”. Or looking at the wood processing cluster: If your forests are certified by the Forestry Stewardship Council (FSC), and if the wood processing involves not only cutting but also treatment of the wood, so that it does not shrink or rot, you may have a unique competitive advantage. Or regarding mangos, if the local agricultural research station creates a variety that at the final stages matures slowly and can be transported over long distances, that would be a unique competitive advantage.

The objective of territorial development initiatives is to facilitate and support the creation of unique competitive advantages. Some of these advantages will be built individually by companies. Others will depend on collective action, for instance the creation of very specific, demand-driven skills development. In order to move in this direction, it is essential to raise the awareness of local businesspeople and other stakeholders regarding the difference between natural resources, generic advantages and unique advantages – which takes us back to the workshop format mentioned above.

### 3.4.3 Identifying strategic interventions

A strategic intervention is not necessarily a complex, ambitious project. Arranging a meeting between the local farmers’ association and a representative of a development bank that is desperately looking for customers is not a very complex activity, though it can turn out to be a strategic intervention. Setting up an agroprocessing facility in a rural community where farmers’ produce is consolidated, sorted and packaged before being expedited to an urban wholesale market or the distribution center of a supermarket chain is somewhat more complex, yet still much less ambitious than, say, developing a world-class game reserve with a variety of lodges plus conference facilities, golf courses etc.

In any given location, local stakeholders tend to have a variety of ideas regarding what a strategic intervention that will turn the local economy around might look like. For an LED practitioner, the main challenge is to frame a process where existing ideas are assessed, existing potentials are evaluated and realistic proposals are prioritized. It is important to keep the process open, i.e. avoiding premature prioritization, while at the same time making sure that unrealistic ideas can be sidelined without offending or alienating the local stakeholders who defend them. In other words, identifying strategic interventions is as much an exercise in diplomacy and inclusive conversations as it is a process that is driven by technical expertise and objective criteria.

There are two fundamentally different approaches to identifying strategic interventions. One approach is to try to identify an intervention that has the potential to make a huge difference but that is also quite risky. The other approach is to try to identify possible interventions, and to prioritize them according to their potential to boost growth as well as their robustness vis-à-vis different future scenarios.

#### 3.4.3.1 *The high risk / high return approach*

In this constellation, local stakeholders would pull in external specialists who scan the location for existing potentials (e.g. specific soil qualities, climatic conditions, or existing species), match the potentials with demand in markets and formulate a business plan for one specific intervention.

This approach is preferable in a situation where

- the local economy is relatively weak and has no discernable competitive advantage,
- alignment among local stakeholders is strong, and the support for an approach that bets big on one number is unwavering.

### 3.4.3.2 The “robust against all scenarios” approach

In this constellation, local stakeholders would probably pull in an external facilitator to support them in a process where they collect ideas for strategic interventions that local stakeholders want to suggest and then check them against future scenarios.

Collecting ideas for strategic interventions is a process that is based on interviews with individual stakeholders, as well as workshops with groups of stakeholders, in particular groups from particular subsectors. This process would be conducted by a local core team and an external facilitator, possibly supported by sector specialists. This team would already conduct a plausibility check on the ideas that are mentioned.

The process to identify scenarios is fundamentally the same as mentioned above, at the first stage. At the stage where strategic interventions are to be prioritized, the scenario writing would involve a more systematic and intense effort, for instance based on a series of workshops with different groups of local stakeholders. The purpose of this exercise is to identify four plausible scenarios of future development of the local economy.

The key step is then to check the ideas for strategic interventions against the four scenarios. Some ideas may involve very attractive, and potentially very effective, development interventions that are only feasible in one scenario. Ideas that are robust under all scenarios are not necessarily the most exciting ones. But they have the advantage of being the least risky.

This approach is preferable in a situation where

- a few reasonably competitive subsectors exist in the local economy, the growth of which can be boosted through strategic interventions,
- local stakeholders hold a variety of ideas regarding what to do, and disagree on how and where to set priorities.

## 3.5 Professionalizing the LED process

The quick-win activities in the early phase of LED can mostly be implemented by local stakeholders. Indeed, the fact that local stakeholders have the skills and resources necessary to implement a given proposal is a critical criterion when prioritizing proposals. As interventions get more complicated and complex, there will be an increasing need to draw on specialized professionals. When you move to the stage where you want to implement strategic, catalytic projects, you definitely want to make sure that this is done in a highly professional way, and that means that to some extent you will have to rely on specialized professionals.

In the course of the evolution of your LED process, the issue of professionalization will surface in different guises. One of them is the choice between the do-it-yourself approach and the reliance on external specialists. Another one is the issue of governance, and as part of this the question of whether you want to create a professional organization to look after LED.

In our experience, there is a typical life-cycle of successful LED processes. The following table summarizes the different stages of the life-cycle.

It is not useful to try to leapfrog any of these phases. It is rather important to be aware of the existence of this life-cycle, and to reflect occasionally on which phase you are in – and whether it might be advisable to move to the next stage.

We have devoted most of this chapter to discussing the “Kick-off phase”. When you start to address strategy, and catalytic projects, you move into the “Lasso phase”. It got this name because local decision makers, in particular elected officials, tend to become uncomfortable with so many LED champions roaming free, and they want to pull them back into the herd so that things are easier to control.

**Table 3: The life-cycle of an LED process**

	Kick-off phase	Lasso phase	Network phase
Focus	Get LED projects moving	Get LED projects under control Formulate a strategy	Segment activities (sector initiatives, landmark projects) Delegate responsibilities Pro-forma strategy
Governance pattern	Informal	Clear distribution of tasks and responsibilities Possibly creation of an LED agency	Central information-exchange, decentralised responsibilities
M+E pattern	None	Informal	Emerging formalization
Reward system	Excitement Personal motivation	Discipline and suffering Salary	Identification with project objectives Latitude of decision-making
Crisis	Fragmentation, lack of co-ordination	Exploding co-ordination effort Increasing number of LED professionals = rising fixed cost Time- and energy-consuming strategizing effort De-motivation of volunteers	Network failure

It usually takes officials some time to realize that more control comes at the price of less motivation of volunteers. More control and more strategizing may result in fewer practical activities and ultimately less effective LED. This can generate a learning process where decision makers understand that tightly controlling things is counterproductive, and that network-like patterns of governance are the more effective way of running LED. We will have a closer look at the governance of LED in the next chapter.

## 4 Governance

What is governance? Governance is not government. Governance is a term that describes an effort where various actors in a given society try to shape the evolution of things, be it economic development, be it the way contemporary art is promoted. Some of them are government actors, and finding a joint position among various government departments and agencies is already quite a challenge. But the various government actors are not the only ones involved in this game. Indeed, the term governance often describes a setting where government relies on a variety of non-governmental actors to define problems, look for solutions and implement action. There are areas where government can act unilaterally, for instance when it comes to enforce traffic rules or vaccinating every citizen against a specific illness. LED is clearly not such an area. LED can only work if a variety of societal actors collaborate voluntarily, and for this reason effective governance is a critical success factor in LED.

We will address the issue of governance in a rather broad way, since it is not just about managing an LED initiative. And in order to understand the issues involved in governance, it is important to spend a bit of time introducing key concepts, such as the three modes of governance. In terms of governing, or coordinating, there are in principle three options: Market, hierarchy, and network. Obviously, they appear in the real world in an intermingled and interdependent way. Nevertheless, let us for a moment contemplate them one by one.

- Market is a decentralized mode of coordination, usually of economic transactions. Markets work because individual entrepreneurs pursue their self-interest.

- Hierarchy is a centralized mode of coordination. An organization, for instance, is internally a hierarchy. Government, in its role as an authority that assures order, also is a hierarchy. Hierarchy is based on the principle of command and obedience. It only works to the extent that there is discipline and enforcement. Individuals who work in a hierarchy follow orders, and they are expected not to pursue their self-interest. They are compensated for relinquishing their self-interest by receiving a wage. Citizens are also subjects, and if they disagree with the way their government treats them they can voice their concerns or vote for a different party at the next election.
- Network is a mode of coordination that is quite distinct from both market and hierarchy. A network can be formal or informal. It is based on voluntary participation. Its effectiveness depends on the principle of give-and-take, i.e. every participant needs to bring something in and expects to get something out. There are quite different forms of networks, such as “old boys’ networks”, or communities of practice in a professional field, or inter-company networks; these are some examples of informal networks. Voluntary associations and NGOs are also networks, and they are formalized networks.

In order to better understand why the distinction between market, hierarchy and network is not just an academic exercise but indeed highly relevant for LED let us look at a practical example.

Imagine that you are an LED facilitator in a rural region with a good potential in fruit production. Local production has been growing steadily in recent years. There are a few big commercial farms with more than 200 hectares, and there is a significant number of small farmers with just two or three hectares. Small producers are mostly organized in producer co-operatives, where the cooperative organizes the purchasing and distribution of inputs as well as the distribution and marketing of products.

**The Challenge:** Local production has so far been targeting the domestic market. However, competition in the domestic market has recently heated up. At the same time, local producers have been approached by

export agents who are interacting with European supermarket chains and who are interested in purchasing fresh fruit for export. In order to qualify for European markets, local producers would have to comply with the EUREPGAP standard. EUREPGAP is a standard devised by European retailers that sets criteria to assure consistent good quality for fresh fruit and vegetables. The application of EUREPGAP involves the introduction of a quality management system by producers which is certified once and regularly surveyed by an independent certification body that is approved by EUREPGAP. So far, nobody locally fully understands what EUREPGAP involves and how to make sure that production and post-harvesting activities comply with EUREPGAP.

**The Options:** Imagine that in discussions among local stakeholders, three different approaches to comply with EUREPGAP have emerged.

1. The big commercial farmers want to pull in a private consultancy firm that has an office about four hours away. The firm is experienced in advising farmers on EUREPGAP. Daily rates for those consultants amount to about \$500 plus cost of travel and accommodation.
2. Provincial government has suggested that the National Institute of Standards could send two of its staff members to Europe to be trained in EUREPGAP and subsequently make them available as advisors to local producers at no cost.
3. The cooperative of the small farmers has suggested a snowballing approach. The first step would be to pull in a specialist on EUREPGAP who would train a limited number of farmers on the management principles and procedures demanded by EUREPGAP. Subsequently, those farmers would form pairs, and each pair would run a series of meetings with the other farmers; in this way, a number of working groups would be created to share the information on EUREPGAP and to share experience among farmers as they go into implementing the EUREPGAP procedures.

Each of these options has one of the three modes of coordination as its underlying principle:

1. Market: A problem, challenge or opportunity can be addressed as a business opportunity that can be pursued by an existing company or a business start-up. Pulling in consultants is a solution that is based on a normal market transaction.
2. Hierarchy: A problem, challenge or opportunity can be addressed by an organization, typically government, but sometimes also an enterprise. In this case, the public sector (i.e. the National Institute of Standards) would be the solution.
3. Network: A problem, challenge or opportunity can be addressed through collective action, be it an ad-hoc group of players that gets together only on this occasion, be it a formalized network, association or similar entity. In this case, it would be the small producers' cooperative.

All three options are perfectly plausible and possible. Each of them has advantages and disadvantages:

1. Market: For the small producers, hiring a consultant at market rates is a huge expenditure, even if it is done through the cooperative and the consultant is used jointly. Since he would still have to visit each farm, he would spend – and charge – a lot of time.
2. Hierarchy: What if the preferences of the Standards Institute change and the professionals are no longer available? What if the Standards Institute suffers budget cuts, and the professionals cannot travel any more because there is no petrol, and most of the tires are flat? What if the professionals of the Standards Institute decide to move to a better paid job in the private sector?
3. Network: What if one of the early trained farmers decides that he doesn't want to share his knowledge and rather tries to become a big farmer? What if the early trained farmers become so busy introducing the EUREPGAP principles on their own farm that they find little time to share their knowledge with the other farmers?

The key point is this: Development practitioners tend to have an intuitive preference for one of the three modes, and the preference is surprisingly often not for the market. Rather than intuitively opting for their preferred option, developmental actors must consider all three possible modes and approaches and then take an informed decision. In particular, government is often perceived as a main player in development. When it comes to a specific problem, challenge or opportunity, it can address it directly, through direct service delivery. But it can also act as a facilitator, i.e. moderating a process whereby a market-based or network-based solution evolves. In every case, government and other actors in LED should check whether service delivery by government is really a good idea, since government, in particular local government, is often overburdened and overstretched already.

Looking at the advantages and disadvantages of markets, hierarchies and networks, the main advantage of markets looks quite striking: A market works even if the players involved in it pursue their petty interests and follow their instincts. Markets obviously work better if players behave ethically, but they don't have to behave in a noble, selfless and altruistic way (which is something that networks often require in order to work effectively). In a functioning market, both reward and punishment is instantaneous and effective. Both hierarchies and networks tend to battle with rewarding outstanding performance and with punishing unacceptable performance, and under no circumstances will they respond instantly. It is for these reasons that many authors argue that markets are a particularly powerful and effective way of organizing transactions.

LED is necessarily based on a combination of market, hierarchy and network. In order to understand why some locations thrive while other locations are stuck, one can imagine a combination of the three modes that is similar to the old joke about heaven and hell.<sup>7</sup> LED heaven is a

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7 Heaven is where the police are British, the cooks are French, the mechanics are German, the lovers are Italian and it is all organized by the Swiss. Hell is where the police are German, the cooks are English, the mechanics are French, the lovers are Swiss, and it is all organized by the Italians.

place where markets thrive and entrepreneurs find it easy to enter markets, where government creates an enabling environment and otherwise takes a facilitating role, and where various stakeholders create temporary or permanent networks to address specific opportunities and problems. LED hell is where government tries to run businesses, where business people spent most of their time lobbying government for protection and subsidies, and where various networks compete for political influence rather than solving some practical problems.

In this chapter, we will have a look at governance from various angles:

- **Hierarchy:** What is the role of government in LED, and what in particular are the options for unilateral action by government to promote the local economy?
- **Market:** What is the role of markets in LED? What is market failure, how is it relevant for LED, how can it be identified, and how can it be addressed?
- **Network:** How can an LED effort that involves governmental and non-governmental actors be managed? What are the options in terms of institutionalization?

#### **4.1 Government, enabling environment and LED**

One of the issues that consistently come up in LED is the relationship between the public and the private sector. Usually, it is an adverse relationship. Communication channels are weak or inexistent, and both sides view each other with suspicion. Government tends to see business mainly as a source of problems – greedy guys who are only interested in short-term profit, who fire people at will and thus create serious social problems like unemployment, and who notoriously pollute the environment, poison consumers and are a source of all sorts of risks. Business sees government as the single most important problem – incompetent bureaucrats who thrive on inventing obstacles to business, who never respond timely to requests, who deal with permits in an inefficient and unpredict-

able way, and who sometimes use regulations and the need for permits as a lever to generate bribes.

Leaving aside the issue of corruption, the first issue around business-government relationships is Red Tape. Red tape is defined as the processes involved in dealing with government regulations, and thus battling with government bureaucracy. There are two issues involved in red tape.

- **Structure:** the number, complexity and scope of laws, regulations, permit requirements etc.
- **Process:** the way in which these regulations are implemented.

To give you an example: A few years ago a group at Harvard University looked at the time and cost involved in registering a limited company in 75 different countries (Djankov et al 2000). They found that registration involved between two procedures (in Canada) and 20 (in Bolivia). The time needed was between two days (again Canada) and 174 (Mozambique). The cost, measured as a relation to GDP per capita, was between 0.4% (New Zealand) and 262% (Bolivia).

In some countries the issue of red tape is addressed in two ways. First, there is an effort to reduce regulation. This is a slow and painful process. While national and provincial economic ministries try to persuade other ministries to eliminate or simplify regulations, other ministries and institutions (health and consumer protection, environment, homeland security, statistics office, etc.) are busily thinking up new regulations that are usually piled on top of the other ones. There have been success stories, for instance the U.S. city of Indianapolis where in the 1990s a huge number of local regulations were eliminated. Some countries (e.g. the UK) have introduced processes where each new piece of regulation has to be assessed in terms of the cost it creates for the private sector; this is called “regulatory impact assessment”. Still, it is difficult to make swift progress regarding structure. For instance, in Germany, despite an ongoing deregulation effort, the cost of compliance with laws and regulations for SMEs has been growing by 4% per year in recent years. In other words,

the likelihood to achieve quick progress in reducing red tape through de-regulation is not necessarily high.

Second, there is an effort to make compliance with existing red tape less onerous. Achieving this is often much easier, especially if local administration is seriously committed. We look at a practical way of addressing this issue in the chapter on locational factors.

## 4.2 Markets and market failure

What is market failure? Obviously, it is when a market does not work. But then again, often market failure is confused with marketing failure. When a company can't find buyers for its products, that's marketing failure, not market failure. So when and why would markets not work? Economics literature points at two types of reasons.

The first type of market failure is due to power structures. Free markets have a natural tendency to get rid of themselves. In a given market, there will initially be many providers. But over time there will be consolidation, and it is quite possible that ultimately a monopoly will emerge. This is something that happens globally as well as locally. At the global level, just look at what happened in the market for PC operating systems between 1985 and 1995, where Microsoft Windows emerged with 95% of the market. At the local level, just look at anything if you are living in a small town; if you are living in a city, you may actually benefit from functioning markets with respect to most products and services, except perhaps the local newspaper, and probably cement, where producers seem to have organized effective cartels in most places. So some markets will not work because a private monopoly or cartel has established itself. The only solution is government intervention. That is why in many countries government is running an anti-trust body.

The second type of market failure refers to those instances where a market does not work for intrinsic reasons, i.e. simply because it can't (rather than because somebody actively prevents it from working).

- A typical example is the **natural monopoly**, i.e. activities such as water distribution where having competing companies with parallel networks of tubes would be inefficient.
- Other intrinsic market failures include **external effects**, for instance companies hesitating to invest into skills development because they fear that subsequently their workers will be poached by other companies. So each company invests as little as possible, and at an aggregate level too little skills development occurs so that competitiveness suffers and the economy does not grow in the way it could.
- Yet another market failure is due to **asymmetrical information**, for instance because a farmer cannot know whether the seeds a seller offers are really the high productivity variety the seller claims they are, and thus refuses to buy them since the price is higher than that of other, less productive varieties.

So there are these and other intrinsic reasons why markets will not work efficiently. The solution to these types of market failure can be government intervention or collective action, i.e. hierarchy or network. When it comes to natural monopoly, government can provide that service itself or hand it to a private monopoly provider and then assure that the private provider does not abuse the monopoly. Regarding external effects or asymmetrical information, government can be the solution, but it is also possible that businesses create associations or clubs to address the issue, for instance through an association that runs a skills development institution or a club that certifies certain products.

How can you address market failure in LED? You want to look out for market failure during the diagnosis of the local economy, and you need to address market failure in a consistent and systematic way when you define and implement activities.

How can you look out for market failure during the diagnosis? And how do you recognize it when you see it? It is actually quite simple. Market failure is when a business opportunity is not taken up by a company or an entrepreneur. In an ideal world, any business opportunity would immedi-

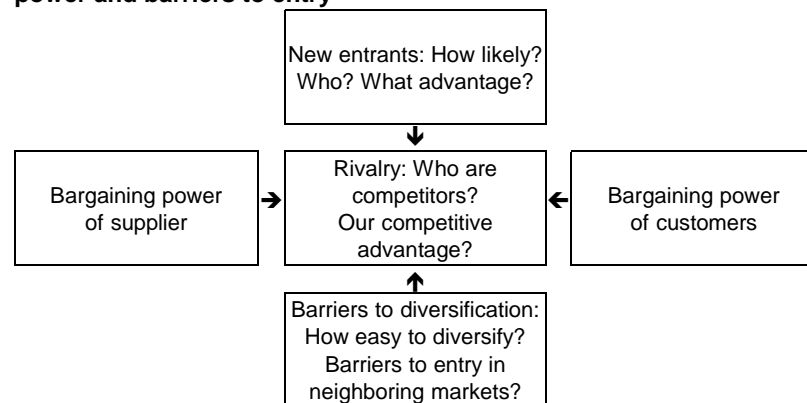
ately be taken up by companies, and competition between them would select the most efficient and attractive way of exploiting that business opportunity. In the real world, things tend to be different. You consistently observe business opportunities that are not exploited at all. You then must ask yourself why they are not exploited, and what can be done to change that.

How and when do you observe business opportunities that are not exploited? You do that both in workshops and in interviews. One of the tools that you can use in workshops is the 5 Forces model.

#### 4.2.1 Analyzing and addressing markets and market failure

It is possible and useful to analyze market failure at the local level in a quick yet structured way. A possible angle is to look at barriers to entry, as many instances of market failure will ultimately manifest themselves as barriers to entry. A useful tool is a modified version of Michael Porter's Five Forces Analysis.

**Figure 1: A variation of the Five Forces format to assess market power and barriers to entry**



The horizontal axis addresses the value chain that local producers are involved in. The first question is: How is our competitive position vis-à-vis other producers of the same product? From a market failure / failing

market perspective, this would be linked to the question: Is there fair competition, or is there a way in which our competitors can distort competition?

The second question addresses suppliers. Who are the suppliers, and what is the bargaining position between local producers and suppliers? If the bargaining power of suppliers is strong, why is that the case? Is there a market failure or a failing market on the supplier side? Is there anything local actors can do to address that? For instance, it may not be easily visible that there is strong demand for certain inputs in the location. It may be possible to highlight this fact to competing suppliers (e.g. of seeds, fertilizers, chemical inputs, etc.).

The third question addresses customers. Who are the customers, and what is the bargaining power of customers? Since there are usually less customers (distributors, wholesalers, retailers) than producers, the bargaining power of customers will often be strong. Trying to diversify customers may be an option, though it does involve the risk of alienating existing customers and severing commercialization ties without necessarily succeeding in establishing new ones, so that local producers ultimately may be worse off.

The fourth question address the likelihood of new entrants. From a strategic perspective, behind this is the question: Have we been able to distort markets in such a way that barriers to entry exist that keep potential competitors out? Whereas this would be undesirable from a macroeconomic perspective, it would be a magnificent achievement for local producers. More likely, though, an investigation will find that barriers to entry are low since local producers, and the location at large, have not yet succeeded in building a specific competitive advantage.

The modification of the 5 Forces Model refers to the last question, in the bottom box, which looks at barriers to diversification (into related prod-



ucts, spatially neighboring markets, or a neighboring market segment).<sup>8</sup> The other four forces are directly related to market power and barriers to entry, i.e. generate information about possible market failure. While incumbents may hesitate to highlight the barriers to entry they are creating, business people are usually more than happy to complain about the barriers to entry they are facing, and this is why the changed bottom box is useful in understanding market distortions.

In fact, action research that uses tools like this in interviews and brief workshops with business people from a local subsector can offer a short-cut to the analysis of localized market failure, and pave the way for practical action. Barriers to entry are sometimes the result of anti-competitive behavior. Frequently, though, they are the result of coordination failure. A coordination failure occurs when a business opportunity exists yet is not taken up because this requires complementary businesses and assets. In a location with a thick business structure and dense communication in the business community, coordination comes about spontaneously. In a location with a shallow business structure, a limited number of business people and little communication between them, an active effort has to be taken to overcome coordination failure. For an LED initiative, addressing this kind of market failure offers the opportunity to achieve quick yet significant wins.

#### **4.2.2 Understanding the underlying reasons of market failure**

Why are business opportunities not exploited? What barriers to entry are there? When you ask potential entrepreneurs, they typically say: “We don’t have access to funds”. Often, that is true, and sometimes it’s even the true reason why a business opportunity is not taken up. The credit market, and in particular the formal market for credit to companies, often does not work very well. But frequently the reference to the lack of fi-

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8 In the original 5 Forces Model, the bottom box looks at “substituting products”, i.e. a product that delivers the same service in a radically different way (e.g. plastic furniture instead of wooden furniture).

nance is rather an excuse. What the prospective entrepreneur really wants is somebody else to give him or her a grant to experiment with the business opportunity without taking a risk. However, an individual’s risk aversion is a personal trait, not a market failure.

Regarding risk and risk aversion, market failure still is an issue, though. Individuals judge a business opportunity based on their personal skills and preferences, and based on the information they have about the business opportunity. In vibrant locations, new businesses are started all the time because information is “in the air”, i.e. for a business insider it is not too complicated to figure out that a given product or service is urgently needed but not yet provided. In not so vibrant locations, things are different. There is little information in the air, and it is much more difficult to spot a promising business opportunity. Thus, a potential entrepreneur judges a business opportunity to be highly risky because of very incomplete information. In fact, this is the reason why information – raising information, assessing information, sharing information – is an issue that constantly comes up in LED. When you conduct a diagnosis of your local economy, you want to raise more information about the local economy, and more information about business opportunities. And you want to spread that information so that individuals can start their business and the location becomes economically more vibrant.

Beyond information problems, there is often a coordination problem, especially when a new sector is emerging. For instance, in a given location, starting tourism is something that will not be sorted out easily by market forces. Somebody may be willing to start a guest house, somebody else to launch a restaurant, somebody else to run a transport service, and yet somebody else to organize activities. Yet if these persons don’t talk to each other, nothing will happen, since for each person alone there is not a convincing business case. This kind of coordination problem is again something that you try to tackle through LED activities, in particular via business networking events.

But what if barriers to entry reflect power structures, i.e. somebody is already in that business, has a monopoly and is determined to defend it?

Attacking such a monopoly head on is usually not a good idea. First, the monopoly may exist for good reasons, for instance because the market is very small. Second, in your LED initiative you need the support of powerful actors, so you don't want to antagonize them. You rather would look for win-win options to get the buy-in of powerful actors, including monopolists. They may ultimately lose their monopoly, but they will still be better off than before.

So you will collect a lot of information about markets, market failure and barriers to entry during the fieldwork for your diagnosis of the local economy. You obviously need to cross-check that information. When some businesses complain about a local monopolist, you would like to talk to that person. When some businesses complain about the lack of credit, you want to verify that. Business people are sometimes very good at finding excuses for low performance, so you need to verify which statement is fact, which is a myth, and which is just an excuse.

What do you do with all that information when you prepare your findings? You digest it in three different ways:

1. When you summarize your findings on the various local subsectors that you have investigated, you ask: Did we find market failure, and if we did, what causes it? And what is the reason behind the reason, i.e. the underlying factor that stands in the way of functioning markets and that makes exploiting business opportunities difficult or impossible? Take this example: Local producers often complain about middlemen. In a superficial perspective, the monopoly of the middleman would appear as the market failure. However, when you ask "Why is there only this middleman?" you may come to a more differentiated perspective at market failure. The existence of middlemen is often the result of market failure, and the middleman cannot easily be replaced because the market would not work.

2. You can introduce a special section into your presentation where you highlight the business opportunities that became visible in the course of the diagnosis. In this way, you directly address the market failure of lack

of information on business opportunities. You would look back at your research, i.e. the documentation of the workshops and the interviews, identify the bottlenecks that were mentioned, and ask: Which of these bottlenecks are actually business opportunities? Again, it is useful to have a person with a clear business sense at the Results Workshop who easily spots business opportunities.

3. When you formulate proposals, you must constantly ask yourself: Is this something where the market (and that means effectively: a business) can come in? Many stakeholders intuitively call on government or suggest collective action, e.g. through business associations, to address a given issue or solve a problem, rather than seeing it as a business opportunity. In fact, it can be useful to have a person who is explicitly defined as the "market referee" or "market umpire" at the workshop where you elaborate the results of your diagnosis. That person would constantly question: Is a given issue a problem or a business opportunity? Is a given proposal something that should be left to government or collective action, or is it something that should be highlighted (or even actively facilitated) as a business opportunity?

### **4.2.3 Avoiding inadvertently destructive approaches**

In the course of LED initiatives, market failure and failing markets are usually spotted immediately, and some local actors are keen to address them instantly. Typical examples are the frustration of producers about their weak position vis-à-vis suppliers or customers. The type of proposal that is typically formulated is to form some kind of consortium or cooperative and then to engage in a power struggle. Experience shows that a local group will usually lose such a struggle. The supplier or customer will quickly discern what is happening, and will take countermeasures. Offering some of the actors involved in the group preferential treatment often is sufficient to break up the group's effort.

The result of such a failed initiative is not only frustration but also increased distrust and cynicism regarding the possibility of local action.

Therefore, for LED practitioners it is crucial to steer local actors away from proposals that have a high likelihood to fail.

Another typical phenomenon in rural settings is the identification of middlemen as a problem. They are often seen as exploiters who are enriching themselves at the cost of rural producers. What local actors tend to fail to notice is the fact that the middleman is typically a response to market failure. The middleman offers a relatively broad package of services, from providing inputs to providing credit to organizing distribution and commercialization. In an ideal world, there would be various providers for each of those services, they would compete against each other, and the rural producers would be much better off. The problem, though, tends to be that the service market in a rural setting is so shallow that it does not sustain various specialized providers. In fact, in such a shallow market the middleman operates under high risks, and what is perceived by local producers as exploitation is ultimately a risk premium.

An effort to cut out the middleman in a confrontational manner is rarely a good idea. In some instances, the local economy may have grown since the middleman established his or her position and achieved a level of income that would sustain a number of service providers. But even if that is the case, there is a strong risk that an effort to cut out the middleman provokes the middleman to take countermeasures and to erect barriers to entry for new entrants. In the worst case, local actors succeed in cutting out the middleman without creating something new to provide services, so that at the end everybody is worse off. Instead, it is preferable to engage with the middleman and to seek a win-win option, for instance one where the middleman can specialize in a limited number of services and leave other services to new entrants who then compete for customers.

Yet another idea that often comes up in LED initiatives relates to physical markets. Local actors may observe that markets do not work well. For instance, it may be difficult for producers, in particular smallholders, to identify a time and place to sell their produce. If that is the case, organizing a local weekly market may be an option.

In many locations, an important commercialization channel for smallholders is through hawkers. Hawkers sometimes become the object of LED activities, though not necessarily in a constructive way. Local governments sometimes set up hawker stalls. Behind this are a number of good intentions, such as protection of the produce against sun, exhaust fumes and dust. There is also the interest, in particular put forward by town planners, to turn something that is perceived as messy into a neat, orderly and clean structure. Whether this effort ultimately is successful depends, more than anything else, on the involvement of the hawkers in the decision-making process. Often they are cut out of the process, for instance because they operate informally and don't want to interact with government, or because they are perceived as difficult to interact with by government. In that case, decisions like where to put the stalls are not driven by the hawkers' interest but by urban planning considerations and by the interests of other groups, such as formal retailers who want to see the hawkers as far away from the Central Business District as possible. It is not rare to find that the result of all this effort is a set of hawker stalls that are sitting idle at the fringe of town, while the hawkers continue business in their traditional precarious way in a location that promises good business.

### **4.3 Managing and institutionalizing LED**

The first two sections of this chapter addressed issues that are particularly relevant at an early phase of LED. Local government's effort to address red tape is not just creating a more business-friendly environment and thus improving the prospects of economic growth. It is also an important signal that local government gives to the private sector, indicating its commitment to build a constructive relationship. Analyzing and addressing market failure is a perennial issue, but it is particularly important at the early stages of LED, when stakeholders outside the private sector are not yet convinced that developmental challenges may in fact be business opportunities.

We now turn to governance issues that come up once the LED process has been running for some time. How do you coordinate it? How do you institutionalize it? And how can you address the challenges that usually arise once you have reached the network stage?

#### 4.3.1 An LED coordination body

There are different ways of running LED initiatives. In some places, local government is the driver. In other places, the private sector is the driver. Yet in other places, a handful of companies (for instance utilities) take it into their hands to push LED initiatives forward. However, the best way of running a LED initiative is by joining the forces and competencies of these and other stakeholders. An appropriate way of governing an LED initiative is by creating a Local Economic Development Forum (LEDF) which brings the different stakeholders together on a regular basis, such as once per month.

An LEDF is a gathering of organizations and individuals who are actually involved in local economic development. An LEDF is not a body where everybody who has some role to play in the local community must be represented. In democratic societies, the representative body where all different groups and interests are represented is the local council. An LEDF must not be conceptualized as yet another council. It is a body that has a specific purpose, namely to make sure that the LED process moves ahead smoothly. Thus, those actors need to be part of the LEDF who have a keen interest in pushing LED ahead.

More specifically, the purpose of an LEDF is to share information (**coordination**), to share and pool resources and experiences (**leveraging**), and to solve problems which come up in the course of LED projects (**troubleshooting**). An LEDF is not an executive body which is itself implementing LED projects.

Let us look at these points one by one. To start with, what is a LED project? LED projects are activities which create business opportunities and thus employment and income. They are not by themselves business ven-

tures; business ventures are executed by individuals or companies who have spotted an opportunity to make a profit. A typical purpose of an LED project is to create conditions which then stimulate business ventures or create conditions for business ventures to emerge. Usually, business ventures are launched and executed by individuals or companies who perceive an opportunity. However, it is not rare to find that a given business opportunity is judged to be too risky by the individual or company, even though if successful it might create many jobs and a lot of income. Consider business opportunities whose success depends on complementary activities. An example would be the launch of a new subsector in agriculture, say producing grapes and processing them into wine. A frequent saying in the sector is “It takes a big fortune to make a small fortune”. A major corporation might be in a position to set up the entire chain, from growing grapes to processing them to packing and marketing wine. Small businesses, though, would specialize on one or few activities, and they would require a set of supporting services to be able to operate. This is unlikely to happen spontaneously, through un-coordinated market processes. Somebody has to facilitate this process.

Taking up this example, an obvious question would be: Is it the LEDF’s task to organize an initiative to create a wine cluster which consists of a variety of complementary small businesses? The answer is No. To explain this answer, let us look at the composition of the LEDF. Its members will usually come from a variety of organizations: public, private, community and business, and here from a variety of business sectors. Sticking to our example, it is likely that many of the members of the LEDF are not particularly knowledgeable in wine production. They should be aware that some activities are going on in the sector, but they should not be bored with extensive details and organizational challenges of a wine cluster initiative. Therefore the LEDF should not run such an initiative. It should rather set up a working group which takes care of this initiative and which reports back to the LEDF.

This leads us to another observation regarding the proper organization of an LEDF: There should be a number of thematic sub-committees or working groups which pursue specific LED project ideas, and which re-

port back to the LEDF. For a number of reasons, such a smaller group is the appropriate place to facilitate a specific LED project: Since it is smaller than the LEDF, there is less risk of engaging in endless disagreements. As a group it shares concerns for a given sector and, furthermore, can share resources towards the development of a given sector – not just money but also information, know-how and other non-tangible resources.

Is there a standard blueprint regarding the structure of sub-committees or working groups? Again, the answer is No. There is no precise optimum organization of sectors in a local economy. The number and profile of sub-committees or working groups of a given LEDF rather depends on two factors: The structure of the local economy and the presence of champions who are dedicated to keeping their respective committee alive and working. Moreover, the number and profile of sub-committees or working groups is not static. They may merge or subdivide: merging if the stakeholders in different groups feel that complementary projects should be organized jointly, dividing if the stakeholders in the group sense that the working capacity of the group is being overstretched by too many, too diverse projects. New groups will be created as new opportunities arise or new stakeholders want to get involved in the process.

How then does this all feed into the LEDF? To start with, it is important to acknowledge that the status and mandate of a LEDF is unclear, as it is neither a part of the executive nor of the legislative branch of government. Instead, it overlaps with both of them, but without a clear democratic legitimacy. It is a consultative body whose function is basically to assist the legislative and executive branches in doing their jobs more effectively and efficiently. We suggested above that an LEDF will normally do three things.

**Co-ordination:** Representatives from the executive report on changes in legislation and upcoming government projects, including national and provincial/state-level initiatives. Members from the various sub-committees or working groups report back to the LEDF on the state of

their respective initiatives. In this manner, it can be avoided that parallel initiatives to tackle the same issue are launched.

**Leveraging:** Stakeholders in the LEDF share resources (financial, know-how, information) and experiences. For instance, it will often occur that a given committee is seeking specialized know-how and is considering to hire an expensive external consultant, and at the LEDF it is discovered that this expertise is available locally at hardly any cost at all. Another example would be a committee which has identified a sponsor who is willing to support more activities and is just waiting for viable proposals – which may then be generated by other working groups under the LEDF.

**Troubleshooting:** LED-projects usually run into problems – legal and bureaucratic obstacles, conceptual confusion, infighting between competitive stakeholders, lack of funds, and others more. The LEDF is the place where stakeholders from sub-committees or working groups can draw on the know-how and experience of the larger group to overcome these problems.

Last but not least, it is important to note that the LEDF itself may be a sub-committee – namely of a local development forum. As we have explained earlier in this book, local development involves many more issues than just economic ones. Therefore, a local community may decide to create a Local Development Forum, and the LEDF is then in turn a sub-committee of the LDF. The basic logic is very similar: The LDF is the place where stakeholders from different groups – the LEDF, the Community Development Forum – gather for the purpose of co-ordination, leveraging and troubleshooting.

One final point: What about strategy? Should the LEDF be the place to discuss and elaborate a local economic development strategy? The answer is yes *and* no. In the early phase, when most stakeholders have little or no experience with LED, the answer is clearly no: Practically speaking it is usually not quite clear what LED is about in the first place, so instead of wasting time on an abstract, theoretical effort to elaborate an

overall strategy it is much more important to experiment with different practical approaches. At a later stage, as stakeholders gain a clearer idea about LED, and why an overarching framework would be useful for a variety of projects and initiatives, they may decide to engage in the effort to formulate an explicit strategy. Doing so should not be part of the regular sessions of an LEDF, though.

#### **4.3.2 Why, when and how to create a Development Agency**

Local economic development agencies (LEDAs) and regional economic development agencies have been employed in many countries as a focal point for the formulation and implementation of local and regional development initiatives. In the development cooperation field, some organizations are promoting the creation of LEDAs.

In fact, the usefulness of LEDAs is one of the controversial issues around LED. The rationale in favor of creating a LEDA appears to be convincing – particularly if the government executive is not very effective, as it tends to be in many developing and transformation countries, and if it has little experience in interacting with business, let alone come up with major development interventions. However, it is important to note that there is hardly any hard evidence that such agencies have had a major impact on growth and job creation either in industrialized or in developing and transformation countries. Thus, the creation of such agencies is not necessarily a magic formula to foster development. There are two typical constellations which involve different challenges.

The first constellation is a setting where a number of organizations exist that are to some extent executing activities which are part of local or regional economic development. In a country like Brazil, in every region there are vocational training organizations, a small business promotion organization, several farmers and business organizations, state and local government, agricultural research and extension organizations, agricultural colleges and universities, and usually NGOs and other organizations. In such a setting the creation of a development agency is not an easy feat since all the other organizations may perceive it as an attempt to

interfere with their agendas. If the agency tries to coordinate everybody else, a massive power struggle may erupt. In other words, in a setting where numerous organizations already exist, it is essential to make sure that they accept the idea of launching a development agency, and preferably come up with the idea by themselves. For the new agency, the lead question would be: How can we add value to the other organizations that already there?

The alternative approach to deploying a LEDA in a context where several developmental organizations already exist would be to merge the existing organizations into one large agency. While this may in theory have advantages, such as consolidation of budgets, easier management, fewer agendas, less vested interests and high cross-fertilisation of ideas, it has a long lead-time during which cultural, procedural and technological differences are harmonized. Moreover, restructuring usually leads to a reduction of staff within the agencies, which may be a politically difficult situation for local stakeholders. More often than not, an effort to overcome fragmentation between organizations by consolidating them into one organization leads to an organization that has massive internal fragmentation problems.

A second constellation would be a setting where hardly any of the organizations mentioned above exist. In such a location, the obvious risk is that the agency tries to do everything, from skills development to SME promotion, from microfinance to investment promotion, and ends up doing everything in a superficial, ineffective manner. In such a setting, it is essential to set up the agency in a way which encourages the emergence of specialized organizations, possibly as spin-offs from the initial agency itself.

In any case, it is essential to understand that a development agency is a means, not an end, of a local or regional development initiative. In particular, it is not useful to start an LED initiative with the explicit purpose of creating an agency. In the course of an initiative, it may appear to local stakeholders that a development agency would be useful. If the decision to create one is based on a reasonably wide consensus among key

stakeholders and does not involve petty politics, an agency can play a very important role in the implementation of LED interventions. Another scenario would be a situation where the relationship between local government and business is tense, and where an LED agency is set up as an arbiter.

If local stakeholders decide to create a LEDA, a couple of questions arise. One of them is: Should it be a fixed-term or a permanent agency?<sup>9</sup> International experience shows that both solutions have their pros and cons. The following table summarizes arguments in favor of and against each solution.

**Table 4: Fixed-term or permanent LEDA?**

	Fixed-term (fixed time period)	Permanent
Arguments in favor	<p>Can experiment with highly innovative interventions without concern for organizational culture</p> <p>Does not appear as a threat to existing organizations</p> <p>Can easily be discontinued if ineffective</p>	<p>Can consistently deliver routine services</p> <p>Offers stable job perspective for staff</p>
Arguments against	<p>Cannot follow initiatives on a long term basis</p> <p>May have problems in recruiting staff</p>	<p>Over time becomes bureaucratic and inflexible</p> <p>Pursues incremental but not radical innovation</p>

It is important to emphasize, though, that fixed-term vs. permanent is not necessarily an alternative. In fact, you may want to have both:

- A permanent agency is crucial in delivering routine activities, such as developing real estate, constantly updating promotional material, organizing support for business start-ups, etc.

<sup>9</sup> Numerous other choices and trade-offs are outlined in Meyer-Stamer (2007).

- A fixed-term agency becomes essential when routine activities are not sufficient to promote the growth of your local economy, and when you need innovative initiatives to overcome organizational fragmentation and path dependency.

This takes us to another important insight: It is not useful to have a single agency which is in charge both of routine activities and innovative projects. The organizational cultures required for either activity are profoundly different. In routine activities, entrepreneurial personal traits can become a nuisance, whereas they are a boon in innovative project activities. Well-established organizational procedures are excellent to secure the effective delivery of routine activities, but they are a nightmare when you try to launch innovative projects. Looking at the above table, the staff issue illustrates this point: How likely is it that a person who aspires a job for life is highly innovative, risk-taking and entrepreneurial? You would employ this kind of person to give routine advice to business. You would not employ this person, say, to prepare and launch a highly innovative business mentoring scheme.

But what do you do if you operate in a setting where neither type of agency exists and where the environment for business is not particularly favorable, both in terms of commercial business development services and government-driven development interventions? One option is to develop a hybrid agency, something akin to a development center in an industrial corporation. A hybrid agency might be a permanent institution, or at least have a long tenure as a fixed-term agency (say, 10 years). Its task would be threefold:

- promote the increase and expansion of business development services,
- elaborate and hand over economic development and business promotion instruments for government institutions,
- run fixed-term innovation projects to open new growth opportunities for the private sector.

Its task would not be the routine delivery of business services. Activities under each of the three headings would interlocked with a agreed upon time target, thus creating a strong incentive to formulate an exit strategy early on and to empower other organizations to take over responsibility.

#### **4.4 The budget, the year, and the flexibility dilemma of LED**

In the public sector, the budget year has a meaning which is different from the annual reporting period in the private sector, especially in small and medium sized businesses. For an SME, the end of the reporting period is not a major event. For public sector institutions, on the other hand, life is shaped by the budget cycle in two ways. First, their actions may be very restricted by the earmarking of funds in their budget; if a given activity is not explicitly mentioned in the current budget plan, it cannot be pursued in the current year. This straightjacket is loosened to the extent that new public management principles are introduced. Second, however, there continues to be a specific seasonality. The early months of the budget year often see only limited activities, especially if it is unclear whether the funds foreseen in the budget will actually be allocated. Towards the end of the budget the pressure to spend available funds grows tremendously, and it is not rare to find frenzied activity to assure that no part of the allocated funds have to be returned to higher levels of government. The resulting distorted incentives and strange actions are particularly strong in those countries where government service delivery has been decentralized, while taxation has remained centralized.

In the private sector, the year is usually structured in a different way. In agriculture, seasons are defined by planting, growth, and harvesting. In tourism, there is usually a high season when everybody is exceptionally busy, a so-so-season when a significant number of guests is around, and a low season when the tourism operators are idle. In industry, different subsectors have different patterns of seasonality. For consumer products, events like Christmas, Idul Fitri, Ramadan, Chinese new year or carnival usually have a strong impact since demand skyrockets or drops steeply. For producers of capital goods, the year is often organized around indus-

trial fairs. Thus, in the private sector there is not one seasonality that affects all companies in the same way. Rather, there are quite a few seasonalities, and in a given location the seasonalities of different subsectors may not be synchronized. However, it is not particularly likely that the seasonality of a given subsector coincides with the seasonality created by the government's budget year.

How does the issue of seasonality, and the existence of the budget year, affect a territorial development initiative? It makes them more difficult due to two reasons.

1. Public sector and private sector are subject to different seasonalities. A time of the year that for the public sector is convenient for an LED planning exercise may be very inconvenient for the private sector and vice versa.
2. Public sector and private sector are thinking in different time horizons. The private sector is chasing business opportunities, and companies are interested in quick, tangible wins from local or regional economic development. Planning horizons often stretch for less than one year. The public sector is organized around budget years and election periods, and quick wins are not necessarily a main concern. In fact, quick win activities may be inconvenient if they don't fit easily into planning cycles.

Against this background, it becomes obvious why it is a challenge to organize an organic, evolutionary LED process where one quick success leads to the next activity and where things evolve nicely over time. The private sector will disengage from the LED process in periods of high season, and the public sector does not see the point in an organic process since it appears not to fit with the budget planning process.

How are these tensions resolved in the real world? Let us look at a two examples.

- In a location in South Africa, a PACA exercise led to the identification of a number of quick-win proposals. Some of them were quickly taken up by the private sector, which created credibility for the whole



LED process. Some other proposals entered into the local government's budget planning process, so they were not quick-win at all but were implemented in the following budget year. In the meantime, local government had been supportive to some of the genuine quick-win activities, since they did not require major funds. This improved the credibility of local government in the private sector. Conclusion: PACA with its emphasis on quick-wins usually identifies opportunities for action that can be addressed within a few months, but there are other proposals which take more time. But since there is no point in trying to do everything at the same time, this is no problem at all.

- In a location in Sri Lanka, government actually had budgeted for a number of local activities but was not quite sure how to prioritize them and how to mobilize stakeholders. PACA achieved just that, so that practical activities which budgetary implications could unfold quickly. Conclusion: Often funds are earmarked for types of activities without a clear idea on how, where and for what to spend them. A PACA Exercise comes handy under such circumstances. It is important, though, that the PACA Exercise occurs at the appropriate time in the budget year.

In other words, the issue of different time-lines in the public and the private sector is a challenge, but it is not an insurmountable obstacle. Public sector actors may come to understand the importance of quick wins. They may also appreciate the suitability of PACA to spend funds that have been earmarked in an abstract way rather than for specific activities.

#### 4.5 Networks and network failure

Network governance becomes relevant to the extent that government alone cannot solve problems any more and societal actors expect to be involved in policy formulation. Involving non-governmental actors becomes crucial when key resources – information, skills, time, money – are no longer predominantly in the hands of government officials but rather distributed among a variety of actors, including companies and

business associations, NGOs, training and research institutions, etc. Network governance emerges when essential resources are distributed among governmental and non-governmental actors and only pooling these resources, based on the direct interaction among these actors, can lead to an adequate definition of problems and, based on this, policy-making that aims at problem-solving. Network governance is the predominant pattern of governance in locations with a long experience in LED. “Participatory” approaches are one form of network governance.

The problem is that hardly anybody who is involved in network governance likes it. Network governance is a daunting task even under relatively favorable circumstances. It creates substantial transaction costs. It is based on constant negotiation processes, and its results are usually nowhere near the results each of the players aspired. Actors get involved in network governance because there is no alternative. From government's side, the main motive to accept network governance is the implementation crisis. It emerges when government formulates strategies and programs that cannot be implemented because they do not meet with the interests on the side of the intended target group; an innovation policy initiative where producers don't apply for available funds would be a typical example.

One of the reasons why actors involved in network governance tend to be frustrated is the fact that it involves standard problems that cannot be easily solved. Research on network-based territorial development initiatives identified six typical dilemmas:

1. The ownership dilemma: At a certain phase in the network process, some actors need to take on responsibility, simply because tasks require to be attended to. On the other hand, the allocation of responsibilities needs to be kept flexible, so as to avoid cemented hierarchical structures that make it difficult for newcomers to join the network, but also to circumvent the clustering of groups within the network.
2. The trust dilemma: Initially, a new network involves limited trust among members who hesitate to share critical information. The less in-

formation they share, the more likely the network will become dysfunctional and collapse. However, sharing critical information creates the risk of opportunistic behavior by other members of the network.

3. The self-organization dilemma: In each network the question comes up: how much coordination, structure and management is required to work effectively and efficiently? At the same time trade-offs need to be made, to not impinge on flexibility which is always at danger when structures and coordination become too rigorous and complicated.

4. The communication dilemma: Collaboration between various actors invariably creates conflict. One option is to ignore conflict (and hope that it gets sorted out somehow), the other to address it. Either approach can solve the conflict – or lead to an escalation which may let the network collapse.

5. The legitimacy dilemma: It will arise in most networks at some stage. It is therefore crucial to anticipate that each participant of the network is at the same time representative of an organization. The dilemma of legitimacy challenges each member to clarify the interest of the network and of his/her organization. Moreover each participant functions as interpreter between these two “worlds”.

6. The compatibility dilemma: The internal functional logic of networks is often very different from the hierarchical functional logic of the organizations that are represented in the network. If the difference becomes too big, the possibility of communication between network and environment suffers. However, if the network is too similar too its environment, it will not unfold its potential.

There are no easy, straightforward solutions for these dilemmas. Only skilled and experienced facilitators will be able to find the balance between the extremes. If such facilitators are not present, the question arises who else will manage the network. In this case, its success depends on coincidence – perhaps there is somebody in the network who happens to combine leadership and facilitation skills. It is rare to find network members who have been trained to be effective facilitators. Politicians

and government representatives claim responsibility for facilitation. However, their tools and skills are often closer to those of Nicolo Macchiavelli than to those of contemporary facilitation technique gurus. It is not a coincidence that in countries like Germany, where network governance is ubiquitous, the facilitation business sector is enjoying high growth rates.

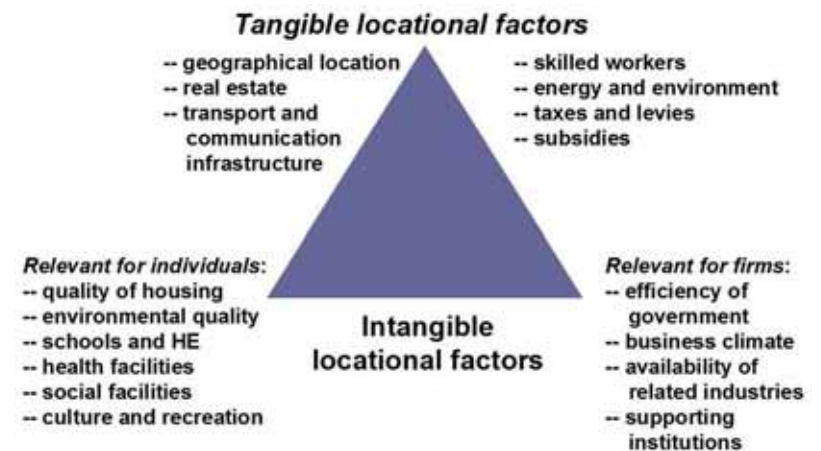
# LED Activities

## 5 Locational factors

A main objective of LED is to strengthen locational factors. Locational factors are defined as those features that make a given place or region attractive for business – in terms of retaining businesses and fostering their growth, in terms of retaining or attracting start-up entrepreneurs, and in terms of attracting external investors. It is common to distinguish three types of locational factors (Figure 2):

1. Tangible locational factors, which are mostly “hard” criteria and which can often be quantified.
2. Intangible factors relevant for companies, which are “soft” factors and not easily quantifiable.
3. Intangible factors relevant for professionals, which are basically those factors that define the quality of life in a given location.

Figure 2: Locational factors



Admittedly, all this sounds very dry and technocratic. Let us thus look at this issue from a different angle. Imagine that you live in Pretoria, the capital of South Africa. You are not satisfied with your current occupation, and you are looking for a new opportunity. You have experience in business, and you have skills in food processing technology. You know that modern supermarkets are the dominant type of retailer in the country. They sell not just packaged products but also have big sections with fresh fruit and vegetables, including ready-to-cook packages of different cut vegetables. You happen to know that supply of processed vegetables is insufficient, i.e. there is a clear business opportunity to start a company that processes and packages fresh vegetables.

Now the question is: Where would you set up such a facility? Getting out of Pretoria, with its congested traffic and the high crime rate, is an appealing perspective. But then again, you would not want to move too far away from family and friends, so that would be a reason to move not too far away from Pretoria.

On the other hand, there are good reasons to locate your processing facility close to the producers. The producers are located in the north of Limpopo province, close to the border with Zimbabwe. You have a friend who is working with an NGO that has successfully trained local communities to produce vegetables and to harvest them at the quality and frequency that you would need. Having the processing facility close to them would have the advantage that you could quickly go and see the producers when you are not satisfied with the produce they sent you.

But then again, setting up your business in a remote rural area would have all sorts of disadvantages. Supply of water and electricity would be unreliable, you wouldn't get high speed Internet access, and you also got the impression that local government is at a very early stage of capacity development. Moreover, it would be difficult to locate specialized business services there, while around Pretoria all these things are no issue at all.

And then there is your family to consider. Will you find a good school for your kids? And how about options for recreation? For instance, the nearest cinema would be in Polokwane, the provincial capital, three hours' drive away.

Conclusion: It is a really difficult decision. There are lots of trade-offs. And all those trade-offs revolve around the existence and quality of locational factors. You will not find the perfect location. You rather have to analyze the locational factors in different locations and then opt for one location that gives you the relatively best combination of locational factors.

You can also look at this story from a different angle. Imagine that you are an LED officer in that location close to the border to Zimbabwe. Your task is to promote business in your location so that jobs and income are created. A person shows up to inquire about the possibility to set up an agroprocessing facility in your location. This appears like a present from heaven, since that facility would easily create 50 jobs. But then that person pulls out a locational factor checklist, something like Figure 2, and starts asking questions. And then you find that you don't really know whether a stand for the facility would be available, and at what cost. And you have to admit that electricity supply is unreliable. And though there are lots of job seekers, few of them have the right skills profile. Also, you cannot offer any incentives, such as a skills course that you would sponsor, since you don't have a budget for that. Also, you must admit that your colleagues in charge of permits are not very efficient, so that obtaining the legally mandatory permits takes a long time. And then there is the issue of business services, many of which don't exist in your location. The conversation will not take a long time, and you will not be happy with the result since the external person will take his business elsewhere. But at least the conversation has provided you with a work plan. You know now what kind of conditions an investor expects, and you can now focus your LED effort at creating them.

Let us come back to the three types of locational factors introduced above. From the perspective of an entrepreneur or a company that has to

decide where to run its business, there is a clear hierarchy between the three types of locational factors. Most relevant are tangible factors. It is only after tangible factors become increasingly similar across locations in a country or region that intangible factors become relevant as a distinguishing feature. To put it differently: If your location, unlike other locations which are nearby, suffers from unreliable electricity supply, water scarcity, and dreadful roads, even excellent supporting institutions and the most efficient business registration process will have only a limited effect.

Locational factors are generic factors that affect all producers and companies alike. They are shaped through government action, through market processes and through collective action. In this section, the focus will be primarily at local government's role in shaping locational factors.

Table 5 indicates a number of key instruments. Some of them are not easy to implement for local government. For instance, major infrastructure improvement projects will often overwhelm the financial and management capacity of local government, especially in rural areas. Let us thus have a look at instruments which are particularly promising for local-level activities.

### 5.1 Making the local administration more business friendly

Local governments often claim that they try to promote the local economy. However, the truth often is that while a few actors in local government are involved in developmental activities, many other government officers are making the life of producers and entrepreneurs more complicated. Obtaining a license or permit is often a lengthy, complicated and unpredictable process. This is particularly the case for agroprocessing operations. They are usually subject to specific health and environment regulations, so that they are subject to more comprehensive license and permit requirements than, say, a metal workshop. Reducing red tape, i.e. reducing the time and money companies have to spent on obtaining li-

**Table 5: Instruments to strengthen locational factors**

<p><i>Instruments targeting tangible locational factors</i></p> <ul style="list-style-type: none"> <li>• Real estate development</li> <li>• Infrastructure development</li> <li>• Predictable energy and environmental costs</li> <li>• Skills development programmes</li> <li>• Fiscal incentives and subsidies</li> </ul> <p><i>Instruments targeting intangible locational factors that are relevant for individuals</i></p> <ul style="list-style-type: none"> <li>• Improving the quality of housing and neighbourhoods</li> <li>• Securing good environmental quality</li> <li>• Assuring a high quality of schools and other education institutions</li> <li>• Providing good social infrastructure</li> <li>• Assuring good leisure infrastructure (sports, cultural events)</li> <li>• Effective crime prevention</li> </ul>	<p><i>Instruments for intangible locational factors that are relevant for companies</i></p> <ul style="list-style-type: none"> <li>• Creating a business-friendly public administration - Indicators: <ul style="list-style-type: none"> <li>– Swift response to applications</li> <li>– Swift registration of business start-ups</li> <li>– Bundling of administrative responsibilities</li> <li>– Effective support for businesses in transactions with regulatory bodies</li> <li>– Economic competency and hospitality of key actors (e.g. mayor)</li> <li>– Constructive style of communication between local politicians and government administrators, and companies and their associations</li> </ul> </li> <li>• Facilitating an effective local BDS market</li> <li>• Promoting innovative financial instruments</li> <li>• Providing competent technology-related institutions, for instance in metrology and certification</li> <li>• Encouraging an active role of business associations and chambers</li> <li>• Promoting a positive image</li> </ul>
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censes and permits, is an important element of an effort to make a location more business friendly.

To some extent, red tape is the result of nation-wide framework conditions. For instance, the steps involved in registering a business are typically defined by central government. Yet we often observe that in a given country some local governments are much more efficient in taking a business through these steps than others. In many countries, local governments have found that becoming more efficient and predictable for businesses can be a decisive factor in attracting entrepreneurs and investors, and in stimulating the growth of existing local businesses.

While there is nothing local governments can do about national legislation, there are often local by-laws that can be revised to become more business-friendly; this is a process that usually takes some time. Yet it is also possible to realize quick wins in the reduction of red tape, for instance by better explaining registration and permit processes and by making it easier to locate the responsible officers in the local government office. It is also important to note that a visible effort to reduce red tape improves the credibility of local government in the private sector and may thus create the preconditions for other LED activities that need to be based on collaboration between public sector and private sector.

In order to pursue this approach, first of all it is important to verify why businesses interact with government. Typical reasons include

- business registration,
- building permits,
- other permits (e.g. environmental issues, health and safety issues),
- issues related to the availability, use and acquisition of real estate,
- issues related to environmental impact (accidents, complaints by neighbours, etc.),
- taxes and fees,
- traffic related issues (availability and quality of roads, parking lots / parking permits, connection of business site to public transport, etc.),
- infrastructure related issues (availability and quality of water, electricity, and possibly other services),
- government as a customer / buyer,
- information and communication in general,
- government-sponsored business promotion programs.

An obvious option is to ask for this in a workshop with business representatives. A format is described in the Annex.

## Addressing Red Tape

An effort to address red tape will often involve a lengthy, complicated process. In order to get the process going, it is useful to look for quick wins. Typical quick wins include the following:

- better explaining certain procedures, for instance by producing a flyer that describes the steps involved in a process, names the relevant contacts and opening hours, indicates the relevant forms and where to obtain them, explains how to fill out a form correctly, etc.
- making forms more easily available, for instance by making them available at one central, easily reachable point and on a website,
- making navigation in local government offices easier, for instance by clearly explaining which official in which office is responsible for what, putting up a signage system for offices, and issuing nametags to officials.

Changes that may take some more time include, for instance,

- providing a business with timely information on the progress of a given process, and giving swift responses when an applicant inquires,
- giving a plausible, understandable explanation of decisions.

Quick wins create credibility for local government. This makes it easier to interact with the private sector, both in terms of a more systematic effort to address red tape and in terms of other developmental activities. A joint learning process on how to streamline procedures can also lead to the insight that the public sector is not the only source of red tape. Many companies, in particular large corporations, are themselves quite clumsy in their internal processes and in the way they interact with suppliers or customers.

## 5.2 Real estate development

Zoning is usually a statutory task of local government. Thus, local government can define priority areas where businesses should operate. One such area is typically the Central Business District in any town. Another type of area are business estates for manufacturing and processing plants. In urban areas, local government typically creates dedicated industrial business estates, for instance because it wants to minimize the complaints that usually come up when manufacturing takes place in residential neighborhoods. Also, urban areas often suffer from scarcity of space, so that careful spatial management is essential.

In rural areas, decision makers as well as companies may find these issues less pressing. They would create a business estate for different reasons. It is not rare to find rural locations where basic infrastructure is unreliable. For, say, a garment company unreliable water and electricity supply is a nuisance. For an agroprocessing operation, it is a disaster. Thus, a business estate that gets priority access to water, electricity, Internet and other types of infrastructure and services can make a critical difference in a rural location. It makes the life of small and medium sized companies, who unlike large corporations are not in a position to build their own infrastructure, much easier, and it can make a given location much more attractive for business.

An issue that is related to zoning is the location of markets, i.e. physical market spaces. In small rural towns in traditional areas this is perhaps not an issue, since there is only one market in a place where it has always been. However, as modern forms of retail such as supermarkets move in, one often sees conflicts emerge at the local level. Hawkers and other “traditional” sellers of agricultural products want to run their business next to the supermarket, while the supermarket owner or manager want them to be as far away as possible, not only because they are competition but also because they spoil the modern visual appearance the supermarket tries to create. Local governments then sometimes create dedicated locations for hawkers. When they do this without consulting the hawkers, the result is often a newly built structure that sits idle since it does not

match with the needs of hawkers. There is nothing wrong with local government creating a physical structure for a hawkers’ market, but it has to fit with the preferences of the hawkers.

## 5.3 Skills development

Skills shortages are a major problem that stands in the way of companies’ growth. Skills development is an obvious response. However, in towns and rural settings a skills development effort needs to be carefully designed so that it ultimately benefits the local economy, rather than creating an additional stimulus for job seekers to leave the location and look for a job in a metropolitan area.

Skills development activities frequently suffer from a mismatch between the training courses offered by training providers and the skills needs of potential employers. It is not uncommon to find that training providers, in particular government institutions, follow their own priorities and conceptions rather than investigating the real needs and demand. Moreover, job seekers take decisions on which training course to take under particularly imperfect information, i.e. based on hearsay, fashion, or prejudice. Facilitating a process that involves all three relevant actors, i.e. training providers, job seekers and employers, and creates transparency on the skills demanded by potential employers is a typical LED activity. It often leads to quick wins.

A practical way of exploring this issue is through a quick appraisal. You would create a small team, including a person from the training sector and a business person, and conduct three workshops: one with skills providers, another one with representatives from different business subsectors, and a third one with job seekers. Each workshop would have a specific focus:

- Skills providers: What are the courses they offer? What are, in their perspective, the needs of the market? How do they research the market? What are the needs and opportunities that they perceive?

- Business operators: What are the skills bottlenecks that they observe? Which provider is, in their perspective, best positioned to address specific bottlenecks?
- Job seekers: What are the skills shortages that compromise their employability? What are the obstacles that keep them from acquiring those skills? Who could do what to address skills shortages and mismatches?

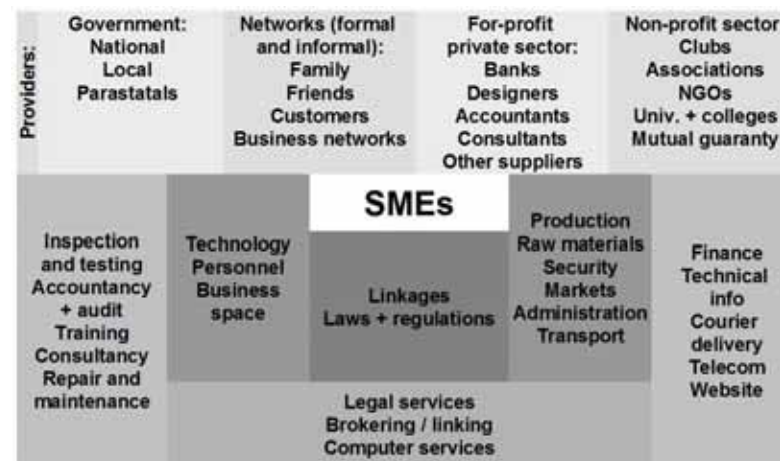
What you will probably find is a mismatch not only in skills but also in the perception of the skills market. The team would highlight these issues in a presentation to the three groups that is given right after the workshops and an internal results workshop. This would immediately followed by a planning session on practical means of achieving a better match between skills supply and demand.

Addressing the mismatch between supply and demand, informing skills providers about the needs of learners and learners about the available offers, is one of the frequent and highly relevant activities in LED. It is an activity that often generates quick wins, where skills providers swiftly come up with new types of courses. This is particularly the case if skills providers are private businesses and compete against each other, i.e. are part of the local commercial business development services sector.

#### 5.4 Facilitating an effective local Business Development Services (BDS) market

Since the mid-1990s, donor organizations have pointed out that many of the services that companies need, and that are sometimes provided by governmental SME promotion institutions, are actually also provided by commercial providers, so that government, despite its best intentions, is distorting or even destroying the market. Figure 2 gives an overview of SME needs (dark grey), services (medium grey) and providers (light grey).

Figure 3: Needs, services and providers in BDS



Local governments are sometimes tempted to repeat the past errors of central governments and provide business services themselves. What they should do is to facilitate the emergence and evolution of the BDS market. For instance, when a local councilor sends aspiring entrepreneurs from his ward to the LED officer so that she can help them with their business plans, the LED officer should refer them to professional advisors who specialize in business plan advice. In other words, it must be an iron rule of LED that local government does not displace existing commercial services.

What does “facilitation of the BDS market” mean? Dynamic, prosperous locations tend to have a thriving, diversified and competent business service sector. Peripheral, poor locations tend to have only few business service providers. In such a location, business service providers may be in a position that is similar to middlemen, i.e. they provide a variety of services at high cost and tend to defend their monopoly position. Again, the LED approach would be to analyze the market, to understand existing market failures, to understand existing barriers to entry, and to identify market-friendly ways of addressing them. In all this, existing service providers would be involved in order to keep them from obstructing the process.



In the context of agricultural linkages and agroprocessing, some issues around BDS become particularly relevant.

Regarding linkages, one often finds that this service is part of the service package offered by a “**middleman**”. They tend to be powerful players, especially in rural settings. Producers like to complain about middlemen, since they feel exploited by them. However, practical experience tends to confirm what researchers have found for quite some time. Being a middlemen in a rural setting is anything but a license to print money. The middlemen are providing key services, and the apparent high price for those services often reflects high cost and risk. Local producers often suggest to create a structure to fight the middlemen, such as a purchasing or sales cooperative. In other words, they suggest to pick a fight – and more often than not, it is a fight that they will lose. What you may try to encourage instead are efforts to attract additional middlemen, i.e. to stimulate competition between them. Alternatively, you can try to stimulate an approximation between the two sides, leading to direct communication aimed at problem-solving. The interaction matrix is a useful tool in this respect. It is explained in the Annex.

Another BDS issue around linkages and agroprocessing is **product testing and certification**. If local producers want to supply modern retailers, their products need to be tested and certified. You would want to have testing facilities available locally. Since initially the demand for testing, and the willingness to pay for it, will be limited, there is a temptation for local government to set up a public institution that offers this service. This is not necessarily a good idea. First, it takes some time until local government has agreed that it wants to pursue this idea, conducted a feasibility study, prepared a business plan, submitted the plan to a funding agency, obtained funding, and got the organization up and running. You are probably looking at a time line of two to four years, and during this period local producers will become increasingly impatient and ultimately frustrated. Also, if there is an election in between, and a different party wins, the project may be shot down by the new mayor. Second, if you get the organization up and running, it runs as a monopoly without an obvious incentive to constantly improve its services and lower its prices.

Taking these issues into consideration, you would rather want a market-based solution, or a solution that is based on collective action, for instance a testing facility that is run, and controlled, by the local farmers’ association.

## 6 The target group of LED: Producers and companies

LED addresses producers and companies. The ultimate beneficiaries of LED are, of course, all the citizens in a given location or region, in particular those who get marginalized if development is left to market processes alone. However, LED is not primarily working with the ultimate beneficiaries but with companies since it is their growth, and their capacity to create jobs, which ultimately leads to the development effects that benefit local citizens at large.

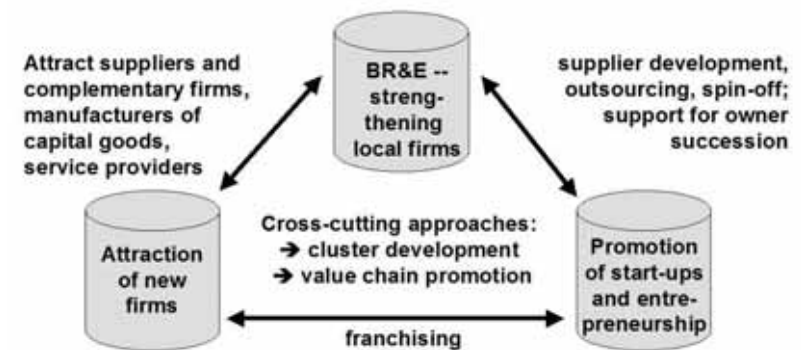
LED addresses three types of producers and companies: Existing local producers and companies, start-ups and potential entrepreneurs, and external investors. Regarding the target group, LED thus rests on three pillars (Apart from activities that address one pillar alone, it is crucial to look for synergies between BR&E and investment promotion, and BR&E and start-up promotion, as well as the “franchising” link which we will not explore in more detail here. Moreover, there can be cross-cutting initiatives that address all three pillars in a systemic way, in particular through cluster promotion or value chain development.

Figure 4):

- business retention and expansion (BR&E), including local SME promotion,
- start-up promotion and promotion of entrepreneurship,
- investment promotion.

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Figure 4: The target group of LED



In this section, we look mostly at activities that are selective. They do not affect all sectors in the local economy alike but are rather aimed at specific subsectors.

### 6.1 Business retention and expansion

In many locations, an expansion of the existing business sector will create more jobs and income than can realistically be expected from the attraction of an external investor, the promotion of start-ups or from government-funded employment creation schemes. Therefore, strengthening the existing business sector is an activity that deserves the full attention of LED stakeholders. We emphasize this point since we often observe that LED processes are not balanced, focusing at the other two pillars and neglecting BR&E.

Obviously, BR&E benefits from the creation of a more enabling environment, as described in the previous chapter. That, however, is usually not sufficient to unlock the growth potential of existing subsectors. In order to grow, they need specific interventions and activities which will not come about spontaneously, since even if somebody spots a business opportunity she may not pursue it, for instance because the barriers to entry are too high. A typical example is product testing and certification. For instance, equipment to test fruit and vegetables for chemical residuals comes with a price tag of far above \$100,000, which is much more than most private testing laboratories can afford. However, when such testing facilities are not locally available, connecting local producers to sophisticated markets becomes difficult.

In order to explain some typical BR&E activities, let us take the example of business linkages and agroprocessing. Here, activities can be summarized under the following headers.

### **Business networking**

Local economies that are not vibrant tend to suffer from weak business networks. One reason is the fact that each business is so busy that little time is left to actively seek network contact. Another reason is that in less developed locations there tends to be little specialization among businesses, so that each business person sees the other as the main rival, and perhaps a personal enemy.

Effective business networks are a crucial enabling factor for business. Stimulating their emergence is an important task in LED. A promising initial focus of networking activities is to encourage supplier-customer relationships at the local level. Behind this is, so to speak, the idea of “import substitution”. In this case, the objective is to highlight to companies that specific inputs and services are available locally, and that they can strengthen the local economy by buying locally. Over time, business networking activities may progress to activities like joint missions to fairs, joint stands at fairs, or joint export activities.

### **Information**

An issue that is related to networking is the availability of information. “Lack of information” is often highlighted as a problem by producers and processors, and it usually refers to all sorts of information: where to find inputs, where to find instructions on planting and harvesting, where to find information about input and product prices, where to find information about possible buyers.

Sometimes development practitioners suggest that “information technology” is the answer when information is the problem. This response is not entirely inadequate, but it misses the point. Frequently, the problem is that producers and small business owners (a) have never learned how to actively seek information and (b) are not involved in a social system where the kind of topical information they need is freely and spontaneously exchanged. Offering information technology does not solve either of those problems. One important objective of LED, in particular in locations that are quite uncompetitive, is to stimulate and support a learning process among local producers and processors where they, first, share the bits of information they have and, secondly, start to develop a habit of actively seeking information that is not locally available. Information technology can play a supporting role in this, be it through local radio programs, be it through the introduction of cell phones that permit producers to access market data. For instance, lobbying a cellphone operator to connect a given location to its network can be an LED activity with a catalytic effect.

For an LED practitioner it is also important to understand that lack of information is not necessarily an accident. Information is power, and in information-poor settings access to information can be a crucial advantage for a given producer or business. Individuals and businesses that have privileged access to information will feel threatened by LED activities that aim at making information easier and wider available, and they will try to shoot down such activities. An LED practitioner needs to analyze the likelihood of this to happen and to plot counter schemes if necessary.

## Producer cooperation and groups

Another issue that is related to networking is the creation of more formal networks, such as producer associations, cooperatives or consortia. When producers individually are weak, organizing them collectively often appears as an obvious response. However, this can be driven by two quite different logics, one of them convincing, the other doomed:

- Business interaction between producers and distributors must make business sense, both for local traders and for procurement centers of large supermarket chains. For a distributor, interacting with hundreds of producers who produce small batches in random intervals is inefficient. In this perspective, organizing producers aims at a scale that makes interaction with the producers attractive for a distributor. The organization of producers follows a clear business logic, creating economies of scale that benefit both the producers and the distributor. It is a win-win approach.
- Relations between producers and distributors, in particular middlemen, are often tense and antagonistic. An LED practitioner often hears the proposal to organize the producers to “cut out the middleman”. This approach aims at picking a fight. It is a fight that producers are unlikely to win. They do not have the skills, capital and business contacts of the middleman. Also, the middleman will counter their initiative. This will often turn into a lose-lose-approach where both the producers and the middleman suffer losses.

Practical approaches to organize groups of producers must be driven by a convincing business logic. The facilitator of the initiative must make sure that it is not perceived as an aggression by the distributor, for instance by involving the distributor in early, exploratory discussion. A distributor can give practical guidance in terms of deliverables of a group effort.

LED practitioners often have a tendency to create a formal organization of producers first and then engage in practical activities (e.g. consolidating the products and sorting them). This is not necessarily the best ap-

proach. Producers often have been involved in some kind of organization before, for instance a government-run cooperative that collapsed at some point, and they may be skeptical when a new organization is proposed. Moreover, there is often a tendency to waste a lot of time discussing the statute of the organization, fighting for the position of the chairperson etc. For an LED practitioner, it is important to understand that an organization is a means, not an end. The end is to improve the competitiveness of producers. It is more promising to start with practical activities that improve competitiveness. This will initiate a process of learning and trust building among participants – or a quick disintegration of the group if some participants behave in an egoistic, opportunistic or predatory way. If interaction evolves in a constructive way, a formal organization will emerge quite naturally and with limited discussion and controversy after some time.

## Technology

Regarding technology, the first concern under BR&E is typically not the highly innovative product, but rather everyday headaches of producers and companies. Product testing, product certification, quality assurance and calibration are challenges that often can be addressed at the local level, be it through a business, or joint action, be it by service provision through a government institution (with the reservations explained above).

The same applies to technology introduction and dissemination, for instance the use of new inputs such as new planting material. In many countries, national services that followed the principle of Training & Visit Extension have become less effective or collapsed altogether. To some extent, their role has been taken over by extension officers of private companies, for instance input suppliers or large buyers. In some locations, NGOs operate extension services.

In the context of an LED initiative, mapping the existing technology extension services and know-how centers, and identifying their effectiveness, is part of any initial diagnosis. Matching extension services and know-how centers with producers can be a quick-win activity. In the me-

dium term, a more systematic effort to upgrade the extension structure at the local level can become a catalytic activity.

In a mature LED process in a location that has a clear profile in one type of agricultural products, the creation of a dedicated research and development center will enter the agenda. For instance, in a wine growing region you will typically find an Institute of Enology. It is essential to involve producers and processors in the definition of a profile of such an institute, so that it turns into an organization that conducts practically relevant work rather than ivory tower research. An institute that closely interacts with producers and processors is a key ingredient in an effort to create a unique locational advantage.

## **Skills**

At a subsector level, it is often highly specific skills that are lacking or not easily available, for instance because in the whole country there is only one institution that offers a specific training course. In the context of LED, there are different options to address this issue:

- Rather than sending local students to that institution, attracting its teachers to run the course locally may be an option.
- Setting up local focal point for specialized distance education institutions is another option.
- In the medium to long term, it may be an option to create a specialized education and training institute locally, not only to serve the local demand. Similar to a technology institute that fits the specialization profile of the local economy, a training institute is an important element in the effort to create a local competitive advantage. Again, it is crucial that producers and processors are involved in the design and governance of such an institute to make sure that is aligned with their practical needs.

## **Finance**

Local efforts around finance often involve relatively simple activities, such as inviting representatives of development finance or microfinance institutions to the location so that they can explain their product range to potential customers. In some cases, convincing them to create a local branch office may be an option. In some locations, finance-related activities will include more sophisticated initiatives, such as attracting highly specialized service providers in areas such as leasing, factoring, futures, or export finance.

## **The particular relevance of tourism linkages**

Rural locations are often tourism destinations. If resorts, lodges, game reserves or similar ventures exist at or near a location, they offer a particular opportunity for learning. Local producers, in particular small farmers that have started to produce fresh fruits and vegetables, need to understand the principles of sophisticated demand if they want to interact with customers that offer a good price. Sophisticated demand involves principles such as delivering exactly the right amount of produce in the right quantity, the right and consistent quality and the right packaging at the right time and place. Tourism ventures articulate this kind of demand. Having this type of demand nearby, and being able to directly communicate with a sophisticated customer, understanding their requirements and the logic behind it, is a huge opportunity for local producers. It is much easier to sort this out directly and locally rather than with the buyer of a wholesaler or retailer who is several hours' drive or even flight away.

## **6.2 Start-up promotion**

According to the 2006 Global Entrepreneurship Monitor, in Indonesia and Thailand about 18% of adults run their own business, whereas in South Africa and Mexico the share is only 2%. The discrepancy between these numbers gives an indication of the unexploited entrepreneurship potentials that exist in many countries. As mentioned in the previous

chapter, obstacles to entrepreneurship are often created at national level, for instance through complicated and costly registration procedures. However, a lot can be done at the local level to promote and support potential entrepreneurs and existing start-ups, from entrepreneurship training courses and business plan contests to business coaching, where experienced or perhaps retired business people share their generic business know-how with emerging entrepreneurs.

What is particularly promising, though, is to use an LED approach to identify bottlenecks in the provision of inputs and services, and opportunities for the processing of locally available inputs. Identifying and communicating these bottlenecks and opportunities removes one of the important obstacles that stand in the way of business start-ups. What does that mean practically? When you conduct interviews with local businesses, they will tend to point out a variety of inputs and services that are locally not available. Some of them will be highly specialized, and it is no surprise that providers are only available in the big economic centers. But when a number of businesses complain that a given input or service is not locally available, and it is not a particularly sophisticated input or service, you would want to highlight that there is a business opportunity. Take the example of calibration. If you have a number of agroprocessing firms in your location, they all need to weigh things, and they need to have their scales and balances calibrated regularly. Probably the main reason that there is no local business, or a self-employed technician, who offers this service is probably due to the fact that it never occurred to anybody that this business opportunity exists. Flagging the opportunity may persuade somebody to offer the service locally, and this will reduce the cost for local firms.

Another typical activity to support entrepreneurs at the local level is the creation of incubators, i.e. a building or estate where business start-ups can locate next to each other. This is particularly relevant for start-ups that have specific requirements, such as high-speed Internet access, access to seminar facilities or access to laboratories. In an incubator, businesses can share facilities. Sometimes there is an opportunity to share

costly equipment. Also, co-location in an incubator often encourages informal communication and joint learning.

Yet another angle in the promotion of start-ups is support for spin-offs. In locations where medium-sized or large companies exist, there are usually experienced professionals from such companies who want to start their own business, possibly providing services or producing inputs for their former employer. In particular in locations that are dominated by one major company, such spin-offs face all sorts of obstacles, from locating an appropriate building or stand to finding business services. In particular in cases where the major company itself is interested in outsourcing non-core activities, there is a big potential for LED activities to facilitate and support this process.

### **6.3 Investment promotion**

The effort to attract external investors is one of the traditional approaches in LED, in particular in peripheral regions. Ironically, in such regions it is also one of the less promising approaches, in particular when it is done in the traditional way.

Traditional investment promotion was based on grants and fiscal incentives. Often based on national government's regional policy to support poor regions, it tried to compensate for the locational disadvantages of marginal and peripheral regions by offering money to companies. This has often stimulated free riding, where investors took the grant and temporarily set up "screwdriver plants", i.e. simple assembly factories. Yet it has hardly ever generated sustained growth processes in such regions.

Contemporary investment promotion thus comes from a different angle. As local and regional economic development efforts are increasingly driven in a bottom-up way, based on the endogenous potential, investment promotion is becoming much more focused. The question is no longer "Can't we just attract some investor, never mind the sector, as long he creates jobs?" The question is rather "What kind of investor can

we attract to strengthen the profile of our local economy and thus become more competitive?” In order to find an answer, local stakeholders need to analyze the local economy in order

- to locate inputs that are sorely missed by local producers and companies,
- to identify potentials for new and additional production that cannot be realized by local producers,
- to identify potentials for further processing of locally available products.

The next step is then to approach potential investors and to highlight the existing business opportunity. In the context of agricultural linkages and agroprocessing, three types of potential investors are the main addressees:

- Input and service providers: Depending on the level of development of the location, this can be anything from sales offices of input suppliers to highly specialized companies that develop software for agroprocessing facilities.
- Companies that operate outgrower schemes: Rather than running a local effort to create a variety of promotion services, extension services, processing facilities etc., attracting a corporation that sets up an outgrower scheme can be an interesting alternative. It is important to understand, though, that such an investor will expect a number of locational factors, in particular infrastructure and efficient local government services.
- Agroprocessing companies: Attracting companies that process locally available inputs is an option. Yet it is usually easier to attract an input or service provider rather than a processing operation. Investors tend to look for markets, and if you can plausibly demonstrate that a sufficiently large local market exists this may convince an investor. For precisely that reason, a downstream processor may decide to

move close to the final market, rather than close to the source of a main input.

## 6.4 Cluster promotion

Clusters are local concentrations of businesses in a narrowly defined subsector, where all sorts of specialized suppliers and services are available locally. In agriculture, one would, for instance, think of many wine growing regions as clusters, since not only production and processing happen in close proximity, but also a variety of specialized services and support organizations exist in that location. Since the 1990s, cluster promotion has turned into a widely used approach to LED.

Clusters emerge, with very rare exceptions, as a result of market processes. Somebody starts a business somewhere, and as it thrives other entrepreneurs copy it. Employees leave the firm and start their own business in the same subsector, either doing the same thing or running supporting activities (such as manufacturing inputs or providing specialized services). Heirs fight, and an established business is split into two, three or four. Entrepreneur from elsewhere spot the business dynamism in this location and move their business there. At some stage, when a given local cluster becomes highly competitive, even major corporations will consider to put a business unit into the cluster in order to benefit from its innovative dynamism.

Some clusters emerge randomly, pure based on the entrepreneurial drive of one or a few individuals. Other clusters emerge close to specific natural resources. Many clusters are located close to perennial fast running streams, because companies need a lot of water for their production process and perhaps also used water power before other forms of energy became cheaply available. Other clusters are located close to a key input; for instance, the famous ceramic tile clusters of Sassuolo in Italy and Castellón in Spain started in those locations because clay was locally available (however, their ascendance to a globally dominating position had nothing to do with the availability of clay and everything with strong

local innovation-based rivalry plus collective action to create a locational competitive advantage). Another example are wine clusters in locations such as the Napa Valley in California, Central Chile, the Mendoza region in Argentina, the Cape region in South Africa or Southwestern Australia, which owe their existence to a certain extent to climatic factors and soil conditions.

A cluster is profoundly different from other types of agglomerations, such as industrial parks, which are an instrument that some governments have used to stimulate private investment in rural areas. Clusters are based on endogenous entrepreneurship and a local bottom-up process. Initially, and perhaps for decades they are driven by market forces. Local companies compete fiercely, but because there are so many of them, suppliers of key inputs co-locate with them. Thanks to the proximity, an ongoing communication process between suppliers and customers evolves. If rivalry is strong not only between producers but also between suppliers, even better, since then the incentive for suppliers to distinguish themselves by offering innovative products and services all the time is even stronger. Thus, there will be a strong innovation drive, and an innovative milieu will emerge without anybody having taken a conscious decision to create it. Industrial parks lack this element. One type of industrial park is simply real estate operation that offers stands and reliable infrastructure and attracts companies from a variety of sectors who do not compete against each other. Another type of industrial park is full of factories from the same sector, such as garments or footwear. This type is frequent in developing countries, in particular in export processing zones. The companies located there may even be direct competitors. However, their upgrading process is not driven locally. Decisions on how to improve competitiveness and how to innovate are taken at headquarters, typically thousands of miles away. In a cluster, the owner of a company looks out of her window across the road, where a main competitor is located, and she starts contemplating what she can do today to beat her competitor. In an industrial park, the director of a plant looks out of his window across the road, where the factory of a competitor is located, and he starts wondering whether his colleague there is also receiving almost unbearable pressure from headquarters to further reduce lead times.

It is important to note that clusters are not necessarily defined by the fact that they involve a whole sequence of transformation activities. The wine clusters mentioned above certainly do, since they locally produce the grapes, process them, and a significant share of the final product is sold as a bottled product, ready to be put onto a supermarket shelf. Other agricultural clusters, for instance the melon cluster around Mossoró or the mango cluster around Petrolina, both in Northeastern Brazil, don't really do any processing except for packaging the fruit in such a way that they can be shipped to supermarkets without need for repackaging. What, then, turns these places into clusters, rather than simply agricultural production regions? The main reason is they are marked by a high level of specialization and the availability of a variety of inputs and sophisticated services. Dynamic clusters are locations that quite spontaneously attract specialized suppliers and service providers, as well as buyers. Local rivalry is strong, and it drives productivity and thus competitiveness. But the availability of sophisticated inputs, supporting services and good factor conditions makes it also easier for local producers to compete with producers elsewhere.

To what extent can then cluster promotion be an element of LED? In a couple of locations, development practitioners may already be pursuing an approach that comes very close to cluster promotion, except that they don't call it that. This would be locations

- that have a clear specialization profile, typically in some high value food commodity (e.g. one or few varieties of fresh vegetables or fresh fruit),
- where production and processing is not run by one or few big corporations but rather a mix of numerous small and medium producers, and perhaps also a few big ones,
- where a support structure of suppliers (who are competing with each other, for instance by offering a variety of embedded services), specialized consultants and skills providers, testing and certification providers etc. exists.



This is a kind of location where a cluster initiative would primarily aim at strengthening collective action, targeting issues like testing and certification, lobbying for improved physical infrastructure, expanding and deepening the skills development sector, and possibly marketing (which requires a high degree of trust among the involved players, though).

Other locations fulfil some of these criteria, but the support structure has only just started to evolve. They are ideal candidates for LED activities that aim at targeted activities to accelerate the creation of a support structure. Entry points for this would be

- unilateral action by local government which works on infrastructure and lobbies with higher levels of government to get local branches of provincial or national services,
- collective action in the private sector to address issues such as skills bottlenecks, testing and certification, and technology learning,
- joint action between public and private sector, for instance to attract specialized suppliers and service providers to the location.

There is a consensus among cluster development practitioners and researchers that a cluster cannot be created from scratch through a development intervention by government. But in a location where some features of a cluster are present, localized collective action can launch a process that ultimately leads to the creation of fully developed and highly competitive cluster.

## 6.5 Value chain promotion

While cluster promotion has a strong local, territorial focus, value chain promotion looks at things from a functional angle. The question here is: How do our producers connect to markets, and is there anything we can do to connect them more effectively to existing markets or to new markets?

A value chain is the sequence of activities involved in transforming raw materials into a product that is acquired by the final customer. It includes business activities from the generation of raw materials, to transforming them into intermediate products, to manufacturing the final product. It includes business transactions, but also transactions between companies and governments (e.g. the bureaucracy involved in transborder trade), and transactions between companies and supporting institutions in areas like finance, training, research and development, metrology and certification, and others.

A value chain can be relatively straightforward, for instance in the case of the organic vegetable value chain, where rural producers, intermediates and processors / packaging houses, and wholesalers and retailers are involved. A value chain can be extremely complex, for instance in the case of furniture, where producers in various countries across the globe interact.

Value chains exist at the subnational regional level, the national level, and the global level. In subnational regions, value chains are difficult to distinguish from “clusters”; in fact, some development agencies use the terms “cluster” and “value chain” interchangeably. Most of the academic literature on value chains addresses them at the global level. However, 95% the turnover in those value chains that are governed by large retailers occurs inside national borders.

How are value chains different from supply chains? They are not. What is different is the angle of analysis. The supply chain literature is rooted in industrial engineering faculties and business schools. The guiding question of the supply chain literature is: How can a company manage its supply chain more efficiently, and create a competitive advantage through unique and more efficient supply chain management? Examples for best practice in supply chain management include retailers like Wal-Mart and Carrefour, who are not only capable of spotting low-price / good quality producers across the globe but also highly skilled in organizing the logistics along their value chain in such a way that cost effi-

ciency is high, lead times are short, and working capital requirements are low.

The value chain literature is rooted in development studies and sociology. It started from the observation that agricultural and industrial development processes in developing countries increasingly are based on interaction with lead firms in industrialized countries. The concern of this body of literature is not with the efficiency of lead firms such as Wal-Mart or Ikea but rather with the development prospects of companies that are dependent on Wal-Mart or Ikea for their export sales, and that are thus integrated into the global economy in a dependent way. The main focus is at the analysis of power structures in the world economy.

### 6.5.1 Types of value chains

The current state of research on value chains (in particular global value chains, but its findings to a large extent apply to national-level value chains as well) distinguishes four types of value chains:<sup>10</sup>

1. **“Arm’s length market relations.** Buyer and supplier do not need to develop close relationships because the product is standardised or easily customised. A range of firms can meet the buyer’s requirements. When problems arise buyers move on to different suppliers.
2. **Modular networks.** Firms develop information-intensive relationships, dividing essential competences between them. The buyer provides the design and product specification and highly competent suppliers provide products and services at short notice to any kind of specification drawing on the specialisations in their cluster. Information intensity is high, transactional dependence is low, and confidence in supplier competence is high.

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10 Hubert Schmitz, Understanding and enhancing the opportunities of local producers in the global garment and footwear industry: What does the value chain approach offer? Brighton: IDS, 2005, p 6.

3. **Captive networks.** In this case, one firm exercises a high degree of control over other firms in the chain. In garment and footwear chains, buyers often specify the characteristics of the product to be made by their suppliers, specify the processes to be followed and inspect that these specifications are followed. Typically this occurs when the buyer has doubts about the competence of the supply chain.
4. **Hierarchy.** The lead firm takes direct ownership of some operations in the chain. The case of the intra-firm trade between a trans-national company and its subsidiaries falls into this category.”

Recent research on global value chains has primarily looked at Type 2 and Type 3 value chains, i.e. value chains that are neither market based nor organized within a multinational firm. Such value chains exist because the market does not work (market failure) and an intra-firm setup would involve prohibitive transaction costs and constant problems with principal-agent issues. Let us look at these two issues in some more detail:

- Market failure: What is traded in global value chains are non-commodity products, i.e. products that are produced according to specific parameters. Some of these parameters are specifically defined by the buyer, for instance designs. A key issue here is that the buyer cannot fully codify its requirements but needs ongoing communication with the supplier to explain what exactly is wanted. Other parameters are features such as quality criteria, compliance with environmental or social standards, and others. So far, experience has shown that international standards cannot guarantee that suppliers meet the requirements of buyers, so that buyers tend to prefer direct interaction and control.
- Hierarchy, transaction cost, principal-agent problems: Over the past two decades, there has been a strong tendency away from the model of company evolution that postulated the superiority of major integrated corporations, since experience showed that a model of a company that focused at its core competencies and outsourced many non-

core activities was more efficient. This was due to lower transaction costs in coordinating inter-company relationships, something that was more efficient than one integrated company with a bloated internal bureaucracy, as well as the absence of the principal-agent issues common in big, spatially distributed corporate organizations.

## 6.5.2 Addressing value chains

With the increasing share of high value food commodities in agricultural production, value chains become increasingly relevant. Given the opportunities and challenges this creates for small farmers, managing their interaction with value chains becomes an increasingly important task in LED.

The interaction between local producers and value chains involves two entirely different types of challenges. First, there is the challenge of getting local producers onto the radar screen of buyers of lead firms in a given value chain. Second, there is the challenge of assuring that local producers who have managed to link up with a value chain can maintain this link.

### 6.5.2.1 Identifying and overcoming barriers to entry to value chains

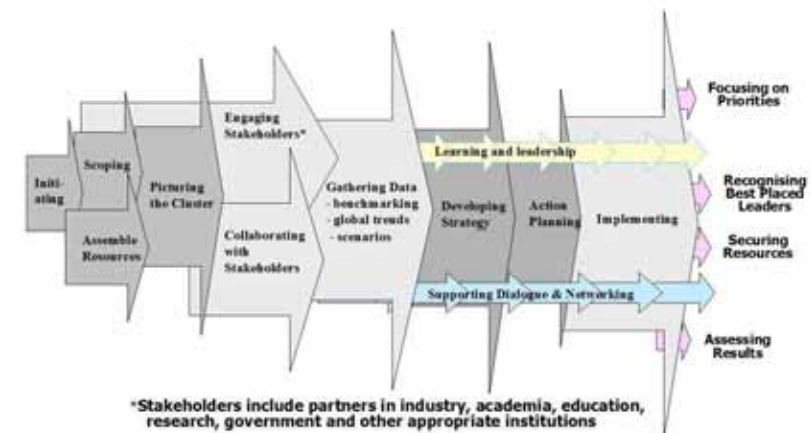
There are different ways of operationalizing LED from a value chain perspective. One frequently pursued approach includes a sequence that emphasizes ample research before any practical activity is implemented and stakeholders are involved. We would advise against this for two main reasons. First, it is costly and time consuming without necessarily delivering results. Second, the success of any value chain initiative is defined by the interest and buy-in of key players from within the value chain, and research does nothing to get this.

We would rather suggest the type of approach that has been pursued by Scottish Enterprise in its cluster and value chain projects, for instance in its highly successful Food & Drink Initiative. SE uses clusters and value chains as synonyms.

The distinctive feature of this approach is the very early stage at which stakeholders are engaged. There is a limited effort of picturing and scoping the value chain at the very beginning, which is, in fact, essential to know which stakeholders to engage with in the first place. Engaging the stakeholders takes place before any major research and strategizing effort is launched, so that research and strategy can be driven by the stakeholders themselves. This, in turn, leads to a stronger buy-in from the stakeholders since the entire initiative is much more relevant to their immediate concerns.

At the early phase of a value chain initiative, it is crucial to bear in mind a few key insights from the assessment of successful and not so successful value chain initiatives.

**Figure 5: Scottish Enterprise's approach to value chain promotion**



- Identify powerful actors in a value chain. Frequently, you will find that value chains are in fact not just spontaneously emerging from a market-driven process and operate in an uncoordinated way but are actively managed by powerful players. At the level of international value chains, names like Tesco and Metro come to mind. Yet the same phenomenon often happens in national and regional value chains, especially in situations where wholesale or retail companies

are in a gatekeeper position. Launching a value chain without permission, and preferably active support, from those powerful actors is a waste of time. A value chain initiative that is not supported by those players that are clearly recognized as the power centers by most players in the chain has no credibility.

- Look for market failure along and around the value chain. Sometimes market failure is the outcome of strategic or opportunistic behavior, with a powerful player at some stage of the chain trying to protect a monopolistic position. More often, though, market failure is due to the lack of communication along the value chain, and the absence of any player who pictures and analyses the value chain as a whole. Typical examples of market failure are business opportunities in the value chain that are not picked up, so that far away suppliers or service providers have to be brought in at a high transaction cost that compromises the competitiveness of the chain, or inadequate information flows along the value chain, so that business decisions by companies along the chain are taken under particularly high uncertainty.
- Have a close look at the value chain. What appears as one value chain at a superficial glance often turns out to be a maze of sometimes parallel, sometimes intertwined value chains on closer investigation. Scope your value chain initiative in a way that is meaningful to players within the value chain.
- Expect nobody to have a clear picture of the value chain. Businesses involved in a value chain will often have an intuitive understanding of its structure, but it takes an elaborate effort to make this implicit understanding explicit. Different businesses in the same value chain will often have different perceptions of the structure of the value chain. Aligning these perceptions is an important element of a value chain initiative.
- Make sure that you picture any value chain starting at the very end, i.e. a clear understanding of the segmentation of final customers and

the distribution channels serving them. Most value chains are governed by players far down the chain, and their behavior is driven by their understanding of markets and customer behavior. One of the key objectives of any value chain initiative is to communicate this further up the chain, so that even the producers of primary products (e.g. raw vegetables) understand which market segment they are serving.

#### 6.5.2.2 *Managing integration into a value chain*

Once local developmental actors have managed to integrate local producers into a regional, national or even global value chain, the rules of the game change profoundly. As of now, whoever is the powerful player in the value chain calls the shots. Producers who so far have listened attentively to the explanations of local development actors will from now on direct most of their attention to what their buyer tells them.

This does not mean, though, that local development actors do not have to play a role any more. Once local producers have been connected to a value chain, feeling like “mission accomplished” is entirely inadequate. Value chains are systems that have to survive in competitive markets, so that there is a constant upgrading pressure emanating from the buyer. The upgrading pressure creates necessities for constant upgrading at the local level. Typical fields of upgrading include

- infrastructure – this refers not only to basic infrastructure such as roads and electricity, but also and in particular to more sophisticated infrastructure, such as low cost broadband Internet access;
- skills development – as local producers need to constantly increase their productivity and quality, there is a constant need for skills development, both through short-term courses and through proper education, e.g. sending farmers’ kids to agricultural colleges;
- quality infrastructure – the requirements in terms of product testing and certification keep rising all the time, and in order to stay competitive it is important for a location to develop testing and certifica-

tion institutions at the local level and to keep upgrading them as testing requirements become more diverse and sophisticated.

### **6.5.3 Modes of coordination and value chains: How are they related? How are they relevant for LED?**

The EUREPGAP example given above highlights the fact that the distinction between market, hierarchy and network is not just an academic exercise. For any given problem or opportunity, there is a typically a solution that is predominantly market-based, and another one that is predominantly hierarchy-based, and yet another one that is network-based. Development practitioners do not necessarily explore the three possible solutions in a systematic way, choosing the one that offers the best ratio between effort and result. Development practitioners often intuitively go for one solution without checking alternatives. If they are government employees, they intuitively choose a hierarchy-based solution. If they are NGO or cooperative persons, they intuitively choose a network-based solution.

Thus, the first conclusion is this: In any developmental initiative, it is crucial to check available options in a systematic way. If a market-based solution is possible, there is a good chance that this is the solution with the best effort / outcome ratio. A market-based solution is usually driven by individual business people, and they pursue it because of their self-interest – they can make money of it. Thus, implementing the solution does not require protracted activities by local government, or extended handholding (as is often the case in “projects” that try to achieve a group-based solution), or extended facilitation and mediation (as would a network-based solution).

Things are made complicated by the fact that value chains are becoming an increasingly pervasive phenomenon. Producers of commodities may be selling to anonymous markets. Producers of high value food commodities do that ever less. They typically interact with a clearly defined value chain that is ultimately governed by a major retailer. Thus, at the local level, as part of an LED initiative, it is not sufficient to strengthen

the supply capacity and then to expect that the market will be able to absorb additional output. In fact, it is advisable to address things the other way around, i.e. first to investigate the structure of value chains, and to try to identify niches that are underserved, and then to beef up production for such niches.

### **6.5.4 LED and value chain promotion in agriculture**

LED is an approach that focuses at business and markets. The value chain perspective helps to get a clearer understanding of the pattern of integration between local producers and customers elsewhere. Regarding agriculture, it is important to note that business principles, market structures and the structure of demand are changing fundamentally. An LED approach needs to be informed by these changes:<sup>11</sup>

1. Rising incomes and changing lifestyles: In many developing countries (and not only in high growth countries like China), the income of a significant number of consumers is rising. Also, lifestyles are changing, for instance due to urbanization and the demise of traditional family structures. As a result, the type of demand for agricultural products changes. The demand for high value food commodities, i.e. fresh vegetables, processed vegetables and fresh fruit, is growing much faster than the demand for commodities. The demand for convenience food, e.g. processed fresh vegetables, is growing fast.
2. Supermarketization: Linked to this is a fundamental change in the retail sector, moving from traditional shops and markets to super-

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11 For a detailed account of these trends see, e.g., Thomas Reardon, Retail Companies as Integrators of Value Chains in Developing Countries: Diffusion, Procurement System Change, and Trade and Development Effects. Eschborn: GTZ, 2005, and Ashok Gulati et al., Growth in high-value agriculture in Asia and the emergence of vertical links with farmers. Paper presented at the workshop "Linking small-scale producers to markets: Old and new challenges", The World Bank, 15 December 2005.

markets and hypermarkets. While supermarkets initially tend to focus at packaged products, they tend to expand into fresh products relatively quickly, and have indeed established themselves as the main retail channel for fresh vegetables and fruit in some developing countries.

3. Integrated supply chains: A direct result of supermarketization is a fundamental restructuring of supply chains. Reardon (2005) highlights four changes in retail procurement systems: (1) an extension and integration of the procurement catchment area, (2) a shift from exclusive reliance on the traditional wholesale sector to the use of non-traditional specialized or dedicated wholesalers and logistics firms, (3) an incipient shift from spot markets to implicit contracts or preferred supplier lists, and (4) the rise of private standards and private enforcement of public standards.

Thus, for LED in agriculture and agribusiness it is crucial to develop a clear understanding of markets and available demand structures. LED practitioners must not assume that anonymous commodity markets are easily available, and that any production will find some market somewhere. Changes in demand create opportunities for agriculture and agribusiness, while supermarketization and the changing structure of supply chains creates both opportunities and necessities for action at the local level.

The structural changes in demand for agricultural products that are current under way have been called "the silent revolution", i.e. the strong growth of demand for high value agricultural commodities. This creates a huge opportunity for local producers and processors. But they can only realize those opportunities when they have access to quality infrastructure and technical and business services. Moreover, with the increasing relevance of supermarkets and their requirements in terms of quality and reliability, it becomes increasingly challenging for individual producers and processors to connect to markets, unless they can rely on a strong location in terms of available infrastructure, skills, technology, services, and of course business contacts.

## 7 Sustainable development

Sustainable development often appears as a somewhat abstract concept. However, it becomes much less abstract if it is being conceptualized at the local level. A good example is vegetable oil. Have you ever considered how much vegetable oil is being consumed in your town, in particular by restaurants and industrial kitchens? And have you ever considered that much of it is actually not consumed but rather disposed of after some period of use? If you start to ask around, you may come to figures which amount to several tons of vegetable oil which is monthly poured into sewers or local rivers. This is not only creating environmental damage. It is also a big waste. Used vegetable oil still has a high energy content, and after a process of refining it can be used again, for instance to run vehicles. Why not run local buses on recycled vegetable oil? If you think about it, it quickly becomes obvious that this is an excellent manifestation of the concept of sustainable development:

- it solves several environmental problems (pollution of rivers, air pollution from conventional petrol-driven vehicles),
- it creates an economic opportunity, since the collection and refinery operation ought to be run as a private enterprise (perhaps with some public seed money),
- it makes a contribution to social development, in particular in terms of creating low-skilled jobs in the oil collection business.

This example shows two things. First, sustainable development can be a very concrete concept. Second, thinking about issues from this perspective opens the mind to note potentials which otherwise go unnoticed. In this sense, sustainable development can give direction in terms of strategic orientation. It can also motivate local actors for an LED effort. There

are many places, even in poor regions, where environmental problems such as waste disposal are pressing. Many such problems indeed are business opportunities, and conceptualizing them in this way can pave the way for an effective LED initiative.

### 7.1 Sustainable development as a strategic objective

The term sustainable development describes a pattern of development that combines economic prosperity with social inclusion without overexploiting natural resources. Another way of describing it is as a development model that satisfies current needs without compromising the life opportunities of future generations.

Sustainable development is often primarily conceptualized from an environmental, ecological angle. Behind this is the observation that in many parts of the world, economic development is vibrant, and is quite effective in meeting social needs, but is based on a pattern of production and consumption that quickly depletes natural resources and endangers ecosystems. It is important to note, though, that the key idea is to find an adequate balance between economic, social and ecological criteria, rather than introducing a new term for environmental protection.

Sustainable development is linked to concepts such as the “ecological footprint”, i.e. the amount of land and area a human population would hypothetically need to provide the resources required to support itself and to absorb its wastes. In a normative perspective, it is linked to concepts such as “Factor 4”, i.e. an effort to double wealth while halving resource use, and “Factor 10”, i.e. an effort to massively increase materials productivity.

At the local level, a widespread approach is to engage in “Local Agenda 21” processes. This typically involves a conversation to question the present model of development at the local level and to increase the awareness of local citizens for the need of a change in production and lifestyle.

The concern behind the concept of sustainable development has changed repeatedly. Initially, the focus was at pollution (smog, acid rain, etc.). Later, there was a growing concern about the possible depletion of natural resources such as mineral oil. Nowadays, the focus is primarily at climate change, though some analysts would argue that availability of potable water may be the more important and more pressing problem. In any case, there is widespread agreement that the underlying problem is one of a pattern of production and a lifestyle that is too resource intensive, and that the more efficient use of resources, and a change in the pattern of resource use, are the most adequate approaches to achieve a sustainable pattern of development.

## 7.2 Sustainable development as a practical approach

At the local level, the focus at materials use leads to a practical and feasible approach to sustainable development. This applies in particular to developing countries. Take the example of sawdust. While in industrialized countries, in particular in Europe, sawdust is processed into pellets that are a much sought, and increasingly costly, source of energy, in locations in developing countries sawdust is often seen as a nuisance. While in industrialized countries all sorts of biomass is collected and used, mostly as a source of energy, farmers and producers in developing countries show a striking tendency to burn residual biomass wherever it is generated. While pioneering locations in Europe are trying to turn themselves into “zero emission villages”, rural locations in developing countries have a tendency to increase their environmental impact.

How does a practical approach to local sustainable development work? The starting point is a mapping of local materials flows. In conventional mapping exercises, such as the mapping of value chains, the focus is at the transformation of products. Non product output, i.e. the generation of waste, is usually ignored. A materials flow analysis does just the opposite. It systematically highlights the disconnects in local materials flows, trying to detect “waste” that actually is anything but. Sawdust is a typical example, but also a highly visible one since it is generated at a small

number of places (i.e. at sawmills and furniture producers). Other types of biomass are often less visible, though they may be generated at a huge scale.<sup>12</sup>

The objective of the mapping of local materials flows would be to identify the non-product output of the local economy that can be used commercially. There might be an opportunity to launch a proper for-profit business based on an existing “waste”. There might also be an opportunity to start a community-based business. In either case, the result would be an activity that improves materials efficiency and resource productivity (ecological dimension), creates a business opportunity (economic dimension) and generates income and employment opportunities (social dimension).

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12 In the wine growing region of Toro in central Spain, local stakeholders detected in 2000 that no less than 18,000 tons of biomass was generated annually by cutting back the vines. Subsequently, a system was set up to collect it and use it to generate electricity and heating for public buildings.



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# Annexes

## Annex 1: Future scenario workshop format

The purpose of this workshop is

- to raise the awareness of local stakeholders that there is more than one possible future
- to inform local stakeholders about features of alternative futures
- to create a frame of reference against which ideas for activities and projects can be verified

The workshop can be run in a stand-alone way. It is also possible to embed it into a sequence of activities. For instance, as part of a stakeholder mobilisation before a PACA exercise, we had sector-level workshops where we conducted the scenario writing, followed by an exercise where we asked: What is the competitive advantage of our sector? The resulting cards were then organised under the headers “natural advantage”, “generic competitive advantage” and “unique competitive advantage”. The result was as the usual one, i.e. very few unique competitive advantages. This helped in mobilising stakeholders for an upgrading effort.

Scenario writing is also a key element of the GENESIS methodology, where it is used to prepare scenarios against which the robustness of proposals for catalytic projects is checked.

## Format of the Workshop

1)	30'	Determine the uncertainties that influence development of the territory / the sector / the value chain / the organisation	Meso-cards	Question: What are the factors that will influence economic development in our territory / sector / value chain / organisation?
2)	15'	Cluster, Pareto		
3)	15'	Turn the top two uncertainties into matrix corner points, create labels for each of the four scenarios		If the group is bigger than 25, consider to cross more than two high-scoring uncertainties in order to create another four scenarios
4)	5'	Participants form four groups, each group picks one scenario		Task for the group: "Imagine that in the year now + 10 you will give a presentation at an international conference on regional development. The two corner points of your scenario have evolved during the ten years. Explain why that happened, and how actors in the region responded. Also, find a catchy title for your story"
5)	45'	Each group elaborates its scenario	Flip-chart	
6)	15'	Market place: All elaborated scenarios are put up on the wall and read by everybody		
7)	10'	Wrap-up		

## Annex 2: The Compass of Local Competitiveness

The Compass of Local Competitiveness is a tool to monitor and assess the strategic approach to and the progress of territorial development / Local Economic Development (LED) initiatives. It is based on the Balanced Scorecard (BSC) method. Whereas BSC has been designed for the use in companies and other organisations, the Compass is specifically designed to cater for the needs of territorial development initiatives.

Why do we suggest a BSC-based approach for M+E in LED? The main reason is that the BSC appears superior to conventional performance management frameworks. Elaborating and monitoring it is more efficient, and it is, as the name indicates, balanced.

The BSC approach was originally developed for the corporate sector. It was based on a simple observation: Actors in an organisation behave according to the incentives they face. If their performance is measured against financial indicators, they will optimise such indicators – even if the short-term optimisation of financial indicators may come to the detriment of the long-term growth potential of the business. The key idea of the BSC approach was to introduce a wider, more balanced set of performance indicators that is not one-sidedly looking at financial indicators but also at other, more qualitative indicators that address the long-term growth perspective of the business.

The rationale for using BSC in public and public-private LED efforts follows the same line of reasoning. Conventional performance monitoring frameworks for territorial development tend to look one-sidedly at economic indicators, such as GDP growth, business growth, start-up performance and employment growth. The problem is that newly launched LED initiatives take some time to deliver substantial results against these indicators. The indicators may even deteriorate despite a dynamic LED process, for instance in a region that suffers from the decline of old industries, or in a setting where the a national economy is in crisis. A BSC takes a wider perspective, including more qualitative indicators of suc-

cessful LED. From a pragmatic perspective, it is important to note that a BSC can include a number of indicators that can be improved within a short time span.

The objective of preparing a BSC for an LED effort is to define the critical success factors (CSFs) of the LED effort at large and of specific LED initiatives / projects and to work out the key performance indicators (KPIs) that permit us to assess the impact of our LED effort and specific activities. The purpose is not to come up with a complex set of statistical indicators that takes a lot of effort in gathering and updating, but rather a straightforward set of indicators that permit the assessment of the impact of LED.

In past approaches (like in the case of development assistance donor organisations) unrealistic or not clearly defined objectives (like “The SME sector is becoming more competitive”) were matched with indicators which primarily focused at activities rather than on impact. The BSC opens new pathways to the definition of impact-oriented indicators even for intangible factors.

When translating the BSC concept from a corporate setting into the LED scenery, we introduce it as the **Compass of Local Competitiveness** with four core factors that are similar to the corporate BSC but better adapted to the reality of LED:

Economic factors (growth, business growth, start-ups, employment, ...)	Relationships with external players
<i>What is the impact we need to deliver to keep our citizens happy?</i>	<i>How do we need to interact with other stakeholders (other local stakeholders, investors, customers/tourists, funding agencies, ...) to make LED a success?</i>
The learning perspective (alignment of understanding of LED, alignment of expectations, role definitions, ...)	The local process perspective (interaction between core players, governance pattern, ...)
<i>How can we make sure that we constantly upgrade our understanding of our economic reality and of LED?</i>	<i>How do we have to organise our LED process and effort internally to assure its effectiveness?</i>

This Compass should not only be elaborated for the overall LED effort but also for the specific initiatives:

- A **top-level Compass** addresses the overall LED effort in a given location. We elaborate CSFs and KPIs that are rather generic. For this exercise, we need the involvement of political decision makers, since they are ultimately responsible for setting the goals that the LED effort is supposed to achieve.
- We would work downwards into specific initiatives, preparing a set of **sector specific Compasses**. Each of them looks at a the LED activities in a given sector, cluster, value chain or around a key catalytic project (landmark project). It is even possible to go one level further down and prepare a Compass for each activity within a given sector, cluster or value chain; however, this may have an unfavourable effort/benefit ratio and thus be exaggerated. Elaborating the Compass at the sector / cluster / value chain level forces us to align the various activities in a given sector towards a shared goal and set of performance indicators. At this level we involve business people and LED practitioners, not the top political level.

The preparation of a Compass is the result of a facilitated workshop that takes up to one day.

- The top-level Compass workshop can involve representatives of local government or a variety of local stakeholders.
  - It will involve only local government representatives in a place where local government has a strong mandate to promote LED and where other stakeholders show little interest in LED at large.
  - It will involve a broad set of stakeholders in a location with a strong and lively LED process, and with stakeholders who are committed not only to upgrading in their respective sector but also to the location at large.

- A sector-specific Compass workshop involves stakeholders from the respective sector or value chain, i.e. business people, representatives of associations and supporting institutions, and local government representatives in charge of the respective sector. This workshop has a strong business focus and is thus highly relevant and insightful for participants, in particular from the business sector.

Participation in a multi-stakeholder Compass workshop needs to be balanced, reflecting the weight of different stakeholders. For instance, a sector-specific Compass workshop where only a minority of participants are from businesses is not adequate.

A Compass workshop needs some preparatory work and follow-up work:

- Preparation: This involves mostly contacting relevant stakeholders and making sure that they will participate in the workshop.
- Follow-up: Experience has shown that it is not practical to elaborate KPIs at the workshop, since participants rarely have experience in the preparation of indicators. It is advisable to leave the elaboration of KPIs to a small group of specialists and stakeholders who volunteer, and to present the result of their work back to the larger stakeholder group.

### Annex 3: Running Mesocard-based Workshops

#### What is mesocard?

mesocard is also known as Moderation Method (and frequently, but erroneously, called ZOPP).<sup>13</sup> It is a method to communicate by writing cards and stick them to the wall instead of just talking. This is very productive in conducting brainstorming and planning processes in a group. The basic format consists in a card with a question being taped or pinned to a place which is visible to all participants, and all participants responding by writing the answer / comment / proposal onto cards, all of which are then read aloud and pinned or taped to the wall.

*Advantages:* Every member of the group can participate. More people can communicate at the same time. The communication is visible, it is traceable, and it is goal-oriented. The process is participatory. It also offers some degree of anonymity.

*Disadvantages:* Some people are not comfortable with the method, for instance because they are afraid that it might become embarrassing, or just because it is participatory. It is sometimes tricky to be applied in settings where the local culture gives a very strong emphasis on hierarchy, and where communication between persons from different hierarchical levels is not common.

*Limitations:* mesocard is usually more efficient than oral communication. But it still needs some time, and there is a minimum time of usually one hour to run a useful mesocard exercise.

*Equipment:* The basic equipment consists of cardboard cards, sized between 8 x 16 and 10 x 20 cm, markers, adhesive tape, and kraft paper

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<sup>13</sup> mesocard is also known as Metaplan®, which is a trademark owned by the company of the same name.

sized about 90 x 120 cm. In the de luxe version, the cards are pinned to moveable panels rather than taped onto the kraft paper.

*Rules:* There are three basic rules:

- 1) write legibly,
- 2) aim at 7 - 10 words per card / 3 - 4 lines,
- 3) only 1 idea / observation / suggestion per card.

More specific rules include the following:

- 1) read each card before sticking it to the wall, and show the card to the participants when you read it,
- 2) clarify unclear cards and re-write unfocused / too general cards,
- 3) always respect anonymity, i.e. never ask "Who wrote this?"; a way to enhance anonymity is to mix the cards before presenting them.

If oral discussions come up, nobody should talk for more than 30 seconds at a time, and everybody should try to write her/his arguments on cards so that they are not forgotten. Cards which do not fit into the current question may be put, visibly, in a different section for possible later use. If observations are contested, the counter-argument should be written on a card, and argument and counter-argument should be marked with a flash.

You can conduct mesocard exercises in almost any setting. The fancy variety is with cards in different colours, moveable panels and pins. But it works just as well with A6 cards that you stick with masking tape to brown paper. The only limiting factor is wall-space; if you find yourself in a room with neither panels nor wall-space, you are in trouble.

One of the interesting observations is that participants tend to sit down as far away from the panels / wall as possible. Don't encourage this by put-

ting the chairs too far away from the panel or wall. A distance of 2 meters is sufficient.

### A standard sequence in a mesocard exercise

The use of mesocard as presented above is just one of several options. mesocard generally is a method which can be used for all sorts of brainstorming and planning exercises, for instance to formulate hypotheses, to plan the research process, or to come up with and organise the results.

A typical format in mesocard-exercises is brainstorming → clustering → prioritizing → next brainstorming. An example would be the following:

First **Question:** What are the main reasons for lack of interaction between companies and supporting institutions?

N responses. The responses are **clustered** into four groups: 1) company-related reasons, 2) reasons related to supporting institutions, 3) problems in the management of interaction, 4) framework conditions. (One of the purposes of this is clarify what exactly is written on the several cards, and to eliminate duplicates.)

The responses are then **priorised**. Each participant may mark those cards which s/he finds most relevant. The number of marks each participant may set is equal to 20 % of the total number of cards (*Pareto*-rule). Those cards which receive most marks are the point of departure for the subsequent work.

Let us assume that three cards get most marks: 1) supporting institutions are not business-oriented, 2) training institutions are too academically oriented, 3) there are not effective intermediaries between S+T institutions and firms. For the next step, there are two options for turning the first card into a question.

The second question may be: Why are supporting institutions not business-oriented?

The **second question** may also be: How can supporting institutions may be turned more business-oriented?

Let us assume that the second option is pursued. The participants then give a number of responses on cards, which are then **clustered**. Let us assume that three clusters emerge: 1) Career and incentives for employees, 2) financing structure of institutions, 3) voice of potential clients.

The total responses are then **priorised**. Let us assume that two cards get most marks: 1) tie the salary of employees to the income they generate for the institution, 2) reduce the core financing for the institutions. For the next step, there are again two options for turning the first card into a question.

The third question may be: How can the salary of employees be tied to the income they generate for the institutions?

The third question may also be: What are the obstacles for tying the salary of employees to the income they generate for the institution?

The exercise can go on in this fashion until the facilitator and the participants feel that they have explored a given track. This may mean that they have reached a conclusion, for instance a good set of hypotheses. It may also mean that they have come to reasonably specific and concrete proposals. In this case, it can be useful to operationalise the proposals in the following way:

<i>Proposal</i>	<i>How exactly will we implement it?</i>	<i>Who is responsible?</i>	<i>Who has to collaborate?</i>	<i>Which resources do we need?</i>	<i>When do we start?</i>	<i>How do we know that the activity has started?</i>
Proposal 1	...	...	...	...	...	...
Proposal 2	...	...	...	...	...	...
etc.						

At this point there are again two options. One option is to conclude the exercise. The other option is to go back to the results of the first question

and go for the second proposal, i.e. search for ways to make training institutions less academically oriented.

It is obvious that the formulation of the questions is one of the keys to a successful mesocard exercise. Good questions are neither too narrow nor too wide, i.e. give the participants a certain freedom to let their thinking roam without generating random responses. It is often useful to discuss the exact wording of a question with the group.

### Structuring tools for mesocard exercises

Another useful application of a Four-Field-Matrix, similar to the Interaction Matrix, is in situations where a group has to decide between two options. The matrix then looks like this:

	Arguments in favor of Option 1	Arguments against Option 1
Arguments in favor of Option 2	(1)	(2)
Arguments against Option 2	(3)	(4)

Such an exercise often helps to understand that many arguments for one option actually are not arguments against the other option, and vice versa. The discussion can thus be boiled down to a limited number of decisive arguments.

Another structuring tool is the SWOT matrix, which can take either of the two following shapes:

Strength (factors internal to the organisation)	Opportunity (activities to strengthen the organisation further)
Weaknesses (factors internal to the organisation)	Threats (factors which can further weaken the organisation)

Strength (current factors)	Opportunities (future factors)
Weaknesses (current factors)	Threats (future factors)

## 12 Mesocard Exercise Principles

1. Facilitate. Don't preach, don't teach.	Don't give lectures when you are facilitating. When you feel that it might help the process to give an input, hand over the facilitation task to your co-facilitator.
2. Facilitate. Don't speculate.	Never explain unclear cards yourself. Ask the participants to clarify. Always ask for clarification: Water - is no clear statement Unpredictable water supply - is a clear statement  Make sure that cards are clear – instruct participants to qualify statements, to clarify the subject (the “who” in the statement – use active voice)
3. Facilitate. Don't offend.	Never comment on cards. Never ask “Who wrote this?”, and certainly not “Who wrote this silly statement?”
4. Accept different learning and thinking speeds of participants.	Some participants write few things and quickly. They look bored while others are slowly formulating their ideas, or are writing many statements. Be patient, and ask the quick participants to be patient.
5. Always ask a complete question.	The question should be a complete phrase. It should end with a question mark.
6. Always ask open questions.	Don't ask questions that can be answered with Yes or No.
7. Be careful when you give examples.	Sometimes participants find it difficult to come up with answers. But if you specific examples of they might respond, you are influencing, and probably limiting, their thinking.

8. Don't be too neat when putting up the cards.	Leave space between the cards. Don't put them up in columns but rather in a randomly scattered way.
9. Don't order the cards when putting them up.	Put up the cards. Then, as a second step, cluster them. Involve the participants in the clustering. All this takes a lot of pressure from you.
10. Never give the impression that you are hiding cards or let them disappear.	When cards come up that you can hardly read you may be tempted to put them to the back of the stack. Don't do that. It creates the impression that you are manipulating the exercise.
11. Be visible.	Never sit on a chair when you are facilitating. Always stand up. The group appreciates your visibility and your acting as a focal point.
12. Be a good example.	If the facilitator does not write legibly, why should the participants?  If the facilitator makes fun of some contributions, why should participants respect each other?  If the facilitator talks more than necessary, why should participants limit their communication to writing only?



#### Annex 4: The 5 Forces Model

The Five Forces Analysis is an analytical concept developed by Michael Porter. It is a useful concept in analyzing the competitive position and strategic challenges of a company or a cluster. The five forces are:

1. *Rivalry among existing firms.* The main question is: Who are your competitors, and what are your competitive advantages and disadvantages?
2. *Bargaining power of suppliers.* The main questions are: Who are your suppliers, how many of them are there, how easy is it to find suppliers, and what is the bargaining power of you vis-à-vis your suppliers?
3. *Bargaining power of buyers.* The main questions are: Who are your customers, how many are there, is it easy to find customers, and what is your bargaining power vis-à-vis your customers?

What is meant by "bargaining power"? Take this example: In many industries, there are suppliers which have a quasi-monopoly. They charge the prices they want, and they deliver the amount and quality of products as it suits them, and at a time that suits them instead of their customer. So the customer has little bargaining power as he cannot threaten to switch to another supplier.

4. *Threat of new entrants.* The main questions are: How likely is it that new competitors selling the same product enter your business, who might they be, and what kind of advantage might they have?
5. *Threat of substitute products or services.* The main questions are: Is there a threat of substitute products which may be due to radical technical innovation or a radical change in consumers' behavior? (Examples: Synthetic fabric instead of silk, PC instead of type-writer, fresh packaged or frozen instead of canned vegetables)

#### Using the 5 Forces Model in a workshop

Invite a number of producers or business owners from a given subsector. Briefly explain the 5 Forces Model. Then go through the forces one by one. Put up a card with a clear question, e.g. "Who are our main competitors?" Participants respond by writing mesocards. Then ask "What is our competitive advantage?" Participants respond by writing mesocards. Then move to the second force and ask "Who are our main suppliers?" Ask participants to denote a strong bargaining position with a +, a weak bargaining position with a -. Continue in this way until you have addressed each force.

## Annex 5: The Interaction Matrix workshop format

The Interaction Matrix is a useful tool to get a more profound understanding of the benefits/opportunities and costs/risks of co-operation between two types of organizations. Its most adequate application involves co-operation between businesses and business support organizations (in training or technology or advice). The basic structure of the matrix is like this:

Interaction between firms and supporting institutions in XY		
	Benefits & Opportunities	Costs & Risks
... for firms	(1)	(2)
... for supporting institutions	(3)	(4)

The participants are again asked to respond by writing observations on mesocards. Ask the participants to fill out cards for field (1) first, then field (2) etc. It can be useful to ask the participants for a prioritization. This is done using the Pareto method, i.e. each participant gets a number of points which is equal to 20% of the total number of cards, so that he can then mark those cards which he finds most relevant. For this exercise to be effective, it is essential that duplicate cards are eliminated beforehand. It is useful to involve participants directly in the process of consolidating the cards at the wall.

The interaction matrix may look at all firms or sub-groups (e.g. a given sector or firms of similar size), and it may address all supporting institutions, only one group (training, SME promotion, finance etc.) or just one specific supporting institution.

The interaction matrix workshop is useful for a first tentative appraisal of possible collaboration. But it is particularly powerful if very specific suggestions for collaboration between two parties have come up, and you want to get a balanced view of the benefits, costs and risks involved in this interaction.

## Annex 6: A workshop format to assess Red Tape

In order to conduct a quick assessment of red tape at the local level, you invite a group of business people from different subsectors. If you expect that there are many subsector-specific red tape issues, you may decide to run a number of workshops, inviting only representatives from a given subsector to each of them.

You ask participants for responses to three questions:

- For which of these reasons has their company been interacting with government during the past twelve months (possibly distinguishing between local government and provincial / national government)?
- What are the most important reasons to interact with government (allocate points to indicate the main reason)?
- How happy they are with government's performance regarding each of the issues (each participant votes only on those issues where s/he put a point)?

This step gives you crucial insights:

- What is the relative importance of interaction with local government compared to provincial and national government? In other words, would a more efficient local government administration make a difference for local businesses?
- Are businesses interacting with government in the first place? It is not rare to find that business people complain endlessly about government -- and when you investigate this, you find that their statements are based on hearsay, not on their own experience.

The next step is then to ask for the assessment of government performance from a functional perspective. You can unpackage this by addressing several items, this time looking specifically at local government:

- the easiness to locate the responsible official within local government,
- the easiness to get hold of the local government officials a business directly interacts with,
- the flexibility of local government officials when it comes to making appointments,
- the friendliness and customer-orientation of the local government officials a business directly interacts with,
- the empathy of the local government officials a business directly interacts with, i.e. their effort to understand a company's concerns,
- the commitment of local government officials in finding a constructive, problem-solving way to address a company's concerns,
- the transparency and predictability of processes and procedures,
- the easiness to understand forms,
- the correctness of information / correspondence / permits received from local government,
- the scope and completeness of information a business receives from local government on a given issue / procedure,
- the easiness to understand communication / correspondence from local government,
- the timeliness of responses, and the compliance with announced / agreed / promised deadlines,
- timely information and plausible explanation when a deadline cannot be met,

- the plausibility of decisions by local government on specific requests / applications,
- clear, consistent assumption of responsibility on the side of local government.

For each of these items, you would ask your participants

- to highlight the items that they find most relevant (use the Pareto principle)
- to rate local government's performance on those items they find most relevant (score from 0 to +5).

Within your workshop, you are now done. You can now turn the information obtained into figures, creating bar graphs using a standard software like Excel. To take this one step further, you can turn the second exercise into a matrix. The vertical axis is the relevance, the horizontal axis the score. You calculate the average value for both axes and draw lines at those values, thus creating a matrix. The top left quadrant indicates the top priorities -- high priority issues with a low level of performance.

The next activity is to take this information to local government and contrast it with local government's self perception. A practical way of doing this is to convene a group of local government officials and ask them to prioritize and score both lists of items, and then to compare the result of their work with the outcome of the workshop with business people. You would also present the matrix to local government and indicate the issues that are the main concern of the private sector.

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