

# Local and Regional Economic Development

Towards a common framework for GTZ's LRED interventions in South Africa

**Anja Rücker, Gabriele Trah**

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Postfach 5180  
65726 Eschborn  
E private.sector@gtz.de

Internet:  
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Responsible:  
Ulrich Höcker

Author:  
Anja Rücker, Gabriele Trah

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## Table of Contents

<b>FOREWORD</b>	<b>8</b>
<b>INTRODUCTION</b>	<b>10</b>
<b>1 LRED: CONCEPT, CHALLENGES AND PRINCIPLES</b>	<b>11</b>
1.1 <b>Why LRED? The Rationale</b>	<b>11</b>
1.2 <b>What is LRED? The Conceptual Framework</b>	<b>12</b>
1.3 <b>Challenges in LRED</b>	<b>15</b>
1.3.1 Poverty and Economic Growth	16
1.3.2 Economic Development and Sustainable Natural Resource Management	18
1.3.3 Bottom-up versus Top-down Approaches	19
1.4 <b>Actors and their Roles in LRED</b>	<b>21</b>
1.5 <b>Systemic Facilitation as a Key Element of LRED support</b>	<b>24</b>
1.6 <b>Guiding Principles of LRED</b>	<b>26</b>
1.6.1 Pursue Process Orientation and Incrementalism	27
1.6.2 Promote Stakeholder Participation and Networking	27
1.6.3 Pursue a Market Driven Approach	28
1.6.4 Focus on Opportunities	29
<b>2 INTERVENTION AREAS AND STRATEGIES FOR LRED FACILITATION</b>	<b>30</b>
<b>2.1 Intervention Area 1: LRED Actors</b>	<b>32</b>
2.1.1 Cornerstone 1: Building Government Capacity	33
2.1.2 Cornerstone 2: Strengthening Local/Regional Private Sector Institutions	36
2.1.3 Cornerstone 3: Building Organisational and Entrepreneurial Capacity in Poor Communities	39
2.1.4 Cornerstone 4: Strengthening LRED Intermediary Institutions	42
<b>2.2 Intervention Area 2: Cooperative Governance and Management Structures</b>	<b>47</b>
2.2.1 Cornerstone 5: Promoting Multi-stakeholder Trust and Networking	47

2.2.2	Cornerstone 6: Building Adequate Management Structures for LRED Processes	51
<b>2.3</b>	<b>Intervention Area 3: Locational Factors for LRED</b>	<b>56</b>
2.3.1	Cornerstone 7: Creating a Favourable Business Climate	57
2.3.2	Cornerstone 8: Locational Marketing and Investment Promotion	61
2.3.3	Cornerstone 9: Improving Access to Business and Financial Services	65
2.3.4	Cornerstone 10: Promoting Clusters, Sub-sectors and Value Chains	69
2.3.5	Cornerstone 11: Utilizing Local Natural Resources for LRED	73
<b>2.4</b>	<b>Intervention Area 4: Strategy and Learning</b>	<b>76</b>
2.4.1	Cornerstone 12: Fostering a Learning Culture and Learning Mechanisms	76
2.4.2	Cornerstone 13: Increasing the Strategic Orientation of LRED	79
<b>3</b>	<b>TOOLS FOR IMPLEMENTING LRED</b>	<b>85</b>
3.1	Conceptual and Analytical Tools	86
3.1.1	The Hexagon	86
3.1.2	Economic Mapping	87
3.1.3	Porter's Five Forces Analysis	88
<b>3.2</b>	<b>LRED Training and Capacity Building Tools</b>	<b>89</b>
3.2.1	Training on Communication and Facilitation in LRED	89
3.2.2	LOCATI	90
3.2.3	CEFE	91
3.2.4	Small Business Competitive Club	92
<b>3.3</b>	<b>Communication and Networking Tools</b>	<b>93</b>
3.3.1	PACA	93
<b>3.4</b>	<b>Tools for strengthening locational factors</b>	<b>94</b>
3.4.1	Reducing Local Red Tape	94
3.4.2	Local and Regional Business Climate Survey	95
3.4.3	Market Assessment tool-set for Business Development Services	96
3.4.4	Value Chain Promotion	97
3.4.5	Public Slogan Competition	99
<b>3.5</b>	<b>Tools for Strategy and Learning</b>	<b>101</b>

3.5.1	GENESIS	101
3.5.2	COMPASS of local competitiveness	102
3.5.3	Participatory Benchmarking	103

## **BIBLIOGRAPHY** 104

Publications directly referred to in the text	104
Further Readings on General LRED	104
Further Readings on "Governance"	106
Further Readings on "Enabling Environment"	107
Further Readings on Business Services	109
Further Readings on "Subsectors, clusters and value chains"	119
Further Readings on "Community Based Natural Resource Management"	110
Further Readings on "Strategy and Learning"	110
Manuals on specific tools	110
Further information on LRED tools	111

## **TABLE OF FIGURES**

Figure 1: Determinants of Systemic Competitiveness	14
Figure 2: Intervention Areas and Strategies in LRED	31
Figure 3: Overview of training offers on LRED concepts and roles in South Africa	35
Figure 4: Overview of training and backstopping offers on LRED tools in South Africa	35
Figure 5: Summary of Cornerstone 1	36
Figure 6: Summary of Cornerstone 2	39
Figure 7: Summary of Cornerstone 3	42
Figure 8: Intermediary Institutions in LRED	44
Figure 9: Summary of Cornerstone 4	46
Figure 10: Summary of Cornerstone 5	50
Figure 11: Summary of Cornerstone 6	56
Figure 12: Overview of Locational Factors	57
Figure 13: Core Elements of the Business Climate	58
Figure 14: Summary of Cornerstone 7	61
Figure 15: Summary of Cornerstone 8	65
Figure 16: Business services used most often by small firms	67
Figure 17: Summary of Cornerstone 9	69
Figure 18: Summary of Cornerstone 10	73
Figure 19: Summary of Cornerstone 11	75
Figure 20: Summary of Cornerstone 12	80
Figure 21: Summary of Cornerstone 13	84

## Foreword

Over the past few years, regional integration processes have received a lot of attention. Research in the fields of economics and economic geography shows that economic development under unchecked market conditions leads to spatially unbalanced growth in which existing regional disparities are often intensified. National investment and development programmes therefore need to take their spatial consequences into account.

What measures can be taken to counteract these asymmetrical growth processes? During the past decade, the issue of Local and Regional Economic Development (LRED) has become increasingly prominent in international development cooperation. From a very early stage, German development cooperation participated in the conceptual discussions and the development of appropriate advisory approaches.

Within GTZ, the Division of Economic Development and Employment collaborated with the Division of Governance and Democracy and the Division of Agriculture, Fisheries and Food to create a joint approach to LRED with a strong emphasis on capacity building. This approach has become anchored in more than 60 programmes and projects worldwide in the priority areas of the German Federal Ministry for Economic Cooperation and Development (BMZ), such as "sustainable economic development", "democracy, civil society and public administration", and "sustainable management of natural resources". In implementing this approach, a wide knowledge base of methods and instruments was established.

The "Local Economic Development Project" of GTZ in South Africa has proven to be a productive "construction site" for the further development of our LRED understanding. The work of the project refined the basic concept and principles of LRED and developed a series of new methods and instruments in cooperation with South African partner institutions, other GTZ programmes, international consultants as well as research institutes. The experiences of South Africa have substantially contributed to the discourse on LRED in international development cooperation.

We would like to thank the authors, Gabriele Trah and Anja Rucker, for undertaking the task of collating the South African experiences and presenting the topic - in the form of this handbook - in a systematic manner, using conceptual questions as a backdrop and providing descriptions of the available instruments. The draft handbook was circulated and discussed within the international network of GTZ colleagues. It is structured around the case of South Africa; however it illustrates the range of LRED services available in GTZ's section "Economic Politics and Private Sector Development".

By publishing this handbook, we aim to make GTZ's experiences with LRED (based on the example of South Africa) accessible to a wide audience as a contribution to the international discourse and knowledge management.

Eschborn/Germany, February 2007

Lutz Zimmermann

Head of division

Economic Development and

Employment

Manfred Horr

Head of section

Economic Politics and

Private Sector Development

## Introduction

This handbook for LRED practitioners is based on GTZ's recent experience in supporting Local and Regional Economic Development (LRED) in South Africa. It enriches and enhances GTZ's general conceptual approach to LRED with practical experiences, further concepts and additional tools based on the LRED experience of a variety of programmes. These programmes provide a diverse range of knowledge and experience by looking at LRED from different angles, such as Rural Economic and Enterprise Development (REED), Local Economic Development (LED) and Community-based Natural Resource Management (CBNRM). To make optimal use of the synergies and complementary benefits and to align GTZ's work on LRED, it was decided to systematically combine and compile this diverse knowledge and experience on how to foster local and regional economic development.

This handbook presents the result of these efforts: a common framework on LRED, which aims to enable LRED practitioners - implementers and designers of projects, programmes or initiatives - to approach LRED from a strategic and conceptual angle, which can guide the application of tools and instruments and orient the facilitation of LRED processes in different contexts. The presented framework aims to bring the different philosophies, approaches and tools that are being applied in LRED together without 'harmonising' and thus stifling the diversity. It should therefore be seen as an umbrella under which the diversity of approaches and tools can be more systematically utilised to enhance LRED.

The first chapter will lay the conceptual foundations for this common framework of LRED by developing a general definition of LRED, discussing the role and responsibilities of LRED stakeholders and deriving the main principles that should guide LRED interventions. Chapter 2 is then dedicated to the practical design and implementation of support initiatives in LRED. It is organised into 13 cornerstones around the four building blocks of LRED: actors, cooperative governance and management structures, locational factors and strategy and learning. Each cornerstone provides detailed information on strategies and tools to foster LRED in different contexts and from different angles and has been designed in such a way that it can be read and used independent from the rest of the handbook.

The authors would like to thank the following people for their valuable contributions: Shawn Cunningham, Sonja Ende, Mattia Wegmann, Jörg Meyer-Stamer and Dominic Mitchell. We also would like to thank Johannes Baumgart, Matthias Bartels, Joseph Grimm, Reinhard Trenkle, Anja Gomm, Angelika Hutter, Volker Steigerwald, Manfred Horr, Ulrich Höcker and Jürgen Hagmann for their insights and comments.

Anja Rücker and Gabriele Trah

# 1 LRED: Concept, Challenges and Principles

The concept of Local and Regional Economic Development (LRED) has been gaining prominence in development theory and practice over the last decade. As a result, numerous concepts and definitions on LRED have emerged, partially overlapping, partially complementary, partially contradictory. This chapter will look into the rationale of LRED, explore how LRED has evolved and the different concepts have been applied, and derive a practical definition and principles for LRED interventions as the basis of a common GTZ framework on LRED.

## 1.1 Why LRED? The Rationale

Both internationally and in South Africa, there have been vigorous debates as to how best to promote local and regional economies as a way to fight poverty. But why has this debate gained such momentum in recent years, in particular in development co-operation?

The increased focus on LRED is to a large extent the result of the growing globalization of our economies. With the liberalization of trade and its accompanying deregulation and mobility of financial, product and labour markets, national boundaries decrease in importance and national markets become more and more accessible to foreign competitors. This development has brought both risks and opportunities to local economies: it increases pressure on local economies to compete internationally and adapt to global economic forces. At the same time, it opens opportunities to attract new markets and investors. The increasingly rapid flow of large quantities of information, with distance no longer acting as a barrier to trade, has shifted the focus of global markets from a national perspective to a more differentiated regional and local focus on potentials and competitive advantages of a territory.

However, LRED is not only about integration into external markets. While the integration into external markets is an important driving force, there are many areas, particularly in developing countries, that have not yet been touched by the forces of globalization. Nevertheless there are opportunities to strengthen the local economic cycles, make local opportunities visible, close gaps with regard to services or inputs into local economic activities and stimulate interaction between local businesses.

LRED's popularity as an approach to economic development coincides also with the global trend of decentralising power from national to local government. Decentralisation is often a function of democratisation processes and the desire to allow a broader participation of citizens in the design and control of political processes that determine their livelihoods.

## **LRED: Concept, Challenges and Principles**

Furthermore, the failure of existing industrial policies in numerous developing countries to create competitive and dynamic industries has contributed to the popularity of innovative LRED concepts. The same counts for the Structural Adjustment Programmes and the macroeconomic reforms introduced in the 90s, which in most cases failed to have the majority of the population benefit from economic growth. The emphasis placed by numerous multilateral and bilateral institutions on a stable macroeconomic framework and functioning markets (Washington Consensus), while a necessary condition for growth, was not sufficient to create the kind of economic dynamism needed to absorb new labour market entrants and reduce unemployment on a wider scale. Market failures are everywhere and particularly prevalent in rural or marginalized areas. Many of them, such as information failures, can be addressed much more efficiently and effectively at a local level than at a national level.

These experiences and changing framework conditions have motivated a critical reflection of traditional approaches to private sector development in Development Cooperation, and Local and Regional Economic Development (LRED) has emerged as an innovative approach to the challenges of overcoming territorial marginalisation. LRED offers a non-traditional, inter-disciplinary mix of interpretations and approaches which can shed new light on how to overcome multiple interrelated obstacles, such as low skills levels, lack of entrepreneurial culture, inappropriate or weak support mechanisms, disabling regulatory environments or a lack of access to financial and business development services. LRED combines concepts and tools to improve an area's locational factors by tapping into the comparative and competitive advantages of regions (in a sub-national sense: spatial entities, defined by economic networks, administrative boundaries and common identities), the potentials of natural resources as well as the leadership and willingness for change of actors in the private and the public sector in developing countries.

### **1.2 What is LRED? The Conceptual Framework**

LRED is, of course, not a completely new concept. Before becoming popular in many developing countries since the 1990s, it had already been implemented for many years in various forms in industrialized countries.

In the early stages of LRED, activities focussed strongly on the marketing of locations to external investors, often linked with incentive systems such as tax breaks and/or reduced costs of public services (such as water and electricity) and infrastructure development. In a second phase, attention shifted to endogenous economic potentials, striving to support the competitiveness of existing firms, promoting entrepreneurship and business start-ups. This was often done via entrepreneurship development and training programmes, business support and business linkage mechanisms, providing access to finance, skills development, rural development and

sectoral development approaches.

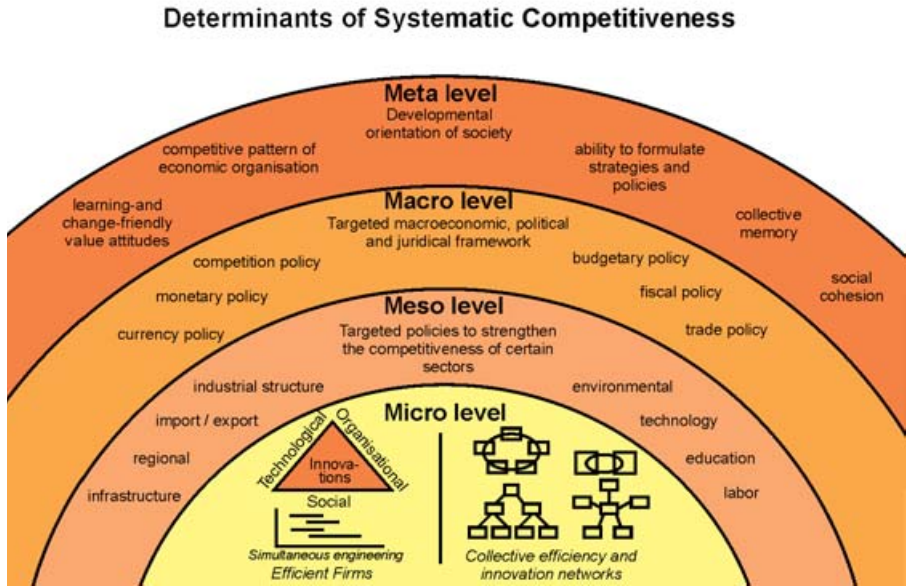
Since the late 1990s, a more holistic approach to LRED has become prevalent. This third and latest phase of local economic development enhances the individual business support and sectoral development approaches of the second development phase by making the entire business and community environment more conducive to economic development. The focus of the third phase is therefore on providing a competitive local business environment, encouraging and supporting networking and collaboration between businesses and public/private and community partnerships, facilitating workforce development and education, focusing inward investment to support cluster growth and supporting quality of life improvements.

Throughout the evolution of LRED, LRED thinkers and practitioners have borrowed and combined elements from a variety of disciplines such as economic geography, urban planning, economic sociology, public administration and decentralisation, systems thinking and regional economics. This development reflects the fact that a local area's economy is more than a collection of individual firms and markets. It is a composition of networks and dynamic systems of interactions that shape individual decisions and actions.

In order to capture this complex system of influencing factors, the concept of "systemic competitiveness" has become very popular in LRED thinking and practice. It describes and analyses the competitiveness of a locality through four categories: the micro, the meso, the macro and the meta level. The micro level contains factors such as the individual firm's level of skills, capital and networks, the meso level stands for the firm's environment in terms of support institutions and specific policies targeting firms, areas or sectors, the macro level reflects the general policies and framework conditions that are relevant for economic development such as a country's trade regime, and the meta level captures the general values, belief systems, etc. that form the social capital of a location. The following graph depicts the model of systemic competitiveness in more detail and provides an overview of the different determinants of a location's competitiveness at the various levels:

## LRED: Concept, Challenges and Principles

Figure 1: Determinants of Systemic Competitiveness



What then is LRED about? Depending upon from which angle you look, LRED can be about locational marketing; attraction of investors; real estate development; entrepreneurship development and business start-ups; skills development; improvement of infrastructure; strengthening of local businesses by providing access to business and financial services; cluster, value chain or sector development; creating a business friendly environment and efficient public sector; fostering business linkages; or improving aspects of the quality of life and therefore attracting businesses and skilled workers and professionals, such as providing high quality housing, health and educational services as well as sports, cultural and other recreational opportunities. Furthermore, LRED can be about the establishment and functioning of the relevant institutions necessary to support all the aspects mentioned above and the targeted policies to guide them. Last but not least, LRED may focus on meta-level issues such as the entrepreneurial attitudes and values, the social cohesion and collective action or the ability to formulate strategies necessary for developmental regions. In other words, LRED is about anything that one can think of to make a place a good place to do business and thus create jobs and reduce poverty.

The fundamental difference between LRED and traditional one-dimensional approaches to economic development, such as national industrial policy, technology transfer or SMME support initiatives, infrastructure upgrading, urban planning or skills development, is that it combines all of these frequently fragmented approaches and tools into a systemic and sustainable concept which cuts across

many different portfolios.

At national level, such a holistic and multidisciplinary approach would produce enormous complexity with regard to issues and actors. In contrast to this, the focus that LRED puts on the local and regional levels reduces this complexity and allows actors to pursue an integrated path of economic development. LRED is thus a territorial concept and forms part of the broader local or regional development process with a specific focus on economic aspects.

How can LRED best be defined? There are of course numerous definitions for LED and LRED, most of which underline two important aspects: first, LRED is an ongoing process and second, it is driven by local actors from different societal sectors, which implies collaboration, and even co-responsibility between the public and private sector for the economic development of a region or location.

We therefore define **LRED as an ongoing process by which key stakeholders and institutions from all spheres of society, the public and private sector as well as civil society, work jointly to create a unique advantage for the locality and its firms, tackle market failures, remove bureaucratic obstacles for local businesses and strengthen the competitiveness of local firms.**

The overall objective of LRED, in particular in countries with widespread incidence of poverty, is that vibrant and ecologically sustainable local or regional economies are created which will lead to pro-poor growth and ultimately better living conditions for the majority of the population.

What are the most important factors to make such processes function and bear fruit? In our perspective, the four most important building blocks for LRED processes to function are: mobilised, competent and willing key actors, which steer an LRED process through cooperative governance and management structures and create the ability for long-term strategic action and constant learning. Without these three building blocks, the implementation of the fourth building block, i.e. the actual initiatives to improve an area's locational quality and make it a better place for all will not succeed.

### 1.3 Challenges in LRED

Although LRED has a clear economic focus, it is not merely about economic growth. LRED is oriented towards a sustainable development pattern which accommodates and reconciles economic, social and ecological issues and objectives.

## **LRED: Concept, Challenges and Principles**

The developmental objective of ecologically sound and pro-poor growth naturally implies certain normative choices and can produce tensions and require certain trade-offs. Furthermore, the achievement of these goals implies the cooperation of many actors and the combination of top-down and bottom-up approaches, which can produce further tensions. Dealing with these tensions and continuously negotiating win-win situations between competing actors and objectives is an important element of LRED.

This chapter will elaborate in more detail on the three most frequent challenges that LRED initiatives face: the relationship between fighting poverty and fostering economic growth; the relationship between economic development and the sustainable management of natural resources; and the relationship between top-down and bottom-up approaches in LRED.

### **1.3.1 Poverty and Economic Growth**

Frequently, the discussions around LRED are characterized by the real or perceived conflict between a focus on poverty alleviation within poor communities and a focus on the competitive advantage of the local economy as a whole.

We consider this conflict to be more often perceived than real. The most important strategy to reduce poverty is economic growth. Evidence of the close correlation of economic growth and poverty is overwhelming. Over decades Southeast Asian transition countries and China have shown that high growth leads to increased employment, increased real wages and consequently reduced poverty. However, the extent of the benefits of economic growth for the poor depends on the degree of involvement of the poor in the economy and the prevailing income gap. Where the income gap between the rich and the poor is high and the poor's involvement in the economy and their purchasing power low, the benefits of growth for the poor is correspondingly reduced.

Thus, economic growth contributes to significant poverty reduction only when an increasing number of the poor is actively involved in the economy and purchasing power is generated. And this again is dependent on the existing social structures, the educational status of the poor, the patterns of equality and inequality in society and a number of other factors. The challenge of LRED is to support growth patterns which produce clear benefits for the poor by making both direct and indirect impacts on their living conditions. Existing patterns of poverty have to influence the strategy or path chosen in LRED processes in order to adequately address the issue of poverty via promoting broad-based growth.

The nature of poverty is multi-dimensional. While income is at its centre, it relates to all the other characteristics often connected to the lack of income and job

opportunities, such as assets, housing, access to educational and health services, the nutritional and health status of people, or people's ability to deal with shocks and insecurity.

Many of the above aspects can be **indirectly** influenced by economic growth, i.e. through the additional resources generated by households as well as governments, to be channelled for example into housing or educational and health services. However, despite many links and synergies, social development and economic development are based on different principles. While the social development of an area provides many business opportunities and the health status and competencies of its people are an important input factor into LRED, social development as such follows a different logic: it is based on solidarity, welfare and support for the weak and disadvantaged rather than the logic of competition and building markets, which drives successful economic development processes. LRED, by its nature, has to focus on the latter.

Many of the aspects that characterize poverty, however, can also be **directly** influenced by LRED processes. When setting the priorities for action in an LRED process, one can ignore or take into consideration the impact on jobs or the labour intensity certain sectors of the economy may have, or one can unlock certain value chains and markets to particularly benefit the poor by offering them lasting opportunities.

Markets are at the centre of poor people's lives. The poor, like everybody else, exist in and are affected by markets, as producers of goods and services, as employed or unemployed labour and as consumers. Poor people participate in economic activities through markets. And the development of markets can be influenced significantly by conscious decisions and actions. Awareness and understanding of the markets of a locality or region provides the basis for the energy and innovation required for change. These changes can be triggered by facilitating the identification of economic opportunities, capacity building and learning, providing incentives and support structures, access to finance and other business development services, linkages, new infrastructure, emerging technology and much more.

To what extent the path of economic development directly or indirectly addresses poverty and the distribution of income, however, remains a question of priorities and the specific opportunities and resources available in a given area. Usually, a lack of sufficient resources in the form of know-how and funds forces the actors in LED to make choices. And frequently there is no blueprint that indicates which one of the choices is the better one and offers more opportunities for pro-poor growth. The resulting tensions between different views and expectations are part of an ongoing debate and negotiating process that characterize a healthy local democracy.

## **LRED: Concept, Challenges and Principles**

### **1.3.2 Economic Development and Sustainable Natural Resource Management**

Negative impacts on natural resources are a frequent side effect of economic growth. Natural resources such as energy and water are a central input factor for production, while production processes frequently pollute the air or water resources, degrade the land and deplete the forests, lakes and seas. Most of these ecological costs of production are externalized as they do not appear in the entrepreneurial cost-benefit calculation, and are thus borne by the public.

The overexploitation of natural resources is therefore a constant risk of economic development, and conflicts between the need for survival of present generations versus the needs of future generations have to be constantly taken into account in LRED processes. However these conflicts are not insurmountable and frequently a conscious search for win-win situations can lead to new economic opportunities that protect the environment and at the same time contribute to economic growth.

Management and production methods and new technology to promote eco-efficiency and cleaner production within firms contribute to the competitiveness of enterprises and sectors by increasing their economic and ecological efficiency while at the same time reducing the strain on the environment. Also the development of markets for services in the field of eco-efficiency provides new economic opportunities in this particular services sub-sector. The economic value of "ecosystem" goods and services has begun to attract significant attention at local, national and international level, especially as governments and global finance institutions begin exploring the possibility of providing financial incentives, such as carbon and biodiversity credits, to governments and agencies that preserve forests and other areas of high biodiversity.

But the sustainable management of natural resources is not only about protecting the environment. It is as much about how to pro-actively use natural resources to foster LRED.

The sustainable management of forests can be used to supply timber, pulp and paper, large-scale polewood, charcoal and fuelwood. Supply of various forms of renewable energy - including woodlots, biomass resources, biogas production and solar energy - can contribute greatly to the conservation of invaluable resources while at the same time generating local economic activity and job creation.

In the last decade, Community Based Natural Resource Management (CBNRM) has become commonplace in Southern Africa. Programmes are set up by government, non-government and community based organisations primarily to harness the positive impacts that the use of natural resources can have on local livelihoods while

at the same time conserving the resource base. Typically, these projects relate to community conservation programmes, nature tourism enterprises, trophy hunting with local benefit programmes, community managed fisheries, communal woodlots, participatory forest management programmes, regulated harvesting of thatching grass and fuelwood in protected areas, indigenous plant and medicinal plant nurseries.

The potentials for win-win situations between Community Based Natural Resource Management and LRED are therefore huge, as both share the same objectives: economic growth, job creation, poverty alleviation, citizen participation in planning and implementation, skills transfer and giving a strong and confident voice to social groups who have been marginalised in the past.

### 1.3.3 Bottom-up versus Top-down Approaches

LRED is a diverse and pluralistic process that requires spontaneity and the active participation of local stakeholders and therefore cannot be controlled by one-dimensional hierarchical planning; at the same time, a certain measure of strategizing and planning is needed for the various catalytic interventions and inputs needed to give the local economies a boost.

The question of how to reconcile bottom-up, i.e. participatory action oriented processes with the need for strategic planning, i.e. top-down, planning oriented approaches, is thus an important issue in LRED and has often created tensions both in theoretical LRED debates and in practical implementation.

Depending on the school of thought, varying importance is laid on participatory, action-oriented initiatives that are driven by concrete opportunities identified by local stakeholders and which can be exploited with the skills and resources at hand. Vice versa, the assumption that an LRED process needs to be based on careful and detailed planning from the very beginning, and that only carefully researched scenarios for the economic development of the locality or region, including detailed analysis of economic sectors and market trends, can provide the necessary basis of any interventions, is strongly promoted by some, but challenged by others.

This second, planning driven approach is often called the orthodox approach to LRED, and amongst others, represented by the World Bank. The Bank's LRED Primer states:

*"Good practice indicates that local economic development should always begin with the formulation of a strategy. A LED strategy is a critical component of any community's planning process. Ideally a LED strategy should form a component of a*

## LRED: Concept, Challenges and Principles

*broader community-wide strategic plan for development, with LED providing a focus on strengthening the local economy. The time horizon for a LED strategy is typically five to ten years with associated short, medium and longer-term deliverables."*<sup>1</sup>

Following this logic, creating a LED Strategy also implies the development of an implementation plan: *"The implementation plan lays out budgetary, human resource and institutional and procedural implications of implementing the LED strategy. It is thus the point of integration of all projects and programs within a LED strategy. The action plan lays out a hierarchy of tasks, responsible parties, realistic time-tables, human resource and financial needs, sources of funding, expected impacts, results, performance measures and systems for evaluating progress for each project."*<sup>2</sup>

At first glance, the suggested steps above sound perfectly reasonable, albeit they require quite a sophisticated organisational set-up, e.g. a dedicated LED unit in local government or a Local Economic Development Agency with sufficient resources and qualified manpower to drive such a complex process. This kind of organisational set-up more often than not is not available in the peri-urban or rural areas of developing countries. Cunningham and Meyer-Stamer, therefore, rightly point out<sup>3</sup> that this approach to LRED is strongly based on experiences with urban planning in industrialised countries. It aims at transplanting the - predominantly successful - approach with big urban development projects (for instance: a waterfront development) - to LRED without a more detailed look at the prerequisites.

Another important criticism to the orthodox approach relates to the fact that reality has shown that economic development is frequently quite opportunistic: a creative and innovative person (or persons) seizes opportunities that spring up at a certain moment in time. Such opportunities are hard to plan, particularly not in a long-term, 5 to 10 year plan, but are rather the outcomes of joint deliberations and brainstorming sessions of entrepreneurial people.

Consequently, many LRED practitioners challenge the orthodox approach and promote much more action-oriented and bottom-up thinking and acting. The underlying assumption here is that organic and sustainable growth patterns rely much more on continuous change processes and the constant search for opportunities than on once-off initiatives. This line of thinking specifically gives credit to the fact that - in contrast to other local policy fields such as social services - LRED does not rely on standardized service delivery, but strongly requires flexibility and ongoing communication and negotiation between various stakeholders in a process-oriented and open setting. Starting LRED processes with complex strategic plans would not meet these

<sup>1</sup> World Bank, (2003): Local Economic Development: A Primer. Developing and Implementing Local Economic Development Strategies and Action Plans, Washington, D.C., p. 10

<sup>2</sup>Ibid., page 12

<sup>3</sup>Cunningham, Shawn/Meyer-Stamer, Jörg (2005): "Planning or Doing Local Economic Development? Problems with the Orthodox Approach to LED", in African Insight, Volume 35, no 4, December.

requirements. However, this approach does not reject the necessity of LRED strategies as such. It rather argues for their incremental evolution over time, based on practical initial experiences.

In the end the issue is not so much whether to apply an incremental, participatory and action oriented LRED approach versus a planning-driven approach, but rather when to use which line of action. The frequent failure of orthodox planning-oriented approaches clearly recommends to start LRED processes rather with small, participatory and action-oriented LRED initiatives around concrete opportunities. These will allow the different stakeholders to understand the complexity of LRED processes and their various roles in it and to develop the trust required between them to carry LRED to more complex levels. These more complex levels do require a shared understanding of how to position the own location in the market and a strategy on how to build a local competitive advantage. This may include the planning and implementation of major catalytic projects which have a strong leverage or multiplier effect and address major market failures that stand in the way of economic growth. Such projects frequently require highly specialised skills and know-how, extensive financial resources and a high commitment to co-operation, which imply the type of profound investigation, carefully planned strategies and institutional basis of the more orthodox approaches.

### 1.4 Actors and their Roles in LRED

From what we have outlined so far, it becomes clear that LRED is a complex process which needs the active involvement of a wide variety of stakeholders. In order to bring these stakeholders together in a meaningful and effective way, it is important to have a clear concept of the different actors and their roles to play in such a process. Therefore, we will now have a more detailed look at who exactly the LRED actors are and how they should best participate in LRED.

To answer this question, it is important to first look at where the formal mandate for LRED processes is usually allocated. Frequently, national governments mandate local or regional governments to be responsible for LRED. Since there is no clear distinction between strategic and implementing roles, this is often interpreted in such a way as to place the sole responsibility on local government, an understanding which often bears the risk of sidelining other important actors, i.e. business and civil society organisations.

While government is without doubt a key actor in LRED, LRED efforts can be severely hampered by a misinterpretation of its role and mandate. Sustainable LRED requires clear economic thinking and acting, it is based on economic dynamics and business principles, and local government is thus neither best-equipped nor does it

## LRED: Concept, Challenges and Principles

have the necessary capacity to solely drive it. Vice versa, local businesses, while representing the "economic brain" of the area, would be overstrained with the mandate of sufficiently balancing and taking into account the tri-angularity of ecological, economic and social goals. Last but not least, both government and business have to be informed and controlled by civil society to ensure the broader acceptance and support of the process.

Consequently, LRED is about bringing the right actors together in the right pattern of roles, which is based on the specific skills and capabilities of the different actor groups. Can this role pattern be strictly defined? While the specific roles may vary in different circumstances, there are some clear general guidelines for orientation: first, the local and/or regional administrative departments should focus on the creation of favourable enabling conditions that allow the private sector to thrive. Furthermore, government has to play an important role in addressing market failures such as barriers to entry for new businesses and introducing a longer-term strategic and developmental perspective that goes beyond the planning horizon and capacity of most individual businesses. Second, the private sector and civil society (businesses, chambers and trade/professional organisations, as well as other stakeholders such as NGOs and community organisations) should articulate their interests and commit to the creation of income and employment. Third, the exploitation of business opportunities lies best in the hand of the private sector. Cooperation is reached by enabling markets mechanisms and LRED initiatives to complement each other, hence allowing processes of an active economic development and locational strategies to evolve. The management and moderation of such processes plays an important role and can be the responsibility of any actor (public administration, organized business or civil society organizations) as long as all sides agree.

In South Africa, the role of public sector in LRED is spelled out in clear policy guidelines. The South African White Paper on Local Government (1998) introduces the concept of "*developmental local government*" which is defined as: "*Local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives.*" The same document specifies this role further with regard to local/regional economic development objectives. It states that

*"Local Government is not directly responsible for creating jobs. Rather, it is responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities."*

Despite these clear policy guidelines, however, it is frequent practice not only in South Africa that municipal officials and LED officers pursue a hands-on approach by directly consulting selected enterprises or acting as the managers and chief executive officers of small co-operative businesses such as bakeries, funeral

parlours or chicken hatcheries. Such isolated "projects" and the direct and frequently subsidized support initiatives are often not economically sustainable and only produce limited impact on the economy or employment situation of the area beyond assisting a privileged few. Furthermore, they absorb energy and resources that could be allocated more effectively to the creation of an enabling environment (e.g. through the provision of infrastructure and basic services, the management of spatial policies or the design of a business-friendly and efficient administration) or the moderation and coordination of the broader LRED process.

In localities with a relative high capacity and competence of public administration, another role for public sector gains importance: that of an active market development facilitator, i.e. through the use of public funds for temporary interventions to address a specific market failure. Market failures are an important and wide-spread barrier to LRED, and government can play a crucial role in both preventing and removing them. To quote John McMillan<sup>4</sup> : *"Markets are subtle organisations. The mechanisms that underpin transacting are intricate.... Markets do what they are supposed to do, however, only if they are well structured... The mechanisms for transacting develop from the bottom up, via innovations made by the participants. Spontaneous evolution is the main driver of markets. To reach their full potential, however, markets need help from the government."*

The help referred to can range from good governance issues such as the reduction of corruption and red tape; the establishment of efficient and effective pro-business administrations; regulation and enforcement of standards and competition; the provision of certain public good services such as co-ordination, information and science and technology infrastructure; development of unambiguous guidelines and policies as well as reduction of policy biases; capacity development; facilitation of the development of business and financial services; facilitation of enterprise networks; to the provision of financial resources to go about LRED.

In sum-, the complex and important role government should and has to play in LRED processes can be captured through the following five key principles:

- Focus on core competence: areas which only government can deliver
- Appropriate for capacity: prioritise according to resources and hierarchy of importance
- Don't crowd out markets: seek to develop rather than supplant private sector activity
- Improve equity and access: address market failures that limit access of the disadvantaged

<sup>4</sup>McMillan, John (2002): Reinventing the Bazaar: A Natural History of Markets, New York, page IX

## LRED: Concept, Challenges and Principles

- Influence values and culture: policies, education and other government 'signals' to encourage enterprise and competition<sup>5</sup>

In other words, the role of government in relation to the private sector is to *"develop the frameworks and 'rules of the game' that permit space and opportunity for the private sector to operate: building essential capacity, delivering key public services and promoting standards and competition."*<sup>6</sup>

### 1.5 Systemic Facilitation as a Key Element of LRED Support

From what has been said so far, it becomes clear that LRED is a highly complex process: to adequately reflect this complexity in our work and stimulate sustainable LRED processes, we therefore require systemic and facilitative interventions towards change.

Systemic thinking has become a central paradigm in management and change theory. The idea of perceiving and analyzing reality not only as the sum of single elements but as a complex system of interaction and interrelation mechanisms lies at the core of the approach. The main conclusion of this perspective is that mere problem identification and problem solving from the outside cannot render the desired results, as it would not create the necessary understanding of the complex context and would not create the necessary motivation and ownership of local stakeholders to actively participate and sustain the process in the long run.

Thus, any external intervention into the local context has to be based on a facilitation approach. Why is facilitation so crucial for systemic interventions in LRED? The common definition of facilitation already contains the main answers to this question: facilitation is understood as *"a process of decision-making guided by a facilitator who ensures that all affected individuals and groups are involved in a meaningful way and that the decisions are based on their input and made to achieve their mutual interests."*

The concept of facilitation therefore directly relates to the key requirements of systemic intervention: it is conceptualized as a process unfolding as opposed to the one-time implementation of an ambitious plan. It aims at including all affected actors - and their interrelations - thus looking at systems rather than single actors or elements. The idea that solutions have to be borne by the internal actors themselves based on their inputs and knowledge and not on some mere transfer from outside is clearly reflected. And finally, facilitation aims at creating decisions that correspond with the mutual interests of all different actors involved in a balanced way.

<sup>5</sup>Hitchins, Rob (2002): The role of government in BDS market development: a preliminary review for the International Labour Office, SEED, page 3

<sup>6</sup>Ibid.

<sup>7</sup><http://www.nymir.org/zoning/Glossary.html>

Looking at LRED from a facilitation perspective, the key functions of a facilitator can therefore be summarized as follows:

### **Raising internal awareness and understanding of the local context:**

It is not only the starting point, but the core task of the external LRED facilitator to enable local stakeholders to better explore the local context and the mechanisms limiting the performance of the local economic system. This includes the creation of local individual and institutional commitment, which rises from the joint analysis of the context, its opportunities and bottlenecks by the involved stakeholders.

### **Motivating constant learning and reflection:**

Due to the continuous changes within local systems, which are never static, LRED is an ongoing process. Thus the task of enhancing the understanding of the local context by the local actors will never be completed, but will constantly be relevant throughout the process. Introducing methods and methodologies of constant reflection and learning are therefore crucial elements of systemic facilitation. External facilitation can further be a stimulating input which helps the local system to move beyond its perceptions by bringing in new perspectives and link the actors to other sources of knowledge and insights.

### **Focussing on communication and interrelations:**

Fostering the understanding of the local context in a systemic way includes the analysis of the different interrelations, interdependencies, existing networks and communication patterns that characterize the local system. Analysing the communication and interrelation patterns is highly important for LRED processes for two reasons: first, local stakeholders and the facilitator will not be able to obtain a good understanding of the local system without a clear picture of these patterns. Second, it helps to establish the necessary connection points between different actors and institutions. Many important elements and institutions of the LRED environment are characterized by a high degree of specialization and differentiation of the system, which often leads to "silo-mentality". Often, highly specialized actors take decisions which are perfectly in line with the logic of their own system, but which can provoke adverse and even counterproductive effects in the broader LRED context. Fostering the different actors' mutual understanding increases the openness and connectivity between them, and bringing them together and supporting exchange and dialogue mechanisms are the starting point for this.

## **LRED: Concept, Challenges and Principles**

### **Supporting the development of endogenous solutions:**

Every local context shows both rather universal characteristics of a locality and very specific characteristics only valid for this very area. It is these specific characteristics that make the introduction of "outside solutions" - often termed as best practice - difficult. This is not to say that there are no good solutions outside a system that are not worth looking at, but from a systemic thinking perspective, external solutions must be developed further and fitted into the local context by local actors. Therefore, finding homegrown solutions should be encouraged. The search for home-grown solutions includes the focus on local resources which already form part of the local system. Creative thinking on the part of the local actors is therefore more essential than importing great ideas that worked elsewhere.

### **Applying a step-by-step philosophy:**

Exploring the local context and its interrelations is an incremental process, with surprises waiting around each corner. Facilitating LRED must therefore take an incremental approach in the form of a step-by-step process. Given the complexity and interrelatedness, a change at one point might be the trigger to a whole lot of other changes, which cannot be completely foreseen in a linear and causal way. Defining the next steps can therefore only be done on the basis of the previous step. It is thus important to start with a promising trigger and to explore other aspects of the system by monitoring the feedback and following new traits that emerge. Therefore, facilitating systemic intervention requires flexibility in terms of intervention design.

A step-by-step approach is also required in the light of the fact that fast and comprehensive changes are often perceived as a threat to local actors. Large-scale, intensive changes can therefore be perceived as a threat to the system and provoke adverse reactions. Local actors should rather opt for introducing a variety of small and incremental changes instead of one ambitious big change, as this strategy gives the local actors and institutions sufficient time to adjust.

## **1.6 Guiding Principles of LRED**

If we recapitulate what has been said so far on the goals, the approach, the actors and their roles and the methodological requirements for external interventions, it is not difficult to deduct the main underlying principles of LRED. At the end of this chapter, we will therefore summarize the most important messages in the form of four key principles to LRED:

- Pursue process orientation and incrementalism
- Promote stakeholder participation and networking

- Pursue a market-driven approach
- Focus on opportunities

### 1.6.1 Pursue Process Orientation and Incrementalism

*"Evolutionary concepts of economic development argue that economies are not moving from one state of equilibrium to the next, but rather evolve in idiosyncratic ways<sup>8</sup>. Economic actors do not behave in highly rational ways but rather in a path dependent, boundedly rational manner; the rules that served them well enough yesterday will also guide their behaviour today, with incremental adaptations. Economic development evolves along trajectories, to some extent shaped by coincidence, but more importantly they are the result of cumulative learning-by-doing and learning-by-interacting. This does not only apply to companies but also to much larger aggregates.<sup>9</sup>"*

Societal change and learning takes place at a slow pace with little, incremental steps and adaptations. This explains why copying the result of a process such as an institution or a specific project frequently leads to failure, since the necessary process leading to change and thus the institution/project was not followed as well. This is the reason why the GTZ LRED approach places such importance on participatory processes and incremental innovation around LRED, i.e. on the stimulation of constant learning, reflection, adjustments. This, we believe, can initially best be achieved via relatively small, low cost initiatives that can be rapidly implemented with local resources, so-called quick wins. While these small initiatives do not provide the kind of drastic success stories that politicians and planners often hope for, they do prepare the ground for the kind of learning, empowering and trust building that more sophisticated LRED processes with grander and more catalytic economic initiatives require. They also allow for the incremental development of the corresponding organisational structures needed at each stage of LRED.

### 1.6.2 Promote Stakeholder Participation and Networking

The definition of LRED as a process jointly driven by key stakeholders of the public, business and non-governmental sector implies the necessity of participation. Consequently, stakeholder participation is the key concept that everyone pays at least lip service to. However, effective participation, often also referred to as bottom-up processes, is very difficult to accomplish, requiring facilitation skills that frequently are not available. Fake participation processes that in reality are just acclamation processes in which the broader population is expected to give their consent to

<sup>8</sup>Nelson, Richard/ Winter, Sidney (2002): 'Evolutionary Theorizing in Economics', Journal of Economic Perspectives, vol 16, no 2.

<sup>9</sup>Cunningham, Shawn and Meyer-Stamer, Jörg (2005): "Planning or Doing Local Economic Development? Problems with the Orthodox Approach to LED", in African Insight, vol 35, no 4, December, page 11.

## **LRED: Concept, Challenges and Principles**

decisions long taken by the local elite or power structure have frequently taken the place of sincere participation processes and undermined their reputation. These supposedly participatory events deprive a locality or region of the creativity and innovation, empowerment and mobilisation that is often generated by genuine participatory processes and that is so desperately needed for economic growth.

When organizing stakeholder participation, the principle of "form follows function" has to be kept in mind. Frequently, committees or LRED fora are being established as a favoured vehicle to drive participatory LRED processes. In principle, this is a good idea. Care, however, has to be taken that political pressure from above (national or provincial level) to create such a forum, long before people understand what is expected from them or how to go about LRED, does not defeat the purpose. In such cases the LRED forum tends to degenerate within a very short period into a political platform at loss with its role and purpose, and it eventually disintegrates. LRED committees or fora should only be established once they have a clear mandate and responsibility. And this often only develops incrementally with different stakeholder groups mobilizing around specific actions and opportunities. But a functioning LRED Forum can be a great structure to innovate and manage LRED initiatives.

In many developed countries, successful local or regional development is based on policy networks that consist of various government agencies, the private sector, trade unions, NGOs, and other players. Functioning networks in general have been seen as a success factor of development in general, since they seem to be the best organisational form to unleash creativity, innovation and the social coherence necessary for territorial development. But network patterns require a certain amount of social trust that in many developing areas has been destroyed due to ethnic or racial tensions, distrust between the public and the private sector or governance issues such as corruption or the absence of the rule of law.

Networks are also the best organisational form for collaboration and problem solving in cases where government cannot enforce compliance, as is the case of LRED, which has to rely heavily on the voluntary initiative of the private sector. But the functioning of network patterns is highly dependent on good governance.

### **1.6.3 Pursue a Market Driven Approach**

Conventional neo-classical economics is based on the view that markets left to operate under conditions of perfect competition, i.e. getting prices right, will bring an economy into equilibrium and be conducive to pro-poor growth and development. All it takes is a stable macro-economic framework, i.e. fiscal discipline, low taxes, liberalisation of trade and investment and the competent delivery of basic services (Washington Consensus).

While the principles and policy prescriptions of the Washington Consensus are not wrong as such, they are simply not enough. What they overlook is not just that there is no perfect competition thanks to information failures, weak infrastructure or insufficient levels of skills and knowledge. They also fail to recognise the importance of formal institutions (such as laws and regulations, but also the organisations that help to enforce them or provide specialized support, i.e. the macro- and meso-level) as well as informal institutions (values, culture, power structures, law compliance, i.e. the meta-level) as central elements of the market system. Market failures are usually caused by one or several problems with regard to these formal and informal institutions.<sup>10</sup>

LRED is about addressing market failures. In a perfect world where information and market intelligence as well as creativity, social cohesion and skills are easily available, human beings will constantly innovate to exploit economic opportunities, be they for mainstream or niche markets. The market development approach in LRED is constantly asking why the market is not working and what can be done to make it work. Lack of information and access to financial and non-financial services, bureaucratic obstacles, corruption, weak infrastructure, low skills levels, uncompetitive or monopolistic behaviour by existing firms, weak property rights or enforcement of contract law, etc., all hamper business start-ups and business growth. In other words, many of the critical features of functioning markets are determined at the local level. The interventions necessary to remedy market failures usually involve systemic changes which require the facilitation of change processes that lead to meaningful impact rather than quick fixes.

### 1.6.4 Focus on Opportunities

LRED is intrinsically opportunistic. This implies that economic development is dependent on entrepreneurial initiative to turn an opportunity into a lasting business. And neither opportunities nor entrepreneurial initiative and creativity can be planned.

Some economic opportunities may be based on a locational comparative advantage that somebody turns into a competitive advantage, such as natural resources, the availability of specific skills, or the historic development of certain industries or agricultural activities. These cases are more easily foreseeable and incentive schemes, skills development programmes and support schemes can promote these opportunities.

<sup>10</sup>This theory is the essence of the New Institutional Economics (NIE). NIE recognizes the central economic role played by the institutions which govern human interaction. The costs of human interaction are called transaction costs, i.e. the costs of doing business in a market. Institutions provide the structure for co-ordination and co-operation within markets and therefore reduce the transaction costs.

## Intervention Areas and Strategies for LRED facilitation

Frequently, however, opportunities are unforeseeable and develop suddenly. This can be due to a change in demand due to new fashions and taste (e.g. in the food or textile sector or tourism), technological change and innovations (e.g. solar or bioenergy), a political or health crisis (e.g. the destruction of value chains due to wars or natural catastrophes somewhere else), exchange rate fluctuations, national or regional policy changes (removal of trade barriers, tax changes, incentive schemes), etc.

The bottom line is that many opportunities develop in an idiosyncratic manner, unforeseeable and unimaginable beforehand. And even when they become noticeable, they still need to be matched with the type of flexible, creative and competent entrepreneurs that can turn the opportunities into success stories. Facilitative processes with the requisite brainstorming and assessment tools can assist in identifying these opportunities and unleashing the entrepreneurial reactions. The processes can be planned, their outcome not.

## 2 Intervention Areas and Strategies for LRED Facilitation

The previous chapter has established the fundamental principles for understanding LRED in a local system context and dealing with it from a systemic perspective. When we transfer these principles to the LRED practice, it becomes obvious that there are many different ways of how to practically approach an LRED process.

This chapter will outline a number of important potential intervention areas and intervention strategies for LRED in the context of systemic facilitation. We will not be able to extensively cover all different options of how to systemically enhance an LRED process, and it is also not the intention of this publication to provide blueprint recipes for such interventions. Nevertheless, we will look in more detail into

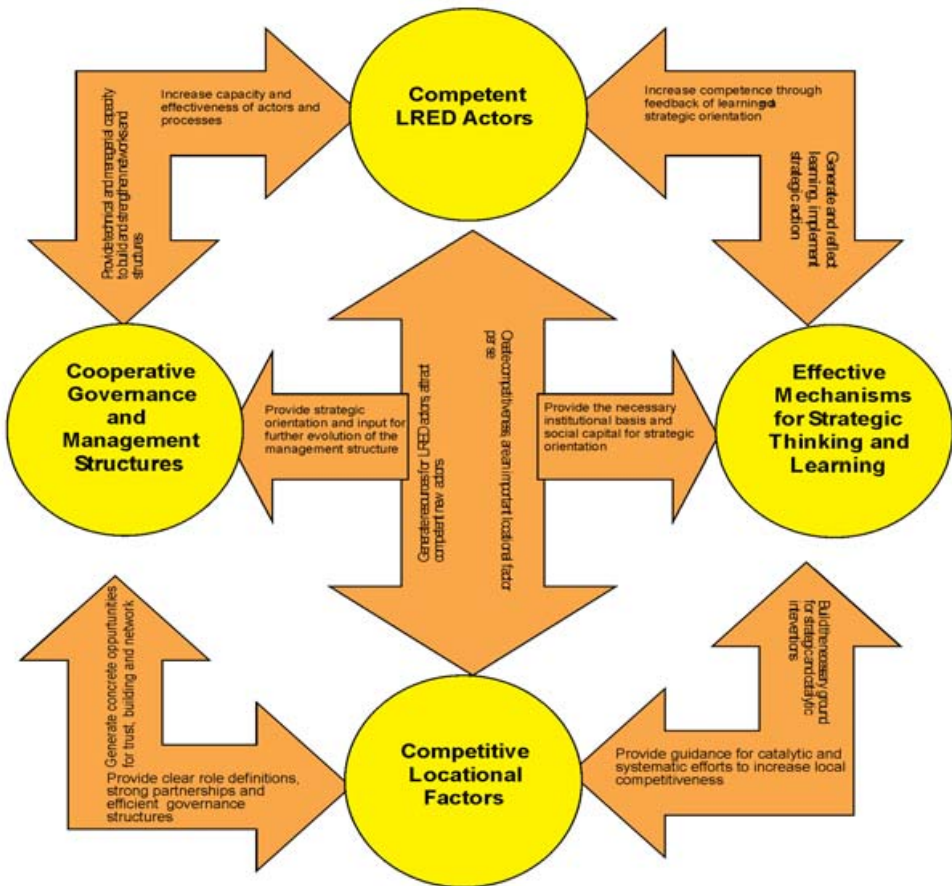
strategies and tools for intervening in the local context in order to give the reader concrete ideas for interventions. To do so, we introduce four "intervention areas" that we consider important dimensions for LRED: **LRED actors, LRED governance and management structures, locational factors for LRED, and mechanisms for longer-term strategic thinking and learning.**

We suggest these areas as analytical categories which help us to organize and structure our thinking in LRED. By establishing these four areas, we aim at two goals: first, we suggest that these dimensions together provide a holistic perspective of an LRED process within the local context and assist the LRED practitioners in always "keeping the bigger picture in mind" while designing and undertaking specific LRED interventions. Second, the breaking down of an LRED process into four areas helps the LRED practitioners in identifying specific points of entry which do not aim at chang-

## Intervention Areas and Strategies for LRED facilitation

ing the complete local context instantly, but at incrementally introducing change processes which can influence the whole. The following graph depicts the four intervention areas and establishes the core channels of mutual influence and interrelations between them:

**Figure 2: Intervention Areas and Strategies in LRED**



When working with these intervention areas, it is important to underline that they have to be understood as different perspectives of one LRED process. Overlaps, common issues and cross-cutting topics are thus not only natural, but intended to properly reflect the interconnectedness of LRED interventions. Systemic LRED does not mean to thoroughly work through one of the areas in isolation to the others, but to find the ideal path through the different areas and choose the intervention points, strategies and tools which are best suited to the local context.

## Intervention Areas and Strategies for LRED facilitation

Who is most appropriate for this complex challenge? Who can fulfil the role of an LRED facilitator? What qualifications are necessary for an LRED facilitator?

LRED facilitation does not rely on a closely-defined formal qualifications framework and there is no simple answer to the question of who combines the necessary qualifications in the best way. Depending on the context and the stage of the facilitation process, an LRED facilitator can have many institutional forms: it can be an external LRED consultant who is hired by a locality. It can be non-governmental or parastatal support institutions whose mandate includes the support to LRED. It can be private sector institutions such as the chamber of commerce as well as public sector officials such as LRED officers, who have adapted to the framework and principles of a multi-stakeholder LRED concept. It can be donor projects or volunteering private local champions. The most important criterion when selecting the right facilitator or facilitating institution for LRED interventions is the understanding and internalisation of the facilitation role by the facilitator.

Nevertheless, at the beginning of an LRED process, the facilitation role can probably best be played by an external person or institution that is able to bring about fresh thinking, an unbiased view and no personal interests in the LRED process. Such an approach not only increases the innovativeness of the intervention, but also the acceptance of the facilitator by the different local stakeholders. External private consultants, NGOs or provincial or national support institutions that are perceived as impartial (e.g. institutions such as the Development Bank of Southern Africa or Industrial Development Corporation) as well as donor projects might play this important role.

However, it is local institutions (especially the "hosts" of the process) that play the key role in an LRED process from the very beginning, and LRED should always be initialized by the local hosts. The facilitator is the external resource person to the process, but never the owner. Therefore, the local hosts and actors have to be at the starting point of an LRED process, and should be involved in the process facilitation very early - with intense but decreasing support by the external facilitator. This way, external LRED facilitation creates local ownership and facilitation capacity from the very beginning and guarantees a clear exit strategy.

### 2.1 Intervention Area 1: LRED Actors

The definition of LRED which was introduced in Chapter 2 has established the public sector, the private sector and the broader civil society as the three main actor groups of LRED processes, each of which has an active and specific role to play. How can interventions be designed and directed to support and capacitate these actors and thus increase the intensity and quality of their contributions to the LRED process? According to the principles of systemic intervention and facilitation, LRED

interventions should aim at triggering changes inside the local system. In the following, we will therefore look at concepts, strategies and tools which can assist in enhancing the understanding, awareness and capacity of local stakeholders around LRED in order to enable them to participate and interact more effectively.

To do so in a differentiated way and to take into account the South African context, we will explore possible intervention patterns with a specific focus on three groups of LRED stakeholders which are highly relevant in the South African LRED context: (local) government with its legal mandate to play a "developmental" role, the meso structure of Professional Private Sector Associations and Business Membership Organisations, and emerging entrepreneurs and poor communities which have been the most explicit target group of LRED efforts in South Africa over the last decade. In a fourth cornerstone, we will analyse the intermediary landscape of LRED and present strategies to strengthen them at national, regional and local level.

### 2.1.1 Cornerstone 1: Building Government Capacity

#### Why is this cornerstone important?

Government - especially Local Government (LG) - is a key stakeholder in LRED processes. Government influences LRED in numerous ways. National policies on LRED or SMME development set important frameworks and guidelines for all actors that are involved in this policy field. Public funding and support structures at national, provincial or local level - e.g. the Development Bank of Southern Africa (DBSA) which supports and funds the design of LED strategies - set powerful incentives. If designed correctly, they can act as useful catalysts for LRED. Similarly, rules and regulations designed at different tiers of government can reduce or increase the costs of doing business at local level. LG provides hard input - infrastructure - as well as soft input - coordination and facilitation - to the other LRED actors in order to create an enabling environment, or fails to do so if it is characterized by a lack of capacity.

Improving the capacity of government to properly understand and fulfil its role as a support and enabler of LRED is therefore a crucial element and many times a promising starting point of a systemic LRED intervention.

#### What are we aiming at?

What are we aiming at when we target the LRED capacity of government? In an ideal situation, all different tiers of government, but especially Local Government, have a clear understanding of LRED as a multi-stakeholder process and of their role as supporter and enabler of LRED processes - as opposed to the understanding of

## **LRED: Concept, Challenges and Principles**

government working in isolation and taking the role of private entrepreneurs, which would not only lead to an overloading of the state apparatus with tasks it is not well-fitted for, but would crowd out private initiative. Furthermore, government has the necessary human and institutional capacity to fulfil this supportive and enabling role and is therefore able to:

- provide clear policy guidelines for LRED actors
- fulfil its planning mandate effectively and in consultation with other LRED stakeholders
- be an effective coordinator and communicator between the different LRED stakeholders, sectors etc., in order to maximize the use of synergies
- align government action and foster intra-governmental synergies and collaboration via horizontal and vertical intra-governmental coordination
- provide public goods in form of services and infrastructure for LRED

### **What are promising strategies and processes?**

Strengthening Local Government capacity around LRED can take various forms, depending on the local context. Some municipalities might already have a well-staffed LRED unit and extended practical experience, others not. Also, capacity often develops out of the process or has to be offered tailor-made once the need for certain capabilities arises. We will therefore not be able to cover all relevant strategies and topics for building government capacity here.

#### Capacity Building on LRED concept and roles

However, in all cases the starting point of capacity development should be to involve LG in a discussion and learning process around the concept of LRED and the different stakeholder roles. For example, an introductory discussion on LRED can be embedded in a multi-stakeholder training event or workshop, where local key LRED actors are provided with a platform to identify, discuss and agree on a common understanding of LRED. The event can at the same time serve as a visible starting point for an external LRED intervention in order to build momentum and interest in the LRED process, and be a trigger for further role clarification processes within the local government structures (e.g. the development of job descriptions or performance frameworks for the LED unit staff, the LED forum, etc). Other options include the integration of LRED modules in the standardized capacity building curricula for government officials.

In South Africa, a number of different training programmes on LRED have been developed in cooperation with GTZ and InWEnt and are being offered by various institutions, as can be seen in the following table:

**Figure 3: Overview of training offers on LRED concepts and roles in South Africa**

Type of Training	Main Target Group	Core elements	Links to other interventions	Providers/Contact
LOCATI LED Training	Local government officials	Concept, roles and tasks in LRED	Prepares the ground and raises demand for LRED facilitation	InWEnt South Africa
LED Local Team Training	Local government officials with decision making or implementation roles in LRED  (together with private and civic stakeholders)	Concept of LRED LRED Stakeholders and their roles Core tools and instruments to support LRED processes Good/bad practices	Starting point for a local LRED process	The South African LED Network: <a href="http://www.led.co.za">www.led.co.za</a>

### Introducing approaches and tools for LRED

One of the core tasks of LG in LRED is planning, strategizing and coordination in the broader context of local development. In South Africa, LG even has a specific instrument at hand for this planning and coordination function, the Integrated Development Plans (IDPs). However, the quality of LRED planning and coordination via IDPs has been rather poor in the majority of South African municipalities so far, and the development of LED strategies to support these plans have been mostly done as an isolated desk-top exercise. Appropriate tools and skills for adequately informing, implementing and assessing IDPs, and for dynamic and flexible LRED strategizing are lacking in most places. Introducing specific tools for these tasks and transferring detailed knowledge and skills on how to use these tools can add important value to the local IDP and LRED processes. Ideally, this knowledge transfer takes place in a practical way as a combination of backstopping and training interventions. The following table gives an overview of the different tools and capacity building measures on specific LRED planning, strategizing and coordination tools that are being offered in South Africa.

**Figure 4: Overview of training and backstopping offers on LRED tools in South Africa**

Type of Training	Main Target Group	Main Focus	Results	Providers/Contact
PACA Training	LED officers, LED directors with implementing function	Mobilization of local stakeholders around local competitive advantages	Economic quick-scan, implementation of quick-win-strategy	The South African LED Network: <a href="http://www.led.co.za">www.led.co.za</a>
Genesis Training	LED officers, LED directors with implementing function	Regional strategizing via scenario building	Economic scenario and strategy for the region	The South African LED Network: <a href="http://www.led.co.za">www.led.co.za</a>
Compass Training	LED officers, LED directors with implementing function	Strategic LED management and monitoring	Result-oriented LRED strategic framework and monitoring system	The South African LED Network: <a href="http://www.led.co.za">www.led.co.za</a>
Red Tape Training	LED officers, Municipal Managers, LED consultants	Reducing bureaucratic costs in LRED	Concrete initiatives to improve the local regulatory framework around LRED	LOCATI, The South African LED Network: <a href="http://www.led.co.za">www.led.co.za</a>

## Intervention Areas and Strategies for LRED facilitation

### Organisational Development

Once government understands its role and has specific tools at hand, it will be better prepared to fulfil its general management and co-ordination functions in LRED. However, a prerequisite for successful government is an efficient and healthy institutional body. General Organisational Development (OD) interventions for government structures should therefore supplement specific LRED interventions. Increasing government's general capacity in tasks such as quality management, process facilitation and communication is specifically important in weak municipal structures, where any LRED initiative will fail unless it is accompanied by a general performance increase in public management.

**Figure 5: Summary of Cornerstone 1**

Cornerstone 1: Building government capacity		
INTERVENTION AREA	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
General understanding of LRED concept roles + functions	Carry out training activities on LRED concepts and roles	Introductory LED training programmes in various forms
	Facilitate role clarification processes in LG organizations	OD interventions e.g. in the formulation of terms of references for public institutions and specific actors (e.g. LRED officers) with regard to LRED
LG capacity in LRED planning, strategizing and coordination	Offer training on appropriate planning, strategy building and coordination tools for LRED processes	Training programmes on IDP development and review, PACA, Genesis, Compass, etc.
	Backstop LRED planning, strategy development and coordination	Support implementation of LRED initiatives via tailored tools such as Compass, Genesis, PACA Participation and structuring of review for IDPs
General public management capacity of LG	Strengthening Local Government capacity via OD interventions, e.g. with regard to quality management, process facilitation and stakeholder communication	Introduction of quality management systems
		Facilitation training and backstopping for LG staff
		Development and support of communication strategies

### 2.1.2 Cornerstone 2: Strengthening Local/Regional Private Sector Institutions

#### Why is this cornerstone important?

Well-functioning bodies of private sector organisation and representation (Business Membership Organisations (BMOs) and professional associations), which offer services, lobbying and mutual exchange, are an important element of a country's so-called "meso-level". Meso-institutions are institutions which are created or mandated to support the competitiveness of the private sector by tackling specific market failures such as information imperfections on input and output markets and by overcoming the fragmentation of individual private businesses.

In the case of most South African local economies, the fragmentation of the private sector along size and colour lines is one of the most serious challenges to functioning LRED. The lack of effective representation prevents the private sector from becoming a powerful partner and counterpart for the public sector and to properly advocate its common interests in the LRED process. It further produces communication barriers within the private sector that prevent the optimal use of synergies such as mutual learning and information exchange between businesses, which tend to specifically exclude and disadvantage the emerging entrepreneurial community. Functioning and inclusive private sector institutions are therefore a vital success factor for dynamic LRED processes in South Africa, and strengthening the capacity of these institutions is an important element of LRED initiatives.

### **What are we aiming at?**

Formal private sector institutions typically have a number of functions to fulfil: they serve as a communication and advocacy body for the private sector, especially with regard to the public sector in order to communicate and represent private sector interests. They serve as a networking body and exchange platform for the local business community and as entry and information point for external players and external markets. They provide specific services to their members or target groups, which range from developing business databases to maintaining a HIV/AIDS help desk.

In order to fulfil these functions properly and add sustainable value to an LRED process via their structure and services, private sector institutions have to:

- respond adequately and demand-oriented to local needs, gaps and problems
- offer professional and flexible services
- provide necessary links to provincial, national and supra-national actors
- support co-operation and trust-building amongst local actors via an inclusive interpretation of their mandate (e.g. in the case of chambers and business associations, which were formerly targeted at an exclusive social group such as white business people)
- run their services according to cost-covering and market-oriented principles

### **What are promising strategies and processes?**

The South-African landscape of private sector institutions has been comparatively weak especially in the poorer regions of the country, due to the country's history and the transformation process challenging the "old" institutional landscape. Efforts have been put into building and restructuring BMOs and professional associations in

## Intervention Areas and Strategies for LRED facilitation

recent years, but only with limited success. Critics argue that many of these efforts have only managed to create weak institutions, which are not able to fulfil their mandates and consume resources without sufficient return.

A specific challenge for the institutional landscape is the perpetuation of social divisions within the country's institutional landscape. Business chambers and professional associations still show continuous fragmentation between the respective constituencies in a number of cases, and many times lack a successful strategy to overcome these divisions. The main challenge of strengthening formal private sector institutions in South Africa is therefore to assist them to better define, understand and manage their mandate, and to build the necessary administrative and management capacity to do so.

Strategies to strengthen South African BMOs have to take into account the following three dimensions:

First, many private sector institutions lack a clear orientation and strategy due to the change process they have been confronted with since 1994. A clarification of the mandate and the introduction of diagnostic and participatory tools which assist these institutions in better communicating with their (partially) new customers can therefore significantly increase their personal and institutional competencies. Many times, the ineffectiveness of BMOs at present is also a consequence of rather isolated work on new ground. It is not uncommon in South Africa that different BMOs within a region hardly communicate with each other and are poorly informed of the other institutions' mandate and services. Furthermore, mutual exchange and learning has not yet been established as a constant element of their institutional culture. Fostering exchange between these institutions within a locality as well as with peers across localities can therefore add a lot of value to the performance of these institutions.

Second, many BMOs, although they might claim to be needs-orientated, still operate without strong and permanent linkages with their customers. Furthermore, the customer base and thus the customer needs have changed tremendously over the last decade. Offering tailor-made services and being able to quickly react to customers' needs can therefore be a difficult task. Supporting links and interaction between the meso-level and their customers is a crucial function of an LED facilitator to close existing gaps between service demand and supply.

Finally, many BMOs and professional bodies struggle with fulfilling their representative and advocacy function, as their dialogue with public sector is either non-existent or highly confrontational. As a result, the LRED dialogue is often dominated by public actors. Targeted LRED interventions can support the advocacy functions of private sector institutions by building their capacity in two ways: they can facilitate the exchange with public sector in order to reach a more constructive form

## Intervention Areas and Strategies for LRED facilitation

of dialogue. Furthermore, they can increase BMOs' capacity and knowledge with regard to certain policy fields, such as Red Tape or fighting corruption, which helps to counterbalance the influence of public sector actors on LRED-related topics.

**Figure 6: Summary of Cornerstone 2**

Cornerstone 2: Strengthening local/regional private sector institutions		
INTERVENTION AREA	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
Professional competence of BMOs and professional associations	Facilitate cross-organisational knowledge sharing and learning	Facilitation of interaction processes with peer institutions, support horizontal and vertical linkages between organisations, support information creation and dissemination (websites, round tables, directories, etc.)
	Strengthen the institutional structure via OD and LRED-specific expert tools	Clarification of mandate and modes of delivery, transfer knowledge on LRED facilitation and analysis tools (e.g. participatory appraisal methods, group facilitation)
		OD input on institutional restructuring
Service quality and service outreach	Improve demand orientation of private sector institutions by supporting linkages to their customers	Use of interaction, moderation and facilitation methodology
	Increase inclusiveness of BMOs and professional associations	Market research on services offered, surveys of customer satisfaction, etc.  Networking initiatives, etc.
Advocacy and political representation	Facilitate professional advocacy efforts	Development of structured and constructive dialogue mechanisms with public sector
		Capacity building/knowledge transfer with regard to LRED specific topics (e.g. Red Tape)

### 2.1.3 Cornerstone 3: Building Organisational and Entrepreneurial Capacity in Poor Communities

#### Why is this cornerstone important?

The degree to which the interests of poor communities, emerging entrepreneurs and wage labourers are taken into consideration by private and public institutions is often limited. There is little information about the specific needs, demands and potentials of poor communities and emerging entrepreneurs. In many countries this is also due to the fact that the political will to promote the development of rural areas, increase incomes and improve the livelihoods of poor communities is lacking. In the South African case, however, there is a strong political will to develop previously disadvantaged areas, and municipal boundaries have been redrawn in order to link the poor rural hinterland to economically vibrant areas. But structural obstacles such

## Intervention Areas and Strategies for LRED facilitation

as very low skills levels, limited entrepreneurial experience, low social capital and especially the low level of self-organisation and professionalism of start-up entrepreneurs in these areas have so far hampered efforts to close the economic gap between the "two economies".

Building capacity of emerging entrepreneurial communities for entrepreneurship, self-organisation, representation, articulation, networking and interaction with the public and the established private sector is crucial to increase the participation and economic performance of the formerly disadvantaged areas. Such capacity does not only enable the actors - e.g. emerging farmers - to actively participate in the local LRED process, but furthermore improves their access to the different support measures that are available in the South African context.

Local non-governmental organisations (NGOs) and civil society initiatives are an important element in strengthening these communities. Most have a very good knowledge of the locality and issues and are well-connected in the community. They are therefore an important actor and partner for LRED processes in many respects: they can assist communities in organising themselves, in defining and articulating their interests and needs towards other LRED actors, and in pursuing and implementing LRED proposals and initiatives. Nevertheless, these institutions are often badly equipped in terms of human and financial resources, and might themselves need organisational support from LRED facilitators.

### What are we aiming at?

Poor communities and emerging entrepreneurs are an important target group of government's LRED efforts in South Africa, and NGOs and civil initiatives are important intermediaries and representative bodies for these. In order to have poor communities and emerging entrepreneurs participate in and benefit adequately from LRED processes, we are aiming at:

- an increased (self- and external) perception of poor communities as economically relevant and potential areas
- a better economic use of local resources by poor communities
- sustained and stable local organisations, NGOs and bottom-up initiatives
- an active and ongoing participation and representation of emerging entrepreneurs and poor communities in LRED processes
- intense links between emerging innovators and entrepreneurs and established entrepreneurs in order to achieve maximum benefit from supportive initiatives such as mentorships.

### What are promising strategies and processes?

The ability of poor communities and emerging entrepreneurs to successfully participate in LRED processes is based both on collective and individual capacities which complement each other. Initiatives to build the organisational and entrepreneurial capacity of communities should focus on:

- strengthening the capacity of poor communities to participate actively in political decision making processes
- educating and mobilizing poor communities on the sustainable use of local (natural resources)
- building basic entrepreneurial knowledge and skills
- enhancing exchange with peers. Fostering the exchange and cooperation between emerging entrepreneurs - e.g. via focussed peer meetings - not only supports self-organisation, but facilitates joint discussions around common opportunities, assists in better understanding the own situation and helps to identify viable solutions to present barriers. In order to undertake peer exchange measures in a focussed and action-oriented character, they are best embedded in a broader LRED initiative and combined with measures that support the exchange of emerging entrepreneurs with the broader business community.
- strengthening local organisations and NGOs through organisational development, capacity building, networking, etc.
- fostering exchange with established entrepreneurs and support institutions. Supporting links between emerging entrepreneurs and the broader business community as well as support institutions in the locality is highly relevant, as most poor communities lack both the knowledge and means to contact established business and the support structure which has been put in place (e.g. specific funding schemes for emerging entrepreneurs). Developing structures for knowledge transfer from established to emerging farmers (e.g. learnership models) or improving the information channels between support structures and local communities (e.g. via information campaigns and market research) are important measures to build the entrepreneurial capacity of poor communities, to enable their participation in the local economy and to avoid the perpetuation of structural disadvantages for this important LRED target group.

## Intervention Areas and Strategies for LRED facilitation

**Figure 7: Summary of Cornerstone 3**

Cornerstone 3: Building organisational capacity in communities		
INTERVENTION AREAS	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
Representation of poor communities in political processes	Education on rights and mechanisms for political participation	Training of Ward Committee members
Use of local resources	Motivate for community organization with regard to the economic and sustainable use of natural resources	Training, Resource Inventories, development of management structures for community-based natural resource management
Build basic entrepreneurial capacity and skills	Enhance entrepreneurial capacity via training, backstopping and exchange	Provision of training e.g. via the CEFE model (Competency-Based Economics through Formation of Enterprises, <a href="http://www.cefe.net">www.cefe.net</a> )
Exchange with peers, broader business community and support structure	Increase the understanding of the existing local economic situation, opportunities and challenges in poor communities	Facilitated peer meetings for the assessment of the local economic situation, introduction and transfer of simple diagnostic tools, e.g. The Business Bridge approach by the NGO SBP in South Africa
	Encourage and improve local networks and organisations	Targeted facilitation and OD support to existing and emerging networks and self-organisations, e.g. hawkers associations
	Develop institutional channels for exchange and knowledge transfer from established entrepreneurs	Participatory events and processes, establishment of learnership programmes
	Improve knowledge/information/access to support institutions	Information campaigns, market research etc.

### 2.1.4 Cornerstone 4: Strengthening LRED Intermediary Institutions

#### Why is this cornerstone important?

A country's LRED environment is shaped by a number of intermediary actors and support institutions which provide catalytical inputs to LRED processes through mechanisms of funding, conceptual support, research, advocacy, facilitation and policy design.

The intermediary landscape that influences LRED can comprise a wide variety of institutions with different mandates and at different levels. In the context of South Africa, the most important LRED intermediaries include:

- The Development Bank of Southern Africa (DBSA), which provides conceptual input to the LRED debate in South Africa and provides funding for the design and implementation of LRED processes along its conceptual inputs

## Intervention Areas and Strategies for LRED facilitation

- The South African Local Government Association (SALGA), which provides advocacy, conceptual and facilitation support on LRED to Local Governments
- Public Service delivery arms like the District LRED units or parastatal LED agencies, which play an active part in steering and implementing LRED on the ground
- Training institutions such as colleges and universities or parastatal institutions, which are key actors in the development of LRED concepts and the capacity building around these concepts
- Private sector LRED experts and facilitators, which offer their expertise in terms of LRED concept development, LRED facilitation and LRED training

The success of LRED processes depends to a large extent on the quality and alignment of the LRED inputs and services that these intermediaries provide. If the conceptual approach to LRED and the technical support of these actors to the local level is weak or contradictory, building consensus at the local level about what LRED is about and how to go about it practically will not succeed, and confusion around concepts, roles and objectives of LRED will hamper LRED implementation. An unclear or contradictory conceptual LRED framework can also render funding lines and other service delivery provided by these intermediaries ineffective and sometimes even counterproductive. Finally, a lack of human and institutional capacity within intermediary institutions to implement LRED policy guidelines and support programmes can seriously challenge LRED implementation on the ground.

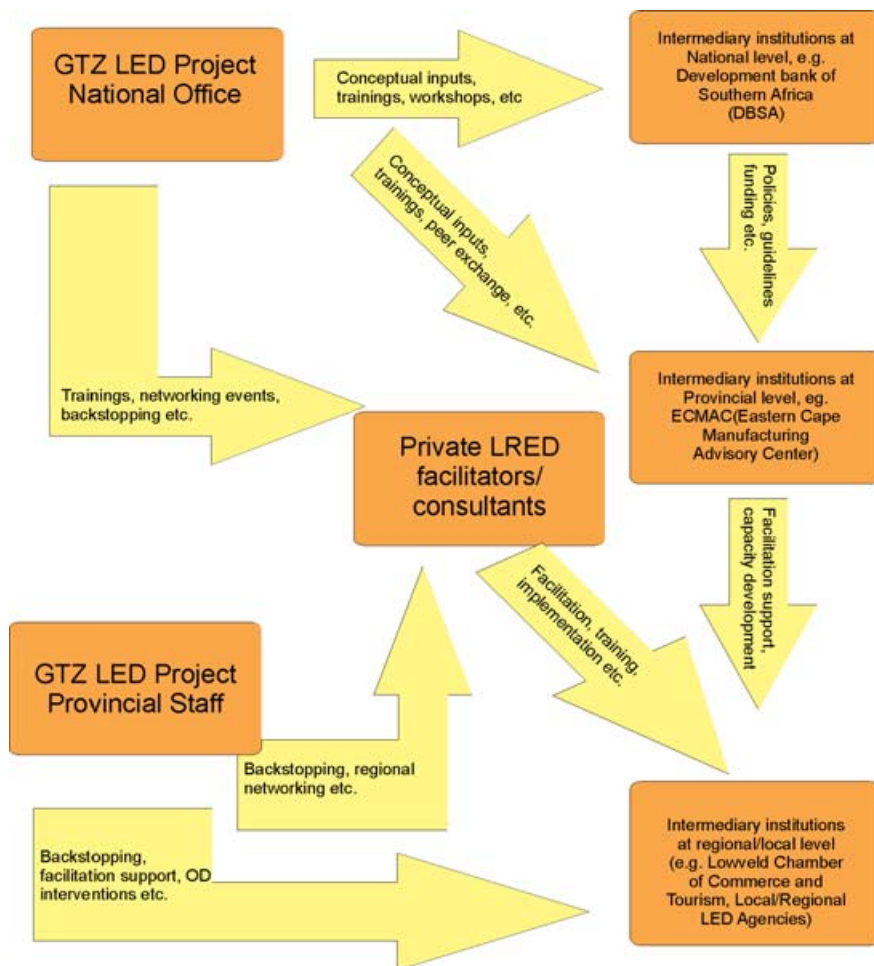
Strengthening LRED intermediaries is therefore a crucial task, as these institutions provide important leverage factors for influencing the LRED landscape at a wide scale.

Such support should take place at three levels: first, interventions should be directed towards the national level of LRED intermediary institutions (such as the national policy and management bodies) around their general LRED concept, tools and the design of LRED support programmes. This task can be an important element of donor programmes focusing on LRED, as it offers a high potential for outreach and impact for donor activities and can benefit from the donors' institutional networks to relevant international, national and provincial bodies. Second, the regional level of intermediary institutions and actors should be targeted with general capacity building measures around LRED - e.g. through training and backstopping of regional office staff - in order to assist in the implementation of their LRED concepts, policies and programmes. Furthermore, potential LRED process facilitators such as private consultants should be supported in building their conceptual and facilitation capacity around LRED in order to improve the quality of their services offered. Finally, the local representatives of LRED intermediaries- e.g. the local LED agency - should receive hands-on support in the form of training, OD interventions, backstopping or knowledge sharing in the context of LRED processes on the ground.

## Intervention Areas and Strategies for LRED facilitation

Strengthening intermediary LRED interventions can take various forms and should always follow a demand-driven approach. The following graph depicts as an example the interaction pattern that has evolved between GTZ's LED project and LRED intermediaries in South Africa during the last 4 years.

**Figure 8: Intermediary Institutions in LRED**



### What are we aiming at?

In order to fulfil their functions properly at the local level and add sustainable value to an LRED process, intermediary LRED actors and institutions have to be enabled to:

## Intervention Areas and Strategies for LRED facilitation

- act within a clear conceptual framework of LRED which is aligned to the country's general LRED approach
- design and manage their support measures and programmes in line with this concept
- provide the necessary institutional and human capacity to effectively implement these support measures and programmes
- effectively link with other intermediary institutions and actors at national, provincial and local level
- act in a framework which does not crowd out private initiative
- be effective and supportive actors in LRED processes on the ground, i.e. have the requisite skills regarding LRED processes such as carrying out participatory economic assessments, identify and support the exploitation of opportunities, provide OD support to local LRED structures, etc.

### What are promising strategies and processes?

The main challenge of strengthening the intermediary LRED landscape in South Africa is to assist these institutions to better define, understand and implement their mandate, and to build the necessary administrative and management capacity to do so.

Promising strategies and processes for this task can be:

#### Clarification of institutional mechanisms and roles for LRED promotion at national level:

Due to the relative new concept of LRED in South Africa (and elsewhere), there is still only limited consensus on LRED concepts and approaches. LRED is often the new buzz word used in place of community development, poverty reduction, SMME promotion, regional planning or local development in general (including social development, health, education, etc.). Therefore, intermediary institutions often follow different threads and concepts which are insufficiently linked to each other. This is especially the case at national level, where such an alignment involves multiple institutional and individual actors and logics. Supporting the mutual information exchange, facilitating conceptual discussions around the development and alignment of concepts and approaches in LRED and the definition and clarification of specific roles and models of intervention can be important entry points for improving the landscape of LRED.

#### Training programmes and capacity building measures:

LRED training programmes for decision makers and implementing staff on the

## Intervention Areas and Strategies for LRED facilitation

concept of LRED, the underlying principles (e.g. the concept of competitiveness), on practical experiences in the country and elsewhere or on successful tools for LRED can help intermediaries at all levels to better understand and implement their LRED mandate. Such training sessions can be directed at headquarters staff as well as at local agency staff, and should be tailor-made according to the respective target group. While policy and decision makers might be specifically interested in the conceptual debate, implementers often demand practical training in tools which directly help them in doing their daily work on the ground.

A specific target group for such training programmes are private sector LRED consultants, which are important levers for communicating and implementing successful concepts and tools in LRED. By capacitating these consultants, e.g. through specific LRED facilitator trainings, networking meetings etc, they can sell their services as LRED facilitators to the local level and apply the knowledge gathered in practical LRED processes throughout the country. Also, these consultants can act as LRED trainers themselves and offer their support to training e.g. intermediaries and local actors, which makes them an important support factor in the capacity building on LRED at all levels.

### Change management and OD interventions:

As a result of role clarification and capacity building measures, changes in the institutional structure and the operating mode of intermediary institutions might be necessary. Supporting this change process through mediation and organizational development expertise can be an important service offered by project staff or private consultants.

**Figure 9: Summary of Cornerstone 4**

Cornerstone 4: Strengthening LRED Intermediary Institutions		
INTERVENTION AREA	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
LRED competence of intermediary institutions	Facilitate clarification of roles, institutional mechanisms and mandates	Input and support to conceptual debates and concept development, Facilitation of interaction processes with other intermediaries,
	Provide capacity development on LRED concepts, tools etc. at different organisational levels	Training programmes on LRED concepts and implementation, backstopping for staff, peer exchange and knowledge management Capacitate consultants as LRED facilitators via training and backstopping
Organisational capacity of intermediary institutions	Improve organisational performance via OD interventions and change management	Support organisational analysis, provide expert input on organisational development moderate and facilitate change processes, introduce performance measurement tools such as Compass

### 2.2 Intervention Area 2: Cooperative Governance and Management Structures

The diversity of LRED processes - where the specific potential of all stakeholders is utilized in an optimal way - can only be fruitful in a climate of constructive and trustful communication and collaboration between all actors. In other words, a pattern of cooperative governance is needed, where network structures complement and replace hierarchical and isolated decision making and acting patterns. Supporting cooperative governance - and the development of effective communication, networking and management patterns as a core to cooperative governance - is therefore a key task for LRED facilitation.

We will look at this issue from two perspectives. First, we will explore strategies of how to build the necessary "soft factors" for cooperation - trust and social capital, which are the basis for effective networking. Second, we will look at possible institutional management structures through which an LRED process can be steered in a cooperative way.

#### 2.2.1 Cornerstone 5: Promoting Multi-stakeholder Trust and Networking Why is this cornerstone important?

Many localities are characterized by a hostile relationship between public and private sector and the negligence of civil society actors and interests. Also, the relationship between actors within public or private sector is often characterized by a strong level of distrust. Entrepreneurs are reluctant to cooperate and share information as they only perceive each other as competitors, and silo mentality and isolated local planning and acting within government structures (both with regard to horizontal and vertical government structures) undermines the development efforts of the public sector.

The underlying reason for isolated thinking and acting in LRED is often the lack of social capital between the different actors. Negative perceptions and experiences, competition or sometimes just missing information on the other actors' role and activities produce a climate of distrust, which impedes the evolution of cooperation and partnerships around LRED.

#### What are we aiming at?

LRED facilitation can help to overcome the lack of trust and networking between different LRED actors and actor groups by offering opportunities where information can be shared, the benefits of collaboration can be experienced practically and win-win situations can be created out of the different motives, skills, expectations and roles. Furthermore, LRED facilitation can support LG in becoming aware of the

## Intervention Areas and Strategies for LRED facilitation

importance and challenges of effective intergovernmental relations for LRED, demanding information exchange and coordination from other tiers of government and developing and implement flexible and tailored mechanisms for improved intergovernmental relations at local level.

In an ideal situation,

- the relationship between all LRED actor groups is characterized by trust and the willingness to cooperate
- different LRED stakeholders are connected via functioning networks and partnerships
- Local Government becomes an active coordination and information hub for government policy and action around LRED

### What are promising strategies and processes?

Networking and cooperation cannot be implemented simply via regulation. The key to effective networking and cooperation is to break through the usual patterns of distrust and negative perceptions through practical interaction and positive experiences of cooperation. Participatory measures are therefore the key to creating the necessary social capital for information sharing, networking and cooperation. Strategies to enhance trust and cooperation can vary in depth and intensity and can take various forms which can build on each other in an incremental way. Such strategies include:

#### Providing platforms to show and discuss benefits for cooperation

Embarking on a multi-stakeholder LRED process is often the first time for the different actor groups involved to discuss and reflect the costs and benefits of cooperation.

Workshops where these issues are raised and discussed usually end with the insight that interaction can provide concrete benefits for all actors involved. Specific workshop formats to facilitate such discussions, e.g. via an "interaction matrix", have been developed specifically for this purpose.

#### Clarifying expectations

Unrealistic expectations about the other parties' potential contributions to the process can lead to serious disappointments early in the process and can undermine the efforts of trust-building. Clarifying the expectations of the different actors towards each other is thus another important service of LRED facilitation in an emerging LRED process. Specific workshop formats are available for this task, which are based on tools such as the "expectations matrix". Although the clarification of

expectations and the joint discussion of the possible contributions of the different parties is especially important at the beginning of the process, it should be repeated periodically once the process unfolds in order to constantly manage expectations and avoid disillusion.

### Facilitating cooperation around concrete opportunities and quick wins

Small and time-bound LRED projects, where different stakeholders learn to work together and trust each other and are rewarded with quick and visible wins, can help to build fertile ground for more ambitious cooperative mechanisms in the longer run. A participatory analysis of LRED challenges and opportunities, which is channelled into concrete ideas for cooperation, can produce such opportunities to work together and experience quick success. Methodologies which help to facilitate such a process include "PACA" (Participatory Analysis of Competitive Advantage). In a PACA process, ideas for intervention are created out of a participatory economic quick scan of an area and ranked according to their potential of producing quick wins.

### Supporting the development of issue-focussed networks

#### **General Guidelines to build functioning networks:**

- Networks need a flexible working mode and shouldn't be mechanistic
- networks need to have clear tasks
- networks work best when issue-focussed
- networks build trust by showing regular and quick results
- networks need to evolve and grow
- networks don't start with coordination, but coordination is an outcome of networks
- networks require a flexible governance structure

Numerous examples have proven that networks evolve best in a concrete and problem-focussed way. General and inflexible cooperation mechanisms without a concrete task (as is the case with many LRED fora) can easily frustrate LRED stakeholders and often experience the fate of silently fading out. Networks should therefore be developed incrementally and abstain from too much formalism at the beginning. Ideally, networks grow around concrete opportunities of cooperation, such as the implementation of quick wins.

### Supporting (Community Public Private Partnerships (CPPP))

Especially when financial resources are involved, initiatives need a more formalized

## Intervention Areas and Strategies for LRED facilitation

structure in order to guarantee correct management and accountability. CPPP have also become popular in LRED in recent years, as they provide an ideal institutional canvass for civil-public-private interaction around a concrete project. The institutional arrangements can vary, but most CPPP work in a way that government gives a financial incentive in order to unlock private investment and support civil commitment.

### Supporting intergovernmental coordination

Effective intergovernmental coordination requires the design and implementation of tailor-made -formal or informal - agreements on roles and tasks of the different government institutions. However, it will only be the fairly well-capacitated municipalities that will be able to initiate such agreements. In municipalities where capacity is very limited, it is unlikely that the capacity will exist to initiate such resource-intensive agreements, and many times the initiative rests with national and provincial government. In these cases, it is of specific importance to increase the awareness of LG for the necessity of well-functioning intergovernmental relations, and the willingness to participate in coordination efforts. LRED facilitation can play an important role in making these benefits transparent, building consensus around development priorities and implementation procedures in local areas and strengthening the demand for effective intergovernmental relations to support these priorities.

**Figure 10: Summary of Cornerstone 5**

Cornerstone 5: Promoting multi-stakeholder trust and networks		
INTERVENTION AREAS	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
Trust building around practical quick wins	Show benefits and create concrete opportunities for interaction	Interaction workshops Expectations workshops Use of public <u>and</u> private sector as "hosts" for LRED processes Introduction of participatory processes to LED via joint analysis, planning and implementation Initiate interaction around certain topics (e.g. Red Tape)
Effective dialogue mechanisms and partnerships	support to existing and evolving cooperation mechanisms	Support the development of issue-focussed networks Promote PPP and CPPP
Intergovernmental relations	Support LG with regard to intergovernmental information exchange and coordination	Raise awareness for benefits of cooperation Support the definition of local development priorities for LG Support networks and information exchange with other tiers of government

### 2.2.2 Cornerstone 6: Building Adequate Management Structures for LRED Processes

#### Why is this cornerstone important?

Trust and informal networks are the first steps towards a more institutionalized cooperative governance and management pattern. In order to maintain the positive dynamic of an LRED process over time, these issue-focussed and often spontaneous networks can form a stable basis for effective management mechanisms and structures. Such a structure cannot be set up comprehensively and ad hoc at the beginning, but must grow out of the process and the networks created. There are, of course, many different institutional models for building this structure. However, the fundamental rule to keep in mind is that all actor groups buy-in and feel adequately represented. Accordingly, the challenge for identifying appropriate institutional arrangements to manage LRED processes is to create an institutional framework for equal partnership, flexible co-operation mechanisms and unrestricted private initiative.

#### What are we aiming at?

Effective LRED management must be able to fulfil the following core functions:

- coordinate and harmonize the different initiatives and networks
- enable and formalize joint decision-making
- guarantee sustainability to the process, including the financial sustainability of the different support mechanisms.

There is no simple answer to what institutional set-up is most appropriately designed to fulfil these functions. The best institutional structure is the one which optimally reflects the local context and the specific requirements of the process at a given time. Different management principles have a specific importance at different steps of the process. The inclusion of as wide as possible a stakeholder range is of vital importance at the beginning of a process and in the case of a very fragmented stakeholder pattern. In a more dynamic LRED process and with the existence of a certain level of social capital and networks, the frequent communication and cooperation around the management of the process might be concentrated in a more specialized management body, with regular feedback loops to and from the wider LRED community, in order to increase the professionalism of LRED management.

Regardless the specific phase or context of an LRED process, the following list reflects the general features that characterize a successful management structure of a multi-stakeholder LRED process:

## Intervention Areas and Strategies for LRED facilitation

- The management structure reflects the multi-stakeholder character of LRED and builds on a high level of commitment and buy-in from all stakeholders groups
- The management structure is embedded in extensive local, regional, national (and international) networks
- The LRED management staff is highly professional and accepted by the LRED community
- Effective LRED process management tools are developed and introduced
- Existing LRED planning and management tools and institutions (such as IDPs or LED fora) are included and combined in the LRED management structure
- Mechanisms are in place to swiftly and effectively solve potential upcoming conflicts between different stakeholders

### What are promising strategies and processes?

In line with the principle of "form follows function", the task of setting up inclusive management mechanisms for an LRED process is not to just create another organisation. Often, the establishment of new organisations undermines the dynamism and spontaneity of LRED processes and fails due to the lack of the social capital that is necessary to fill such a structure with life. LRED facilitation should therefore abstain from imposing complex management structures without the necessary prerequisites in place, and without taking into account existing structures.

Strategies to develop efficient and effective LRED management mechanisms and structures must therefore be approached as a process that combines a number of elements:

#### Identification and mobilization of key champions

Local champions are persons or institutions who take over the lead on certain issues and are acknowledged by a wide range of role players in fulfilling this role. They are often officially mandated, but their motivation can also be a result of personal dedication and identification with the issues targeted. In many cases, the mandate or personal motivation does not cover the whole LRED process, but specific issues or functions within it. LRED facilitation can help to identify, clarify, align and combine these functions. Visualizing and sharing the functions, mandates and motivations is an important step both for improving the existing process management and for preparing the ground for more complex and holistic management structures. This can best be achieved via structured discussions, where all relevant champions exchange and discuss their views on how the process management can be continuously improved and what structural arrangements and institutional cooperation mechanisms should be developed for the longer-term management.

Institutional mapping exercises can be a useful tool for the task, and often the best and most motivated champions have already been identified during the process.

### Plotting of options for management structure

In line with the results of this clarification and discussion process, LRED facilitation can develop a number of options for formal institutional arrangements and specific management mechanisms. As mentioned above, there isn't one ideal pattern to follow. Also, this structure does not have to be comprehensive and holistic: facilitating partnerships between institutions on certain issues and clarifying roles of existing and functioning institutions should always have priority before designing comprehensive institutional models that require major restructuring. In general, the main facilitation task in this context is to help finding adequate answers on how to balance permanent versus temporary institutional structures and issue-focussed versus holistic arrangements, and to assess costs and benefits of institutional measures of restructuring.

In order to achieve this balance, three types of institutional arrangements - and their combination - can generally be considered, and the existing LRED management structure mirrored and systematized accordingly:

- Platforms, forums or arena for consultation, negotiation and joint decision-making.
- Professional management units (economic development agencies, offices, secretariats) for guiding and managing LRED processes.
- Issue-focussed temporary task teams for coordinated implementation of action programmes.

These institutional structures differ in their purpose and thus in the role they can play in LRED management. Platforms aim at reaching agreement between all relevant role players on crucial issues, on necessary action and related responsibilities. They are set up to promote better mutual understanding of all role players and help to strengthen a common regional identity. Professional management units identify appropriate problem solutions, related strategies and opportunities on basis of proper regional analysis, professional inputs and international experience. They ensure that the LRED process is steered and managed in an effective and transparent manner. Finally, task teams are in charge of the smooth coordination of programme implementation by private and public role players.

Allowing for such a threefold structure not only guarantees management flexibility, but builds extensively on existing institutions such as project teams, LED fora and

## Intervention Areas and Strategies for LRED facilitation

parastatal support institutions.

### Strengthening the professionalism of management bodies

Each of these bodies needs a clear definition of its purpose, tasks, members and chairs, accountability and reporting structure, and communication strategy. OD interventions are necessary (including performance frameworks for staff). Building personal capacity through management training sessions, study tours, horizontal exchange with similar bodies etc. can round up these OD interventions.

### Ensure and streamline communication flows

An important element of professional LRED management is a successful communication strategy. Many LRED initiatives have faded due to the failure of the core management to feed back and market outcomes of the process and to report important decisions to LRED actors and the wider public audience. Promising strategies to keep the wider stakeholder range "in the loop" are:

- Ensure regular LRED process coverage in *public local media*. The LRED co-ordination unit has to ensure that necessary information about LRED initiatives, relevant events, success stories etc. is compiled and disseminated to the media.
- Compile *focussed periodic newsletters* (e.g. on economic trends, on public spending, on science, research & education, legal and statutory information etc.) for LRED stakeholders and specialists. In order to increase the relevance and attractiveness of this information, it is important to transport this information in a user-friendly manner and with a clear regional focus.
- Organise *public workshops* or topic days on issues which are subject to public and LRED-related decision-making processes.
- *Guarantee the documentation of reports on LRED-related initiatives and action programmes.*

### Develop mechanisms for conflict mediation

Conflicts are part of multi-stakeholder processes, as LRED is about decision-making and action between partially competing, diverse and (in South Africa) historically separated sectors of society. Conflicts are especially likely if decisions have to be taken about limited opportunities and limited resources. If unmanaged, these conflicts can severely disturb the LRED process. Negotiating the different interests and mediating these conflicts is an important task of the overall LRED management. The basis for managing these conflicts is the understanding of all stakeholders that they share wider common interests, and that additional opportunities and resources exist which can only be tapped and exploited by co-operation.

## Intervention Areas and Strategies for LRED facilitation

Successful conflict mediation is therefore based on the successful creation of social capital and the identification of acceptable and sound compromises. Nevertheless, conflicts may emerge which cannot be resolved without applying the tools and skills of *professional mediators*. These can sometimes be found within the regional community on a volunteer basis or have to be hired from consulting firms.

### Ensure financial sustainability

Funding is frequently perceived as a crucial bottleneck to LRED. However, it is often not so much the unavailability of funding but the lack of access to it which hampers LRED processes. Professional LRED management can leverage the availability of funding for the region and for its own administrative and management infrastructure tremendously via a number of activities:

- It can help to provide packaged information about all available funding sources and procedures to local government and to private sector players. This includes overviews on external donor-related funding sources.
- It can provide skills in application procedures for the various funding sources in a targeted manner.
- It can arrive at appropriate cost-sharing arrangements between public sectors, private business and civil society/community organisations.
- It can help to co-ordinate applications of different local municipalities for limited national or provincial funds.
- It can serve as a watchdog for public spending

## Intervention Areas and Strategies for LRED facilitation

**Figure 11: Summary of Cornerstone 6**

Cornerstone 6: Building adequate management structures for LRED processes		
INTERVENTION AREAS	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
LRED management structure	<ul style="list-style-type: none"> <li>Identification and mobilisation of Champions and key actors</li> <li>Role clarifications</li> <li>Plotting and discussion of options</li> </ul>	<ul style="list-style-type: none"> <li>Institutional mappings</li> <li>Development of proposals for management structure</li> <li>Structured discussions with key players</li> <li>Systematic assessment of options</li> </ul>
Professionalism of management bodies	<ul style="list-style-type: none"> <li>OD interventions</li> </ul>	<ul style="list-style-type: none"> <li>Definition of roles, tasks and working structure</li> <li>(Re)designing of institutional structures</li> <li>Training sessions in facilitation competence</li> <li>Job descriptions and performance measurement system for staff</li> </ul>
Tools and instruments for LRED management	<ul style="list-style-type: none"> <li>Ensure and streamline communication flows</li> </ul>	<ul style="list-style-type: none"> <li>Use of local media</li> <li>Publication of newsletters</li> <li>Regular workshops/topic days for LRED stakeholders</li> </ul>
	<ul style="list-style-type: none"> <li>Conflict management</li> </ul>	<ul style="list-style-type: none"> <li>Identification and clarification of conflict lines</li> <li>Identification and communication of common interests and win-win situations</li> <li>Professional conflict mediation</li> </ul>
Financial sustainability of LRED process and management	<ul style="list-style-type: none"> <li>Assist stakeholder in funding requests, e.g. to donors and government</li> <li>Reduce costs of initiatives via joint action</li> <li>Guarantee efficient public spending</li> </ul>	<ul style="list-style-type: none"> <li>Provide information on and contact to funding institutions</li> <li>Develop/assist in joint applications</li> <li>Create mechanisms to hold local authorities accountable</li> </ul>

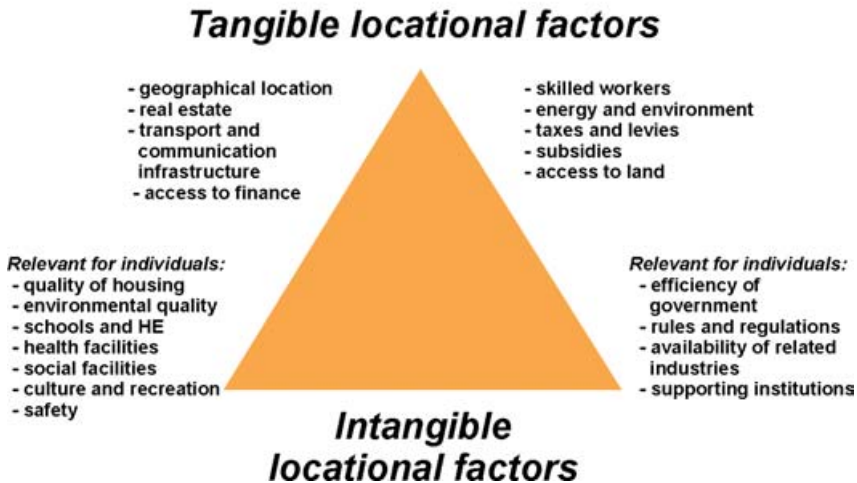
### 2.3 Intervention Area 3: Locational Factors for LRED

In today's world, the reference framework for successful LRED in an open economy is the globalized economic system. Regardless of the local character of interventions and objectives, any LRED initiative is bound to fail if this broader picture is neglected. The locality and its entrepreneurs are participants in an international competition for production factors and markets. The objectives of LRED - growth, jobs and income - can only be reached and sustained if LRED initiatives concentrate on increasing the competitiveness of their locality.

Strengthening the locational factors of an area is the key to strengthening its competitiveness. Locational factors are the criteria which decide on the attractiveness of an area for business. Locational factors rank from "hard" or tangible factors such as the quality of business infrastructure to "soft" or intangible factors such as the general image of a town, and not all factors have the same relevance for all firms.

Figure 12: Overview of Locational Factors

## What are locational factors



LRED facilitation can hardly address all locational factors, at least not all in one go. The task of LRED facilitation is to find and foster a meaningful and coherent way to incrementally improve systemic competitiveness of an area. This chapter will provide an overview of the intervention areas that we consider the most important when improving an area's locational quality and competitiveness. We will focus on four topics which rank from interventions at the meta level of values and belief systems to the micro level of individual firms: the general business climate of a locality, the outside image and marketing of the area, the access to support services and finance, the promotion of clusters, sub-sectors and value chains and the use of local natural resources for LRED. Naturally, this list of topics is not complete, but reflects the areas that we have found to be the most relevant in improving locational factors in South African municipalities. Depending on the specific context or stage of an LRED process, other topics might be of similar relevance.

### 2.3.1 Cornerstone 7: Creating a Favourable Business Climate

#### Why is this cornerstone important?

Business operates within a complex network of political, legal and institutional framework conditions - the "so-called" business climate. A conducive local business climate reduces the costs of doing business, unleashes economic potential and attracts investment. In contrast, if the local business climate is shaped by

## Intervention Areas and Strategies for LRED facilitation

problematic governance patterns, cumbersome political guidelines, laws and regulations and ineffective administration, private and public sector pay enormous and unnecessary costs with negative impact on economic growth patterns.

Which factors exactly define the local business climate? The term "business climate" comprises different areas and policy fields, which can be roughly summarized under four main categories. Each of these categories includes different factors that impact on LRED, which rank from the provision of adequate physical infrastructure to the capacity of local government staff:

**Figure 13: Core Elements of the Business Climate**

Core elements of the Business Climate	Key areas and problems
Governance issues	Rent seeking mechanisms, corruption
Policy, legal and regulatory framework	Property rights, business registration, employing, import and export, taxation, resolution of commercial disputes, etc.
Organisational framework	Institutional set-up of public and private sector institutions, capacity of government, capacity of advocacy institutions
Access to services	Access to high quality business services, access to finance, adequate social and economic infrastructure

While all these factors can have an effect on the success or failure of LRED initiatives in a given locality, not all of these factors can be similarly influenced by the local LRED actors in return. The decision-making processes of a number of factors or categories lie beyond the sphere of direct influence of local actors on provincial or national level. It is therefore important for local LRED initiatives to focus on the areas with the highest leverage factors at local level, such as the business-friendliness of local government.

### What are we aiming at?

A conducive local business climate reflects framework conditions which allow for an optimal utilization of the economic potential of a locality. Fostering these framework conditions does not replace, but accompanies other activities to strengthen locational factors and should be closely linked to them.

As an example, public support initiatives to emerging farmers by the government can only deliver satisfying results if not undermined by corrupt behaviour of the relevant officials. Training and other measures to fight corruption in local and regional institutions can play a crucial role here. Similarly, unresolved land issues and unclear property rights can hinder all efforts of a locality to increase the economic performance of their agricultural or tourist sector. Measures to strengthen property rights or speed up the resolution of land issues therefore can have a significant positive impact in such a situation.

In more general terms, interventions aiming at an improvement of the local business climate should assist Local Government and support institutions in providing effective support to the business community in a number of ways:

- LG provides a smart regulatory framework with minimum compliance costs for business. This includes the periodic monitoring, assessment and adjustment of rules and regulations such as local by-laws.
- LG assures that public-private interaction processes such as a business registration are managed in an efficient, skilled, transparent and service-oriented way,
- LG and support institutions are able to respond to requests or new problems fast and effectively and manage support-programmes in a transparent and sustainable way
- LG fulfils its task to provide public goods such as physical infrastructure in an efficient manner

### **What are promising strategies and processes?**

The major challenge when talking about improving the business climate is the complexity of issues touched. In the area of policies, rules and regulations, policy-makers are confronted with a number of interests and policy goals, which might even be competing with each other. A typical example is the design of health regulations, which aim at protecting workers' and consumers' rights, but which might put tremendous costs on individual businesses. Negotiating and balancing these interests in a way that assures the fulfilment of the different policy goals is therefore a complicated task. Competing interests can also become apparent with regard to the individual motivation of public staff. While the municipal manager might have a strong interest in strengthening and marketing the local business climate, improving the performance of public administration automatically interferes with the work routine of staff members and might create extra requirements for their jobs. Furthermore, the streamlining of procedures or the increase of transparency in public administration might touch individual power bases or revenue streams of individual staff members, as it takes away opportunities for rent-seeking behaviour such as corruption.

Given the complexity of the matter, improving the local business climate requires a set of processes and strategies interlinked with each other. Also, contextual issues such as the way of how the respective institutions are organised play an important role when adapting the right procedures and strategies. The following list represents several possible strategies that can be adapted to local contexts and will lead to the best possible output if combined.

## Intervention Areas and Strategies for LRED facilitation

### Local Business Climate Surveys

Measures to improve the local enabling environment often include the undertaking of a Local Business Climate Survey. Such a survey will help identify key issues in the LRED environment which hamper economic development. As many of these issues might be visible already or known to the relevant players, a limited number of interviews of relevant stakeholders from the public and private sector can already be sufficient for this purpose. Such a survey should always be undertaken in an action-oriented way and be directly linked to an implementation framework. Otherwise, it can easily lead to frustration especially on the private sector side as raised expectations towards change will not be met.

### Red Tape Reduction

In many cases, Red Tape is mentioned as a crucial obstacle for local businesses. Reducing Red Tape in public, parastatal and private institutions can therefore be a tremendous gain for the locality, as it not only reduces the costs of doing business, but the administrative costs of all parties involved. Furthermore, it improves the transparency and accessibility of the relevant institutions, which not only benefits local businesses, but is also an important advantage when trying to attract foreign investors. As cutting Red Tape by improving rules, regulations, procedures and services is a complex matter, it has to be viewed as a process with the final goal of increasing the sensitivity for Red Tape within all actors. In other words, not only existing Red Tape has to be reduced, but the creation of new bureaucratic hurdles has to be avoided in the future. There are a number of tools available for cutting Red Tape, which rank from designing a so-called "Investor's Roadmap", which lists all necessary procedures that businesses have to follow in order to be able to operate, to the facilitation of local Red Tape Workshops where local stakeholders jointly identify and implement solutions for cutting local Red Tape. A case study for such a Red Tape facilitation process is available from the GTZ LED Project in South Africa.

### Design of One-Stop-Shops

A possible outcome of a local environment survey or a Red Tape facilitation process is the streamlining of procedures and the reduction of interaction points between public and private sector. Setting up so-called one-stop shops for certain procedures such as business registration might therefore be a valuable idea. The idea behind a one-stop shop is to create a single entry and communication point for business people to interact with government. All following procedures are then handled by the government officials, without action from the entrepreneur required. However, such initiatives carry the risk of creating a one-more-stop shop if not managed carefully.

### Support decentralization processes

Improving the local business climate through local action can only be effective if some devolution of power enables Local Government to take autonomous decisions. Decentralization and the institutionalization of subsidiarity therefore play a crucial role in this cornerstone and represent issues that cannot be tackled at the local level only. However, in many countries decentralization processes are taking place, placing more power, but also responsibility on the local actors. In such a situation, advising, training and coaching local decision-makers with regard to their new competencies and responsibilities can become an important task of an LRED initiative.

**Figure 14: Summary of Cornerstone 7**

Cornerstone 7: Creating an enabling environment		
INTERVENTION AREAS	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
Policy, legal and regulatory framework	Collect and share information on burning issues of local Enabling Environment	Local Business Climate Survey
	Motivate cutting local Red Tape	Red Tape facilitation process
	Create efficient and transparent procedures and support structures and services	Establishment of 'one-stop shops' for business contacts and services
	Improve access to resources such as land and assisting communities to gain user rights & control overuse	Facilitate community resolutions for land rights Assist communities in negotiation and land management processes
Good Governance	Introduce accountability and anti-corruption measures	Policy advice, peer review mechanisms, transparency initiatives
Organisational framework	Devolution of decision making powers and resources	Process facilitation, role clarification, OD interventions
	Improve the capacity and service-orientation of local institutions	Training of staff, Introduction of code of conduct

### **2.3.2 Cornerstone 8: Locational Marketing and Investment Promotion** **Why is this cornerstone important?**

LRED initiatives generally target three types of business: existing local businesses, local start-ups and external new firms and investors. Attracting external investors can be particularly relevant for locations with a weak local company base and little entrepreneurial dynamism. External investment can add enormous value to an area in several ways: it can create jobs and income for the local population and significantly increase the area's revenue base, with indirect effects on poverty alleviation through higher public spending. A new firm can serve as an important carrier of innovation and technology transfer for local firms, and bring important spin-offs for local SMMEs in the form of a high demand for inputs and services and

## Intervention Areas and Strategies for LRED facilitation

the possibility to participate in the upstream value chain. The new firm might be the entry point to attracting similar new enterprises which expect to profit from the support structures that develop around the first enterprise. And finally, if a location has developed a certain profile or cluster, the attraction of e.g. quality service providers benefits other firms in the region and increases the attractiveness of the area for innovative human capital.

LRED initiatives can support and channel the attraction of new investors via locational marketing. However, new investors are not the only target group of locational marketing. Making a location generally attractive for young professionals, families or higher income groups can directly add value to a location and its local economy via higher revenue streams, an increase in the local purchasing power, the availability of skilled labour and the demand for new goods and services. Improving the general quality of living e.g. via urban upgrading initiatives or better schools should therefore be considered in local marketing strategies.

Finally, the attractiveness of an area for tourists or the marketing of local brands is an important element to increase the customer base for local products. Especially in the agriprocessing and food industry, there has been a strong trend in recent years in the international end consumer market towards products with a clear local branding.

### What are we aiming at?

Investment promotion and locational marketing should always be carried out with close links to the broader LRED initiatives and objectives. Investment promotion and locational marketing is optimal if it is able to exploit and enhance synergies between different LRED activities, builds on existing or emerging strengths of the area and helps close gaps with regard to input, output and service markets. Ideally,

- Investment promotion helps building a local profile and facilitates the development of business clusters
- Investment promotion attracts external suppliers, complementary firms and service providers and thus helps strengthening the local business base instead of crowding out local businesses
- Investment promotion is aligned with important sector policies, especially with skills development and higher education strategies and institutions
- Locational marketing is not narrowed down to hard and tangible locational factors such as labour costs, but includes the promotion of a high quality of living
- A strong local brand strengthens the attractiveness of local products in regional, national and international markets.

### What are promising strategies and processes?

Strategies and processes for locational marketing vary according to the setting and the aim of the marketing initiatives. Ideally, locational marketing comprises all relevant dimensions: direct investment promotion via competitive factors and specific incentives for firms, locational upgrading to improve the general living standard and the development of a local brand to promote local products.

#### Developing an investment profile

Generic investment promotion without a specific profile only rarely shows the expected results. LRED facilitation should therefore support "strategic investment promotion": this means attracting the right firms, building on specific local strengths and exploiting the most relevant competitive advantages. Developing a local profile is therefore often the start to successful investment promotion. Such a profile can be linked to efforts of cluster promotion. Clusters develop best in an area where the target industry is already present and where specific competitive advantages for this industry (e.g. an efficient service structure or infrastructure) have developed to a certain extent. Once a cluster has been identified and it starts developing, it provides opportunities to foster and market it. This can take the form of attracting supporting investment, setting up a specialized business incubator, fostering research and development around the cluster as well as promoting business opportunities externally along emerging value chains (for details on clusters and value chains see cornerstone 10). Other criteria to be taken into account when developing an investment profile are distributional effects of the investments, the expected value to be added, and the costs of new investment in terms of negative effects on the economic and ecological structure.

When deciding on the right incentives for strategic investment promotion, it is important to be aware of the importance and relative weight of different production factors. Especially relevant for investment decisions of firms is the local skills base. Skills comprise the gene pool of successful economies, they are one of the few specialized factors of production that companies must acquire locally and are essential for value adding businesses. Many services and supplies can be purchased nearly anywhere, but not mid-skilled labour. Therefore, it is not surprising that the work force is often found to be the most pressing problem for strategic investment promotion. On the other hand, skill shortages provide important incentives for e.g. a cluster to take collective action in order to solve the problem. Linking skills development with the strategic investment profile of a region is therefore a crucial factor for locational quality. Strengthening the networking between different educational institutions and the industries, targeted information campaigns for students and supporting the design of appropriate skills development services can be

## Intervention Areas and Strategies for LRED facilitation

important initiatives of LRED facilitation in this context.

### Building a local brand

Developing a brand for the locality and its products is of growing importance in geographically growing markets, where products from different regions compete in the anonymity of global competition. Market research has shown that consumer decisions especially in the higher price ranges in the food and beverages sector are strongly influenced by the geographical origin - and thus the image - of the product. Product differentiation via local branding, which has always been relevant in the tourism sector, is therefore gaining more and more relevance in agriculture and agri-processing industries. As with investment promotion, developing a local brand and "typical" local products should also be clearly based on the competitive advantages of the area. Too many initiatives have failed as the local brand and its products were mere copies of "trendy" products not rooted in the context of the local competitive advantages and uniqueness, and thus not competitive with the growing supply from other regions.

Focus, uniqueness and credibility are keys to successful local branding. Local branding will only be successful if the brand is sharp and recognizable, and creativity is required to identify the most promising strategy and products. The use of participatory analytical tools for the identification of local competitive advantages, market research on product demands and horizontal exchange between regions on innovative ideas (e.g. via study tours) can be useful instruments. Joining forces with neighbouring regions for larger branding campaign can also increase the visibility and credibility of the brand.

### Improve the quality of living

Improving the soft or intangible locational factors of an area, e.g. via better communal and security services, improved access to schools, etc. can play an important role in attracting new skills to the area. Also, in places which aim at a share especially in the international tourism market, the cleanliness of the place, public facilities, safety issues at local sights or the availability of leisure goods and services are crucial factors for increasing the attractiveness of the area. In this case, linking the relevant authorities - e.g. the municipality or local police - with the local business people of the tourism sector and the local community can be a good starting point. Providing a platform for articulating the complaints and concerns and jointly developing solution strategies can produce quick and very visible effects on the appearance of the locality, e.g. via the establishment of an LRED forum.

### Professional marketing

Communicating and transporting regional profiles and brands is only successful with professional marketing instruments. Marketing expertise is often available locally. Better-resourced localities might contract local private marketing businesses for carrying out the campaigns or set up specific marketing institutions. If not available locally, municipalities might also buy the expertise of professional marketing agencies outside the area. However, in the multi-stakeholder setting of LRED, experienced local champions might also volunteer to provide their expertise to the process, and voluntary institutional mechanisms can be established. Often, institutions such as tourism offices might exist already which can extend their services to cover the marketing of local products. In the context of investment promotion, government officials can take up the task of representing the region outside and being the first contact point for investors, e.g. an investors' help desk can be installed. This can also be integrated into a one-stop-shop through which the municipality services all business requests and contacts. Also, the importance of local business people as advocates for their region should not be underestimated. Regardless of the communication channels, professional and well packaged information material is crucial for the successful marketing of the area.

**Figure 15: Summary of Cornerstone 8**

Cornerstone 8: Locational Marketing and Investment Promotion		
INTERVENTION AREA	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
Investment profile and investment promotion	Strategic investment promotion	Identify competitive advantages for investors (use of participatory analytical tools) Develop a regional profile Use existing firms as entry point for cluster initiatives Design targeted tax incentives
	Demand-Oriented Skills Development	Facilitate networks and demand-supply information exchange on skills, support design of demand-oriented services for skills development
Quality of living	Social Infrastructure development Security Urban upgrading	
Competitiveness of local products	Local brand development based on uniqueness and competitive advantages	Identification of innovative and unique characteristics and products Market research on product demands Networking with neighbouring regions
Marketing and provision of information	Provision of high quality packaged information	Develop high quality brochures, etc.
	Quick and competent response to businesses	One-stop shops or investors desks
	Visible and efficient marketing institutions	Use local champions knowledge or local professional marketing agencies Link local product promotion to tourism promotion and offices

### 2.3.3 Cornerstone 9: Improving Access to Business and Financial Services

#### Why is this cornerstone important?

Firms depend on a variety of business and financial services<sup>11</sup> in order to be more competitive and to grow (see table 1 below). While large firms are often in a better position to employ in-house specialists for certain functions, small firms are almost completely dependent on external assistance for all the functions they can not afford in-house. That said, small and large firms are often discouraged from operating in certain locations because of a lack of access to a diverse range of services and expertise. The competitiveness of a local economy is nowadays frequently judged by the existence of private and public support institutions providing a range of services. Many kinds of services are not needed on an operational or continuous basis, but when they are needed it is very important that they are accessible. Examples of these Strategic Services are when a small firm needs to secure a loan, or when a firm needs to improve its production process.

It is important to stress the fact that access to business services includes both financial and non-financial services, the latter often labelled as Business Development Services (BDS). This understanding of Business Services goes in line with an increasing number of donors and development agencies who have dropped the term BDS and opted for the wider 'Business Services' term, which includes all services that small firms use in order to perform, compete and grow.

One of the challenges of service markets is that they are often weak in the more rural and smaller centres. This may be due to economies of scale, or a lack of clearly expressed demand. But service markets do not always perform very well in urban areas either. This is largely due to the existing culture of manufacturing and the relative novelty of the "knowledge economy" and the importance of "service sectors". Economic liberalization and new technologies have introduced a level of global competitiveness and a need for specialized business services to which many businesses still have to adjust.

Furthermore, business services providers often compete with subsidised or publicly funded service providers. In recent years there has been marked progress in the field called Business Development Services (BDS) and in financial markets. In both these fields there has been an increased emphasis and progress in the development of private markets of supply and overcoming "market failures" in the business service sector. This has also led to a more recent trend of "making markets work for the poor" (MMW4P) that was initially promoted by DFID. Nevertheless, not all of the

<sup>11</sup> In this chapter financial services like financial planning, financial advice, insurance and to a limited extent access to finance will be dealt with. There is a specialised field on the development of complete financial markets, systems and micro-finance that will not be dealt with here. These topics are often not covered within the field of LED due to scale and policy. For more information visit <http://www.cgap.org>

services required by businesses in the global competitive environment are "private goods" (i.e. of such a nature that the benefits accrue solely to the business buying the service and that therefore the private sector can provide on a profitable basis) and some public business support (e.g. in the fields of information and research and development) is required to catapult the business community of a country to a higher technological level.

**Figure 16: Business services used most often by small firms**

Accounting and Bookkeeping	Legal Services
Financial Planning and advice	Marketing and Research
Mentorship and Business Advice	Product Development and Testing
Production Advice	Transport
Environmental Services	ICT
Human Resource Management	Export Services
Skills development and Training	Quality and Standards
Management Training and Development	Media and Advertising

### What are we aiming at?

From a LED perspective, it is important to determine whether local firms have access to a sufficient range of business and financial services. It is not enough that service providers exist. These service providers must provide an adequate range of services with various options that firms can choose from. This requires service providers that are able to respond to the needs of firms with flexible or responsive product offerings, payment options and value for money.

Awareness about the range of different services and when to use them must also be increased. Chambers of commerce, public BDS providers, and support agencies can all play an important role in the promotion and support of service markets. They can also play an advocating role to service providers by promoting unmet needs of smaller firms to service providers.

Another perspective is that many market failures and business problems can be addressed through the provision of new services. In a location with a growing tourism sector, a marketing agency that doubles as a booking agent may be a viable business service. In other cases, micro lending or venture capital may be required.

### What are promising strategies and processes?

In many places small firms are not aware of the various services that do exist, or they are unaware of where certain services can be obtained. This is further compounded by an uncertainty of what to expect, or how to approach service providers. Thus, the awareness levels and visibility of the different services must be improved. This can typically be achieved through networking events, media campaigns and publications.

In more rural areas service providers are often more generic than specialised. This may be due to an insufficient demand for specialised services. But often it is also due to the difficulty for service providers to identify new demand, or to assess the feasibility of developing new skills. Thus, an important strategy is to identify unmet needs and to make this information available to potential service providers. Linking service providers to specific value chains or clusters may also serve to generate demand and supply of specialized services.

In many cases, business service providers are small firms that may be constrained by all the challenges that small firms usually face. Thus, service providers may also find it difficult to gain access to funding, skills, technology and markets. They may not be aware of recent developments on topics like product/service development, customer service and so on. One way to improve this is to give service providers specific development support, as this sector is seen as a lever that will have an exponential impact on the rest of the local economy.

A Market Assessment is an instrument that can be used to thoroughly analyse the demand and supply of a given service. This instrument can be applied to determine the service needs of a specific location, target sector, cluster or value chain.

In many cases, however, quantitative research may not even be necessary to pinpoint the demand. Sometimes the shortcomings or absence of a specific service can easily be pointed out by local business people in the course of the implementation of other private sector support initiatives or participatory LED processes.

Once the demands are identified, there are 3 main strategies to address the issues:

- Raise awareness of the needs or of the existing supply to the market.
- Support the improvement of the quality, diversity or delivery of an existing service.
- Develop new services and service providers from scratch.

When intervening into service markets, care should be taken not to destroy or sabotage the working of the existing service markets. If possible, a close relationship

## Intervention Areas and Strategies for LRED facilitation

between commercial service providers and publicly funded service providers (like Business Advice Centres) should be fostered with the public providers concentrating on awareness raising and referrals, and the private providers concentrating on delivery.

In any case, the development of business and financial service markets is a slow and difficult process that may require temporary public/donor support to overcome market failures.

**Figure 17: Summary of Cornerstone 9**

Cornerstone 9: Improving access to Business and Financial Services		
INTERVENTION AREA	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
Service needs assessment	Analysis of the current supply and demand for a given service	<p>Conduct a Market Assessment to better understand the constraints to supply, demand and the working of the market.</p> <p>Use workshop events or knowledge of a sector to identify service markets that are not performing properly.</p> <p>Assess specific service needs in the context of value chain and cluster initiatives.</p>
Awareness of service options and needs	<p>Improve the awareness and knowledge of firms of different options</p> <p>Improve the awareness and knowledge of service providers of the challenges facing small firms</p>	<p>Use the media to profile case studies of successful use of services.</p> <p>Consumer education campaign on how to use a service, what it should deliver, cost and impact.</p> <p>Make public information regarding unmet needs, challenges and issues facing small firms in order to raise awareness of business opportunities.</p>
Improve current services	Develop service products	Run service improvement workshops, benchmarking exercises or service/product design training to stimulate the improvement of the supply of service
	Develop the business skills of service providers	Conduct business training programmes with service providers that deal with the management of a professional service business, knowledge management, etc.
Design new services	Develop completely new services	This is a resource intensive approach to develop and test a new service market. Proper service/product design methodologies should be used
	Develop completely new service providers	Where current service providers are unable to respond to certain needs, new service providers could be developed. This is also very resource intensive
Institutional development of public organisations	Improve the relationship between public and private supply of services.	Develop the role and competence of public agents like a Business Advice Centre or a chamber of commerce to promote and support business services

### 2.3.4 Cornerstone 10: Promoting Clusters, Sub-sectors and Value Chains Why is this cornerstone important?

Developing the economy of an area means that the firms in the area must become more competitive and grow. Firms are connected to suppliers, service providers and

## Intervention Areas and Strategies for LRED facilitation

markets through networks and market systems forming small economic sub-systems. With the onset of globalisation these regional or local economic sub-systems compete with sub-systems in other parts of the country or the world. Thus, the economic well-being of an area very often depends on the collective performance of groups of firms in its locality.

By understanding these sub-systems, a more leveraged approach to local economic development can be reached. Rather than trying to grow the local economy one firm at a time, the needs, issues and opportunities of a selection or group of firms can be dealt with at the same time. This allows for specific gaps to be addressed and for improved networking and co-operation between the various actors involved in the local economy. Opportunities for the development of new firms, for new investment or for the creation of specialized factors of productions can be identified when working with groups of firms that are interrelated.

The three terms that are often used interchangeably to describe the analysis of these economic sub-systems are value chains, clusters and sub-sectors. While the focus of the three approaches is different, many of the tools and instruments are common. In fact, ideas, concepts and instruments are constantly flowing between these three fields.

Value chains: A value chain describes the full range of activities required to bring a product from its conception to its end use. This includes activities such as design, production, marketing, distribution and support to the final consumer. The activities that comprise a value chain can be contained within a single firm or divided among different firms. Value chain activities can be contained within a single geographical location or spread over wider areas. Value chain analysis (VCA), therefore, is the methodology by which the structure and processes of a value chain are understood.

Sub-sectors: In most cases, a sub-sector is delineated by a particular final product<sup>12</sup> and includes all firms engaged in raw material supply, production and distribution of that product. Very often the defining characteristic is a key raw material, for example forestry or gold. The term sub-sector is used to describe all the activities involved in the transformation of the raw material into various forms; the distribution and marketing of these products. Sub-sector analysis, therefore, is the methodology by which the structure and processes of a sub-sector are understood.

Clusters: The term clusters refers to a sectoral and geographical concentration of enterprises and can be defined as *"geographically close groups of interconnected companies and associated institutions in a particular field, linked by common technologies and skills. They normally exist within a geographical area where ease of*

<sup>12</sup>Hagglblade, S.J and Gamser, M.S. A Field Manual for Sub-Sector Practitioners. Tools for Microenterprise Programs: Nonfinancial Assistance Sector. US-AID Gemini Project. 1991

*communication, logistics and personal interaction is possible. Clusters are normally concentrated in regions and sometimes in a single town".<sup>13</sup>*

All these approaches require a careful analysis of the direct industry players and the surrounding economic and social landscape. The local factor conditions, supporting and related industries, interrelationships, market demands, enabling environment provided by the public sector and social-economic issues need to be taken into consideration and analysed. The results can be used to develop specific competencies in industries, to develop specialised factor conditions, to provide supporting measured by the public sector or to even create new firms targeting gaps within the local or regional supply system. For governments, this analysis is useful in the formulation of specific policies and priority programmes that support the growth of the sector. For the private sector this kind of analysis is useful in reaching a better understanding of the inefficiencies within their sector, forces shaping their sector, and opportunities for upgrading and improvement.

### **What are we aiming at?**

The general objective of intervening in value chains, sub-sectors and clusters is to, assist the various stakeholders in a particular industry segment to perform better, to grow and to be more competitive. This implies that

- the weakest links are identified and improved. As the saying goes, "a chain is only as strong as its weakest link".
- the changes in the economic and technological environment are well-understood in order to ensure the survival and evolution of the specific sub-system,. This includes an understanding of the use of technology, information and other factors that are influencing the industry.
- communication and networking within these sub-systems are functional. Very often, well-organised clusters and value chains outperform loose formations of firms. Large retailers often depend on the strengths of their supply chains for their competitive advantage. Especially smaller firms are often disconnected from the bigger picture, with established firms being better resourced to remain informed and connected through contracts and partnerships.
- co-operation is increased to overcome barriers to economies of scale, indivisibilities or to gain access to markets, which is not always an instinctive behaviour of firms and needs a facilitation process.
- opportunities for the improvement of the supporting industries and government are identified and utilized, e.g. in the area of specialised skills

<sup>13</sup>Michael E Porter, 1990 "The Competitive Advantage of Nations", New York

## Intervention Areas and Strategies for LRED facilitation

development, research and development, business and financial services, incentive programmes or specific infrastructure development.

### What are promising strategies?

Earlier, it was mentioned that the instruments used to analyse clusters, sub-sectors or value chains are very similar. Basically there are 2 main approaches to the analysis of value chains, sub-sectors or clusters. The first is to conduct more quantitative research into the given sector. This often leads to strategy documents and well resourced plans. This approach is often useful for policy formulation, investment promotion or research purposes. The second is to conduct a more participatory analysis in a process form that leads to immediate change in the system.

Whenever working with a value chain, sub-sector or a cluster it is very important to get the private sector strongly involved in the analysis and promotion of the target sector. Frequently, the public sector undertakes research into a cross section of private sector firms, without the interest, commitment or participation of the private sector. This means that the private sector must not only be consulted, but must actively be involved in the process in order to get the sector to perform better. This is often best achieved through a process design that includes both participatory and quantitative methods.

Analysing a targeted sector need not be very expensive or sophisticated. Very often, the first step is to get the stakeholders together, and to use practical instruments like a simple mapping of the stakeholders and their relationships for analysis. From there on, quantitative data (like employment data, firm numbers, product flow etc) can be added and presented to the stakeholders. Analytical instruments like Porters Diamond can also be used and others can be used to identify weaknesses and opportunities for the given sector. The supporting and related industries, public sector agencies and even target markets should form part of the analysis and should be part of the solutions as well.

The key strategy should be to get a process of incremental improvement of the direct stakeholders in the given sub-system going. This means that the businesses involved must achieve a direct benefit out of the process, and the public sector must be able to better shape their support around the strategies that arise from the process. Activities around networking, joint buying, joint marketing, improved information sharing and even brokerage services are all popular outcomes of this kind of analysis.

A critical element is not to be distracted by symptoms or obvious fixes, but to remain focused on a systemic perspective of how the sub-system is working

## Intervention Areas and Strategies for LRED facilitation

(see section 1.5 for more information). A framework like the Systemic Competitiveness Benchmarking Table can also be useful to pinpoint areas of weakness.

**Figure 18: Summary of Cornerstone 10**

Cornerstone 10: Promoting clusters, sub-sectors and value chains in LRED		
INTERVENTION AREA	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
Clusters	Improve the competitiveness and performance of a given cluster in an area	Conduct a cluster assessment that investigates the information flows, relationships, technology usage, etc. Identify opportunities to upgrade or opportunities to share resources Establish a network broker or joint resource centres
Value chain	Improve the performance of a group of firms within a value chain through the improvement of the value chain	Conduct a value chain assessment that indicates product flow, information and relationships and supporting actors Analyze for opportunities and obstacles that can be addressed
Sub-sector	Improve the performance of a sub-sector with a specific emphasis on small firms	Conduct a sub-sector analysis to identify constraints and obstacles in order to stimulate growth Identify business services used in the sub-sector that could improve the performance further (see Business Services cornerstone)
Improve public support to specific sub-sectors or clusters (see also next cornerstone on investment promotion)	Identify the resource and infrastructure needs of the target sectors and mobilize the public sector to support them	Develop special hard and soft infrastructure Promote special interests to other government actors (e.g. Universities) Create incentives for investment
Improve the generic and industry specific business services.	Identify the shortcomings of the current service offerings and improve the reach and richness of services to the sector.	Identify, strengthen or build up business services that could support the cluster (see Business Services cornerstone)
Creating networks or sector facilitators or marketing bodies	Connect businesses in order to create economies of scale, or to optimize resource usage Identify potential markets and promote products to them while at the same time communicating market opportunities back to the sector	Identify a host organization that can act as a relationship broker and facilitator between businesses Develop a marketing body that promotes and markets the products of the sub-sector, cluster or value chain component
Strengthen the support to a sector or cluster in order to improve the institutional layer	Align supporting institutions and business services to support growth and competitiveness	Involve and focus supporting institutions on growth opportunities Mobilize business service sector around new opportunities and specific requirements of the selected sector
Improve the visibility and branding of the sectors (Investment promotion and Marketing)	Raise awareness of the sector to potential investors and to end markets. Attract more supporting businesses and institutions to locality	See the cornerstone on Investment Promotion and Marketing

### 2.3.5 Cornerstone 11: Utilizing Local Natural Resources for LRED

#### Why is this cornerstone important?

Community Based Natural Resource Management (CBNRM) has become an important conservation and development strategy in many parts of Africa. The CBNRM guidelines of the South African Department of Environmental Affairs and

## Intervention Areas and Strategies for LRED facilitation

Tourism (DEAT) define the approach as follows:

*"Community Based Natural Resource Management is about local people coming together to protect their land, water, animals and plants, so that they can use these natural resources to improve their lives and the lives of their children and grandchildren. It is a tool to enable every willing member of the community to play a part in improving the quality of people's lives - economically, culturally and spiritually. CBNRM is a way for communities to work together to protect their natural resources and at the same time bring long-lasting benefits to the community."*

The importance of CBNRM in the LRED context lies in its potential to:

- Give people access to resources
- Improve farming and food supply
- Create jobs
- Build small businesses
- Provide opportunities for education and training
- Build community organization
- Improve community health
- Maintain and strengthen cultural and spiritual values

### **What are we aiming at?**

CBNRM essentially seeks to combine ecological conservation with economic growth, and to harmonise the environment with the economy of a region. CBNRM is an opportunity for the most marginalised players of the economy to enter the arena of economic activity, using the most available means of production - the natural environment. The obvious challenge is the challenge of sustainability, and the capacitation of these market entrants to manage the resources in a manner that allows for continuous economic activity.

Within communities or geographical areas where CBNRM is growing as a LRED activity, an important aim is to overcome fragmentation among players so the interconnected natural resources can be managed at a local or regional level.

A further aim is to promote financial relationships or partnerships between formal and less formal players within the CBNRM economy. Financial institutions and formal business need to be exposed to the risks and benefits associated with CBNRM, and frequently those who engage with CBNRM at community level lack formal marketing and business skills. Examples of this are marketing in the craft sector or even resorts built in conducive natural environments where communities hold meaningful equity and obtain proper returns from tourism enterprises.

## Intervention Areas and Strategies for LRED facilitation

In the same way that fragmentation may occur among communities in a region, a similar and more structural kind of fragmentation exists among local, regional and national government agencies involved with the management of natural resources. An important aim of CBNRM and LRED is to assist with the co-ordination and the promotion of communication between the different government agencies and between the agencies and communities. In some cases, there is a need to promote awareness among government agencies about CBNRM and its relationship to LRED.

With all the focus on industry, manufacturing, value chains, sub-sectors and the other catch-words of LRED, there is a surprising lack of knowledge among practitioners about CBNRM. An important aim is the promotion of research, and the dissemination of information to practitioners about CBNRM-related opportunities.

### What are promising strategies and processes?

Based on the above aims, a number of strategies and processes need to be initiated within local and regional economies to ensure the correct management of natural resources for economic growth.

**Figure 19: Summary of Cornerstone 11**

Cornerstone 11: Utilizing local natural resources for LRED		
Intervention Area	Key Strategies & Processes	Options / ways to implement
Fragmentation and co-ordination	Improve co-ordination in a local or regional economy between players using similar or the same natural resources to promote sustainable use	Assess region to identify natural resources and groups using them Convene interactive processes between players Develop sustainable natural resource management strategies Look for other opportunities to synergise i.e. marketing, cultivation
Partnerships	Improve links between the formal and less formal economic actors	Convene interactive processes between financial institutions, marketing organisations and the users and producers of natural resource based products. Convene interactive processes between potential partners in location-based tourism opportunities
Intra-governmental co-ordination	Improve co-ordination between government agencies responsible for regulating natural resource utilisation	Initiate planning processes to educate regulatory bodies active in a specific locality or region about the need for a co-ordinated approach. Initiate training processes to educate regulatory bodies about CBNRM and LRED.
Tenure and use rights	Improve economic security by clarifying and stabilising tenure and use rights	Convene interactive processes between users and regulators to promote a greater understanding between players. Initiate legal processes to stabilise tenure and user rights.
Awareness in government	Improve awareness in government about the LRED potential of ecosystem services and CBNRM economics	Initiate workshops at national, regional and local level so government understanding and capacity on ecosystem services and CBNRM is built.
Research	Improve the access to knowledge about the potential for CBNRM in LRED	Support and publish papers on replicable CBNRM success stories.
Training and capacity building	Increase the availability of CBNRM LRED practitioners	Initiate training and capacity building to develop a strong layer of CBNRM LRED practitioners

### 2.4 Intervention Area 4: Strategy and Learning

A dynamic LRED process creates momentum, commitment and a lot of learning. Channelling this creative mixture into a structured pattern of strategic action and learning requires the design of strategy and learning mechanisms. The task of doing this is not simple, as it runs the risk of undermining the process' flexibility and dynamism, which would render the locality becoming another bad example of inflexible, un-dynamic and finally unsuccessful LRED. But these risks are clearly outweighed by the benefits of institutionalizing strategy and learning mechanisms: synergies can be used better, learning gets fed back into the system and utilized, and the process can be directed and steered towards longer-term development goals. The creation of a learning culture and learning mechanisms that guarantee the constant improvement of the process and the development and implementation of a strategic orientation for the diverse activities within the overall process is therefore an important task of LRED facilitation.

#### 2.4.1 Cornerstone 12: Fostering a Learning Culture and Learning Mechanisms

##### Why is this cornerstone important?

Understanding LRED as an incremental process includes looking at it as a constant learning process. New situations, ideas, opportunities and threats challenge the local stakeholders and their LRED management structure every day and produce innovative thinking, which, regardless if the decisions taken prove to be successful or not, generates experience and learning. Companies learn how to produce better and in a more efficient way. Various local stakeholders learn about the actors, the structure and evolutionary pattern of the local economy, learn about opportunities to stimulate upgrading in the local economy, and the tools necessary to do that.

Capturing, analysing and communicating these lessons learned helps to repeat success stories and prevents the replication of mistakes. It builds a local knowledge base to constantly improve the quality of the LRED process and its initiatives, and strengthens the area's competitiveness.

Such a learning system is based on two prerequisites:

- A learning culture of local stakeholders which is based on the openness to critically analyse and adapt future action to the lessons learned
- The existence of institutional mechanisms which allow for the constant production and sharing of learning, so that the activities, roles, and relationships of different actors and their overall effectiveness can be evaluated. These mechanisms need to cover three dimensions: the

## Intervention Areas and Strategies for LRED facilitation

systematic collection of data (monitoring with regard to inputs, outputs, impact), the analysis of results and the drawing of conclusions (evaluation and reflection), and the feedback and application of the lessons learned.

Learning processes and mechanisms are important for all different activity levels and actors of an LRED process. Facilitating the emergence of a learning culture and the adequate learning mechanisms at all these levels is crucial to long-term success in LRED.

### What are we aiming at?

In an ideal situation, stakeholders should assess together the performance of the actors in the change process, and accept both success and failure as learning tools, which can be built upon for:

- critical self-awareness and evaluation of activities as the foundation for improvement of approaches and methods in their interventions;
- analysis and documentation of the lessons and insights gained, so that new activities are built on experience and this know-how is shared and distributed;
- clarification of the aspired goals and objectives, which facilitate the steering of the process and its activities towards an increasing level of impact;

Ultimately, the aim is to create a learning system which has in-built reflection mechanisms to improve performance and relevance in an on-going manner.

### What are promising strategies and processes?

Individual and organisational learning takes place in a continuous, dynamic process. The more the actions and interactions are based on the will to improve and to generate and share learning, the more dynamics are set free in this process.

#### Fostering a learning culture

Creating openness for learning processes has to be approached from different angles. Many times, existing structures and interaction mechanisms set counterproductive incentives to learning. If, for example, performance measurement of Local Government or a support institution sanctions any type of mistakes by its staff, creative and open learning processes in these institutions are difficult to create. The same is true for competing actor groups with little social capital, where one group only waits for the other one to make a mistake in order to discredit it publicly. The

## Intervention Areas and Strategies for LRED facilitation

starting point for developing an open learning culture is therefore often to convince hierarchical structures and competing stakeholder groups to see the benefits of mistakes if they become translated into learning.

### Support to learning platforms

A promising strategy for enhancing learning and a learning culture without creating too complex structures is the development of learning platforms, where stakeholders and stakeholder groups can formally or informally exchange their knowledge and learning. These platforms can be organized on an ad-hoc basis (e.g. topic focussed discussions when need arises) or as permanent networks, e.g. in the form of a peer network to exchange experiences. A good example for such a peer network is the South African LED network. This network is driven by LED consultants and supported by a number of institutions such as SALGA (South African Local Government Association) or DBSA (Development Bank of Southern Africa) and GTZ. Its membership structure comprises more than 200 LED practitioners from different backgrounds, and the services offered include the provision of information on LRED via an electronic library, several Communities of Practice around LRED topics and marketing support for practitioners.

### Development of M&E systems

The ability for reflection can be strengthened further via the development of goal-oriented M&E systems. M&E systems for relevant institutions and activities can help to prepare and structure these reflection points. They organize the focussed collection of data, define criteria for evaluating this data via time-bound objectives and indicators and set the timeframe for the periodic assessment and redirection of the course and action taken. However, these M&E systems should not be too complex and should not draw too many resources from the implementation process. Robust M&E systems based on a couple of key indicators are often sufficient to give orientation and structure learning.

Developing a multi-stakeholder LRED M&E framework helps to align different systems towards common goals, and steer the overall process and its parts with a clear impact orientation. The agreement on such an overarching M&E framework for the complete LRED process brings many benefits, as it gives focus to the LRED process, aligns the different stakeholders towards common goals and facilitates compromises for the benefit of reaching these goals. The agreement on top-level objectives and indicators provides orientation to the different initiatives, as they can scale down these objectives and indicators to their institutional mandate and link their operational planning with it. Finally, the practical implementation of such a framework guarantees that learning processes become part of all initiatives and institutions involved in the process. However, setting up such a framework is not an easy task.

Different institutional logics might compete for the formulation of the right objectives, and the ownership of the framework might not always be clear. It is the facilitator's task to clarify these issues and develop a common ownership structure of the tool.

In general, the establishment of such M&E systems will only be fruitful if three issues are taken care of:

First, the system must be clearly understood as a learning tool, not as an instrument for sanctioning behaviour. M&E systems too often apply rigid criteria and ignore the open discussions around failures, thus undermining the learning culture they are designed to support.

Second, these systems must be systematically linked to the planning and management frameworks for future action. If not, they are rendered futile, as their findings will not influence the further steering of the process in a significant way. In South Africa, it is specifically important to link M&E systems for LRED to the yearly Integrated Development Plans (IDP) and review cycles, where a high percentage of future resource allocation is decided upon. A way to establish these linkages is to connect the M&E system institutionally with the IDP planning cycle. The indicators of the M&E system for LRED should be identical with those used for reviewing LRED activities in the IDP. The reorientation or redesign of LRED activities should be based on the reflection of the success and failures so far, and the planning of new activities should be based on the impact model that the LRED process is based on and on the concrete lessons learned that have been generated so far.

### Documentation and information sharing

Finally, the documentation and distribution of M&E findings, the outcomes of learning cycles and the lessons learned for a wide range of stakeholders must be guaranteed and organized in a user-friendly way. If this does not happen, the learning processes fail to be inclusive, and will not produce a broad local knowledge base that strengthens the competitiveness of the area.

**Figure 20: Summary of Cornerstone 12**

Cornerstone 12: Fostering a learning culture and learning mechanisms		
INTERVENTION AREA	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
Openness for learning	Increase acceptance of mistakes and failures as learning	Structured discussions with hierarchy and competing groups around the importance of learning
	Provide practical opportunities for positive experiences with learning	Facilitate formal and informal learning platforms and learning networks
Alignment of process towards impact	Joint agreement on goals and objectives and timeframes for LRED process	Develop overarching M&E framework for LRED process (e.g. via the Compass tool)
Provision and sharing of information for learning processes	Support the development of M&E systems for processes, institutions and initiatives	OD interventions on M&E and performance measurement systems in relevant institutions
Evaluation and reflection	Build in fixed reflection points based on the information collected	e.g. semi-annual evaluation meetings between key stakeholders
Planning based on learning	Link planning instruments to learning process	e.g. combine design and review of IDPs systematically with LRED M&E system (e.g. via the Compass tool)
Feedback and sharing of knowledge	Guarantee effective and inclusive knowledge management	Systematic documentation and distribution of learning and findings within and between the institutions
		Attractive packaging of information and learning Use of existing information channels

### 2.4.2 Cornerstone 13: Increasing the Strategic Orientation of LRED

#### Why is this cornerstone important?

Decisions in LRED are always about taking choices between different options, and are made up of the choices of many individuals and agencies. Searching and negotiating for common local and regional strategies that provide coherent decision-making over time in order to build local competitiveness is therefore a core aspect of LRED management.

While visioning processes provide the general direction of where to go, strategizing includes the best way and the best means to get there. It is about the "how"-question, about finding and exploiting a path where ambition and resources are combined in an optimal way. If understood this way, strategizing does not mean to plan incremental steps to move from some state now to a somewhat better state some time in the future. It is not about looking at the existing resources and asking what to do with them (and probably coming up with an answer that refers to something some other location has already done). Strategy is rather about formulating an ambition - on the basis of realistic options - and then mobilising the resources that are necessary to fulfil it.

Strategizing LRED processes is of course closely linked to professionally managing and monitoring these processes. But strategizing LRED processes takes another step. It aims at the development of a strategy that sets a framework for systematic action and reaction, around which management and monitoring systems can be

developed further, decisions can be taken in a more strategic way, and changes can have a more structural character. Anticipating the future and being flexible to react to unexpected developments is an important feature of LRED strategy processes. A strategy is only helpful if it takes into consideration the fact that local reality is influenced by a wide number of exogenous factors, and that these factors are only predictable to a certain extent. Taking into account these uncertainties in a way that enables the region to react quickly and coherently to changes is a core value of robust LRED strategies.

Strategizing LRED also enables LRED management to actively pursue the design of catalytic projects. A catalytic project is an intervention that has a strong leverage and/or multiplier effect by addressing a critical market failure, or by creating a strong lever. A catalytic project addresses the root cause of obstacles to LRED rather than symptoms. It unlocks resources and business opportunities, as it addresses issues that will not be addressed through business entrepreneurship because the risk is too high, the amortisation period too long or the immediate profit too low. In other words, it addresses market failures that stand in the way of growth.

Catalytic projects can have very different characteristics and prerequisites, such as the need for major financial resources (e.g. investment and infrastructure projects), a strong commitment to cooperation (e.g. closing niches in skills development) or very specific know-how (e.g. certification, standards).

Strengthening the ability for strategic decisions is specifically relevant in light of the fact that the local and regional context is the level where bottom-up planning meets top-down planning. Consequently, strategizing LRED processes is not only about horizontal consultation among regional level stakeholders, but as well about vertical consultation between representatives from local level and delegates from provincial and national institutions with local-level responsibilities. Aligning local action to broader strategies and actively influencing these strategies to the benefit of the area is an important element of LRED strategizing.

### **What are we aiming at?**

Strategy debates require high-level professional inputs, senior-level stakeholder participation and involvement of all spheres of government. In addition, they require high level moderation skills. On the other hand, appropriate strategies have to be sufficiently rooted in the local conditions and have to consider the specific needs and interests of the local people.

In an ideal case, LRED stakeholders develop a strategic framework for action which:

- Is robust against future challenges and uncertainties
- Actively pursues the realisation of possible and plausible development scenarios
- Directs the allocation of resources towards the highest leverage factors (catalytic interventions)

## Intervention Areas and Strategies for LRED facilitation

- Allows to react quickly and flexibly to unforeseen changes in the environment
- Aims at structural changes in order to improve the local competitiveness

### What are promising strategies and processes?

As mentioned above, strategizing LRED is closely linked to the overall management and monitoring of the LRED process. Ideally, developing monitoring systems goes hand in hand with strategy development and builds on each other, and a coherent system is created that provides the fundament for strategic and goal oriented management and monitoring of the process. However, developing such a system is often too complex a task to be tackled all at once, and the process of developing the system has to be structured according to the local context, specific needs and capacities. In highly dynamic places, where local stakeholders have gone through an intense learning process, successfully executed a number of quick-win activities and now have growing and realistic ambitions to aspire to big wins, a sophisticated strategizing process is a promising endeavour. Most likely, numerous suggestions for catalytic projects are already being discussed, and stakeholders will find it difficult to prioritise them or to select the most promising projects. In such a setting, strategy building efforts build on high momentum, capacity and willingness to cooperate, and can provide both the basis for prioritising future action along very concrete strategic goals and for developing a monitoring structure to observe and correct these actions and their context.

In cases of "less advanced" processes, basic learning and monitoring mechanisms might be a better option to start with in order to agree on the general direction of the process, align stakeholder interests and evaluate short-term activities, and this way prepare the ground for more complex strategizing exercises in the future. Once strategy building has advanced, the monitoring and learning structure can then be developed further around the outcomes.

When deciding on embarking on a complex strategy development process, the following approaches can be interlinked and combined with each other: fostering a strategic dialogue, scenario-building, and the formal development of an LRED strategy. While all three approaches are based on the same principles of participation, process orientation, incrementalism and the focus on locally available resources and (realistic) local solutions, they can be differentiated via their increasing degree of intensity and institutionalization:

#### Foster continuous strategic dialogue in the area

This refers to a process of ongoing reflection on territorial development, constant adjustment and refinement of vision and strategy, based on an ongoing process of strategic conversation.

### Scenario-building

Scenario building is a popular approach used both in intra- and inter-institutional contexts for developing future strategies that are goal-oriented and robust against core uncertainties. Scenario building stimulates stakeholders to think "out of the box" and to develop creative, flexible and focussed guidelines and ideas for future action. Core factors that may shape the future are defined and classified according to their likeliness and the possibilities to influence them, and possible scenarios are written against the background of these uncertainties. An analysis of strengths, weaknesses, opportunities and threats (SWOT) of the territory and its organisations helps to define and prioritise possible catalytic activities, as the scenarios and the result of the SWOT analysis are cross-connected. Eventually, the ultimate goal of the territorial development initiative is defined on the basis of the scenarios. An interesting packaging of the different tools around scenario-building is the GENESIS approach, about which further information can be provided by the GTZ LED Project in South Africa.

### LRED strategy development

In South Africa, developing a formal LED strategy has become a prominent task of Local Government. Despite promising ambitions, many of these strategies are the product of mere desktop research and are developed without adequate participation of key stakeholders. Thus, their fate is often to end on the shelf of some government official without any chance of being implemented. In many places, it might simply be the wrong point in time that renders the LED strategy futile: developing a comprehensive paper without any public private dialogue in place is rarely a good idea. However, supporting LG in developing such a strategy can add value to the process (in terms of the benefits of strategy development as described above), if managed and steered correctly. LG's capacity for strategic planning and resource allocation and the transparency of decisions can be significantly enhanced by a high quality LED strategy. Emphasizing the necessity of flexibility and action orientation of the strategy, introducing multiple perspectives to the LED process and its goals and guaranteeing the participation and buy-in of all stakeholder groups in the strategy are the core elements to be considered when supporting LG in the development of an LED strategy. There are numerous analytical and moderation tools which can support these efforts. An interesting toolbox and process design has been developed in the form of the Compass approach, which is available from the GTZ LED project in South Africa.

## LRED: Concept, Challenges and Principles

**Figure 21: Summary of Cornerstone 13**

Cornerstone 13: Increasing the strategic orientation of LRED		
INTERVENTION AREA	KEY STRATEGIES & PROCESSES	OPTIONS / WAYS TO IMPLEMENT
Strategic orientation and alignment of actors	Strategic dialogue	
Ability for focussed action and flexible reaction in the light of future uncertainties	Scenario building	Scenario-building techniques (see Genesis)
Local Government strategic planning capacity	LED strategy development	<p>Process management of strategy development</p> <p>Design of participatory workshop sequences to design the strategy</p> <p>Introduction of new tools (e.g. Balance Scorecard Approach)</p> <p>Quality control of strategy developed (e.g. via use of Compass tool)</p>

### 3 Tools for Implementing LRED

This chapter comprises a number of practical tools for implementing LRED initiatives and processes. All tools reflect the LRED approach and its main principles as outlined throughout this book. We have chosen to present mainly tools with which the South African GTZ LED Project has gathered personal experience, and which are frequently applied by the project. The tools of this annex are structured as follows:

#### a) Conceptual and Analytical Tools

Under this heading, we present several analytical tools and workshop formats that provide general guidance for an LRED process and help to analyse the local/regional economy.

#### b) LRED Training and Capacity Building Tools

Here you will find training formats and tools that have been developed and applied in order to deepen the understanding of facilitators and stakeholders around the core issues in LRED.

#### c) Communication and Networking Tools

This section provides an exemplary tool for fostering communication and networking in LRED processes. However, as communication and networking should be part of all LRED initiatives, all other tools presented in this annex are also suitable for strengthening stakeholder communication and networking.

#### d) Tools for Strengthening Locational Factors

Under this heading we have summarized several tools that specifically look at core locational factors, such as the availability of business services.

#### e) Tools for Strategy and Learning

The last section contains tools which can be specifically applied to strengthen the monitoring and learning element of LRED processes and help to sharpen their strategic orientation.

**More tools** for LRED and Private Sector Promotion are compiled in Becker, Sabine (ed.)/Petersen, Anke/Hofmann, Anette (auth.) (2006): "Toolbox 'Innovative Tools for Private sector Development'", Sector Project 'Innovative Tools for Private Sector Development', commissioned by BMZ, GTZ, Eschborn.

This comprehensive toolbox on Private Sector Development has been developed by the GTZ Sector Project 'Innovative Tools for Private Sector Development'. It provides a detailed summary of tools used worldwide, including most LRED tools referred to in this publication.

## Tools for implementing LRED

We would like to thank Sabine Becker, Anke Petersen and Anette Hofmann for kindly making available their excellent work to us.

### 3.1 Conceptual and Analytical Tools

#### 3.1.1 The Hexagon

<b>1. Name of the tool</b>
The Hexagon of LRED is a didactical tool that helps to organize the main concepts and instruments of LRED along a number of triangles.
<b>2. Objective: what is this tool designed to achieve?</b>
The purpose of the Hexagon is to organize the key issues in LRED in a way that makes it easier for LRED practitioners to understand the complexity of issues involved in LRED.
<b>3. Target Group: Who are the beneficiaries of the tool's implementation?</b>
The Hexagon is useful in introducing practitioners and stakeholders to the main concepts and instruments of LRED. It helps to widen the perspective and understanding the complexity of LRED.
<b>4. Description: what are the tool's main components and implementation procedures?</b>
The tool is organized and visualized along six triangles: The first triangle helps to define the target group of local economic development by distinguishing between external investors, local companies and start-up companies. The second triangle presents and analyses different locational factors, i.e. those features which determine whether a given city or region qualifies as a favourable setting for doing business. The third triangle identifies synergies between Economic Promotion, Employment Promotion and Urban/Regional Development. The fourth triangle shows how to translate the concept of sustainable development to the local level and how to combine the economic with the social and ecological dimensions of sustainability. The fifth triangle advises on how to understand the variety of actors in local governance involving the legislative and several branches of the local or regional executive on the public side and chambers and other business associations on the private side. The sixth triangle shows how activities of Planning, Monitoring and Evaluating fit together.
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
None
<b>6. Links to other tools</b>
It's a flexible didactical tool that can be used whenever there is a need to transfer some basic understanding of the concept, issues and principles of LRED. It can supplement the use of this handbook by providing a simple training structure for understanding the basics of LRED.
<b>7. Costs (incl. time, material, consultant)</b>
A typical LRED course using the Hexagon would be between two to four days. The tool can also be used in a shortened version as an LRED introduction module or session in other courses.
<b>8. Resource Persons</b>
Gabriele Trah: <a href="mailto:trah@qtzled.co.za">trah@qtzled.co.za</a> Anja Rücker (GTZ): <a href="mailto:anja.ruecker@qtz.de">anja.ruecker@qtz.de</a> Shawn Cunningham: <a href="mailto:shawn@cunningham.org.za">shawn@cunningham.org.za</a> Sonja Ende: <a href="mailto:info@sonja-ende.com">info@sonja-ende.com</a> Jörg Meyer-Stamer: <a href="mailto:jms@mesopartner.com">jms@mesopartner.com</a>
<b>9. Further Material and References</b>
CD-ROM "The Local/regional Economic Development Toolkit", on behalf of BMZ, implemented by GTZ (2002). Comprehensive documentation of a Stakeholders Sensitization Workshop for LRED, provided by the GTZ-SME promotion programme in Vietnam, available through Thomas Finkel: <a href="mailto:thomas.finkel@qtz.de">thomas.finkel@qtz.de</a> Documentation in Spanish language of the identification and selection of a region for LRED: Diseño y Aplicación de una Metodología para la Identificación y Selección de una Región, developed by the GTZ programme FORTALECE in El Salvador (2005), available through <a href="http://fortalece@fortalece.org.sv">fortalece@fortalece.org.sv</a> or Maria-Nieves Alvarez (GTZ): <a href="mailto:maria-nieves.alvarez@qtz.de">maria-nieves.alvarez@qtz.de</a>

### 3.1.2 Economic Mapping

<b>1. Name of the tool</b>
Mapping is a general instrument for qualitative research.
<b>2. Objective: what is this tool designed to achieve?</b>
The purpose of an economic mapping is threefold. First, it serves to identify the actors who play a role in a given cluster - firms and types of firms, supporting institutions, associations, government and others. Second, it is a way to depict the links between firms and supporting institutions. Third, it also is a way to visualize the power structure between the economic actors.
<b>3. Target Group: Who are the beneficiaries of the tool's implementation?</b>
Practitioners and local stakeholders
<b>4. Description: what are the tool's main components and implementation procedures?</b>
<p>Mappings can be prepared by the researchers on their own or jointly with local actors, for instance during interviews or workshops. There are different types of mapping, for instance the economic and the commodity chain mapping. Mapping can be very simple (e.g. sequence of activities in a process) or more complex (e.g. adding quantitative data like employment numbers, information flows, numbers of firms, etc). The main purpose is to focus a discussion around a visualized map of a system.</p> <p>Economic mapping</p> <p>An economic mapping depicts the interaction between economically relevant agents (firms, business associations, supporting institutions, government, etc.), including the intensity of interaction and main characteristics of the relationship.</p> <p>The procedure is straightforward: the optimum size of a group to do mapping is 3 to 5 persons. An external facilitator takes a piece of paper and asks the participants of a workshop to draw the interactions between economically relevant actors. It is feasible to do it with a larger group, but it is better and more interesting to split into several groups. Afterwards, different maps can be compared and discussed, which may render important additional insights.</p> <p>Mapping of the value system (commodity chain)</p> <p>The mapping of the value system provides a better understanding of the integration of a local production system in larger economic structures. The purpose is to get an idea of the position of the cluster in the value system, both physically and in terms of power structures. Physically, this map is supposed to show the sequence of the value system, i.e. the main production steps along the chain as well as the key inputs. In terms of power structure, the idea is to denote in the map which actors are most powerful, for instance in terms of price negotiations.</p>
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
<b>6. Links to other tools</b>
Mapping is a tool that can be used as part of other techniques, such as PACA or GENESIS, as well as a stand-alone tool to quickly grasp the structure of a local sub-sector or a value chain.
<b>7. Costs (incl. time, material, consultant)</b>
<b>8. Resource Persons</b>
<p>Gabriele Trah: trah@gtzled.co.za</p> <p>Anja Rücker (GTZ): anja.ruecker @gtz.de</p> <p>Shawn Cunningham (GTZ): shawn@cunningham.org.za</p> <p>Sonja Ende: info@sonja-ende.com</p> <p>Jörg Meyer-Stamer: jms@mesopartner.com</p>
<b>9. Further Material and References</b>
CD-ROM "The Local / regional Economic Development Toolkit", on behalf of BMZ, implemented by GTZ (2002).

## Tools for implementing LRED

### 3.1.3 Porter's Five Forces Analysis

<b>1. Name of the tool</b>
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.
<b>2. Objective: what is this tool designed to achieve?</b>
This tool aims at understanding competitive position and threats to individual branches of industry
<b>3. Target Group: Who are the beneficiaries of the tool's implementation?</b>
Local stakeholders, in particular business people who gain a better understanding of their local sub-sector
<b>4. Description: what are the tool's main components and implementation procedures?</b>
<p>The tool offers an analytical framework to assess competitive dynamics within an economic sector. It suggests looking at five aspects, i.e. the five forces:</p> <p><b>Rivalry</b> among existing firms. The main question is: who are your competitors, and what are your competitive advantages and disadvantages?</p> <p><b>Bargaining power of suppliers.</b> The main questions are: who are your suppliers, how many of them are there, how easy is it to find suppliers, and what is your bargaining power versus that of your suppliers?</p> <p><b>Bargaining power of buyers.</b> The main questions are: who are your customers, how many are there, is it easy to find customers, and what is your bargaining power –versus that of 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.</p> <p><b>Threat of new entrants.</b> 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?</p> <p><b>Threat of substitute products or services.</b> 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' behaviour? (Examples: synthetic fabric instead of silk, PC instead of typewriter, fresh packaged or frozen instead of canned vegetables)</p>
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
Works best when applied to homogenous firms or a sub-sector. Does not work so well when applied to a diverse range of businesses.
<b>6. Links to other tools</b>
Could be used as an interview guideline, workshop format, or as an analytical instrument in research.
<b>7. Costs (incl. time, material, consultant)</b>
<b>8. Resource Persons</b>
Gabriele Trah: <a href="mailto:trah@gtzled.co.za">trah@gtzled.co.za</a> Anja Rücker (GTZ): <a href="mailto:anja.ruecker@gtz.de">anja.ruecker@gtz.de</a> Shawn Cunningham: <a href="mailto:shawn@cunningham.org.za">shawn@cunningham.org.za</a> Sonja Ende: <a href="mailto:info@sonja-ende.com">info@sonja-ende.com</a> Jörg Meyer-Stamer: <a href="mailto:jms@mesopartner.com">jms@mesopartner.com</a>
<b>9. Further Material and References</b>
CD-ROM "The Local / regional Economic Development Toolkit", on behalf of BMZ, implemented by gtz (2002).

## 3.2 LRED Training and Capacity Building Tools

### 3.2.1 Training on Communication and Facilitation in LRED

<b>1. Name of the tool</b>
Communication and facilitation in LRED training
<b>2. Objective: what is this tool designed to achieve?</b>
The tool is designed to develop the facilitation and communication skills of practitioners in LRED
<b>3. Target Group: Who are the beneficiaries of the tool's implementation?</b>
Practitioners involved in the facilitation of LRED processes
<b>4. Description: what are the tool's main components and implementation procedures?</b>
The training programme starts with the basics of facilitation and communication and explains the various roles of a facilitator in a LRED process. Distinctions are made between consulting, facilitation and training. The importance of learning and innovation in LRED processes are explained.
The training programme introduces the use of visual communication methods and the use of facilitation equipment. Approaches to workshop design, preparation, contracting with customers and process design are addressed. Various different workshop formats, methods and instruments are discussed and practised by the participants. Other topics addressed are ranking and prioritization, brainstorming, conflict mediation and facilitating longer processes.
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
The trainer must understand the basics of LRED and must be an experienced facilitator
<b>6. Links to other tools</b>
This training programme is an excellent preparation for the use of participatory tools such as PACA
<b>7. Costs (incl. time, material, consultant)</b>
The training programme typically runs over 4 days
<b>8. Resource Persons</b>
Sonja Ende: <a href="mailto:info@sonja-ende.com">info@sonja-ende.com</a> Natasha Walker: <a href="mailto:walker@ifok.de">walker@ifok.de</a> Shawn Cunningham: <a href="mailto:shawn@cunningham.org.za">shawn@cunningham.org.za</a>
<b>9. Further Material and References</b>
Manual for trainers and participants: Facilitation and Communication in LED CD-ROMS with content and photos are available from GTZ South Africa

## Tools for implementing LRED

### 3.2.2 LOCATI

<b>1. Name of the tool</b>
Local Economic Development Training Initiative – LOCATI
<b>2. Objective: what is this tool designed to achieve?</b>
Through training LOCATI aims at developing the capacity of local stakeholders to plan and implement effective and sustainable LRED initiatives.
<b>3. Target Group: Who are the beneficiaries of the tool's implementation?</b>
Various stakeholders (government, private sector, NGOs and community members)
<b>4. Description: what are the tool's main components and implementation procedures?</b>
<p>LOCATI, a training initiative by InWent, has developed basic concepts and materials for a training programme in Local Economic Development (LED) in South Africa. The curricula provides Local Government, Business and Community Economic Development actors with a problem-solving and practical approach to implementing LED.</p> <p>LOCATI offers participatory, action-oriented training to enable local actors to become more effective in LED. It helps to clarify the meaning of LED and the roles that LED actors can most effectively play. It provides practical tools to help increase the competitiveness of localities and stimulate enterprise and community economic development.</p> <p>The training material focuses on four key elements:</p> <ol style="list-style-type: none"> <li>1. The Hexagon of LED, disseminating key concepts of LRED</li> <li>2. Tools for diagnostics and the implementation of LED</li> <li>3. Process management - organising the learning process of LED</li> <li>4. Network management - stimulating the exchange of experiences among actors in different locations (nationally &amp; internationally)</li> </ol> <p>To assist municipalities in the actual implementation of LRED, specific training modules look into practical problems such as institutional arrangements and resource mobilization for LRED as well as cutting the Red Tape that hampers LRED.</p>
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
The trainers must have a very thorough understanding of LRED
<b>6. incl. links to other tools</b>
Works well as preparation of participatory LRED processes such as PACA, Genesis, etc.
<b>7. Costs (incl. time, material, consultant)</b>
The programme is offered at a cost-recovering rate. The participating fee depends on the duration and type of training
<b>8. Resource Persons</b>
Inge Meier-Ewert - <a href="mailto:inge.meier-ewert@inwent.org">inge.meier-ewert@inwent.org</a>
<b>9. Further Material and References</b>
<p>A short description of this tool can be found in the LOCATI-brochure, available at <a href="http://www.inwent.org">www.inwent.org</a></p> <p><a href="http://www.locati.org">www.locati.org</a>: This website is a co-production of InWent and McIntosh, Xaba and Associates (MXA) to design and roll-out training modules on LRED, mainly for municipal officials and local businesses in South Africa.</p> <p>A comprehensive set of manuals and presentations for trainers and participants is available through MXA (<a href="mailto:mxam@mxam.co.za">mxam@mxam.co.za</a>) and MXA's lead trainer, Dr Doug Hindson, <a href="mailto:doughindson@intekom.co.za">doughindson@intekom.co.za</a>.</p>

### 3.2.3 CEFE

<b>1. Name of the tool</b>
Competency Based Economies Formation of Enterprise (CEFE)
<b>2. Objective: what is this tool designed to achieve?</b>
CEFE's main objective is to improve the entrepreneurial performance of economic actors through guided self-analysis, stimulating entrepreneurial behaviour and the building up of business competencies.
<b>3. Target Group: Who are the beneficiaries of the tool's implementation?</b>
The target group embraces existing or potential entrepreneurs, as well as personnel from enterprise support or regulatory agencies, including universities. CEFE is adaptable to academics as well as to people with low educational background and has proven to be as successful with managers, entrepreneurs and university graduates as with demobilized soldiers, refugees or street children, just to name a few.
<b>4. Description: what are the tool's main components and implementation procedures?</b>
CEFE is a comprehensive set of training instruments using an action-oriented <b>approach</b> and experiential learning methods to develop and enhance the business management and personal competencies of a wide range of target groups.  CEFE is based on the <b>assumption</b> that the progress of society essentially depends on its human resources and the more productive and accountable these people are, the greater will be the wealth of that nation. It has evolved over the years from an approach aiming to train individuals who want to start their own enterprise to a far-reaching training methodology, designed to evoke enterprising behaviour and competence in a wide variety of situations. The fundamental assumption is that people with a clearer vision of their goals and equipped with the skills to achieve them are far more likely to become productive individuals in society.  There are two <b>main types</b> of CEFE tools: courses aimed at existing or potential entrepreneurs, and courses for personnel from enterprise support or regulatory agencies. Both tools have the objective of improving the business performance of entrepreneurs. One is more direct while the other is more indirect, working on the enabling environment rather than entrepreneurs themselves. Both are considered to be valuable in the design of any CEFE programme.  Complementary to the training tools, CEFE offers a set of services to support the target groups in their interests for sustainable micro, small and medium sized enterprise development. The five main services CEFE offers are:
<ul style="list-style-type: none"> <li>• Assessment of the needs of the target groups</li> <li>• Organizational Development</li> <li>• Identification of local partners</li> <li>• Supply of linking services</li> <li>• Post-Training Follow-Up</li> </ul>
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
The counterpart needs to be open for new ideas and change.  A minimum institutional structure is required to embed the training locally.
<b>6. Links to other tools</b>
Since a CEFE training can be broken down into several course modules, it has become a highly flexible tool that can be adapted to very different contexts and target groups (including illiterates)
<b>7. Costs (incl. time, material, consultant)</b>
Costs vary drastically between countries. As an example, the estimated average costs per trained person for a full CEFE course are around US\$ 3,000 in El Salvador (according to estimates provided by FORTALECE/GTZ, El Salvador).
<b>8. Resource Persons</b>
CEFE International: Rainer Kolshorn: <a href="mailto:rainer.kolshorn@cefe.net">rainer.kolshorn@cefe.net</a> , Regina Bauerochse (GTZ): <a href="mailto:regina.bauerochse-barbosa@gtz.de">regina.bauerochse-barbosa@gtz.de</a> , Sabine Becker (GTZ): <a href="mailto:sabine.becker@gtz.de">sabine.becker@gtz.de</a>  Consultants: Uwe Weihert: <a href="mailto:uweweihert@yahoo.com">uweweihert@yahoo.com</a> , Torsten Striebke: <a href="mailto:torsten.striebke@leapquvana.org">torsten.striebke@leapquvana.org</a> or <a href="mailto:contorcon1@yahoo.fr">contorcon1@yahoo.fr</a>  InWEnt: Sabine Hartig: <a href="mailto:sabine.hartig@inwent.org">sabine.hartig@inwent.org</a>
<b>9. Further Material and References</b>
WebSite: <a href="http://www.cefe.net">http://www.cefe.net</a>  CEFE manuals for trainers:  CEFE non literate manual and other training manuals developed by GTZ-Bangladesh, available through Christine von Harrach (GTZ)  CEFE Agribusiness Trainers Manual for small-scale agricultural producers developed by GTZ Sri Lanka and Cambodia, available through Angelika Fleddermann (GTZ)  CEFE El Salvador provides adapted training material in Spanish: 'Curso de Formación Básica de Facilitadores/as CEFE'. Visit the website <a href="http://www.fortalece.org.sv">www.fortalece.org.sv</a> or contact <a href="mailto:fortalece@fortalece.org.sv">fortalece@fortalece.org.sv</a> .

## Tools for implementing LRED

### 3.2.4 Small Business Competitive Club

<b>1. Name of the tool</b>
Small Business Competitive Club
<b>2. Objective: what is this tool designed to achieve?</b>
The tool helps small businesses to become more competitive, i.e. to increase sales, earn more and retain/create more jobs. Service providers to small businesses will gain better insight into their priority needs.
<b>3. Target Group: Who are the beneficiaries of the tool's implementation?</b>
SMEs
<b>4. Description: what are the tool's main components and implementation procedures?</b>
<p>A Competitiveness Club is formed when a qualified Competitiveness Club facilitator reaches agreement with ten to twenty similar small businesses, to follow a structured and facilitated process to improve their own competitiveness. The facilitator's role is to make the process of learning effective, efficient, easy and affordable.</p> <p>By utilizing the principles of benchmarking, club participants determine (in a confidential manner) how competitive they are in the critical factors. This leads to greater consciousness of relative competitiveness and where improvement is necessary. Subsequent exposure to best practice options exposes reasons for their relative weakness. This increases the desire to learn and take action. Working in homogeneous groups allows for identifying and responding to much more <i>specific needs</i> than in heterogeneous groups.</p> <p>Entrepreneurs attend a series of typically two hour events, usually once a month. They participate in the activities, measure their performance indicators gradually and incrementally, as determined at the facilitated events. The facilitator helps those entrepreneurs who do not measure yet to establish the habit. Simple measures reduce complexity.</p> <p>Outreach: the potential reach of a single trained facilitator is 10 clubs of 10 – 20 members each, therefore 100 to 200 firms. The 10 clubs could be in 10 different places. Rapid expansion is possible by training facilitators and providing effective backstopping.</p>
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
<b>6. Links to other tools</b>
Can be used as a stand-alone format as well as a part or result of a participatory LRED process such as PACA
<b>7. Costs (incl. time, material, consultant)</b>
By working in groups, the costs of learning are shared. There are hardly any overhead costs involved after the set-up phase. Club member fees pay for the facilitator who operates on a part-time basis, typically arranging club meetings after normal hours, at a convenient location. By clubs becoming self-sustainable, many small businesses can be supported effectively, at little cost.
<b>8. Resource Persons</b>
Gabriele Trah: <a href="mailto:trah@qtzled.co.za">trah@qtzled.co.za</a> John Lawson: <a href="mailto:jlawson@mweb.co.za">jlawson@mweb.co.za</a>
<b>9. Further Material and References</b>
Small Business Competitiveness Club - Accelerated learning and linkages to better options. GTZ/John Lawson (2005).

### 3.3 Communication and Networking Tools

#### 3.3.1 PACA

<b>1. Name of the tool</b>
Participatory Appraisal of Competitive Advantage (PACA)
<b>2. Objective: what is this tool designed to achieve?</b>
The purposes of this methodology are to assess the economic potential of a local area, to provide strategies on how to mobilize and unlock this potential, and to get local stakeholders to work together, creating practical opportunities for cooperation and trust building
<b>3. Target Group: Who are the beneficiaries of the tool's implementation?</b>
Local stakeholders
<b>4. Description: what are the tool's main components and implementation procedures?</b>
<p>The <b>PACA®</b> (Participatory Appraisal of Competitive Advantage) approach has been developed by Mesopartner, a German consultancy group, in the context of German and other mostly donor-sponsored development projects in the course of the last ten years in 16 countries including Brazil, South Africa and Sri Lanka. The approach is continuously adjusted and expanded in each of these countries according to local circumstances.</p> <p>PACA is in the narrow sense a set of tools used to come up with a diagnostic of the competitive advantages and disadvantages of a locality (e.g. a district, town or township) or a sector (such as tourism, agriculture or the formal business community) combined with concrete, practical proposals to stimulate the local or regional economy. One of its key features is the mobilisation of local stakeholders from the public and private sector as well as civil society to take on ownership of the assessment of their local economy as well as of the resulting initiatives to improve the locality.</p> <p>In the wider sense it is a participatory, bottom-up and pragmatic approach to LED that aims at building momentum by identifying and implementing quick wins, which in the medium term build up to effective and sustainable LED dynamics in the communities.</p>
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
PACA can be conducted in very poor localities. However, a certain level of political will and interest to participate in a PACA exercise as well as the existence of at least a rudimentary institutional landscape with some capacity in the public or private sector or civil society to participate in the process and carry the actions forward is required. There also needs to be a local host of the process (e.g. a local municipality, private sector association or NGO) who accepts overall responsibility.
<b>6. Links to other tools</b>
PACA can be combined with a number of other participatory processes, such as COMPASS and GENESIS and can serve as an umbrella for different LRED activities
<b>7. Costs (incl. time, material, consultant)</b>
Timeframe: 3-6 months, with a 3 week intensive workshop phase
<b>8. Resource Persons</b>
Jörg Meyer-Stamer: <a href="mailto:jms@mesopartner.com">jms@mesopartner.com</a> Shawn Cunningham: <a href="mailto:shawn@cunningham.org.za">shawn@cunningham.org.za</a> Gabriele Trah: <a href="mailto:trah@gtzled.co.za">trah@gtzled.co.za</a> Anja Rucker (GTZ): <a href="mailto:anja.ruecker@gtz.de">anja.ruecker@gtz.de</a> Sonja Ende: <a href="mailto:info@sonja-ende.com">info@sonja-ende.com</a>
<b>9. Further Material and References</b>
<p>Results and Lessons Learned from PACA in South Africa, Anja Rucker, Sonja Fiedeldei, Dec. 2004</p> <p>Case Study Ilembe, Anja Rucker, Sonja Fiedeldei, December 2004</p> <p>Case Study Hazyview, Sonja Fiedeldei, December 2004</p> <p>Mbombela PACA Case Study, John Lawson, November 2005</p> <p>Various papers available at <a href="http://www.paca-online.de">www.paca-online.de</a></p>

## Tools for implementing LRED

### 3.4 Tools for strengthening locational factors

#### 3.4.1 Reducing Local Red Tape

<b>1. Name of the tool</b>
Reducing Local Red Tape is a facilitation tool for the reduction of bureaucratic costs at local level
<b>2. Objective: what is this tool designed to achieve?</b>
The instrument initiates a continuous Public Private Dialogue and joint action process on local Red Tape reduction. The benefits and costs of rules, regulations, procedures and the public service interface are jointly analysed, solutions are identified and implemented.
<b>3. Target Group: Who are the beneficiaries of the tool's implementation?</b>
Local stakeholders from the private and public sector.
<b>4. Description: what are the tool's main components and implementation procedures?</b>
The Red Tape reduction approach is a systemic change process strongly based on the use of action-oriented and participatory methodology and facilitation tools. It is composed of a sequence of interviews and workshops and can be organized in four phases.  Scoping Phase (identify and contract local host organizations, preparatory key stakeholder training, brief action research to identify Red Tape issues and mobilize stakeholders)  Assessment Phase (identify the main Red Tape issues, establish the problem root causes and design interventions, establish action plans of the proposed interventions, select red tape issue champions from the public and private sector)  Institutionalization Phase (consult all stakeholders on the identified solutions, support the implementation of the solutions, take measures to sustain the process)  Evaluation Phase (evaluate the state of the Public Private Dialogue and the chances of sustained red tape reduction, decide whether to continue the facilitated process or to exit the process)
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
The instrument requires an experienced facilitator familiar with local economic development and municipal structures.  An accredited four day introductory module on LRED is recommended as a foundation on which the red tape reduction module can build.  Clear buy-in from the key stakeholders in organized business and local government  A reasonably decentralised government structure
<b>6. Links to other tools</b>
Can form part of a broader LRED process, can initialize LRED processes and can bundle and streamline activities around improving the local business climate
<b>7. Costs (incl. time, material, consultant)</b>
The cost and time requirements strongly depend on the state of the Public Private Dialogue and the focus of the process (single issue, multi-issue, all or specific economic sectors, etc.). Based on the experience of the piloting phase, a Local Red Tape Reduction process can be conducted in 3 to 12 months with 10 to 25 consultant days.
<b>8. Resource Persons</b>
Gabriele Trah: <a href="mailto:trah@gtzled.co.za">trah@gtzled.co.za</a> Anja Rucker (GTZ): <a href="mailto:anja.ruecker@gtz.de">anja.ruecker@gtz.de</a> Mattia Wegmann (GTZ): <a href="mailto:mattia.wegmann@gtz.de">mattia.wegmann@gtz.de</a> Shawn Cunningham: <a href="mailto:shawn@cunningham.org.za">shawn@cunningham.org.za</a>
<b>9. Further Material and References</b>
Rücker, Anja and Mattia Wegmann (2006): Facilitator's Manual – Local Red Tape Reduction to Improve the Business Climate, GTZ South Africa.  Rücker, Anja (2005): Reducing local Red Tape for better local business and investment climate – A participatory approach to reducing compliance costs for local businesses, GTZ: Business Development Services Local Economic Development-Project, South Africa.  Hindson, Valerie and Doug, Rücker, Anja and Wegmann, Mattia (2006): Resource Handbook for Cutting Red Tape to Improve the Local Business Environment, GTZ/InWEnt South Africa.  Hindson, Valerie and Doug (2006): Trainer's Manual for One-and-a-Half Day Module on Cutting Red Tape to Improve the Business Environment, GTZ/InWEnt South Africa  Hindson, Valerie and Doug (2006): Participant's Manual for One-and-a-Half Day Module on Cutting Red Tape to Improve the Business Environment, GTZ/InWEnt South Africa  The South African LRED Network ( <a href="http://www.led.co.za">www.led.co.za</a> ) lists a number papers, instruments and website resources on local Red Tape reduction in particular and business and investment climate in general.  Further resources on the Local Business and Investment Climate can be found specifically on <a href="http://www.businessenvironment.org">www.businessenvironment.org</a> and <a href="http://www.lednetupdate.org/">http://www.lednetupdate.org/</a>

### 3.4.2 Local and Regional Business Climate Survey

<b>1. Name of the tool</b>
Local and Regional Business Climate Survey (BCS)– Gathering qualitative & quantitative business and investment climate information in a defined locality
<b>2. Objective: what is this tool designed to achieve?</b>
BCSs aim at monitoring the business and investment climate & promoting Public Private Dialogue
<b>3. Target Group: Who are the beneficiaries of the tool's implementation?</b>
Potential users of BCSs are private sector institutions (to support their members and for lobbying), investors (to make business decisions) and local and national governments (for policy and other reforms that affect businesses).
<b>4. Description: what are the tool's main components and implementation procedures?</b>
<p>Business Climate Surveys measure the business climate as perceived by entrepreneurs in a specific market sector and within a given period. BCSs aim at gathering qualitative &amp; quantitative information on the business environment. They obtain information on economic development by making direct contact with decision makers and enterprises. While reliable official data is often released with a time lag or is non-existent, BCSs provide information about current business conditions and provide for investment and employment forecasts.</p> <p>Participating companies can be sampled from the membership list of participating private sector organizations and other sources (such as municipalities, ministries of trade and industry or commerce, company registrars, yellow pages, ministries of labour, social security commission or similar institutions, ministries of finance or receiver of revenues and pension funds). Local associations might be too weak to sustainably manage surveys, so national umbrella organizations need to also take part in local surveys.</p> <p>Conducting a Local Business Climate Survey requires five preparatory steps:</p> <p><u>Step 1:</u> Survey Design (questionnaire must fit the scope of skills &amp; experience of the intended target group)</p> <p><u>Step 2:</u> Sampling (The inclusion of the informal sector needs to be considered)</p> <p><u>Step 3:</u> Data Collection (Lack of experience or low literacy levels might require assistance for the completion of the questionnaire)</p> <p><u>Step 4:</u> Data Analysis</p> <p><u>Step 5:</u> Publication of Results (Official presentations alongside a publication and the development of a LBCS-brand facilitates future repetition and maintains motivation for participation)</p> <p>The results can initiate a public private dialogue at local level and assist local policy makers in the strategic planning for LRED.</p>
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
Availability of data; private sector must be organised to a certain degree
<b>6. Links to other tools</b>
Local BCSs serve as input for strategic LRED activities or Reducing Red Tape Processes
<b>7. Costs (incl. time, material, consultant)</b>
<b>8. Resource Persons</b>
Julius Spatz (GTZ): <a href="mailto:julius.spatz@qtz.de">julius.spatz@qtz.de</a>
Ralf Lanwehr (GTZ/GFA Mozambique): <a href="mailto:ralf.lanwehr@epix.de">ralf.lanwehr@epix.de</a>
Gertraud Faltermeier (GTZ): <a href="mailto:gertraud.faltermeier@qtz.de">gertraud.faltermeier@qtz.de</a>
Mattia Wegmann: <a href="mailto:mattia.wegmann@qtz.de">mattia.wegmann@qtz.de</a>
<b>9. Further Material and References</b>
<p>Regional and Local Business Survey:</p> <p>First Experiences with Local Business Climate Surveys. GTZ/GFA Ralf Lanwehr (2006)</p> <p>Information about how to conduct a LBCS</p> <p>Standardised Tools for BIC Assessment at National Level (no GTZ-Tools):</p> <p><u>Investment Climate:</u></p> <p>World Business Environment Survey (World Bank): <a href="http://info.worldbank.org/governance/wbes/index2.html">http://info.worldbank.org/governance/wbes/index2.html</a></p> <p>Doing Business Report (World Bank, IFC): <a href="http://rui.worldbank.org/DoingBusiness/">http://rui.worldbank.org/DoingBusiness/</a></p> <p>Business Environment &amp; Enterprise Performance (EBRD, World Bank): <a href="http://www.ebrd.com/pubs/econ/workingp/84.pdf">www.ebrd.com/pubs/econ/workingp/84.pdf</a></p> <p>Investment Climate Assessments (IFC, World Bank): <a href="http://iresearch.worldbank.org/ics/isp/index.jsp">http://iresearch.worldbank.org/ics/isp/index.jsp</a></p> <p><u>Country Competitiveness:</u></p> <p>Global Competitiveness Index:</p> <p><a href="http://www.weforum.org/site/homepublic.nsf/Content/Global+Competitiveness+Programme%5CGlobal+Competitiveness+Report">www.weforum.org/site/homepublic.nsf/Content/Global+Competitiveness+Programme%5CGlobal+Competitiveness+Report</a></p> <p>World Competitiveness Yearbook: <a href="http://www01.imd.ch/wcy/">www01.imd.ch/wcy/</a></p> <p>For an overview of these and additional tools please refer to "Framework for Analysis and Reform of the Business and Investment Climate", presentation by Sonja Kurz July 2006</p>

## Tools for implementing LRED

### 3.4.3 Market Assessment tool-set for Business Development Services

<b>1. Name of the tool</b>
Together the "Usage-Attitude-Image Market Surveys", the "Focus Group Discussions", the "Decision-maker's media Survey" and the "Product Concept/Price Sensitivity" compose a set of market assessment tools that help to analyse both the supply and the demand side of a BDS market in a defined locality.
<b>2. Objective: what is this tool designed to achieve?</b>
This tool set provides a detailed understanding of the of BDS markets as a necessary basis for preparing an overall strategy of demand-oriented business development services for small and medium private businesses.
<b>3. Target Group: who are the beneficiaries of the tool's implementation? And Counterpart</b>
Target group: designers of interventions to improve the functioning of BDS markets, business service providers, SMEs Counterpart: Local market research firm
<b>4. Description: what are the tool's main components and implementation procedures?</b>
The tool consists of a number of steps that identify the consumption of business services in a specific area, by business sub-sector, size, or other desired category. First, data are recorded on the awareness, reach, and retention of these services, so that even if consumption levels are low, one can see if potential consumers are at least aware of the business service.  Then, the data is used to identify potential gaps in the market by looking at sub-sectors that consider the service to be important to their business, but are not yet purchasing it. When these sub-sectors are identified, Focus Group Discussions (FGDs) are conducted to determine what would motivate them to buy the service and what features and benefits they would find most valuable.  Third, in working with suppliers, the data is used to design new products. When the supplier has identified a new service product and defined its benefits and features (e.g. using FGDs), these can be tested on a small sample, along with the product's price by using a Product Concept/Price Sensitivity Test. This gives rapid feedback on the acceptability of the product and its price.
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
Commitment and professional time of project staff involved in project design/ adaptation.
<b>6. Links to other tools</b>
Can form part of an LRED process at any stage
<b>7. Costs (incl. time, material, consultant)</b>
An UAI survey can be completed in approximately two months.  The process entails the following costs:  1) Advice from the knowledge holders for a total of 20-40 person days, depending on the complexity of the survey. Between 30-60% of this time can be booked electronically - the consultant does not need to spend much time in the country.  2) A professional market research firm to undertake the required surveys. The indicative costs are as follows:  A national UAI of a 500 firm sample costs approximately Euro 5,000.  FGDs cost approximately Euro 500 per group.  A Decision-maker Media Survey costs approximately Euro 5,000 (281 firm sample).  Product Concept/Price Sensitivity test costs are minimal, since BDS suppliers conduct them, using existing project technical assistance.
<b>8. Resource Persons</b>
Gabriele Trah: <a href="mailto:trah@qtzled.co.za">trah@qtzled.co.za</a>  Shawn Cunningham: <a href="mailto:shawn@cunningham.org.za">shawn@cunningham.org.za</a>
<b>9. Further Material and References</b>
Tomecko, Jim (2000): Using Market-LRED Tools in the Design of BDS Interventions, in <i>Small Enterprise Journal</i> , Volume 11, Number 3.  Miehlbradt, O. Alexandra (1999): Applying Marketing Research to the Design and Improvement of BDS, with contributions from Ronald Chua.  Bear, Marshall (1999): PSP's Offer to BDS Suppliers: Consultant Report for GTZ/Private Sector Promotion Project.  Tomecko, Jim (2000): The Application of Market-LRED Tools in the Design of BDS Interventions, GTZ.  Hitchins, Rob (2000): Developing Markets for Business Development Services: Designing and Implementing More Effective Interventions, Swiss Development Cooperation.  Miehlbradt, O. Alexandra (2001): Business Development Services in Nepal: Report on BDS Market Assessment.  Miehlbradt, O. Alexandra (2003): Discussion Synthesis - Building a Team for BDS Market Assessment and Key Issues to Consider when Starting BDS Market Assessment, SEEP Network, Washington.

### 3.4.4 Value Chain Promotion

<b>1. Name of the tool</b>
Value Chain Promotion
<b>2. Objective: what is this tool designed to achieve?</b>
The promotion of value chains provides an opportunity to identify bottlenecks in chains, to link up all important economic actors within a chain, to reach economies of scale and to enable local producers to meet certain standards. This contributes to the realization of higher incomes and higher employment of local producers. <u>Market development:</u> Creation of market institutions (grades and standards, organization of market participants), improvement of private as well as public benefit services and of the economic framework conditions <u>Market integration:</u> Integration of farmers and SMEs into modern value chains
<b>3. Target Group: who are the beneficiaries of the tool's implementation?</b>
Private Sector (SMEs in particular), farmers
<b>4. Description: what are the tool's main components and implementation procedures?</b>
A value chain is the sequence of productive processes from the provision of specific inputs for a particular <i>product</i> to primary production, transformation, marketing and up to final consumption ( <i>value chain functions</i> ). As functions are taken by <i>chain operators</i> , a value chain also is an institutional arrangement linking and coordinating producers, processors, traders and distributors of a particular product. According to the sequence of functions and operators, value chains consist of a series of chain links (or stages). It is important to note that the definition of a concrete value chain is a matter of setting its <i>boundaries</i> . The main criterion for this is the <i>product</i> market the value chain feeds into.  Promoting a value chain means supporting its development by externally <i>facilitating a value chain upgrading</i> strategy. Promotion is done by government agencies and development agencies together with <i>partners</i> within the value chain.  Guiding questions that should be addressed prior to and throughout the Value Chain Promotion process are:  What are the reasons why market opportunities are not captured more actively? Which gaps exist between buyer requirements and the current structure and performance of a value chain? Which constraints reduce the competitiveness of farmers and SME and prevent their integration into a value chain?  Value Chain Promotion consists of four stages:
<p><b>Project cycle applied to value chain promotion</b></p> <pre> graph LR     A[Selection of a value (VC)] --&gt; B[Chain analysis &amp; strategy formulation]     B --&gt; C[Implementation on in various fields of action]     C --&gt; D[Monitoring and evaluation]     B -.-&gt; A     C -.-&gt; B     D -.-&gt; C     </pre>
<b>Selection of a Value Chain:</b> The choice of a value chain for promotion should be based on rational criteria derived from the pro-poor growth objectives. Three groups of criteria can be distinguished:
<ul style="list-style-type: none"> <li>▪ Assessing the growth potential</li> <li>▪ Assessing the poverty alleviation potential</li> <li>▪ Assessing pragmatic aspects (prospects of success such as conducive policy environment and available resources, experience in that area, synergies with other programmes, demand of partners)</li> </ul>
<b>Value Chain Analysis &amp; Strategy Formulation:</b> Typical issues and tasks in Value Chain Analysis that refers to the information gained in the selection process of value chains are:
<ul style="list-style-type: none"> <li>▪ identification &amp; specification of VC operators and other stakeholders in the VC environment</li> <li>▪ identification of national and international frameworks that are enabling or hindering VCs</li> <li>▪ assessment of market structures, access and potential</li> <li>▪ assessment of VC performance: competitiveness of final products, value-addition and distribution of gains along the VC</li> <li>▪ assessment of impact: possible economic/ socio-cultural effects of alternative interventions</li> <li>▪ analysis of constraints and opportunities for VC development</li> </ul>
<b>Value Chain Promotion:</b> The formulation of a strategy is the core of Value Chain Promotion and uses the information generated in the chain analysis and develops a perspective for the future of a value chain. The value chain upgrading strategy is a "theory of action" combining analytical insight and action orientation.
<b>Implementation:</b> includes tasks such as facilitation of chain development, strengthening business linkages, cooperation with the private sector, supporting VC financing, introducing standards and advice on sectoral and VC policies.
<b>Monitoring and Evaluation:</b> Value Chain Promotion uses GTZ's Results-Based Monitoring Approach but also refers to other impact monitoring tools (such as Herwig/Steiner, see below). The steps and the sequence of both approaches are more or less the same, however, the degree of participation varies. Typical steps include:

## Tools for implementing LRED

- Step 1: Identify the System Boundaries
- Step 2: Agree on Purpose and Procedures for Results-Based Monitoring
- Step 3: Agree on Results Hypotheses
- Step 4: Review Indicators and Define Milestones
- Step 5: Conduct Data Survey
- Step 6: Using Monitoring Results

### 5. Prerequisites: what are the minimum criteria required for successful tool implementation?

The Value Chain Promotion Tool is more effective if the facilitator cooperates with a "Core Group" and facilitates their activities in each selected value chain. A Core Group can be defined as on a voluntary and temporary base functioning group of stakeholders which represents important players of the value chain, follows shared goals and a jointly developed intervention strategy and assumes responsibility for its implementation. Ideally, members of the core group include lead firms.

### 6. Links to other tools

Participatory assessment tools such as an adapted PACA have been successfully used for the analysis of value chains and the identification of interventions.

### 7. Costs (incl. time, material, consultant)

### 8. Resource Persons

Peter Richter (Sri Lanka): [richter@slknet.lk](mailto:richter@slknet.lk)

Andreas Springer Heinze (GTZ): [andreas.springer-heinze@gtz.de](mailto:andreas.springer-heinze@gtz.de)

Shawn Cunningham: [shawn@cunningham.org.za](mailto:shawn@cunningham.org.za)

Jörg Meyer-Stamer: [jms@mesopartner.com](mailto:jms@mesopartner.com)

### 9. Further Material and References

The Application of the Value Chain Methodology in Development Projects. Reporting on the Sri Lankan Experiences. GTZ/Peter Richter (2005).

Detailed case study on Value Chain Promotion in Sri Lanka

ValueLinks Manual. GTZ (forthcoming)

The manual is a reference book for the ValueLinks methodology. It provides essential know-how on ways to enhance employment and business income by promoting value chains. The manual is not available yet. For further information please refer to Andreas Springer Heinze.

Result-Based Monitoring: Guidelines for Technical Cooperation Projects & Programmes. GTZ (2004).

Impact Monitoring and Assessment, Vol. I & II. Herweg, K & Steiner, K. (2002).

Wertschöpfungsketten entwicklungspolitisch gestalten. Andreas Stamm/GTZ (2004)

Good overview of background and approach of value chain promotion

### 3.4.5 Public Slogan Competition

<b>1. Name of the tool</b>
The tool is named <i>Public Slogan Competition</i> – an instrument for participatory identity building as a basis for place marketing to attract investment, trade (and/or tourism).
<b>2. Objective: what is this tool designed to achieve?</b>
<p>The tool is part of regional marketing, which aims at enhancing a place's image and thereby its attractiveness for target groups relevant for economic growth, both those already active in the region as well as new ones. In addition to the recruitment of new investors and buyers of local products (and/or tourists) emphasis is put on the creation of place loyalty among existing ones.</p> <p>The intervention will produce a slogan, which matches all marketing criteria and will subsequently be integrated into a 'corporate identity' (CI) for the region. While laying the foundation for external marketing, the tool also constitutes an initial step in the field of internal marketing – working as a motivator for local public and private sector actors to participate actively in economic development processes in their region. The intervention will encourage institutions and people whose activity is relevant for regional economic growth to deepen/expand their activity in the region.</p>
<b>3. Target Group: who are the beneficiaries of the tool's implementation?</b>
The instrument will benefit the local private sector, which profits from investments and an increased economic activity in the region. Ultimately, an improved attractiveness for trade and investment will benefit the local population through employment creation and a rise in their living standard.
<b>4. Description: what are the tool's main components and implementation procedures?</b>
<p>A public slogan competition is a participatory intervention and ensures a high level of involvement of public and private local economic actors as well as the broad public in the brand creation process.</p> <p>The actual competition should be preceded by the facilitation of a stakeholder group, which functions as a steering body for planning and implementation. Decisions to be taken by this group include eligible participants in the competition (institutions, private people, nationality, age) and the scope of the competition (national versus regional). Focus group discussions with representatives of all relevant fields inside and outside the economic sphere subsequently produce guidelines for the slogan, in line with local perception of their regional identity as well as marketing requirements. Knowledge transfer and facilitation/moderation of the process by an expert on regional marketing help to create a common understanding about the objectives of the slogan competition and regional marketing as a whole. These slogan guidelines will be fed into the tender. In a close collaboration between implementing partners, key actors from the business, government and society world and the local media, e.g. print, radio, internet, TV, the slogan competition will be advertised, aiming for a broad coverage. The competition should be utilized for awareness raising through local media about other issues of relevance for economic development such as regional competitiveness. Furthermore the process should be used as an opportunity to update relevant stakeholders and the public about current efforts undertaken in the field of place marketing.</p> <p>After a pre-selection of all entries, a jury of prominent figures from relevant backgrounds in politics, business and society convenes to decide on a shortlist and on the winning slogan. This process is preceded by a briefing of the marketing consultant and accompanied by a professional moderator and a language expert. After the winners have been announced with wide publicity, the slogan is fed into the creative production of a CI for the region.</p>
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
<p>Regional marketing will only bear fruit if it is embedded into a broader strategy for local and regional economic development. It cannot succeed as a stand-alone effort, as a sound investment climate depends on improvements of local framework conditions.</p> <p>Competitive Advantage - the region needs to be equipped with attractive characteristics relevant to investment decisions. Should no clear comparative advantage be in place, a combination of place factors conducive to business can be found to 'create' a competitive advantage or unique selling proposition. This constitutes the basis for the overall orientation of place marketing and is a prerequisite for its success.</p> <p>Local Demand – A local understanding of the need for and benefits of place marketing is essential for the intervention. Only against the backdrop of local interest will genuine local ownership develop.</p> <p>Public and Private Stakeholder Commitment - the result of the intervention will be a slogan, which needs to be integrated into a cohesive CI and a wider marketing and communication strategy. The tool can only be successful if the next steps in the regional marketing process are clearly defined, e.g. creative production of CI, its dissemination, etc. Ownership and financing of these next steps need to be clear before the intervention.</p> <p>Existing Marketing Elements - should marketing already be in place in the region, an evaluation of existing marketing tools becomes necessary to determine their quality and their expected impact on economic development. Should there for instance be a slogan and a logo currently used to attract tourists into the region, a new slogan and/or a co-brand might become necessary to allow targeted marketing for trade and investment. The intervention will be rendered unnecessary if the respective place already possesses a slogan suitable for trade and investment.</p> <p>Clear definition of regional boundaries – regional marketing can only work in an area with unambiguous boundaries. The scope of the 'identity', which will be used to improve the region's image on the market needs to be unmistakably clear – both internally as well as externally.</p>

## Tools for implementing LRED

<b>6. Links to other tools</b>
Ideal start of a broader locational marketing initiative
<b>7. Costs (incl. time, material, consultant)</b>
<p>Depending on local framework conditions and including preparation and implementation, the intervention should not take longer than six weeks. Throughout the process the project owner should aim for a large share of partner contribution, as local ownership is critical for the intervention's success. Preparation and implementation of the tool will require an estimated maximum of a 12-day assignment for an international consultant and should be accompanied by a national expert throughout the entire time, e.g. some six weeks.</p> <p>Focus group discussions may require room and food &amp; beverages as well as professional moderation. The dissemination of the competition and the subsequent announcement of the winner necessitate promotional material such as banners, posters and advertorials in local newspapers. The kick-off and the announcement of the winners require bigger publicity events, with a maximum of 100 participants each. These two events also function as a press conference. The selection by a jury requires accommodation, food &amp; beverages and function room for two days and a professional moderator. As local ownership with regard to this tool is absolutely essential for the success of the intervention, it is recommended to leave both the decision on the form of the prizes as well as their financing to local institutions or individuals.</p>
<b>8. Resource Persons</b>
Jana Marie Mehrtens: <a href="mailto:jana.mehrtens@berlin.de">jana.mehrtens@berlin.de</a> Harriet Ellwein (GTZ): <a href="mailto:harriet.ellwein@gtz.de">harriet.ellwein@gtz.de</a>
<b>9. Further Material and References</b>
Documentation available from Jana Mehrtens

## 3.5 Tools for Strategy and Learning

### 3.5.1 GENESIS

<b>1. Name of the tool</b>
Generating Strategy – Innovation – Solutions for Local and Regional Development (GENESIS)
<b>2. Objective: what is this tool designed to achieve?</b>
<p>GENESIS is a methodology to identify strategic interventions (catalytic projects with a strong leverage factor) in the context of a territorial economic development initiative.</p> <p>GENESIS gives you:</p> <ul style="list-style-type: none"> <li>▪ A strategic perspective of the development opportunities of your local or regional economy, based on the scenario of future development.</li> <li>▪ Specific proposals for catalytic activities to stimulate the development of the local or regional economy.</li> </ul>
<b>3. Target Group: who are the beneficiaries of the tool's implementation?</b>
Local Stakeholders
<b>4. Description: what are the tool's main components and implementation procedures?</b>
<p>A GENESIS Exercise is conducted by a team of external GENESIS specialists and local stakeholders.</p> <p><u>Contract phase</u></p> <p>GENESIS can only work if there is a strong buy-in from key/stakeholder – from government, the business community and the community at large.</p> <p><u>Build-up phase</u></p> <p>To avoid time-consuming and costly primary research, digest the research that has already been conducted. At the end of the data-mining, the GENESIS team summarizes the findings and formulates a hypothesis in a brief internal workshop to define the following steps.</p> <p><u>Orientation phase</u></p> <p>Organize a brief workshop with local decision makers to define key aspirations and criteria any developmental initiative must match. Organize a future workshop with more technical stakeholders to elaborate scenarios of potential competitive advantage for the development of the locality. Critically assess the results in an internal exercise.</p> <p><u>Verification phase</u></p> <p>By using tools like the Boston Matrix or the Competence Field Analysis, test the ideas for catalytic projects through interviews with relevant role players in the location and filter out those ideas that are unrealistic.</p> <p><u>Decision phase</u></p> <p>Present the feasible catalytic projects to decision makers, who then prioritize them. Organize a technical workshop in which the GENESIS team and some other local stakeholders identify indicators that correspond to the scenarios that underlie the catalytic projects.</p>
<b>1. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
GENESIS can only work if there is a strong buy-in from key/stakeholder – from government, the business community and the community at large.
<b>2. Links to other tools</b>
GENESIS is best applied in an advanced LRED process, e.g. after a PACA process
<b>3. Costs (incl. time, material, consultant)</b>
<b>4. Resource Persons</b>
<p>Gabriele Trah: <a href="mailto:trah@qtzled.co.za">trah@qtzled.co.za</a></p> <p>Anja Rücker (GTZ): <a href="mailto:anja.ruecker@gtz.de">anja.ruecker@gtz.de</a></p> <p>Mattia Wegmann (GTZ): <a href="mailto:mattia.wegmann@gtz.de">mattia.wegmann@gtz.de</a></p> <p>Jörg Meyer-Stamer: <a href="mailto:ims@mesoparter.com">ims@mesoparter.com</a></p> <p>Colin Mitchell: <a href="mailto:colin@cmconsulting.co.za">colin@cmconsulting.co.za</a></p> <p>Shawn Cunningham: <a href="mailto:shawn@cunningham.org.za">shawn@cunningham.org.za</a></p> <p>For further information please contact <a href="mailto:Mattia.Wegmann">Mattia Wegmann</a> or Colin Mitchell (<a href="mailto:cm@cmconsulting.co.za">cm@cmconsulting.co.za</a>)</p>
<b>5. Further Material and References</b>
A GENESIS Manual is available from GTZ South Africa

## Tools for implementing LRED

### 3.5.2 COMPASS of local competitiveness

<b>1. Name of the tool</b>	
Compass of Local Competitiveness - A strategy development and performance management tool to monitor and assess the strategic approach to and the progress of territorial development / LRED initiatives.	
<b>2. Objective: what is this tool designed to achieve?</b>	
The objective of a Compass of Local Competitiveness is to define the critical success factors (CSFs) of the LRED efforts at large and of specific LRED initiatives and to work out the key performance indicators (KPIs) that permit us to assess the impact of LRED efforts	
<b>3. Target Group: Who are the beneficiaries of the tool's implementation?</b>	
Local stakeholders will benefit, as they will be aware of the key success factors for their locality's competitiveness. The Compass is elaborated in a participatory way by local stakeholders, facilitated by external facilitators	
<b>4. Description: what are the tool's main components and implementation procedures?</b>	
A Compass of Local Competitiveness is based on the <b>Balanced Scorecard (BSC) method</b> . The key idea is to introduce a wider, more balanced set of performance indicators that is not one-sidedly looking at financial and other economic indicators but also at other, more qualitative indicators that address the long-term growth perspective of the local economy. Accordingly, the four core factors a Compass of Local Competitiveness would look at are:	
<u>Economic sustainability</u> : How can we guarantee sustainable LRED?	How do we need to <u>interact with other stakeholders</u> to make LRED a success?
The <u>learning perspective</u> : how to ensure that we constantly upgrade our understanding of our economic reality and of LRED?	How do we have to organize our <u>LRED process and effort internally</u> to assure its effectiveness?
The elaboration of a Compass is primarily based on <b>structured workshops</b> with local decision makers and stakeholders and should not only be elaborated for the overall LRED effort but also for specific initiatives. Before planning an exercise to elaborate a local Compass, the LRED champion has to decide whom to invite to the different workshops. Basically, there are two types of workshops:	
At the <b>top-level-workshop</b> , the stage for the process of aligning the overall goals and expectations around LRED need to be set. A guiding question could be: what do we want to achieve with our LRED effort until the local government elections? This should then lead to the formulation of a limited number of goals which in turn would constitute the basis for the elaboration of CSFs, and after that of KPIs. The next step would be the definition of activities and responsibilities to meet those indicators, as well as the definition of activities and responsibilities to actually gather the data needed to monitor those indicators. (Time frame for this type workshop is around two days).	
At the <b>sector or project workshop</b> , the issue of goals and expectations is also addressed and the sequence of activities would be the same as above. However, at this level the discussion would be less political and more practical. These workshops focus on key LRED activities and initiatives and involve the actors identified for those initiatives (realistic time frame is on 1 to 1.5 days).	
The <b>outcome</b> of these workshops is the definition of a set of CSFs that can be used by the key persons of the respective initiatives or activities to monitor the ongoing effort. After the initial round of workshops, it is recommended to organize follow-up workshops at a six months interval to assess the progress and adjust CSFs when necessary.	
In Sri Lanka, Compass workshops on sectors in one location, on value chains and on one territory have been conducted and linked with further data and information collection through individual interviews, focus group discussions and expert interviews. The methodology has been modified and further experimentation is going on (e.g. using the Compass as internal OD tool).	
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>	
Elaborating a Compass of Local Competitiveness requires:	
<ul style="list-style-type: none"> <li>▪ a reasonably representative group of stakeholders around the LRED programme</li> <li>▪ a skilled facilitator with experience in applying the Compass</li> <li>▪ the buy-in of these stakeholders so that they make the necessary time available</li> </ul>	
<b>6. Specialities and/or difficulties (incl. links to other tools)</b>	
The Compass is a very flexible tool that can be used at any stage of LRED processes.	
<b>7. Costs (incl. time, material, consultant)</b>	
Elaborating a Compass of Local Competitiveness can be the outcome of a single workshop, but it may be more practical to have a sequence of three workshops. The total duration of a single workshop would be between 1.5 and 2.5 days for a top-level workshop and one day for a local sector workshop. The sequence of workshops would still be concluded within a week.	
<b>8. Resource Persons</b>	
Anja Rücker (GTZ): <a href="mailto:anja.ruecker@gtz.de">anja.ruecker@gtz.de</a>	
Sonja Ende: <a href="mailto:info@sonja-ende.com">info@sonja-ende.com</a>	
Gabriele Trah: <a href="mailto:trah@qtzled.co.za">trah@qtzled.co.za</a>	
Mattia Wegmann (GTZ): <a href="mailto:mattia.wegmann@gtz.de">mattia.wegmann@gtz.de</a>	
Jörg Meyer-Stamer (Mesopartner): <a href="mailto:jms@mesopartner.com">jms@mesopartner.com</a>	
Ulrich Harmes-Liedke (Mesopartner): <a href="mailto:uhl@mesopartner.com">uhl@mesopartner.com</a>	
<b>9. Further Material and References</b>	
A manual by Rücker, Anja (2005): The Compass of Local Competitiveness – A result-based management and monitoring tool for Local Economic Development Processes, GTZ / mesopartner publication.	
A short description by Jörg Meyer-Stamer and Ulrich Harmes-Liedke	

### 3.5.3 Participatory Benchmarking

<b>1. Name of the tool</b>
Participatory Benchmarking for better business performance
<b>2. Objective: what is this tool designed to achieve?</b>
Using Participatory Benchmarking aims at identifying, adapting and applying significantly better practices, more efficient use of resources and financial savings and therefore improving business performance
<b>3. Target Group: who are the beneficiaries of the tool's implementation?</b>
Citizens from different groups of interest and functions such as representatives of business i.e. the local or regional Chamber of Industry and Commerce, as well as civic associations i.e. consumers, parents, environmental groups, local government, experts, informal authorities
<b>4. Description: what are the tool's main components and implementation procedures?</b>
In the process of developing benchmarks and related indicators, the parties involved will have to make a choice from many different benchmarks and indicators in order to select those that best capture the aspirations of their community or group of communities. The key value of developing community benchmarks and indicators in a participatory process is that citizens work together to determine goals for their future. By participating in monitoring progress towards these goals they learn about and better understand the resources needed and the constraints to be faced.  The benchmarking process includes the following steps:  <b>Self-assessment.</b> Documentation and study of the vision, practices and success measures of one's own organization or programme in a participatory process and decision what to benchmark.  <b>Comparison.</b> Selection of whom to benchmark. Establishment of a benchmarking partnership. Study and assessment of partners with identification of differences and performance gaps. Determination whether practices are suitable/adaptable to other settings.  <b>Analysis and Adaptation.</b> Ask why you are getting your results and why others are getting better results. While benchmarking is often called "borrowing shamelessly," practices generally require creative adaptation in a new context.  <b>Implementation.</b> Think carefully about what enablers (e.g. resources, schedule changes) are needed. Communicate findings and build support for the changes you want to make. Create and implement an action plan to apply identified best practices. Translate the findings into a few core principles and work from principles to strategies to action plans.  <b>Feedback.</b> Carefully monitor and measure the results of your innovation and recalibrate if necessary.
<b>5. Prerequisites: what are the minimum criteria required for successful tool implementation?</b>
Benchmarking should not be considered a once-off exercise. To be effective, it must become an integral part of an ongoing improvement process with the goal of keeping abreast of ever-improving best practice.
<b>6. Links to other tools</b>
<b>7. Costs (incl. time, material, consultant)</b>
<b>8. Resource Persons</b>
Mattia Wegmann (GTZ): <a href="mailto:mattia.wegmann@gtz.de">mattia.wegmann@gtz.de</a> Ulrich Harmes-Liedtke: <a href="mailto:uhl@mesopartner.com">uhl@mesopartner.com</a>
<b>9. Further Material and References</b>
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# GTZ Profile



## Our Organisation

The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH is an international cooperation enterprise for sustainable development with worldwide operations. It provides viable, forward-looking solutions for political, economic, ecological and social development in a globalised world. Working under difficult conditions, GTZ promotes complex reforms and change processes. Its corporate objective is to improve people's living conditions on a sustainable basis.

## Our Clients

GTZ is a federal enterprise based in Eschborn near Frankfurt am Main. It was founded in 1975 as a company under private law. The German Federal Ministry for Economic Cooperation and Development (BMZ) is its major client. The company also operates on behalf of other German ministries, partner-country governments and international clients, such as the European Commission, the United Nations and the World Bank, as well as on behalf of private enterprises. GTZ works on a public-benefit basis. Any surpluses generated are channelled back into its own international cooperation projects for sustainable development.

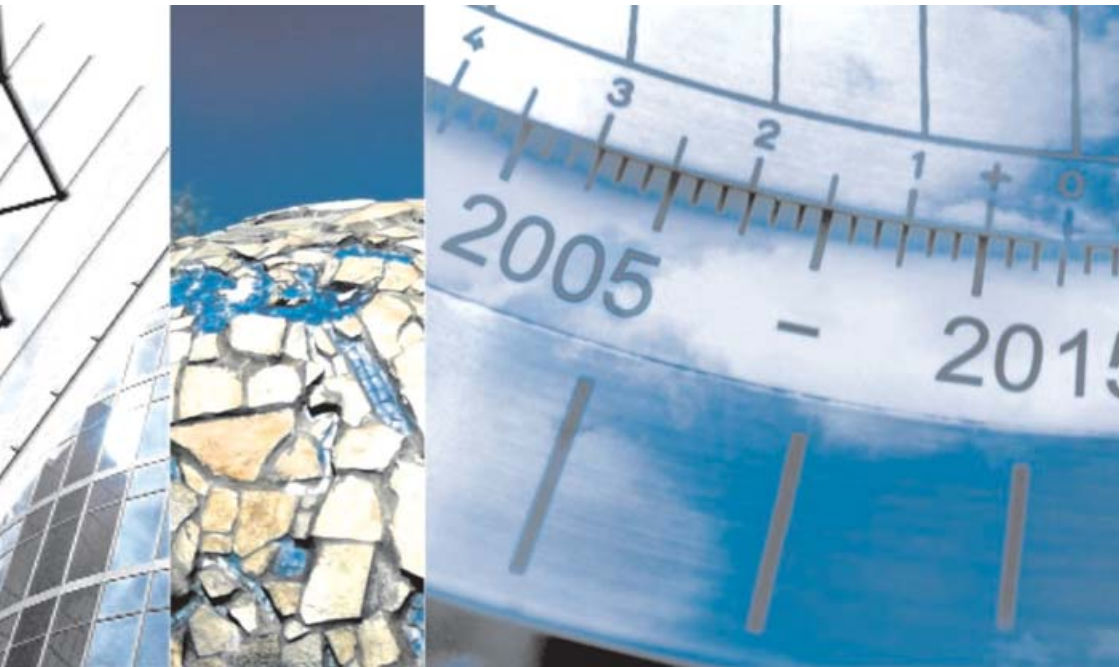
## GTZ - Worldwide Operations

In almost 130 countries of Africa, Asia, Latin America, the Eastern European countries in transition and the New Independent States (NIS), GTZ employs some 9,300 staff; around 8,200 of these are national personnel in partner countries. GTZ maintains its own offices in 67 countries.

Some 1,000 people are employed at Head Office in Eschborn near Frankfurt am Main. In addition, around 350 people work for supraregional projects based at various locations within Germany.

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Deutsche Gesellschaft für  
Technische Zusammenarbeit (GTZ) GmbH

Dag-Hammarskjöld-Weg 1-5  
65760 Eschborn/Germany  
T +49 61 96 79-0  
F +49 61 96 79-11 15  
E [info@gtz.de](mailto:info@gtz.de)  
I [www.gtz.de](http://www.gtz.de)

