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03

The Hexagon of Local Economic Development

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1 Introduction

Local economic development (LED) has been done in industrialised countries for decades. Since the 1990s, many developing countries have seen the launch of LED activities - driven by legal requirements, such as in South Africa, or be sheer necessity, such as in many Latin American countries. But despite the pervasiveness of the practice, there is no single academic discipline which lays the conceptual foundations. LED thinkers and practitioners rather borrow elements from disciplines such as economic geography, urban planning, economic sociology, and regional economics. There is also a surprisingly small number of practically oriented monographs.¹ Most of all, what does not seem to exist is a conceptual framework for LED which integrates the main elements in a way which makes it easy for practitioners to organise their thinking, planning and practice, and to explain what LED is all about to newcomers. The Hexagon of LED provides this framework.

The Hexagon of Local Economic Development emerged as a didactical tool. Its purpose is to organise the key issues in local economic development in a way which makes it easy for LED practitioners to memorise and present them. Behind this is the observation that it is possible to organise the main concepts and instruments of local economic development (LED) along a number of triangles. Altogether there are six triangles, and adding them graphically creates the Hexagon:



Figure 1: Conceptualising key issues Local & Regional Economic Development: The Hexagon

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- 1 Blakely, E.J. and Bradshaw, T.K. 2002. *Planning Local Economic Development: Theory and Practice*. Third Edition. Thousand Oaks: Sage.
 Albuquerque 2001. Aghón, G. Albuquerque, F. Cortés, P. 2001. *Desarrollo económico local y descentralización en América Latina: un análisis comparativo*. Santiago: CEPAL-GTZ.
 Vásquez-Barquero, A. 2002. *Endogenous Development: Networking, Innovation, Institutions and Cities*. London: Routledge.

- (1) The target group of local economic development: LED addresses companies, particularly three types of companies, namely locally based companies, external investors and business start-ups.
- (2) Locational factors (i.e. factors which define the attractiveness of a location for business): There are tangible locational factors, intangible locational factors that are relevant for companies, and intangible factors that are relevant for individuals.
- (3) Synergies: Three interrelated fields in LED are economic promotion, employment promotion / poverty alleviation / community development, and urban development. The first challenge is to distinguish them clearly, since otherwise perverse incentives are created and conflicts generated. The second challenge is to re-connect them in a meaningful way, in order to create synergies.
- (4) Sustainable Development: The triangle of sustainable development looks at economic, ecological and social aspects of development. At the local level, this perspective creates opportunities for innovative LED approaches.
- (5) Governance: The triangle of governance postulates that public-private partnership, which is the appropriate governance pattern for LED, must be based on administrative and regulatory streamlining in the public sector and organisational development in private sector associations.
- (6) Process Management: LED is based on an iterative process with the cornerstones diagnostic and planning, implementation and monitoring, and evaluating, benchmarking, and reflecting, which leads back to adjustment and additional planning.

The Hexagon is useful in introducing practitioners and stakeholders to the main concepts and instruments of LED. It helps widen the perspective, understand the complexity of LED and appreciate the trade-offs and conflicts involved in doing LED. There are thus two types of persons for whom this paper - and the concept - is useful:

- LED trainers and other persons who need to educate stakeholders, public officials, business representatives etc. about the key issues involved in LED;
- stakeholders, public officials, private sector representatives and others who need a framework to organise their thinking on LED.

Going through these triangles, say in a workshop setting, does not imply a sequence of activities. The Hexagon is nothing like, for instance, the SINFONIE® method where in the course of a workshop (which lasts several days) you follow a series of steps and end up with a strategy. It is rather useful to subsume the triangles under three main headers, which is the way in which this paper is organised:

- The first and second triangle are about the hard core of conventional local economic development, i.e. the key instruments.

- The third and fourth triangle are very useful in adding an innovative twist, a wider perspective and a broader scope to LED.
- The fifth and sixth triangle are about practical issues in implementing an LED initiative.

2 The hard core of LED

The first two triangles address the fundamental issues and instruments involved in doing LED. If you woke up an LED officer in the middle of the night, these are the points s/he should mention when s/he describes her/his everyday work. The two triangles thus also serve as a checklist. If in a given place only some of the points introduced in the next pages apply, then there is something wrong with the practice of LED.

2.1 First triangle: The target group of local economic development: companies

Economic development is based on the efforts of companies – some of them government-owned, but most of them private. The main target group of local economic development (LED) are thus companies, in particular the private sector. Further target groups include the workers and the public sector; we will come to them when we discuss locational factors.

What kind of companies are the main target group? In many cases, LED efforts are mainly directed at external companies. The main goal of traditional LED efforts (i.e. in industrialized countries: from the 1960s to the 1980s) was to attract new investors. It would be much too narrow, however, to leave it at that. Basically, there are three types of companies which can be the target of LED:

- (1) External investors which set up a subsidiary in a given location or even move the entire company
- (2) Local companies which have been in operation for quite a while
- (3) Start-up companies which are preparing their launch or have recently entered into business

It depends on the features of a given location which of these three types is the priority target. External investors are particularly relevant for locations with a weak local company base and little entrepreneurial dynamism. In locations with a strong local economic base, promoting the competitiveness of existing companies is often much more relevant than attracting companies.

With respect to each of the three types of companies, there is a wide variety of promotion instruments available, some of which are summarised in Table 1.

Table 1: Selected local business promotion instruments

<i>Attracting external investors</i>	<i>Strengthening local companies</i>	<i>Promoting start-up companies</i>
<ul style="list-style-type: none"> • Image-building techniques • Investment-generating techniques • Investment-service techniques • Investment incentives • etc. 	<ul style="list-style-type: none"> • Targeted real estate development • Business networking • Business coaching and mentoring • Targeted skills development • Local fairs • etc. 	<ul style="list-style-type: none"> • Entrepreneurship training • Business incubators • Business coaching and mentoring, business angels • Subcontracting and spin-off promotion • etc.

The main message is: Do not conceptualize the three target groups individually, and certainly not in an either/or manner. Instead, try to realize the synergies between them. The following figure tries to visualize the potential synergies.

Let us have a look at the two arrows linking “strengthening local companies” with the other two activities.

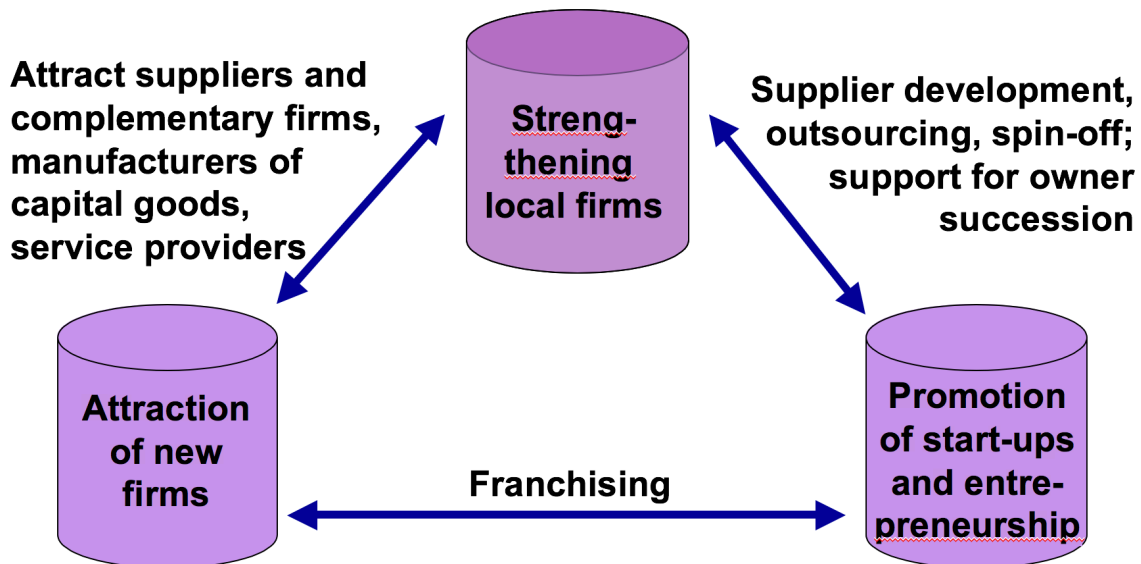


Figure 2: The target group of Local Economic Development: Firms

(1) When trying to attract external investors, attempting to attract any kind of company is one option. But it is not necessarily a promising option. If there already is a local economic base, say in the food processing industry, why would an electronics manufacturer find this location attractive? If there is little if any economic base, why would any external investor find such a place attractive? External investors tend to cluster. So, if your location has a profile, like in food processing, you would be well advised to try to attract complementary investors.

How can you do that? The most promising approach is to consult with local companies. They are the experts on their industry, they know the players in the industry, and therefore they are in a privileged position when it comes to identifying potential investors. The main objective is to identify companies which may strengthen the local profile, in particular in terms of providing specialized inputs, services, and capital goods. You will

also find that you can “sell” your location much easier to an external investor who finds a strong local demand for his products or services.

- (2) Regarding promotion of start-ups, it is important to note that this can be leveraged by linking it with the existing economic base. Existing companies may want to outsource certain activities, but cannot find adequate subcontractors. Training new entrepreneurs or underperforming businesspeople is a possible approach to improve the conditions for local subcontracting, thus at the same time increasing the competitiveness of lead companies and creating opportunities for new businesses. Another approach is the support for spin-offs. Professionals in existing companies may consider to set up their own shops to produce specific inputs or provide services to their current employer, but hesitate to actually do so since they feel insufficiently prepared. Again, targeted training courses may be an option.

Using the first triangle in a workshop setting

A simple and straightforward way to use the first triangle in a training or other type of workshop is as follows:

- Conduct a mesocard-based brainstorming² on the business promotion activities that are ongoing in the location or which immediately come to the participants’ minds.
- Ask the participants to organise the observations around the triangle, particularly looking at the connecting lines between the corners.
- Discuss the result with the participants. It is likely that the result will show a certain imbalance in terms of business promotion activities. Take this as a point of departure for a brainstorming on new approaches to business promotion.

2.2 Second Triangle: Strengthening Locational Factors

The second triangle is about locational factors, i.e. those features which determine whether a given city or region qualifies as a favourable setting for doing business. There are three types of locational factors:

- (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

2 “Mesocard” refers to a communication method which is known as the Moderation Method, where participants communicate by writing cards (size 10 x 20 cm) which are then stuck onto a panel. It is also known as “Metaplan”®, and the cards are often referred to as “ZOPP” cards.

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 effective business network program will have only a limited effect.

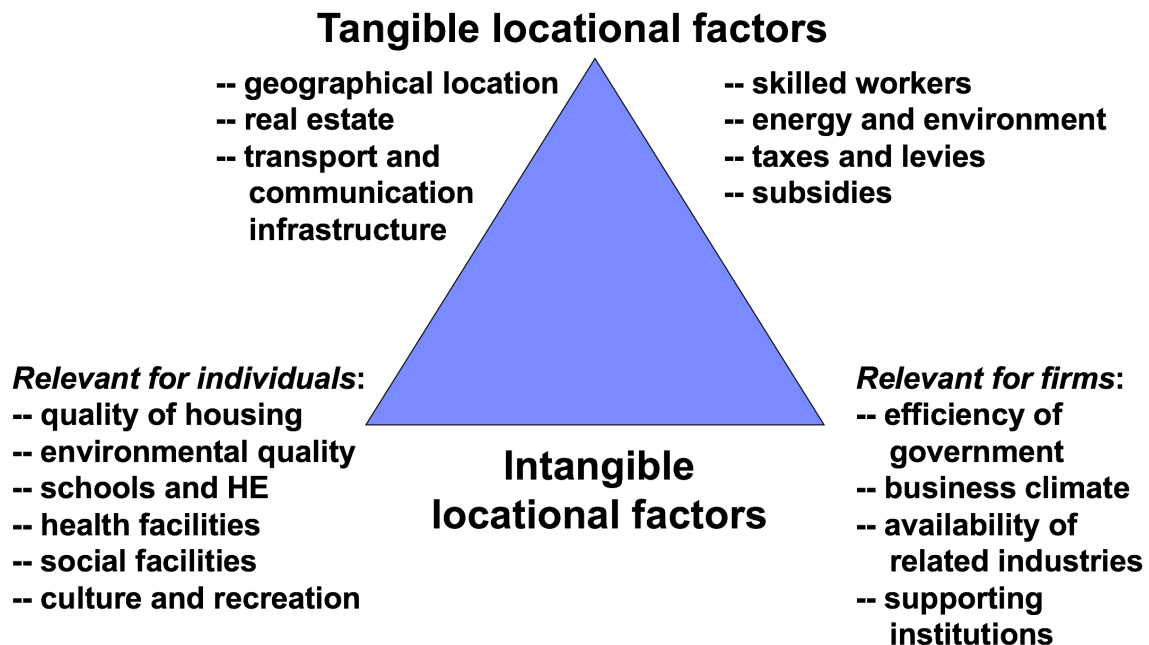


Figure 3: Locational advantages

2.2.1 Tangible Locational Factors

Tangible locational factors are mostly “hard” criteria which can often be quantified. The relevant locational factors are the following:

Location in relation to markets for purchases and sales: The main criterion a company will use when evaluating a possible location for an investment or an expansion is the location. Companies want to be close to their customers and their suppliers in order to minimize transport cost. Accordingly, proximity is a key criterion.

Geographical location is a criterion which can hardly be influenced by a given region or city. However, it can be compensated by favourable factors with respect to other criteria. It is not rare to observe that geographically attractive locations squander this advantage by failing to create favourable overall conditions for private sector activity. It is also not rare to observe that what would first appear as an unfavourable location manages to compensate its geographical disadvantage by creating other favourable factors; in Europe, examples such as Ireland and Scotland come to mind.

Transport infrastructure (roads, rail, water, air): Regarding the transport infrastructure, the main message seems to be obvious: The better your infrastructure, the more favourable your location. However, things are not as simple as this. Creating and maintaining a physical

infrastructure is a costly exercise, and there is thus a trade-off - to build a good infrastructure a place needs a lot of money, and to have a lot of money means to have high taxes, which again reduce the locational attractiveness.

A second important point is that having an infrastructure is one point, but having an efficient infrastructure is something quite different. Congested roads are of little help. Congested, slow and costly ports and airports are no locational attractions, either. Managing the infrastructure in a way which creates a locational advantage is a big challenge, and it requires constant benchmarking with competing locations to find necessities and options for improvement.

A third important point is the observation that, in particular in more advanced developing countries and in industrialized countries, infrastructure is ever less a distinctive feature. Economic promotion officials in such regions tend to underestimate this aspect. In order to assess not only the quality, but also the relevance of the infrastructure as a competitive advantage it is crucial to analyse the own location vis-à-vis neighbouring ones.

Communication infrastructure: As electronic data interchange between companies and e-commerce between companies as well as between companies and consumers become increasingly important, the relevance of the communication infrastructure is increasing. Long gone are the days when the availability of phone lines as such was sufficient; locations where this is still a difficult challenge are at a massive disadvantage. Competitive locations display today a variety of, mostly privately-owned, providers of value-added communication services.

Labour (cost, quantity, quality): The relative cost of labour is a crucial criterion when evaluating the relative attractiveness of a given location. What is crucial here is not the cost as such, but the relative cost in two respects.

First, there is the issue of labour productivity. It is not rare to find locations where wages are close to zero, but where the skills, the trainability and the discipline of workers are so low that the relative cost is still too high to be competitive. Thus, apart from analysing wage levels it is crucial to analyse productivity levels as well. For a location, this means that it may create a strong locational advantage by providing an alert, skilled and trainable workforce.

Second, there is the issue of availability of workers. This is particularly relevant for external investors. For them, average wage levels are irrelevant. When they set up a new factory and need to attract workers, they have to pay more than the average wage, especially in those fields where skilled people are scarce and may have to be lured away from other companies.

Availability and cost of real estate: The availability of real estate can be either a very relevant or a very irrelevant criterion. In weak, unattractive locations real estate is easily available, but this does not create any advantage. In highly dynamic, attractive locations, real estate is usually scarce and expensive. In such places, unavailability of real estate may create severe limits to growth. It is a key task of public sector to anticipate and manage this issue.

In more mature industrial locations, what often becomes an issue is conversion of abandoned industrial estates, which are often contaminated. Cleaning up such estates is often a very expensive undertaking. It is not rare that the former owner is incapable of covering this

expenditure, for instance if it was a company which has gone bankrupt. The public sector will often find itself in a position where it must cover the cost of rehabilitation of estates. Experience from industrialized countries shows that it can make sense to create a dedicated utility for this purpose, which accumulates experience and thus reduces learning cost. Such utilities may also be linked with dedicated, possibly revolving funds to finance the acquisition of old estates, cover the cost of rehabilitation and sell the estate.

Environmental regulation: Extensive research has shown that environmental regulation has hardly any effect on trans-border investment. The hypothesis that companies are relocating polluting industries from densely regulated industrialized countries to other locations has never been verified.

However, environmental regulation becomes a crucial criterion when it comes to micro-decisions, i.e. the choice between neighbouring locations. It is not rare to find that regulations vary from one city to the next. A key issue in this context is the management of environmental regulations. What is creating obstacles to investment is not necessarily the existence of environmental regulation but rather the level of red tape and predictability in their application. When permit requirements are complex and intransparent, and permit periods are unpredictable, and even the outcome of a permit process is unpredictable, then a company will tend to choose a more efficient location.

Energy and environmental costs: There is a whole set of energy- and environmental-related costs, including the cost of water. Companies have high, and often extremely high requirements in terms of energy and water inputs. Their price may become a crucial point in the evaluation of alternative locations.

Moreover, companies tend to have a certain set of non-product output, i.e. solid waste, waste water, and gaseous emissions. The cost of waste disposal and wastewater treatment may also establish an important differential between locations.

Local taxes and subsidies: Local taxes often vary between cities, and cities often try to attract or keep companies by offering them special tax treatment. This issue is closely related to the overall issue of subsidies and incentives.

2.2.2 Intangible Locational Factors, relevant for Companies

Intangible factors are “soft” factors and not easily quantifiable. They become increasingly important to the extent that tangible factors become increasingly similar across many locations. Intangible factors which are often mentioned in the literature are

- Local and regional economic climate
- National economic climate
- Image of site location
- Image of city / region
- Contacts with companies of same branch
- Cooperation opportunities
- Science, technology and higher education institutions
- Innovative milieu of the region

- Active role of competent Chamber and Business Associations

Essentially, these factors boil down to two issues:

- (1) **Local government:** Regarding the role of local government in LED the focus has changed from specific business promotion activities to the overall local business environment. In the past, government often tried to promote business even though it itself was the leading problem for businesses which were suffering from high taxes and levies, complex and excessive regulation, and complicated, protracted and unpredictable permit processes. A key objective of local governments these days is to remove unnecessary obstacles to business activities. When it comes to upgrading intangible locational quality, this is by far the most relevant task for local government
- (2) **Business contacts and networking:** Businesses like to be in a place where it is easy to identify suppliers, customers and other business partners - even if it is the same location where key competitors are located. Though it may increase the transparency for customers and thus the competitive pressure, the decrease in transaction costs usually more than compensates this.

What are the main instruments to strengthen this group of factors? Regarding **local government**, the most promising approach is to assess the obstacles it creates for businesses and to remove those which can be removed quickly and easily. It has recently been fashionable to conduct comprehensive surveys of regulations and red tape. However, it takes a long time to prepare them, the result is often discouraging (because there are so many obstacles and it is difficult to decide where to start), and thus for quite a while nothing practical is happening. The more effective approach is introducing simple solutions which are much appreciated by firms, such as a help-desk to give orientation and assistance in the maze of departments and agencies or a website where forms and applications are easily available; over time, this can lead to predominantly Internet-based (and thus more efficient) transactions between government and companies. An eye-opening approach is to conduct an opinion survey in government and among firms regarding the efficiency and business-friendliness of local government. Another popular instrument is the organisation of meetings between the mayor and businesses, which are open for any interested company.

Regarding **business contacts and networking**, there are different tasks for different types of actors. Local government can provide space and hire facilitators for informal get-togethers for businesspeople, especially if business associations and chambers are weak or non-existent. Business associations or development agencies can organise networking events and set up business coaching and mentoring schemes.

2.2.3 Intangible Locational Factors, relevant for Individuals

The most relevant factors here are the following:

- Career opportunities
- Quality of housing and neighbourhoods
- Environmental quality
- Quality of schools (including availability of schools which operate in a foreign language)

- Social infrastructure
- Recreational opportunities
- Attractiveness of city and region
- High and popular culture

The main instruments to strengthen intangible factors relevant for professionals are the following:

- Improve housing and quality of neighbourhoods
- Improve environmental quality
- Assure high quality of educational institutions
- Create an attractive social infrastructure
- Improve leisure facilities (sports, high culture, popular culture).

2.2.4 Static vs dynamic locational factors

Another important aspect with respect to locational factors is the distinction between static and dynamic factors. Static factors are given; in Michael Porter's terminology, they are "inherited". Dynamic factors are created, building on static factors.

Let us take an example to illustrate this point. Imagine a beautiful waterfall, which is a tourism attraction. This would be a static advantage. Now somebody would build a hotel next to the waterfall, and this hotel would offer a substandard structure and awful service. It would still attract some guests, who would come because of the waterfall. Now somebody builds another hotel next door, offering nice rooms and good service. The competitive advantage of this place would not only be based on the static factor, the waterfall, but also on dynamic factors, i.e. nice rooms and good service. How let us assume that there is another waterfall, not far away, and somebody else develops a hotel there, also offering nice rooms and good service. On top of that, he partners with an adventure business which offers canoeing and other activities around the waterfall. Quite likely, this combination would pull quite a few customers from the places around the first waterfall, and would probably attract additional customers. This hypothetical example not only illustrates the difference between static and dynamic locational factors, but also the fact that, whereas static factors (e.g. places with a waterfall-view) cannot be multiplied, dynamic factors can be expanded and accumulated. Essentially, successful entrepreneurship is about inventing new and better dynamic factors.

2.2.5 Using the second triangle in a workshop setting

The triangle of locational factors is a useful framework to organise a workshop which can open the eyes of local stakeholders for the advantages and disadvantages of their place, and also for the basics of LED. A typical sequence would go like this:

1. Conduct a mesocard exercise based on the question: What are the factors which make a location attractive for business?
2. Organise the cards according to the three types of locational factors. It is quite likely that at least one of the three types will attract only very few observations.

3 Innovative Perspectives in LED

3.1 The Triangle of Synergies: Economic Promotion, Employment Promotion, Urban / Regional Development

Local economic development is not just about things like business promotion, SME support and microenterprise promotion.

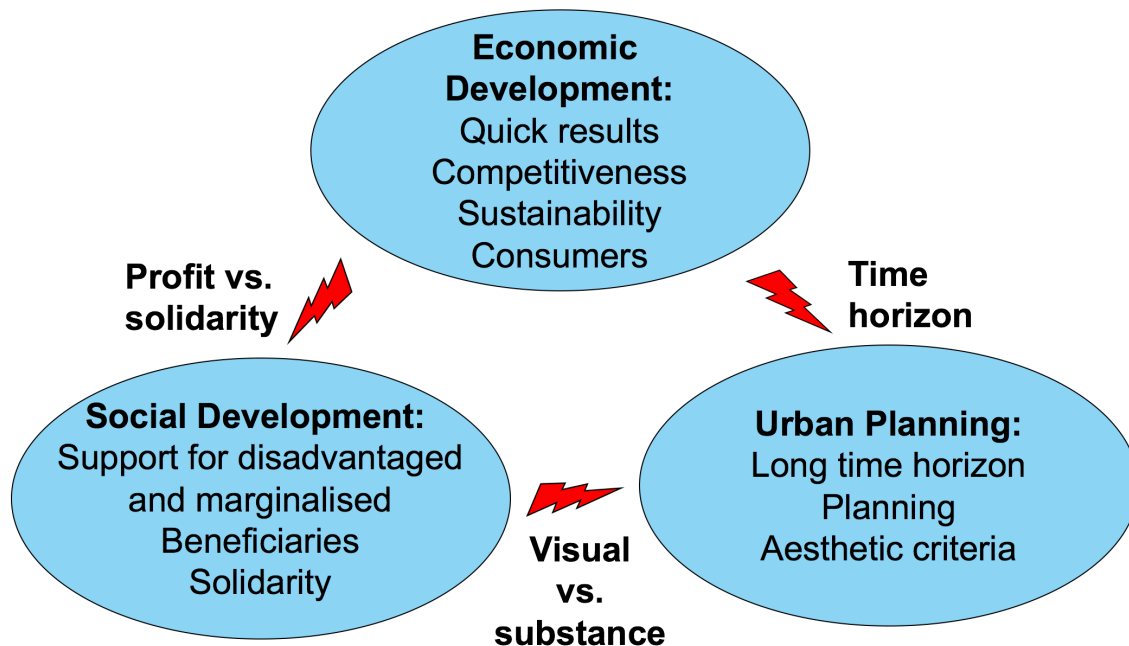


Figure 4: Focus and Synergy 1: Separating

- The overarching goal of LED is to create jobs and income, and therefore it is crucial to involve employment promotion measures and organizations in a given LED effort. Employment creation and poverty alleviation, however, is also a distinct activity with its own delivery structure, and it is usually addressed as part of social policy. This, in turn, leads to something which is often a major confusion in LED: the distinction between *economic* development (business promotion) and *community* development (employment creation, poverty alleviation). Sometimes these activities get mixed up, and as a result usually neither economic nor social objectives are achieved.
- One of the key issues of LED is to enhance the locational quality of a given place. If you look at the tangible and intangible locational factors, you find that some of them are closely related to business promotion, whereas many other have to do with issues which are usually addressed under the heading of Urban Development, which has its own concepts and approaches – and often a much longer time horizon than LED.

From the perspective of a business promotion agency /actor, in order to design and implement an adequate LED effort, it is crucial to understand what is going on in these two neighbouring fields: What are the main concepts and instruments used there? And what are

the synergies which can be realized by connecting concepts, measures and actors from these different fields?

3.1.1 Business-oriented Employment Promotion

It is by no means self-evident that employment promotion is conducted in a business-oriented way. Both employment promotion and economic promotion have the same goal, namely creating jobs and income. But they often pursue quite different approaches in trying to achieve this goal. It is not rare to find that employment promotion is conducted within the context of social policy, not economic policy, and by government bureaucrats.

How can employment promotion be conducted in a business-oriented way? This question addresses two issues: What should be done, and who should do it.

What should be done? There are two standard instruments for business-oriented employment promotion: Matching and skills development.

Matching today involves much more than the traditional activities of an employment agency. Apart from running data bases and information systems, it includes instruments such as sponsored internships, sponsored test employment periods, active search for employment opportunities within companies, etc.

Skills development addresses one of the most frequently heard complaints about businesspeople, namely the inadequate skills of potential employees. Behind this complaint may be unrealistic expectations. But the complaints are often justified, as the activities of schools and other skills organizations are not articulated with the needs of companies. Organizing communication between training providers and potential employers is often one of the most effective instruments of employment promotion.

Who should do it? There are increasing doubts that separating economic promotion and employment promotion organizations is the best option. Leading agencies, such as Scottish Enterprise, unify both activities within one organization. The key issue here is not just to merge organizational charts but actually the people inside the organizations, so that employment promotion and economic promotion specialists work in integrated teams.

3.1.2 LED, Community Development and Community Involvement

An issue that comes up in every place where local stakeholders start to do something about LED is the confusion between LED and community development. This goes back to the fact that there seems to be a more general confusion of these two issues. LED is rather about creating vibrant local economies which generate, directly or indirectly, the tax income so that government has the funds necessary to pursue effective health and social policies. Yet it is not rare to find a perception that LED is about making funds available that mayors can use to run some temporary poverty alleviation projects that buy them some votes.

The problem resulting from this confusion tends to be gridlock, that is a constellation where neither economic nor social objectives are met:

- Developmental activities tend to have no clear business focus, and as a result they often rely on subsidies, which effectively means that they are not sustainable.
- Many initiatives are addressing entrepreneurship in a manner which is hardly serious, where emerging entrepreneurs are encouraged to present vague ideas as business plans – which, for good reason, are flatly rejected if the individual tries to receive some kind of support.
- “Skills development courses train people for non-existent jobs in industries with no projected growth.”³



Figure 5: Focus and Synergy 2: Connecting

A constructive way of dealing with this confusion is by distinguishing between community development and community involvement. There cannot be any doubt that community involvement in the LED process is most desirable, and indeed necessary – not just of the local business community but also other segments of the local society, such as the school and academic community and non-governmental organisations must be involved in the overall work on LED. In fact, the more effectively these communities are organised, the better are the pre-conditions for a successful LED process - provided that they understand the distinction between local economic development and other fields of local development. In other words, LED cannot be separated from the community. But community involvement and community mobilisation are distinct from community development. Community development is effectively part and parcel of social policy. Its objective, target groups and incentives are quite different from those of LED. Community development is about supporting

3 Quoted from Michael Porter, The Competitive Advantage of the Inner City, Harvard Business Review, May-June 1995. Porter refers to experiences in the U.S., yet his observation applies to experiences in many other countries as well.

and empowering the weak and disadvantaged, whereas LED is about business and competitiveness.

Moreover, it makes a lot of sense to look for opportunities to create synergies between local economic development, local social development / community development, and also urban development (**Error! Reference source not found.**).

3.1.3 The difficult relationship between LED and urban planning

LED is often driven by persons who have a background in urban planning. For an urban planner, approaching a challenge by doing a planning exercise before anything else comes natural – and quite rightly so, since in urban planning lack of planning at the very minimum is a nuisance.

It is not just that urban planners think that planning is the proper way to start addressing a problem. Urban planners are fond of masterplans, since in urban planning proper it is useful to have a masterplan. As masterplans go, there is usually a long time-span between their drafting and the time when visible results appear; anything less than five years is pretty quick. Urban planners don't have a problem with this kind of time-span between planning and starting to implement, and the manifestations of implementation becoming visible. For them, it is the way things go. In the meantime, they have drawings, models, computer simulations and the like which help them to imagine, and to explain to everybody who is interested, what the final result of their effort will be like.

Now imagine launching an LED initiative, trying to involve local businesses, and telling them that the results of the LED initiative will only become visible a couple of years from now. The businesses will not respond enthusiastically. They have all sorts of problems right now, and they would like to see at least some of them being sorted out through the LED initiative, preferably by yesterday. They don't even know whether their business will still exist in a couple of years' time. In fact, many of them cannot describe what their business will look like a few years from now.

Conclusion: LED involves a clash of cultures. There is the culture of planners, who are used to thinking in very long-term projects (and who don't have any major problem in defining the sequence of activities to implement a project). And there is the culture of businesses, who are thinking in very short periods - and who must do so, since their business environment is changing all the time. So who wins? Usually nobody, since planners - encouraged by supposed "international best practices" advocated by organisations such as the World Bank (more specifically: its urban development section - sic!) - will often have it their way, only to discover that business is quickly jumping ship and the LED initiative turns into urban planning, with only limited economic effects.

A key challenge for any LED initiative is thus to understand the mind-set, mental models and rationality of planners and to challenge it. Planners must learn that successful LED has to engage business from the first moment on, and that in order to motivate businesses to stick to the process it is essential to produce quick, visible results. This does not mean that they should abandon their normal approach altogether. We often find that a local economy cannot

realise its full potential because of infrastructure bottlenecks or other problems which require a long-term approach. However, apart from long-term, planning-intensive projects, planners must look for short-term, quick-win activities. And they must bid farewell to the conception that an entire multi-year LED process can be the object of a comprehensive masterplan. LED must strengthen market processes, not substitute for them. LED must stimulate learning and innovation, not create a straitjacket which creates obstacles for adaptation and quick response to emerging opportunities.

3.1.4 Using the third triangle in a workshop setting

A simple way to use this triangle in a workshop setting is to conduct a Mesocard exercise, asking the participants to name ongoing or planned LED activities in their location. You would cluster the responses according to the three corner points. Often, the outcome is quite stunning: lots of social and urban development projects, but very few proper economic development activities.

3.2 The Triangle of Sustainable Development

Sustainable development often appears as a somewhat abstract concept. However, it becomes much less abstract if 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 city, 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 problems. 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, for instance, in 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:

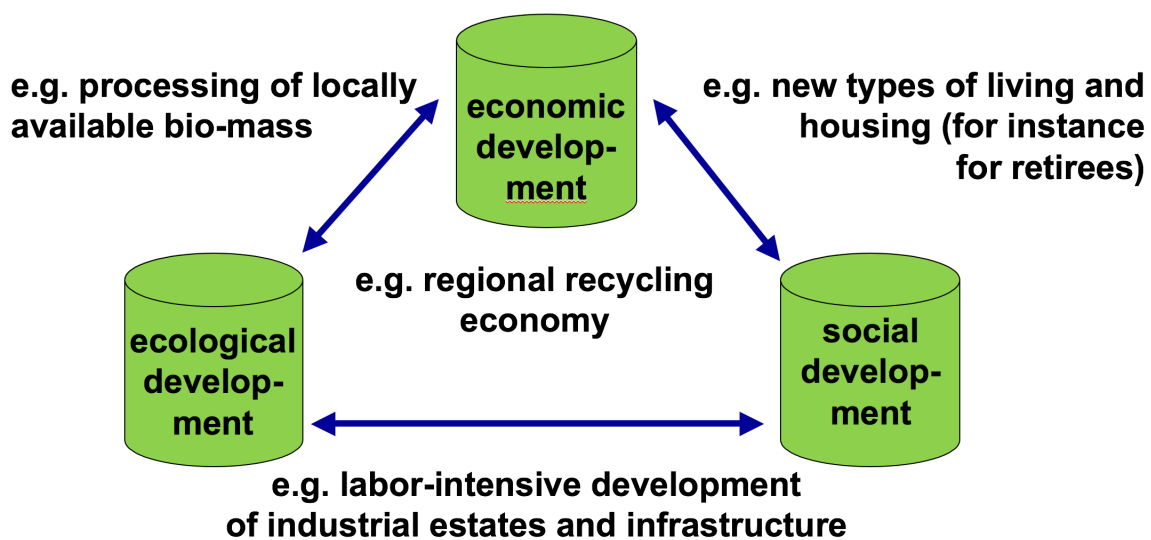


Figure 6: The triangle of sustainable development at the regional level

- it solves several environmental problems (pollution of rivers, air pollution from conventional petrol),
- it creates an economic opportunity, since the collection and refinery operation ought to be run as a private enterprise (probably 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 play the role of giving orientation in terms of strategic orientation. It can also contribute to motivate local actors for a 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.

3.2.1 Using the fourth triangle in a workshop setting

The fourth triangle can be very useful in a workshop situation where you are looking for innovative ways to do LED, and where local stakeholders find it difficult to come up with new ideas. Organize a Mesocard-based brainstorming exercise around this triangle - possibly by dividing the group into four working groups, with three looking at one connection and the fourth at the entire triangle.

4 Effective Process Management of LED

4.1 The Triangle of Governance

Any local development effort involves public and private actors. The basic pattern of a successful LED effort involves a network, not an organization. LED is based on a policy-network, i.e. a set of different actors, governmental as well as non-governmental. The reason is the fact that each actor contributes specific resources - legislative power, money, information and knowledge, prestige, and others. It is for this reason that discussions on whether or not to have, and how to organize, local economic development agencies are not first priority. An LED agency can neither run nor substitute a policy network. It cannot cope with the entire broad scope of activities involved in a LED effort. It will rather deal with specific tasks, and will therefore become part of the LED policy network.

On the public side, the legislative and several branches of the local or regional executive have to play a role. On the private side, chambers and other business associations have to participate. But there may also be active involvement of companies, most obviously real estate and development firms and utilities, but also other companies, such as large firms involved in supplier development or community development activities.

In many developing countries, it is still common to find not particularly adequate actors on either side. Public agencies are underfinanced, lack highly skilled staff, are excessively bureaucratic, have no idea what a business mind-set is like, etc. Private organizations, in particular chambers and associations, are understaffed, not very professional, highly politicized, offer little services to their members, lack a clear mission, etc.

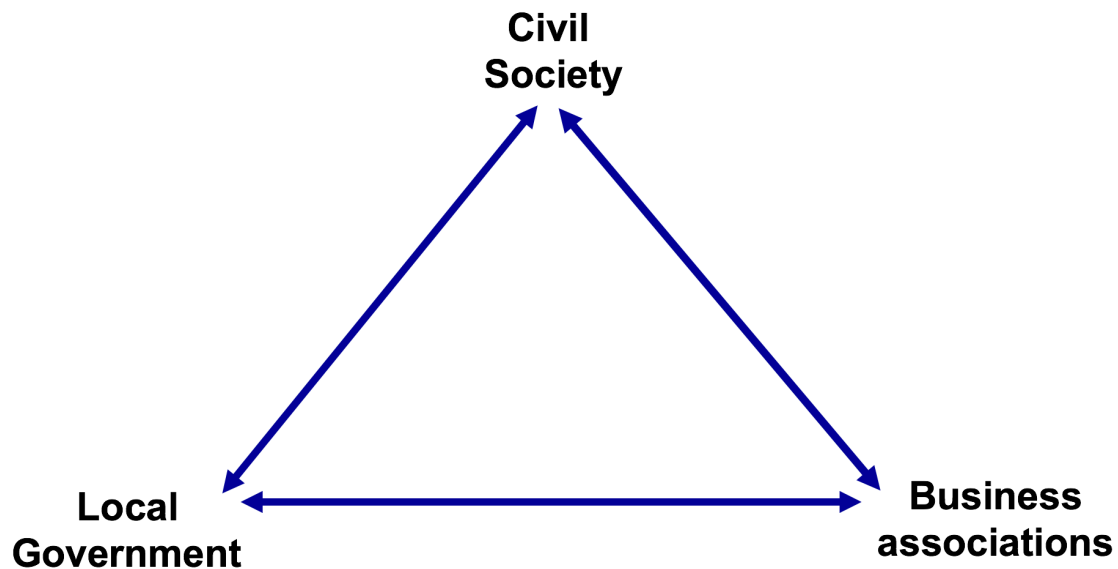


Figure 7: The Triangle of Governance

In a setting like this, it is tricky to launch a LED initiative. At the same time, it will often be unlikely that these problems get sorted out for some reason in the medium term. Therefore, stakeholders who want to launch a LED initiative have work with the institutions which are there. Rather than waiting for public sector reform to happen and organizational development in chambers and associations to fall from heaven, a LED initiative creates an opportunity, and possibly a motivation, for these things to occur. If it is managed properly, an LED initiative can create social capital, i.e. generate the necessary trust to facilitate collaboration among various local stakeholders.

It is crucial to point out that in many places both public sector reform and organizational development are closely linked to the viability of public-private partnership (PPP). LED ought to be based on PPP. But if a setting fits into the description above, it is unlikely that PPP can work out, except in a traditional clientist way. Organizational evolution within the process of LED can create the preconditions for successful PPP.

4.2 The Triangle of Process Management

Local economic may have a beginning, but it never ends. It may start with central government delegating economic development responsibilities to local authorities, or with local stakeholders deciding to take things in their own hands because problems of unemployment and poverty become unbearable. But once you have started with LED, you will find out that you are dealing with a moving target: as soon as you have solved the easy problems, such as particularly clumsy licensing processes, you are identifying more tricky problems which take longer to sort out. And it goes on like that.

The best way of conceptualising LED is as a permanent cycle, which in terms of learning involves three cornerstones:

- participatory diagnostic
- participatory planning
- participatory monitoring, evaluation and benchmarking

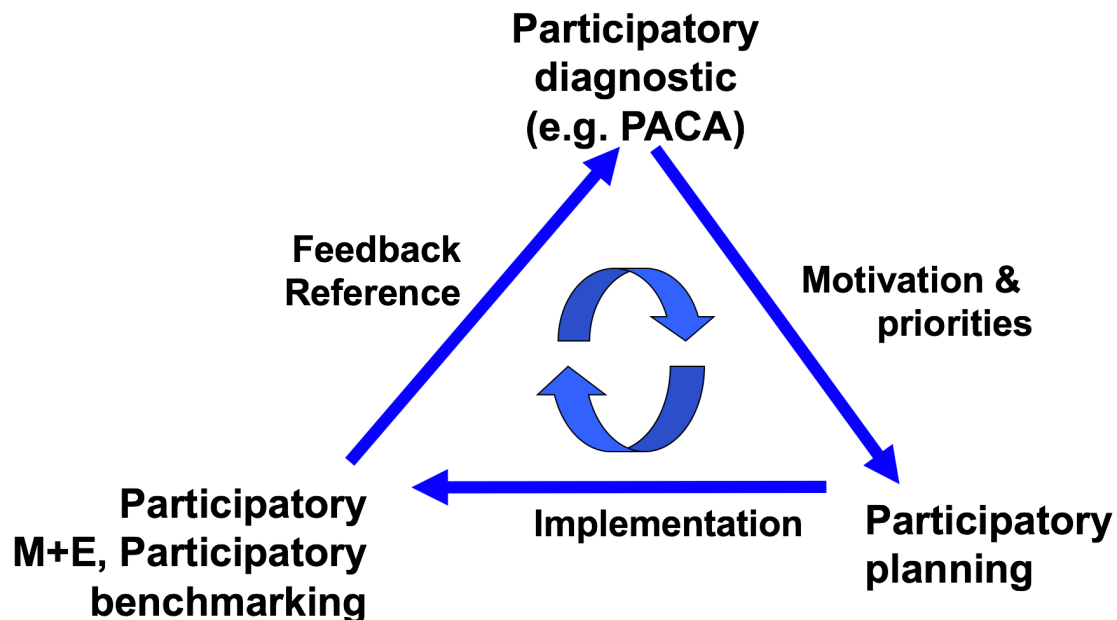


Figure 8: The Triangle of Process Management

These learning- and knowledge-oriented points lead to three more practical activities:

- motivation and mobilization
- implementation
- reflection and adjustment

4.2.1 Participatory Diagnostic

PACA is a very effective approach to kick-off a local economic development initiative or to investigate why existing initiatives show little effect (see Meyer-Stamer 2003 for details).

4.2.2 Participatory Planning

Participatory planning is a standard procedure in development co-operation, with instruments such as ZOPP being disseminated beyond technical assistance organizations. What are the specific issues when it comes to planning LED activities?

- LED involves a system of revolving planning. It is inadequate to conceptualize LED planning as a sequence of planning, implementation, finished. At the early stages, it is useful to identify LED activities which are easy to implement and have a quick and visible impact, even if they do not address the most important obstacles. Addressing the big obstacles is usually not easy, and it is likely to fail as local stakeholders are not yet experienced in LED.

In the early stages, it is useful to prepare plans which extend over no more than three to six months and which are adjusted after this period. Over time, as stakeholders get more experienced, activities become more ambitious and planning becomes more complex, the plan period will slowly increase.

- It is not necessary the case that planning has to involve the widest possible number of potential stakeholders. It is important to keep in mind that there is a tension between innovation and participation / consensus. At the early stages, many stakeholders will be sceptical. Trying to persuade them by a series of presentations of seminars is one option, albeit not a very promising one. The more promising option is that more innovative stakeholders go for LED activities. If they have a visible impact, it is likely that other stakeholders will become interested in being involved.
- What is the role of strategy? As LED is an iterative process which involves a lot of learning, it is not necessary useful to formulate an explicit strategy at the beginning, at least not in the sense of a huge document which tries to define a sequence of numerous, interrelated steps. It may be useful, though, to discuss a vision.

4.2.3 Motivation and mobilization

What is the most useful way in mobilising local stakeholders for a LED initiative? One way is to try to involve everybody from the start, which is unlikely to work. Another way is to rely on those people who gladly volunteer, but this again may be too small a group, or a group which does not bring in important resources (such as know-how on how to mobilize funds).

At the beginning, there will probably be an LED champion, that is one or a handful of persons from the public or the private sector. For the LED champion, it is crucial to identify possible project champions. A project champion is a person, preferably linked to an organization, who is strongly motivated to organize a given project - not just out of an economic rationality but also due to a deeper, more emotional motivation. The task of the project champion is then to try to identify other stakeholders who should be involved in this project, and to try to address and motivate them directly.

In running both the overall LED initiative and LED projects, it is useful to look out for the three types of people described by Malcolm Gladwell in his insightful book "The Tipping Point". It is such people who often make the difference:

- **Connectors:** They are people who interact directly with an extraordinarily large number of other persons. Due to charm, charisma or other personal characteristics, they connect easily to other people and manage to get people together with little effort. For an LED project, they are particularly helpful when it comes to identify who exactly ought to get involved. They can also be pivotal in introducing the LED Champion to relevant stakeholders, so that s/he does not have to waste too much time battling with the usual obstacles in approaching strangers with an unusual idea.

- **Mavens:** They are people who are particularly knowledgeable about details such as where and how to make the best deal to buy a car. In the case of LED projects, they would know where to mobilize resources necessary, preferably without paying too much or at all.
- **Sales people:** They are people who are good at selling something - not because they know how to coerce but because they are persuasive and convincing, usually because they want to be helpful and because they are convinced of the product they want to sell. For an LED project, such people are extremely helpful, for instance when it comes to mobilizing sponsors.

4.2.4 Implementation

Key aspects of implementation are addressed under the first and second triangle. It is important to note that different instruments are hugely different in terms of necessary resources, know-how and time. At the early stages of LED initiatives, it is useful to stick to activities which fit with three criteria:

- they can be implemented with locally available resources,
- they can be implemented quickly, starting next week,
- they have a strong potential to show quick, visible results, i.e. with no more than three months.

4.2.5 Reflection and adjustment

Reflection and adjustment involves three elements: thinking about new instruments and activities, adjust existing activities and discontinue existing activities.

- **Innovate:** When it comes to introduce innovation into a LED effort, an obvious option is to visit other places and to get involved in international networks (such as those organized by ILO and OECD) to know about experiences elsewhere and get new idea.
- **Adjust:** In terms of adjusting running activities, there are two different issues. First, it is likely that there is incremental adjustment all the time. Second, in certain cases it may be important to formally adjust a given activity. An example would be a program which focuses at a specific sector or a specific type or size of firms, and where an interim appraisal shows the need to modify the focus. In such a case, it will often be useful to consider a formal re-launch of the activity to get the message of the new focus across to the potential customers.
- **Discontinue:** This point is often the most difficult one, in particular if LED activities involve a certain degree of voluntary work. For this reason, it is useful to define any activity as a fixed-term activity, or at least to define at the outset one or several points in time when there will be a formal meeting among the stakeholders involved to define whether or not to continue a given activity. If you fail to do this, it will often be awkward to discontinue an activity which is taking a relevant amount of resources without rendering relevant results.

5 Conclusion

LED is a long-term activity which is mostly based on short- and medium-term projects. Over time, LED tends to go through a life cycle with three typical phases, which are summarized in the following table.

Table 2: Typical phases and crises of an LED initiative

	<i>Kick-off phase</i>	<i>Lasso phase</i>	<i>Network phase</i>
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 central 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 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.