

The present study provides a practical illustration of how the Local Economic Development (LED) Approach can be implemented in post-conflict situations. Through a process of consensus building, participatory decision-making and opening channels for dialogue between different economic and social partners, the LED Approach has been successful in rooting a new round of local economic development in three provinces of Mozambique (Manica, Maputo and Sofala). On an operational level, the report focuses on the case study of Manica province to demonstrate how LED tools have been employed and in what circumstances. It provides a step-by-step account of the creation of a Local Economic Development Agency (LEDA), together with an assessment of the LEDAs major achievements to date in terms of employment and enterprise creation. The report concludes with the lessons learnt from implementing the LED Approach in Mozambique and proposes several recommendations for developing future policy orientations.

Applying the comprehensive LED approach

The case of Mozambique

by

Geert van Boekel
Majon van Logtestijn

Cooperative Branch
International Labour Office

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ISBN 92-2-112961-6

First published 2002

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Foreword

The Local Economic Development approach (LED) aims to achieve sustainable human development through partnership arrangements between the main stakeholders in a specific geographical area so that they can design and implement a common development strategy. Experience shows that, in many cases, fragmentary approaches to technical cooperation do not produce the results hoped for. The LED approach described in this volume uses local potential and competitive advantages in an integrated manner and therefore represents an important way to enhance impact and sustainability.

The search for comprehensive, sustainable development has led the ILO to articulate the Decent Work agenda which encompasses four strategic objectives: 1) to promote and realize standards, fundamental principles and rights at work; 2) to create greater opportunities for women and men to secure decent employment and income; 3) to enhance the coverage and effectiveness of social protection; and 4) to strengthen tripartism and social dialogue. The ILO's LED programme promotes decent work through the implementation of development projects in Central America, Southern Africa, Eastern Europe and East Asia.

Geert van Boekel has had considerable experience in LED projects in Central America and Eastern Europe. In 1998 he assumed responsibility for the LED component of the UNOPS (United Nations Office for Project services) PDHL (Human Development at Local Level) Project in Mozambique. He was ably assisted by Marjon van Logtestijn with whom he co-authored this case study in an attempt to synthesize their experiences in applying the LED approach in three provinces of Mozambique - Manica, Sofala and Maputo. This case study offers an overview of the main steps, constraints, outcomes and findings elaborated during three years of intensive work.

This paper, therefore, makes a conceptual and practical contribution to the improvement of LED implementation. Furthermore, this document will be a useful tool for the PDHL project in Mozambique, whose activities are still on-going and whose main focus for the coming years will be the LED component.

I am grateful to the authors and also to Roberto Di Meglio, Martin Gasser, Carlien van Empel and Carmela Salzano for reviewing the text and preparing it for publication. Last but not least we would like to thank the Government of Italy, as donor country, the UNOPS, as Executing Agency of the PDHL, through its Chief Technical Adviser, Ms. Marina Lo Giudice, for enthusiastically supporting the preparation of this case study.

Michael Henriques, Director
Job Creation and Enterprise Development Department

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Abbreviations

| | |
|-------------------------|---|
| ACLEDA | Association of Cambodian Local Economic Development agencies |
| ADEL (port.) | Local Economic Development Agency |
| DANIDA | Danish International Development Agency |
| FFPI (port.) | Stimulation Fund for Small Industry |
| GAPI (port.) | Office for Support to Small Industry |
| GTZ (germ.) | German Technical Cooperation |
| ICC | International Capital Corporation |
| LED | Local Economic Development |
| LEDA | Local Economic Development Agency |
| MDT | Multi Disciplinary Team of ILO |
| MFI | Micro Finance Institutions |
| PARPA (port.) | Action Plan to Reduce Absolute Poverty |
| PDHL/MOZ (port.) | Human Development Programme at Local Level for Mozambique |
| PRODERE (sp.) | Reintegration Programme for Refugees and Displaced People |
| RDA | Regional Development Agency |
| SADC | Southern African Development Community |
| SIYB | Start and Improve Your Business |
| UCAMA (port.) | União provincial de camponeses de manica (Provincial farmers Union) |
| UNOPS | United Nations Office for Project Services |
| VAT | Value added tax |
| WTO | World Trade Organization |

Introduction

Every geographical area establishes its economic identity through a combination of production systems, human and natural resources, infrastructure, labour markets, entrepreneurial potential and political and socio-cultural systems. These characteristics define and sustain the process of local economic development.

Over the past decade, it has increasingly been recognized that state-driven, top-down development policies are failing to foster balanced growth in national economies. As the pace of socio-economic change quickens and local actors become more exposed to global events beyond their control, some local economies have proved more adept at repositioning themselves within global markets than others.

The insertion of local economies into globalized networks of production and consumption is leading to the reshaping of economic landscapes as well as changes in cultural norms, habits and values. Many of the recent changes are being driven by the revolution in information and communications technologies (ICTs). Yet while some commentators are quick to highlight the negative impact of globalization, the opportunities for local economic prosperity should not be ignored.

On the one hand, the relationship between the economy and its territory is changing. ICTs reduce the barriers of geographical distance, giving a louder voice to local stakeholders and institutions enabling them to participate more fully in national economic decision-making processes. At the same time, globalization makes geography even more important as city-regions attempt to differentiate themselves according to their specific functions and as sites for production. In this light, local stakeholders are becoming more aware of what they can offer in terms of specific human, natural, cultural, institutional resources.

When social peace and order break down or where communities have become fragmented, it is also at the local level that the socio-economic and cultural fabric must be repaired. In areas pulled apart by conflict, for example, the participation of local actors in economic decision-making processes has proved to be a powerful tool in stimulating new social and economic activities and in reintegrating the most vulnerable members of society. Once dialogue and trust has been re-established between the various partners, and relationships find a new footing, we begin to see the (re) emergence of a dynamic regional “milieu”.

The LED Approach in action

Since the beginning of the 1990s the ILO has used the Local Economic Development Approach as a comprehensive framework within which to address imbalances in national economies all over the world. From Guatemala to Cambodia, from Croatia to South Africa, the ILO has sought to prepare and empower local economic stakeholders in dealing with the impact of globalization on their communities.

In Latin America a range of Local Economic Development initiatives have been implemented within the framework of the PRODERE¹. Working in various regions of Costa Rica, Nicaragua, El Salvador, Honduras, Guatemala and Belize and with a total

¹ ILO was responsible for the LED component for PRODERE, a multidisciplinary, multi-agency UN Programme for displaced persons, refugees and returnees in Central America between 1988 and 1995.

investment of just US \$1.300.000, six Local Economic Development Agencies (LEDAs) were established which have so far created 2.100 new jobs in 500 new small and micro enterprises. This means that the cost per new job created is less than 620 US\$! These LEDAs have now been joined by a further eight covering the whole region of Central America and all together, the economic projects promoted during the lifetime of PRODERE have so far created over 42.000 new jobs².

In Asia, more than 8.000 new jobs have been generated during the last six years within the framework of the ACLEDA project in Cambodia. During the second phase of the project, five LEDAs were established to identify business opportunities, to provide training in elementary business skills, business extension services and to provide micro financing to small businesses³.

In Bosnia and Herzegovina, as well as in Bulgaria and Croatia, various LED initiatives have helped to create over 6.000 new permanent jobs over the last 4-6 years. Whereas the focus in Croatia and Bosnia is on war affected areas, further to the south, special attention is being paid to vulnerable population groups such women and ethnic minorities (gypsies and Turks).

Aims of this report

This report is intended to help the reader in achieving a better understanding of the rationale behind activities and initiatives implemented within the framework of the PDHL in Mozambique. The basic guidelines and elements of the LED Approach, as described here, have also been employed by the ILO in a wide range of initiatives in Latin America, Africa, Europe and Asia during the past decade. They are not intended as a blueprint for all LED interventions throughout the world, but seek to provide some basic insights to decision-makers (within both private and public sectors) who are in the process of designing their own tools for reactivating local markets or overcoming the problems of instability and social exclusion.

Structure of the report

This paper has been organized in a relatively schematic way, even though the LED Approach often involves many complementary and overlapping activities at the same time.

Chapter one briefly examines the main characteristics of the LED Approach, including the basic concepts, policies, process, implementation arrangements and outcomes that might be adopted within the LED framework. This approach is employed in most of our initiatives and has been particularly practical in the case of Mozambique.

Chapter two provides a background to the LED program in Mozambique and situates it within the context of wider development efforts. The chapter also addresses organizational issues, wider objectives and the role of funding agencies.

Chapter three reports on the results of the territorial analysis, giving an overall picture of the socio-economic and political situation of Mozambique and, in particular, of the three provinces of Manica, Maputo and Sofala.

² See ILO, LEDA (2000), pp. 20-21.

³ See Roel Hakemulder 1997.

Chapter four provides an overview of the LED Approach as it has been applied in Manica province, from the initial awareness-raising campaign through to training activities, workshops and seminars, and the creation of forums for dialogue among local stakeholders.

Chapter five then analyses the main elements of the LED strategy designed by the Local Forum. The most important objectives of their bottom-up strategy are outlined, as well as the main activities foreseen to achieve desired goals.

Chapter six takes an in-depth look at efforts to create a LED implementation structure in the province of Manica, namely a Local Economic Development Agency.

Chapter seven makes an assessment of concrete results to date, looking particularly at the impact of projects in terms of job and enterprise creation. The chapter ends with conclusions and policy recommendations.

1. What is Local Economic Development?

What is Local Economic Development?

LED is a participatory development process that encourages partnership arrangements between the main private and public stakeholders of a defined territory with the final objective of creating decent jobs and stimulating economic activity. The process enables the joint design and implementation of a common development strategy, by making use of the local resources and competitive advantage in a global context.

LED Component ILO ¹

At the World Summit for Social Development held in Copenhagen, Denmark, (6-12 March 1995), the delegates agreed that: “The international community, the United Nations, the multilateral financial institutions, all regional organizations and local authorities, and all actors of civil society need to positively contribute their own share of efforts and resources in order to reduce inequalities among people and narrow the gap between developed and developing countries in a global effort to reduce social tensions, and to create greater social and economic stability and security” (para. 27).

The involvement of actors at the local level has come to be seen as one of the most important elements in development strategies to redress inequality and the participating countries committed themselves (Commitment 1) to “[creating]... an economic, political, social, cultural and legal environment that will enable people to achieve social development”.

It was also acknowledged that national level measures are needed that:

“Reinforce, as appropriate, the means and capacities for people to participate in the formulation and implementation of social and economic policies and programmes through decentralization, open management of public institutions and strengthening the abilities and opportunities of civil society and local communities to develop their own organizations, resources and activities”

and...

“Strengthen the ability of local communities and groups with common concerns to develop their own organizations and resources and to propose policies relating to social development, including through the activities of non-governmental organizations.”

The Summit also encouraged (para. 50) the promotion of economic growth that maximize employment creation by...

“encouraging, as appropriate, labour-intensive investments in economic and social infrastructure that use local resources and create, maintain and rehabilitate community assets in both rural and urban areas”

and...

¹ Parts of this section have been taken from the discussion “Local Economic Development; a tool for supporting locally owned and managed development processes that foster the global promotion of decent work”, by Simon White and Martin Gasser, see bibliography.

“encouraging community economic development strategies that build on partnerships among Governments and members of civil society to create jobs and address the social circumstances of individuals, families and communities.”

The commitment of the ILO to Local Economic Development finds its particular expression in Recommendation 169² concerning Employment Policy, which stresses the importance and recognition of local employment creation initiatives. These can take diverse forms, such as small co-operatives and associations, and offer employment opportunities, especially for potentially marginalized groups such as women, young people. At the same time, the ILO seeks to promote complementary relationships between governments, employers’ and workers’ organizations.

In his report entitled: Reducing the decent work deficit – a global challenge (89th Session, Geneva, June 2001), the Director-General of the ILO, Mr Juan Somavia, noted the need for the ILO to work with its constituents in a more integrated fashion. But he also presented a series of challenges to national and local policy-makers, calling firstly for a re-assessment of the ways in which employment and enterprise targets can be achieved through both the formal and informal economies. This could mean removing barriers to, and providing start-up assistance for, the creation of micro and small enterprises, as well as encouraging the formation of social enterprises. Mr Somavia further remarked that assistance should be provided to enable small companies to grow and improve working conditions. This might involve the creation of “strong linkages with local authorities and their organizations around the goal of decent work in the life of communities”. “We must be open to new ideas at all levels”, said Mr. Somavia.

In the ILO Director-General’s report to the 87th Session of the International Labour Conference, Decent work, Mr. Somavia also noted the ILO’s response to local needs whereby “a number of experimental schemes have evolved, sometimes with the backing of local governments, sometimes through the initiative of private groups, sometimes through public-private partnerships. While some of these institutions may be culture-specific, others may be replicable in other parts of the world. The ILO should identify these schemes, evaluate their design and effectiveness in ameliorating the conditions of the poor, and consider their sustainability and potential for replication, as well as their role in national and sub-national systems of social protection.”

Later in his report, Mr. Somavia refers to the opportunities to extend social security to the most needy by delegating responsibility to local communities. This, he says, “would also help widen participation, particularly among the groups most at risk of exclusion, especially women, the disabled and others with special needs.”

The design and implementation of a LED Approach responds to the need to find the most suitable and sustainable solutions to local needs, addressing simultaneously the different dimensions of the development process by integrating the economic aspects with its social, cultural and institutional dimensions. At the same time, ways must be found of connecting local, regional and national development policies into one comprehensive framework of action. Consequently, LED is a process that will provide different solutions according to place, culture, and economic potential, political circumstances, social and institutional environment. It enhances the local ownership of the development process and fosters innovation by using local knowledge and capacities.

² Recommendation 169 (1984) 30-34.

Principles of local economic development

Although the fluidity of the LED Approach makes it impossible to describe a strict set of policies and actions, a typical LED project is led by a certain number of basic elements, which are examined in following paragraphs.

Participatory decision-making and social dialogue: The involvement of local stakeholders in the process of developing their own territory is a prerequisite for sustainable growth. Bringing local stakeholders around one table through a Local Forum helps to build trust, encourages innovation and promotes the creation of social networks and activities. Most importantly perhaps, the involvement of stakeholders fosters social cohesion, thereby decreasing the risk of further conflict.

Private/public partnership: Cooperation between, and the coordination of different development activities deter actors from ineffective go-it-alone approaches while supporting the legitimacy and sustainability of the development process. LED is a means to achieve the effective mobilization of local resources by encouraging investments with the highest rate of socio-economic return. The partnership between private, public and non-profit actors becomes crucial for a sustainable development process allowing the convergence in investment programming between the different local actors.

Territory: In contrast to traditional community development approaches, the LED Approach provides the means and structures to represent local opinion in national and international policy arenas. This is all the more important given the significance of territory to local economic development prospects in the current economic climate. Local actors not only possess a superior knowledge of their needs and resources, but their geographical and cultural proximity facilitates frequent social, economic and political interaction and creates the ideal conditions for growth, innovation and development, social cohesion and trust.

Building the foundations for the LED Approach

LED initiatives typically follow a sequence of steps:

- 1) **Territorial analysis and institutional mapping:** The objective of this phase is to acquire knowledge about the local economy and its existing resources. It comprises a preliminary analysis of the major socio-economic and political data of the territory, particularly through statistics and surveys. The institutional mapping process focuses on the objectives and activities of the different local stakeholders and the dynamics among them.
- 2) **Consensus building:** During this phase, local actors slowly begin to assume ownership of the development process. They are brought into the decision-making process through a series of workshops, presentations and study tours etc. which enable them to become familiar with the LED Approach as well as other local actors. Bringing the actors together also enables them to share their knowledge of the local environment and represents a first step towards the creation of a Local Forum.
- 3) **Promotion of a Local Forum:** The creation of a Local Forum is the continuation of the consensus building process initiated during the second phase. The Local Forum is composed of the most important local stakeholders and its responsibilities include: the formulation of the LED strategy; the coordination of the local resources; knowledge-sharing and ensuring the transparency of the LED process.
- 4) **Design of the LED Strategy:** The local stakeholders carry out a SWOT analysis, based on the results of the “Territorial analysis and institutional mapping” study. The

LED strategy outlines the vision, objectives and action plan in the long, medium and short terms. This plan provides concrete suggestions regarding specific activities (policies and projects) and tools through which the local stakeholders can reach their common development objectives.

- 5) **Implementation of the LED Strategy:** The local stakeholders are charged with implementing the plan according to their competences, resources and capacities and creating an implementation structure.

LED policies and tools

Different circumstances require different approaches and different approaches will lead to different actions and concrete results.

In the past, most regional policies focussed either on improvements in the “hardware” of a region (infrastructure and support services), or the “software” (such as strengthening human resource capacities, introducing new technologies, R&D, information gathering and dissemination).

The LED Approach capitalizes on the existing development potential of a territory and is concerned with assisting communities in upgrading their business environments to improve their competitiveness, retain jobs and improve incomes. IT foresees the formulation of LED policies, the development of LED tools and projects and the creation of local implementation structures (see table).

The content of the LED strategy, formulated by local stakeholders, will always differ for each specific locality depending on the territorial analyses and discussions among local stakeholders. Nevertheless, the most commonly used policies, tools and projects and their corresponding implementation structures include the following:

| | LED Policies/ Projects | LED Tools | Existing Implementation structures | |
|--------------|--|---|---|-----------------|
| LED Strategy | Finance | Credit programmes Guarantee funds Revolving funds Joint ventures Special credit lines for youth and women | Local banks Micro-finance institutions Financial intermediaries Development Banks, etc. | LED Action Plan |
| | Business development services | Market research Business starters Databanks Incubators Consultancies Export promotion Cluster support | Chambers Local Government Private service providers Universities Research institutions Business Incubators, etc. | |
| | Training | Management courses Study tours Distance learning courses Special courses for women, excombatants displaced people etc. | Research institutions, private/public schools, Universities, Chambers, Business service providers, etc. | |
| | Infrastructure investment and planning | Local Development plan Environmental Plan | Local Government NGOs Research Institutions, etc. | |

| LED Policies/ Projects | LED Tools | Existing Implementation structures |
|--|--|---|
| Investment attraction | Territorial marketing | Local Government, Private marketing agencies, Chambers, etc. |
| Networking | Lobbying with central government, International Organisations, NGOs, international investors, Local Economic Development Agencies and LED-Networks, etc. | Local Government, Chambers, Local/Regional Development Agencies, etc. |
| Geographical coordination of local resources | Orientation and re-orientation of investment on the territory, cluster strategies | Local Government, Chambers, Local/Regional Development Agencies, etc. |
| Functional coordination of local resources | Delegation of development functions to most appropriate stakeholders | Local Government, Chambers, Local/Regional Development Agencies, etc. |

Implementation structures

A key objective during the implementation stage should be to use, promote and strengthen existing local implementation structures. For example training activities should always be carried out by local training institutions, Chambers of Commerce or Universities. This also applies to the delivery of business services by existing Enterprise Development Agencies, and the provision of financial services by local banks or other local financial institutions, etc. Other implementation structures might include Business and Innovation Centres, Business Incubators, Regional Development Agencies, Local Economic Development Agencies, etc. However, in the absence of appropriate local implementation structures, alternative structures must be designed.

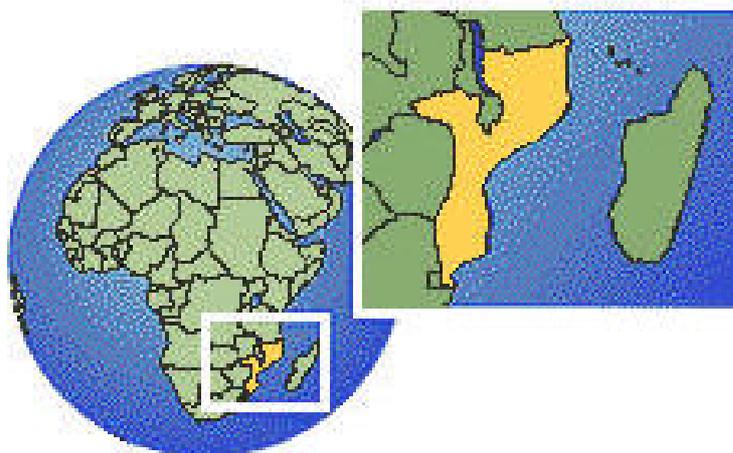
Past LED experiences have shown that the most effective way of establishing an implementation body is through the institutionalization of the Local Forum. This body, often called Local Economic Development Agency or LEDA, has the following advantages:

- its composition reflects that of the Local Forum, thereby reinforcing the legitimacy of any development activities it is charged with;
- it guarantees coherence and efficiency by coordinating the implementation of the LED action plan;
- it implements the action plan (or parts of the action plan) where there is no pre-existing implementation structure.

In contrast to other implementation structures, the LEDA can also become a tool for lobbying and coordination at the local, national and international levels.

2. The LED Approach: Mozambique Case Study

As mentioned earlier, it is not the intention of this publication to provide a blueprint for local economic policies throughout the world. However we feel it important to highlight pioneering “best practice” case studies that provide important insights into ways of designing LED tools and implementation structures. This chapter therefore focuses on Manica province in Mozambique to provide a practical illustration of how the LED Approach can be applied in a post conflict situation.



Background

The UN Interagency Program PDHL/MOZ (Programma de Desenvolvimento Humano a Nivel Local: Human Development Program at the Local Level), launched in March 1999, is an Italian financed program conceived within the framework of the Five-Year Plan of the Mozambican Government and, more specifically, as part of its Socio-Economic Plan.

The LED component of PDHL recognizes the qualitative importance of the “local approach” in supporting a process of sustainable human development. It is fully in line with ILOs’ Recommendation 169 (concerning Employment Policy), stressing poverty alleviation, employment creation, income generation, integration of the most vulnerable groups into the labour market and the improvement of working and living standards.

Working in support of the Mozambican Government, as well as institutions and representatives from civil society, the main objectives of the PDHL/MOZ are to:

- | support the consolidation of the peace-process in Mozambique, as well as the process of national reconciliation and reconstruction;
- | promote “social development”, as it is conceived in the final Memorandum of the Social Summit in Copenhagen, March 1995;
- | promote and enhance the coordination and efficiency of the different interventions of national and international technical cooperation partners in the project areas of PDHL/MOZ.

At the local level, the Program also sets out to strengthen the capacity of local administrative structures and institutions to supply basic services to their populations such as health care, education, human rights, and environmental safety.

In early 1998, the UNDP, UNOPS and ILO signed an agreement regarding the development of a LED component within the framework of the PDHL/MOZ project. According to this agreement ILO would provide technical assistance to UNOPS in the implementation of local economic development strategies. As a result, a full-time ILO LED expert was appointed in July 1998.

In January 1999, the first Associate Expert was assigned to PDHL in Manica Province. Following an agreement reached between ILO and the Dutch Government in December 1999, a second Associate Expert was appointed to work in Sofala Province in April 2000. In addition to field personnel, the ILO has also carried out regular backstopping missions with staff from ILO Geneva, the MDT and the SIYB project in Harare.

2.1. Territorial analysis



The first task of the LED project in Mozambique was to gather information and knowledge on the economic, administrative, social and cultural features of the participating provinces. Technical staff from the ILO, UNOPS and a range of local Universities were therefore charged with carrying out a joint analysis of the three provinces.

The involvement of local academics and researchers from the Catholic University of Mozambique, the University Eduardo Mondlane and the International Capital Corporation (ICC) in this analysis was crucial as these institutions are the best qualified to make an assessment of local conditions and the dynamics among the different economic and social stakeholders.

Their involvement was also extremely important in order to foster the sense of local ownership and to solicit approval from the wider community.

Area studies focused on mapping already existing economic development initiatives and policies, gathering socio-economic data, providing an overview of the legal and regulatory framework, as well as information on institutional and political matters and local socio-economic dynamics. The studies were instrumental in the planning of preliminary activities within the framework of the LED Approach.

The major characteristics of the area studies were as follows:

The Post War Economy

Mozambique is a subtropical country, situated in the south-eastern part of the African continent (11 e 27 latitude south) and is the fourth most populated country of the 14 members of the Southern African Development Community (SADC). The country covers an area of 799.380 km², approximately 1.5 times the size of France. In 2000, the population was estimated around 17.2 million people, according to the information of the National Institute of Statistics (INE), which means an average of 20 inhabitants per km², with the majority of the people living in the coastal areas.

The economy of Mozambique is based predominantly on agricultural activities, although the fishing industry is a major player in the export market. Due to its geographical location, Mozambique has traditionally acted as a transport corridor to the African “hinterland” for the past 300 years, bringing with it many economic benefits. South Africa, Zimbabwe and Malawi are its main trading partners, and subsequently the transport corridors of Nampula, Beira and Maputo are the most developed regions in the country.

Following the 17 years of armed conflict, most of Mozambique’s physical resources and infrastructure were destroyed, with perennial crops lost and regional and village markets all but disappeared. The population, especially those living in the rural areas, are facing tremendous difficulties in restarting their productive activities. Migrants and displaced persons who settled in urban areas flooded the urban informal sector.

In 1987, the Government of Mozambique began a process of liberalization, marking the beginning of the transition from a centrally planned to a free-market economy. The ensuing changes have caused many disruptions to the public management and judicial systems at different levels, especially during the early 1990s.

In spite of these difficulties, Mozambique’s macro-economic indices have become increasingly positive throughout the last decade. The rate of inflation, which was still as high as 54% in 1995, was brought under control and now hovers around 10-11% annually (estimation for 2000). The GDP grew at a rate 13.2 and 12.6 percent in 1998 and 1999 respectively, while investments reached an average of 27% of the GDP ¹.

Consequently, Mozambique has come to be recognized as one of the few African examples of “prudent economic management and political stability”, indicating that the country is clearly moving away from a “relief” phase to a “development” phase.

More importantly, evidence supplied by the World Bank suggests that the recent growth phase is having a positive impact in reducing poverty levels. In 1999, Mozambique attained self-sufficiency in its food supply. There are also indications that food-security, which was a major issue during the war and up until the early 1990s, has now improved significantly. At the same time, informal markets are flourishing and there has been a surge in the number of micro-enterprises, even in the vast rural areas of the country. Even though annual incomes are still low, annual (private) consumption growth was almost 7% in 1999 ².

As a result of this gradual upward spiral and the increase in disposable income, there has been an expansion in economic opportunities and the demand for goods and services

¹ See, Government Report PARPA, 2001, pp. 24-27.

² See, Government report PARPA, 2001, p. 25.

has lifted. All of these favourable trends are basically the result of two major transformations that have shaped the country since 1992: the peace process and the transition from a centrally planned economy to a market economy.

Human development index 2002: Mozambique

| HDI rank | Life expectancy at birth (years) 1999 | Adult literacy rate (% age 15 and above) 1999 | Combined primary, secondary and tertiary gross enrolment ratio (%) 1999 | GDP per capita (PPP US\$) 1999 | Life expectancy index 1999 | Education index 1999 | GDP index 1999 | Human development index (HDI) value 1999 | GDP per capita (PPP US\$) rank minus HDI rank |
|----------|---------------------------------------|---|---|--------------------------------|----------------------------|----------------------|----------------|--|---|
| 157 | 39.8 | 43.2 | 23 | 861 | 0.25 | 0.36 | 0.36 | 0.323 | -11 |

Yet in spite of such rapid progress, Mozambique is still ranked 157 out of 162 countries worldwide in the UNDP Human Development Report 2001. In fact, in 1998, more than 70% of the population were still living in absolute poverty. The IAF (“National Household Survey”) of 1997 offers some explanations behind this inconsistent development process:

- ‡ slow economic growth until the mid 1990s;
- ‡ a low level of education among rural households and the economically active, especially women;
- ‡ low productivity in the agricultural sector;
- ‡ a lack of employment opportunities and an underdeveloped and inadequate infrastructure.

Economic growth patterns in Mozambique display major disparities between regions and between urban and rural areas. Rural development has been much slower despite the abundance of fertile land and water resources and the relative ease of access to international markets by sea and land through the existing transport corridors. Mozambique is also failing to capitalise on its natural resources in the rural areas, including the prospects for tourism development and the expansion of the fisheries industry.

In explanation, the large majority of agricultural, as well as the non-agricultural, industries and micro-enterprises are facing the usual obstacles found in most countries of the developing world, i.e.; the lack of finance for investment; difficult market access; lack of information; lack of managerial and technical capacity, etc. All this results in low productivity and competitiveness, which inhibits local entrepreneurs from linking up to markets within Mozambican society and creating further markets overseas³.

In general, rural households cannot capitalize on the favourable macro environment. Although most of them “are able to survive on what they produce (except in cases of poor

³ Bardhan states that it is dangerous to assume that economic growth will always lead to a reduction of poverty. He claims that depending on the type of growth and the country, economic growth might even lead to increased inequalities. See Bardhan (2000), p. 8.

climatic conditions) little income is coming from off-farm sources in rural areas, per capita incomes are nearer to US\$ 100 than the economy wide US\$ 210 per person ⁴.

The recent floods provided a further blow to the overall macro-economic performance of Mozambique, affecting firstly the southern part of the country and one year later in the Central parts of Mozambique. As a result, the GDP is expected to drop to 3.8% in 2001. One of the main reasons of this significant fall is the fact that the areas that were affected by the floods (in Gaza Province) are traditionally responsible for a big contribution to the national economy.

National Policy Framework

Combating Poverty: the Strategy of the Mozambican Government

The Governments main objective is to reduce absolute poverty from 70% in 1997 to less than 50% in 2010 ⁵.

The Mozambican Government has demonstrated its commitment to poverty reduction through the launch the “Plan of Action for Reducing Absolute Poverty ⁶”, PARPA (“Plano de Acção para a Redução da Pobreza Absoluta”). The new PARPA has a broad strategic vision, recognizing that the expansion in opportunities for the poor will be limited without balanced growth to increase the supply public and private funds.

The PARPA has 6 priorities objectives, based around: the promotion of human development; the creation of an enabling environment for enterprise; the provision of health care and education, particularly for the rural poor; good governance; agricultural development and macro economic and financial management.

It is hoped that Mozambican agricultural farming will become more competitive through the introduction of new forms of cooperative work structures and through the adoption of new rules and regulations. In the short term, these innovations should bring higher revenues to the local producers.

Modernization of the National Economy

Structural Adjustment refers to a set of processes whereby a country adapts to new market conditions. The aim is to increase competition and economic growth through deploying and re-deploying (local) resources.

This is normally done applying the following macro-economic instruments:

- | Economic liberalization (through deregulation of prices and foreign capital control);
- | Decreasing budget deficits (through cuts in state subsidies);
- | Devaluation of national currencies (in order to support the export market and restrict imports);
- | Privatization or liquidation of inefficient state-owned enterprises.

⁴ See, UN Common Country Assessment, 2000, p. 70.

⁵ See, Government Report PARPA, 2001, p. 1.

⁶ This document is still in the draft stage.

In other words, the primary aim of Structural Adjustment is to bring about improvements in productive processes and the market for products by removing trade barriers and other obstacles.

To date, the Structural Adjustment program adopted by the Mozambican Government in the mid 1990s has had a greater impact on the macro rather than the micro economy. The process of decentralizing administrative responsibilities to the provinces was intended to alleviate demands on the central government. However it was not accompanied by a corresponding transfer of resources and technology which has undermined the creation of an effective participatory development process.

Similarly, the privatization of more than 900 State enterprises did not bring about an increase in competitiveness or any substantial benefits at the local level. On the contrary, economic output and productivity dropped significantly and unemployment figures rose towards the middle of the 1990s. Since then, the social costs of the Structural Adjustment have been borne through “relief” programs, aimed mostly at providing short-term solutions for basic needs. Unfortunately, such “sticking plaster” solutions have ultimately contributed to greater, not less, dependency on external funding agencies.

During the last four to five years, however, a new industrial and trade policy has begun to pave the way for economic growth. At the international level, the Government and representatives of the private sector are negotiating the SADC Trade Protocol, which should come into force later this year. Mozambique is also member of the WTO and has signed the Lomé Convention.

On the domestic front, the present Government is very much aware of the need to create an enabling environment (fiscal, regulatory, legislative, etc.) for economic development by removing trade barriers and other obstacles and introducing new state-of-the-art policies.

The Government has passed a decree on Micro-Finance, prepared by the “Banco de Mozambique” providing a legal basis for micro-finance operations and “micro-finance lending licenses” can now be granted to organizations such as NGOs as well as individuals⁷. Fiscal policy has also been reformed, VAT introduced and taxes on business profits cut. Tax reduction has been introduced for investments in the countries poorest regions.

In spite of such positive developments, a note of caution is still in order. Experience has demonstrated that the introduction of the above macro-economic policy tools will not necessarily lead to a significant increase in employment opportunities, nor a rise of incomes and living standards. It is also doubtful whether local and regional governments will be able to stimulate and sustain a local economic development process merely by improving the existing infra-structure and attracting foreign investment⁸. Economic reforms and development measures must include mechanisms for translating macro policies into concrete actions at the local level that meet the locally defined needs.

⁷ It is worth mentioning here that all MFI are operating in either one of the three main urban centres in the country, Maputo, Beira or Nampula. There is hardly any rural Micro Finance experience, as yet.

⁸ See, Bardhan (2000), p. 11.

The Economic Profile of Sofala, Manica and Maputo Province⁹

The PDHL Program is currently operating in Manica, Maputo and Sofala Provinces. The specific districts targeted include: Tambara and Guro in Northern Manica; Caia, Chemba and Maringue in Northern Sofala; and Matutuine district in Maputo Province. The total population of all these districts is approximately 350.000.

These districts were selected in consultation with the national government for inclusion in the PDHL as they were among the worst hit by the Mozambican civil war. More than half of their total population fled to other regions in Mozambique or to Malawi and Zambia.

There are practically no industrial activities outside of the major urban areas. Before 1975 a British “cotton processing” factory was operating in Caia, employing over 200 people. In Matutuine a rice factory was also open although already experiencing operational problems in the early days due to lack of supply of raw materials. Both factories closed immediately after Independence in 1975. There is a commercial infrastructure in the rural areas, however it is somewhat fragile. During the war the network of shops and warehouses, as well as the transportation system was completely destroyed. Difficult access to – and in – the region and the lack of supply of energy (on a regular basis) make matters worse.

Before the war, the majority of the rural population was engaged in cattle breeding and animal husbandry. While cattle retain their cultural function (specially in the south), their economic importance has been lost.

Over 50% of the economic activities of Sofala, Manica and Maputo Provinces are now concentrated in agri-business and fisheries, employing more than 90% of the population of working age (between 15 and 50). Most farming is for subsistence purposes only and farmers usually spread the risks by engaging in a wide range of farming activities, for example keeping chickens and goats while growing crops for private consumption. Although very little is sold on the local markets¹⁰, in some cases, local farmers may grow cash crops on a very small scale.

There are, however, few processing activities carried out in the districts. Corn, sunflower, shrimps and especially cotton (Sofala and Manica province) are being produced for the regional and international markets.

Micro and small businesses located in provincial areas tend to focus on trading or services, with very few of them operating in the agro-business or productive sectors. In almost all districts, there is a prevalence of small repair shops for agricultural tools, radios and bicycles (the main means of transportation), carpenters, producers of straw baskets for

⁹ This information originates mainly from two studies carried out by UCM (Universidade Catolica de Mozambique) in Beira in June and October 1999, analyzing the local economic context and the credit and savings culture in the districts. Another source of information is the “Socio-Economic Analysis” of the PDHL districts, produced in January 2000. The information provided here refers only to the provinces of Sofala, Manica and Maputo excluding the three major urban centres, Beira/Dondo, Chimoió/Manica and Maputo City/Matola. These centres have completely different cultural, social and economic contexts and conditions.

¹⁰ See also note “7”. Poverty levels in the districts are generally quite high. In Macossa, for example, 66% of the population has an income of less than 15 US\$ a month! In Matutuine, Maringue and Caia the situation is a little better, but out of the overall population, 15, 21 and 24% respectively still have a monthly income of less than 15 US\$.

household storage, tinsmiths, roof makers, tailors or bakeries. In addition, some micro entrepreneurs produce blocks for the construction industry and ceramics.

The district of Matutuine in Maputo Province particularly has the potential for the development of tourism, with South African investments growing over the past few years and some mega-projects in the pipeline. This trend creates opportunities for local entrepreneurship not only in the tourism sector but also in the furniture, construction and food-industries. Furthermore micro-entrepreneurial activities are to be found in the fishing industry in the lakes and coastal areas of the Indian Ocean in Matutuine district as well as along the Zambezi River.

Accurate unemployment figures for Sofala, Manica and Maputo Province are not available but it is assumed that more than half of the population in the rural districts is either un- or underemployed. Youth unemployment especially is a major problem, which very often leads to out-migration.

Constraints faced by rural populations

In general it is safe to say that the expansion of economic opportunities in the three provinces is hindered by the following constraints:

- 1) Low levels of productivity due to:
 - ‡ The lack of an efficient transportation and marketing systems;
 - ‡ The lack of functional structures to support the production process (most support services are not structural but temporary, depending on external financial support);
 - ‡ The lack of information, knowledge and technical preparation;
 - ‡ The lack of appropriate entrepreneurial skills and attitude;
 - ‡ The lack of access to appropriate technology.
- 2) A population with a low level of formal education.
 - ‡ 60% of the men in Northern Manica and Sofala have less than 5 years of formal schooling;
 - ‡ 95% of women in Northern Manica and Sofala have less than 5 years of formal schooling.
- 3) A complete lack of any formal finance mechanism.

In Sofala, Manica and Maputo Province there are no banks or formal financial institutions outside the main urban areas. Some international NGOs are implementing micro-finance projects, although their success to date is very limited. Individual moneylenders are busy in the provinces, in spite of their unreliability and cost.

- 4) A low population density (ranging from 3-19 persons per km²).

The population is dispersed over wider areas, with poor access routes that deteriorate further in the rainy season (November–April). This leaves some communities geographically isolated which not only complicates agricultural production, but also inhibits the flow of reliable information into, and communication with, these areas.

5) Unsafe and unhealthy living and working conditions.

The population in the rural areas is under a more or less constant threat of illness either from malaria or bilharzias or HIV/AIDS, which is advancing at a horrifying pace and mainly effects the economically active. Unexploded landmines, particularly in Sofala and Manica provinces, pose a further threat to life chances. Along the river Zambezia in north Sofala and Manica, hippopotamus and crocodiles are a constant threat to the farmers and fishermen that live near and off the river.

6) Out migration of young, male workers to South Africa, Swaziland and to a lesser extend to the capital Maputo

Out migration is leaving many districts with a lack of young males of working age. As a result most productive activities are carried out by women and in female-headed households.

Within this context, UNDP/UNOPS (with the technical support of ILO), the Italian Government and the Government of Mozambique have joined forces in analysing, discussing and developing alternatives in their fight against poverty and social exclusion.

Since mid 1997 Local Economic Development principles have been discussed with the aim of supporting an economic development process that would lead to an improvement in the living and working conditions of the poorest rural population groups. The LED principles fit nicely into the basic principles of the PARPA described in paragraph 2.2. As an outcome of these discussions LED was integrated into the new PDHL program as one of the most important components.

2.2. From consensus building to Local Forums: The Manica province

Once the territorial analysis had been completed, the local stakeholders were then contacted and brought together to discuss the findings of the studies. For this purpose several meetings of representatives from the public and private sector and the funding agencies were organized within the framework of so-called “Grupos de Trabalho Distrital”. During these meetings, the SWOT analysis was employed to enable the local working groups to define their needs and necessities both in the present and the future.



The workshops in the districts of Manica, Sofala and Maputo enabled first exchanges of information among local stakeholders and, in particular, those that usually didn't communicate among each other. At the same time the *grupos de trabalho* contributed to a more comprehensive understanding of major problems in the local economies and stimulated the interest and awareness for integrated actions and initiatives. Subsequently the LED Forums in each of the provinces

followed-up with their own strategies, implementing measures and activities.

In the case of Chimoio, the capital of Manica Province, a seminar on Local Economic Development was organized in June 1999. This seminar gathered 42 representatives of the public and private sector, civil society and funding agencies, many of whom had been involved in the previous workshops. Its objective was to create a local forum in which local actors could actively debate around LED issues.

During this meeting different representatives of the government presented the provincial strategies relevant to LED, such as agricultural and labour policies and strategies. PDHL on the other hand, presented the Local Economic Development Approach and its methodology. Various aspects of the LED Approach were then discussed in different working groups; such as the meaning of territory, financial viability, local participation and institutional and political aspects.

Finally, the local stakeholders discussed the possibility of integrating the LED Approach into an economic development strategy for the region. The participants also examined the likelihood and willingness of the national institutions and local actors of participating in its eventual application.

The main conclusions drawn from the discussions during the seminar were the following:

- | There is a need for coordination and exchange of experience between economic actors at local, district, provincial and national levels and between private, public sector and civil society;
- | Financial services and their sustainability is a responsibility of the private sector;
- | Any duplication of responsibilities should be avoided;
- | Formal and informal representation at local level is needed; from associations, local government and traditional leaders.

A further workshop was then organized with only 20 participants this time to examine LED issues in more depth. This seminar focussed on understanding the meaning of local economic development and the methodological approach involved. As an outcome, the participants agreed on the creation of a “LEDA Support Committee”.

The “Support Committee” would consist of a representative of the Provincial Farmers Union, a representative of a provincial association of entrepreneurs, and the Directors of the Provincial Departments of Agriculture, Labour, Planning and Finance and Industry and Commerce. Furthermore the District Administrator of one of the PDHL districts (Tambara), a representative of the German Development Cooperation as well as the provincial counterpart of PDHL participated.

The main recommendations to PDHL were the following:

- | to undertake a more thorough analysis on the different aspects of sustaining an LED process in Manica province;
- | to create an entity that could consolidate and ensure the continuation of LED activities after the PDHL finished its cycle;
- | to create a support committee and define its responsibilities (with the PDHL responsible for organizing an event to promote this support committee);

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- | to create a mechanism for organizing and training local stakeholders;
 - | to take immediate action in the field of micro-finance.

2.3. The LED Strategy

The process of consensus building (see previous section) was accompanied by an initial field survey in the different districts between July and October 1998. The outcome of this survey nourished further discussions and dialogue among the local stakeholders in the different provinces, creating an intense exchange of ideas and information.

The main objectives identified were:

- | the physical rehabilitation of support infrastructures;
- | the upgrading of basic entrepreneurial and technical skills;
- | the strengthening of local social capital;
- | decreasing the dependency on external support;
- | to increase the negotiation and planning capacities of local actors;
- | to increase purchasing power through access to credit;
- | to improve the diversity and quality of the local production.

To achieve these objectives, the local stakeholders of the various Provinces agreed on three Strategic Fields of Action, namely:

1) Support to:

- | The quality and efficiency of local public and private commercial infrastructure, including:
 - the rehabilitation of shops, small markets and small workshops;
 - improving the physical working conditions of the different public support services in the districts;
 - increasing the outreach of a Credit Cooperative and diversifying its products;
 - rehabilitation of grinding mills.
- | Agricultural production and marketing of the agricultural products;
- | An analysis of local investment opportunities, incorporating the local population.

2) Strengthening available local productive capacities (potential) or creating new ones. This field of action aims mostly at organizing and mobilizing the local population in function of their productive activities, namely:

- | Promoting associative forms of labour;
- | Promoting and strengthening micro and small enterprises (focus on women - entrepreneurs);

-
- | Development of financial mechanisms and instruments based on local requirements to increase the level of private investment and to accelerate the circulation of money in the local economy;
 - | Training courses in close collaboration with the responsible state institutions, like Ministry of Agriculture, etc., especially aimed at entrepreneurship development.
- 3) Promotion and creation of provincial Local Economic Development Agencies. The Agencies would be the institutionalized form of the Local Forum and act as structures to implement the LED strategy.

2.4. Implementation arrangements

Given the importance of ensuring the long term sustainability of the PDHL, the first two years of the LED related activities mostly revolved around efforts to consolidate the organizational framework for activities and capacity building for local entrepreneurs, traders and farmers.

There are several reasons why the Local Forums chose LEDAs or Regional Development Agencies (RDAs) as the most suitable implementation mechanism for the LED component of the PDHL:

- | LEDAs make effective use of local resources;
- | LEDAs represent a new element in the institutional landscape of Mozambique, providing an effective response to the need to decentralize the Mozambican economy and to introduce democratic methods of territorial management ¹¹;
- | LEDAs enjoy a relatively high degree of legitimacy and trust from the local population because they are composed of, and reflect, the experiences of local stakeholders and are not imposed from the “top-down”;
- | LEDAs contribute to conflict resolution and prevention through the creation of mechanisms for social dialogue and participation;
- | LEDAs are professional organizations that are specialized in promoting and supporting income-generating projects. This enables them to tackle development issues more efficiently.

The main objectives of the LEDAs are:

- | the identification of development opportunities for the local population, the mobilization of technical and financial resources around them;
- | the provision of technical and financial assistance to their members and to the wider public to help initiate, reactivate and strengthen enterprises, particularly those that have a potential for employment creation;
- | to encourage processes of consensus building, conciliation, democracy and participation. (and take into consideration the vulnerability of their surrounding environment).

¹¹ The activities of the LEDA in Europe are almost always complementary to those of the local authorities with which they maintain a very close relationship. In the European case LEDAs are often defined as “a technical arm” of the Regional or Provincial Government.

In particular the LEDAs in Mozambique were expected to be involved in:

- | promoting the diversification of the economic activities in the province;
- | the delivery of locally-based comprehensive support to potential or existing micro and small enterprises;
- | the introduction of new management techniques and new technologies;
- | the provision of export promotion services;
- | the improvement of quality and productivity of the local agricultural production;
- | the introduction of new forms of organization of the production (cooperatives; clusters, franchise, etc.);
- | channelling external resources into productive investments;
- | the delivery of a wide range of information services (i.e. the creation of databases regarding markets, machinery, tools, training possibilities, etc.);
- | the provision of consultancy services to facilitate guidance and assistance in formulating and selecting “bankable” projects;
- | the stimulation and support of a “social dialogue” at the local level, in particular the between the public and private sector;
- | the promotion of dialogue between local, national and international level in matters of economic development.

Although the Local Forums agreed that the LEDAs in Mozambique should be important actors in development issues, there was a broad consensus that the **implementation** of the LED activities should be carried out as far as possible by local institutions.

The role of the LEDA should be to strengthen, not replace, service providers. Only where this is not possible, the LEDA might assume the role itself. It was also generally agreed that the LEDA is conceived as a networking mechanism, assembling all the relevant local actors who are dealing with economic development in a certain territory. Although the LEDA’s legal private structure resembles the one of a company it should stimulate the market, but not compete on it.

How to promote a LEDA: The case of Manica Province

In March 1999, PDHL began the process of creating a Local Economic Development Agency in the three provinces Sofala, Manica and Maputo. The PDHL assumed responsibility for providing full financial and technical support, at least during the first year of operation¹², with PDHL personnel assigned to work closely together with the LEDA staff on implementing the work plan.

Three LEDAs have now been officially created, including ADEL Sofala (Agência de Desenvolvimento Económico Local) in October 2000 and ADEM Manica (Agência de

¹² It is now foreseen that this support will be extended for another 24 months from January 2002 onwards.

Desenvolvimento Económico de Manica) in November 2000. Maputo province opened the third LEDA in the country on June 20th of 2001.

In this section, the practical implications of establishing the Local Economic Development Agency in Manica Province are discussed.

The process of creating and promoting a LEDA has been divided in 5 phases:

- a) Preparation Phase
- b) Promotional Phase
- c) Design and Juridical Procedures
- d) Start-up Phase
- e) Consolidation Phase

Each of these 5 phases can be sub-divided into different steps.

Although the following steps seem to be very chronological and structured, the promotion of the LEDA is a long process and is accompanied by capacity-building activities, including the promotion of financial mechanisms, the design of concrete projects and the first round of negotiations with local, regional and national actors etc.

a) *Preparatory Phase*

As part of the consensus building campaign mentioned above (see chapter 2-2), field trips to meet with the staff of existing LEDAs in other countries have proven to be extremely successful. The ILO organized a study tour in September 1999 to El Salvador, Portugal and Italy in which 21 representatives from both private and public sectors participated. Nearly all of the “LEDA Support Committee” from Manica Province participated, giving them a chance to gain insights into LED initiatives overseas and in particular to gain a better understanding of the strengths and weaknesses of LEDAs.

Members of the LEDA in Manica:

| | | |
|----|--|-----------------------|
| 1 | Metalúrgica de Chimoio | Private enterprise |
| 2 | Fundo de Fomento de Pequena Industria | Financial Institution |
| 3 | União Provincial de Camponeses de Manica | Association |
| 4 | Associação de Agricultores de Manica | Association |
| 5 | Focama – Forum das ONG’s Nacionais | Association |
| 6 | OMM – Organização de Mulher Moçambicana | NGO |
| 7 | Sports Clube | Association |
| 8 | PAC – Programa de Actividades Culturais | Association |
| 9 | Conselho Municipal de Chimoio | Municipality |
| 10 | Conselho Municipal de Manica | Municipality |

b) *Promotional Phase*

Coming back from the study tour, ideas, impressions and experiences were exchanged between the members of the support committee. Four working groups were then formed and assigned with the task of investigating, discussing and drumming up proposals for the establishment of the LEDA, focusing on areas such as; its mandate, the institutional context, the territorial dimension and its legal structure.

The discussions of the four working groups resulted in the formulation of a **LEDA profile** containing the following sections: introduction; nature of the organization; general and specific objectives; activities; organizational structure; participants; intervention strategy and sustainability¹³.

The main results are summarized below:

Mandate: Criteria were first proposed for the creation of the LEDA, highlighting that: (i) the process should be simple and fast; (ii) the LEDA should be non-profit; (iii) it should be open for all organizations that have a proper juridical personality and operate in the field of economic development; (iv) if possible, the government should participate; and (v) its organizational structure should be simple.

Concerning **representation**, a mixture of private and public sector members was found to be vital to ensure that the LEDA would have legitimacy in acting as a vehicle of social dialogue and coordination within the local economy. It was also agreed that funding agencies should not participate directly, but should have an advisory role, perhaps participating in a Consultative Board.

Several concerns were raised during the meetings regarding the weak representation of the rural population (as civil society), as well as the private sector. It was observed that in Chimoio, as well as in Manica province, there are many different organizations representing diverse population groups. Yet nearly all of these are lacking a proper organizational structure and are institutionally weak¹⁴.

Manica province also lacked an active and representative association of private entrepreneurs, even though a formal association was in existence. Priority was therefore given to strengthening this body.

A further question mark hung over the membership of private enterprises in a not-for-profit institution. It was decided that local entrepreneurs could only be represented through their professional body to prevent the concentration of too much decision-making power in one single enterprise.

As far as **fields of intervention** were concerned, it was agreed that the LEDA could play a key role as a coordinator between the different actors and their programs, bringing together different kind of services related to the promotion and creation of small and medium sized enterprises and associations, as well as promoting the territory and identifying investment opportunities.

The “LEDA Support Committee” defined the LEDAs’ **target group**, as being all economic actors of Manica province, paying special attention to disadvantaged or marginalized groups such as women heads of households, returned refugees, demobilized soldiers, etc. It was stated clearly that the LEDA should not focus on the poorest of the poor, as the economic development process in Manica province will not depend on them!

Territorial dimension: Given the population dispersal over such a wide area in Manica province, it was agreed that the Headquarters of the LEDA should be located in the provincial capital to benefit from institutional and infrastructural linkages as well as the

¹³ See Annex.

¹⁴ This may be because most local organizations have not grown spontaneously as an outcome of internal market dynamics, but are the result of external interventions (though the church or NGOs). More worryingly, only three out of ten districts had locally elected governments.

available human, economic and financial resources. The possibility of opening a district branch office was not ruled out however.

Once the project profile had been developed in December 1999, different seminars and workshops were then organized to promote the concept of the LEDA to a wider audience and to attract more members.

c) *Design and Juridical Procedures;
Strengthening the LEDA*

As proposed by the “LED Support Committee”, a lawyer was contracted to analyse the proper legal structure of the LEDA and elaborate its Constitution based on the profile document. Several meetings were held between the committee and the lawyer to discuss and clarify different aspects. One of the issues analysed and discussed in detail was the type of organization that was eligible to become member. It was agreed that the Government represented by the different technical provincial departments could participate in the Consultative Board. Funding agencies as well as international NGO’s could also eventually have a role in this Committee.

Another issue frequently raised was how long the membership would last for the different bodies.

It was agreed that the most appropriate legal structure for the LEDA would be an Association. The LEDA would then have its own legal personality and framework and administrative autonomy¹⁵ in order to register an Association at least 10 founding members had to be recognized.

The General Assembly is the most important legal body of the LEDA, it defines the strategy, policy and priorities of the organization. The daily operations are responsibility of the Management Board (elected during the first General Assembly) as well as the Manager of the LEDA.

A Financial Control Committee monitors the financial procedures and checks the accountability of the LEDA.

An Consultative Board is involved in different strategic decisions, but does not have a direct vote in the Management Board. The Consultative Board is composed of the representatives of the relevant public and international institutions.

The technical team carries out the decisions taken at the level of the Assembly and Management Board.

Legalization procedures and requisites

Finding and gathering all the necessary documents needed for the registration process was not as easy as expected, as there was some confusion among the founding members. Registration requirements also differ from province to province. Whereas in Sofala there

¹⁵ Autonomy enables the LEDA to be: an institutional entity that plays a role at the local and national level; a contractual entity with independent access to funding, to subcontractors and services, to national and international programs, and an administrative entity to be able to implement projects and provide services in a simple, non-bureaucratic manner.

were few requirements, in Manica on the other hand, the administrative demands caused some delays¹⁶.

At this time, the Support Committee began to think of an appropriate name for the Agency. After consultation with other potential members, they finally agreed on: **Agencia de Desenvolvimento Econômico Local da Província de Manica – ADEM** (Local Economic Development Agency of Manica province).

Following completion of the registration process, the “LEDA Support Committee” then lost its “raison d’être”.

The role of PDHL also began to change from “promoter” and active “actor” to a more advisory and monitoring role.

A LEDA should become an independent body as soon as possible, with a separate legal structure. It is therefore important that the local actors assume responsibility for the process of creating LEDA right from the start. In order to ensure that a local community will not consider a LEDA as an institution imposed from the outside, but will consider it as their own, LEDA will have to be constituted based on a participatory process of promotion and preparation, involving ad hoc committees of representatives of public institutions, NGO’s, local authorities, small producers and entrepreneurial organizations and representations from the community.

The fact that a LEDA is an independent legal entity has proven to be particularly important in reducing levels of conflict in areas where ordinary clashes of interest between social groups has degenerated in armed hostilities, expulsion or forces repatriation of populations. LEDA have also shown to be successful and useful in those environments that have undergone heavy economic and political transitions, where the implosion of former powers and the formation of new aggregations complicate the regeneration of social organization and the creation of new social and economic networks. Here new opportunities for dialogue are created by gathering together local actors from different sides to tackle common, concrete problems and by stimulating the search for solutions in the interest of all parties.

LEDAs are designed as membership organizations, made up of representatives of the public sector (local administration and decentralized national government agencies) as well as the private sector (organized groups in civil society like peasant associations, co-operatives, employers, workers’ organizations and other non-governmental organizations,

¹⁶ The following documentation is requested from the founding members:

- | Legal copies of Identification cards;
- | Certificate from the criminal register;
- | Minutes of the meeting held by each founding member organization indicating who will represent the organization within the LEDA; if the member organization is a private enterprise, it should submit a letter indicating that the representative is working for that company;
- | Prove of existence of enterprise (public register) or copy of statutes in case of association.
From the LEDA or its representative:
 - | Certificate indicating that the proposed name does not yet exist;
 - | Letter of application for legalization of the LEDA signed by representative;
 - | Bylaws signed by one of the representatives of the LEDA. The bylaws are copied by hand in two copies following approval from the Governor of the Province.

as well as individual entrepreneurs). LED institutions, like LEDA are in the first place a forum for social dialogue and negotiation in which the public and private sector have their interest. The public sector uses the LEDA as a means to get closer to society, to popular needs and opinion. It also benefits from delegating the implementation of political decisions to technically specialized institutions. On the other hand the active involvement of the public sector provides a political legitimacy to the LED initiatives and LEDA and provides it with the necessary institutional and political links.

The private sector can use the LEDA as an instrument to develop itself directly, without intermediaries. Through the involvement of the private sector a more adequate response to the concrete needs of the local population is guaranteed. Also a more business-like administration is guaranteed. The LEDA is thus a tool that brings together the most different ideas, demands and opportunities in a common effort to plan, make priorities and carry out interventions that will benefit the economic development of the territory. Mixed public private participation and a private – autonomous – administrative status have proved to be factors of success in various different environments. When the public and private sector pool resources and share risks, projects with mixed economic and social returns bear fruit more quickly and have better chances of success.

d) *Start-up Phase*

During this phase, the LEDA addressed three basic issues:

- | geographical location;
- | human resources; and
- | the official constitution.

Location

Members of the “LEDA Support Committee” began to search for appropriate office space during early 2000. One of the main selection criteria here was geographical location. The LEDA should be located in a well-known, centrally located area where sufficient amenities are located as well as possibilities for eventual future expansion. A list of criteria was drawn up including all necessary furniture and office supplies. PDHL agreed to finance all the installation costs.

Recruitment of staff

ADEM contracted one director, an office assistant and the technical staff. Vacancies were published in local newspapers and applicants were interviewed and selected by some of the members of the LEDA Support Committee and PDHL. A balance was found between offering generous enough salaries to attract good, qualified and motivated people who are prepared to work in difficult circumstances, and at the same time operating within the limits of their financial resources to ensure sustainability.

Constitution

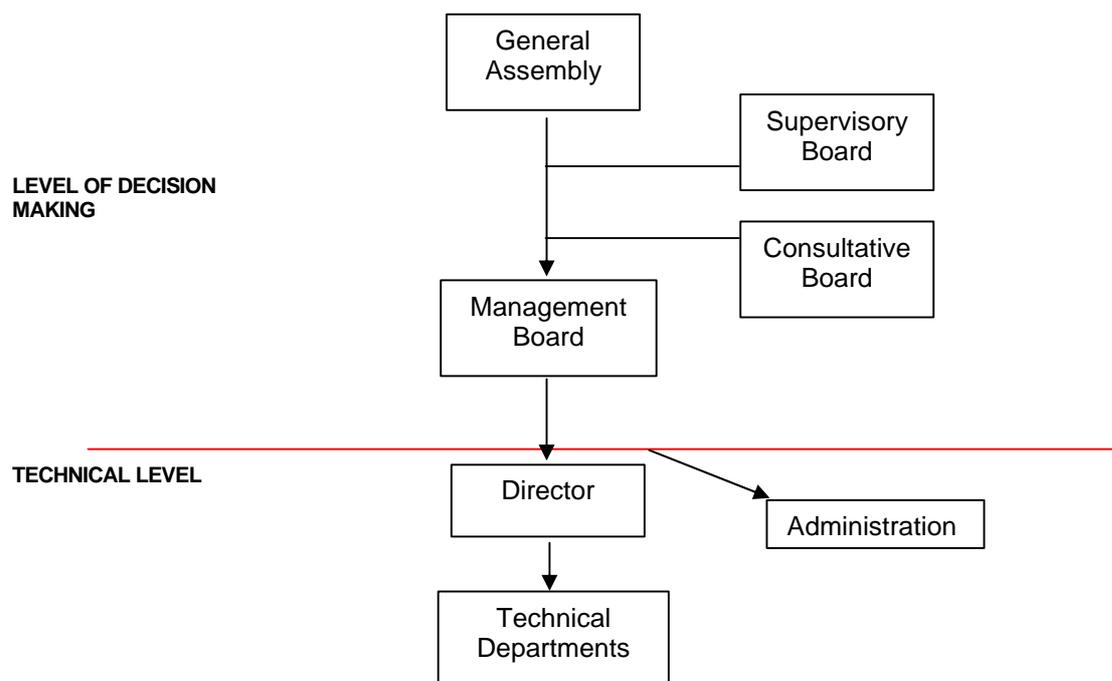
On the 13th of November 2000, the LEDA (ADEM) was officially launched in accordance with the Mozambican “Law of Association” by the head of the Notary’s office. The handwritten Statutes were then signed by all 10 funding members. The governor of the Province stressed the importance of the LEDA during his Intervention. Four members of the original “LEDA Support Committee” became funding member.

One week after the legal constitution of the LEDA, a seminar was organized to inform its members and staff about the need to write a Strategic Plan and what steps should

be taken. The members agreed on the LEDAs' objectives and its area of intervention during this meeting.

The Organisational structure of a LEDA

The ways in which a LEDA is structured internally, their decision making process, their relations with other local institutions and authorities at the same level (horizontal linkage) or with higher level organizations (vertical linkages), the incentives or sanctions that tie members to the organization, the composition of membership could all be expected to have some influence on the performance of such organizational tasks, such as planning and goal setting, resource mobilization, etc. Therefore it is very difficult to present here a standard model on the organizational structure of a LEDA, however in the following figure an example is presented of the structure of the organization in the Mozambican case.



The First General Assembly was organized at the beginning of December 2000 to elect the members of the different Governing Bodies. Since the “LEDA Support Committee” had already elaborated a proposal with candidates for the different positions, the election went smoothly. During the same meeting, 7 new members of the ADEM were proposed to the General Assembly, including private enterprises as well as associations.

Once the minimum number of technical staff had been appointed, the process of developing the Operational Plan began. It was clear that PDHL was interested in contracting the ADEM to carry out various activities on its behalf, however the ADEM needed to have its Operational Plan in place.

This Plan focused on the priorities and activities for the first year of operation, together with an initial budget and timeframe. The following topics were raised:

- Mission statement (why create a LEDA?)
- Objectives (What do we want to achieve?)
- LEDA tools (How do we intend to do it – i.e. situating the LEDA within the available – advisory, training and information services already available in the province?)
- Organization of LEDA (who will do what?)

-
- Operational Plan and time frame (Where and when will it be done?)
 - The budget (How much is going to cost?)

In the Operational Plan it was agreed that the ADEM, in its first year of existence, will concentrate on the following areas:

- strengthening the ADEM as an institution(human resources, logistics, and finance);
- creation of a communication and information dissemination strategy;
- collection, analysis, systematization and dissemination of relevant information about the Province as well as its local actors, to identify and propose investment opportunities;
- formulation of operational and implementation mechanisms;
- identification, selection, implementation, finance, monitoring and evaluation of economic development projects in Manica Province.

On the basis of this Operational Plan, UNOPS signed a contract with the ADEM to implement the activities as of February 2001. It was agreed that UNOPS would transfer funds to the ADEM every three months, based on a review of activities during the ADEM to establish a simple accounting and reporting system.

e) *Consolidation Phase*

The ADEM Manica has now entered the so-called consolidation phase. The first concrete activities are being carried out, while efforts are being made to strengthen the organization's internal structure so that the administrative procedures are both fair and transparent. The ADEM is also working with PDHL staff to analyse ways in which it can gain political credibility at the national level.

Internal Organization

If the ADEM is to become a key provider of support services to the business community and a reliable partner to implementing agencies such as GTZ and DANIDA, the priority now should be to concretize a well-functioning management information system (MIS), a personnel management system and a financial-administration system.

The ADEM Board of Directors meets once per week discuss various day-to-day matters. Since contact with partner institutions is critical to the Agency's success during the early start-up phase, the PDHL staff are informed on a daily basis of different matters relating to the establishment and consolidation of the ADEM. Regular contact also acts an early warning system, enabling PDHL to detect possible problems and obstacles from the outset.

At the present time, the Internal Rules and Regulation of the ADEM are still being developed. However an internal administrative system is already in place, monitored by a part-time accountant.

Launch Seminar



A seminar was organised on June 14th 2001 during which the ADEM presented itself to the general public. This was an excellent opportunity for the LEDA to promote its' role and to consolidate its internal organisation, as the members were all united around one concrete, public activity.

Some elements to remember:

- 1) It is important to identify and work with key local personalities in economic development from the outset.
- 2) There must be a vibrant partnership between the different local stakeholders.
- 3) There is a need for local leadership with energy and initiative, and that is highly committed "to get things done". It is clear that visionary individuals with a commitment to building local capacity and dynamism can provide a critical impetus to LEDA.
- 4) The organization of study tour sand other promotional events are crucial during the awareness-raising phase ("seeing is believing").
- 5) The profile and statutes of the LEDA should be developed as a result of participatory decision-making.
- 6) Salaries for LEDA personnel should be kept at a reasonable level and in line with the local context to ensure sustainability.
- 7) Organizational, political, technical and financial sustainability should be a concern from the outset.
- 8) An agreement should be reached between the LEDA and PDHL for the transfer of authority.
- 9) A positive attitude towards change in the territory should be created.

Process of Follow up:

- 1) The role of funding agencies must gradually evolve from initiator, promoter and actor to facilitator and advisor
- 2) Clear monitoring mechanisms and guidelines should be developed
- 3) The funding agency should limit itself to a facilitating, supportive and advisory role in the day-to-day technical operations of the LEDA.

2.5. *Activities and achievements*

Supporting the local finance system

In order to guarantee the sustainability and legitimacy of the LEDAs in the three provinces of Manica, Sofala and Maputo, their creation had to involve all the local stakeholders. During this time consuming period (around one year!) it was fundamental to increase the actors' motivation. Concrete outcomes through common actions were the best way of stimulating enthusiasm and interest. Therefore PDHL gave its green light to carry out some of the activities contained in the LED strategy from the very beginning.

The territorial analysis and institutional mapping in the three provinces of Mozambique revealed that a persistent barrier to growth for small enterprises in Manica

and Sofala provinces is the lack of access to finance. In fact, those surveyed stated that inadequate access to finance is probably one of the key factors hindering the development of the rural areas in Mozambique ¹⁷.

More and more studies show that access to finance is not the only ingredient for a balanced economic development in the rural areas ¹⁸. Nevertheless, the local stakeholders stressed that finance was one of their main concerns during the consensus-building workshops.

As a result, the Local Forum decided to subcontract a range of Universities and research institutions ¹⁹ to carry out a more detailed analysis ²⁰ of the existing network of financial providers and services.

These studies distinguished three different categories of clients according to their activities or projects, including:

- 1) **Micro-clients:** This is the most numerous group, demanding micro loans (roughly 30–500 US\$). Micro-clients have usually a short loan cycle (3-6 months), covering mostly activities related to trade.
- 2) **Small clients** (in the range of 500–10.000 US\$): Here we speak about more entrepreneurial activities with a serious impact on the labour market ²¹.
- 3) **Big clients:** This category consists of clients investing in bigger projects that should be financed through the formal financial system.

In general the studies demonstrated a very low demand for credit services in the districts. But they studies also illustrated that it would be very expensive to open local micro-finance institutions due to the low population density and the districts relative isolation (difficult access).

In consultation with the technical team of PDHL, the local stakeholders finally agreed on a financial strategy that had to be both integrated within the overall LED Approach. Its 4 major objectives are:

- 1) Correcting the distortions of the financial system, characterized by high guarantee requirements and poor efficiency in administering micro and small credits. These distortions have so far inhibited the small enterprises from carrying out efficient economic activities.
- 2) Capacity-building for small local enterprises to enhance their technical and administrative performance. This will permit them to become credible within the formal financial market.

¹⁷ See among others; UN Common Country Assessment (2000) and UNDP Human Development Report (2000).

¹⁸ Other factors include the need for better administration and infrastructure territory, (technical) training, an enabling environment at national level.

¹⁹ See the studies of Universidade Catolica de Moçambique (1999), Universidade Eduardo Mondlane (1999) and ICC (2000).

²⁰ For more information on the credit activities of PDHL and its impact on the local labour market please consult Annex 1 and 2.

²¹ See for details Annex 2.

- 3) Support for the reorientation of non-efficient economic activities towards those that respond better to the demands of the market and the availability of funds.
- 4) Support for small family units in carrying out small income generating activities. This would permit them to overcome their levels of absolute poverty and to become more accustomed to dealing with money and its value.

The implementation of the financial strategy revealed several particular features and problems that also had to be tackled:

- 1) **Micro-credits:** The case of Mozambique shows a clear difficulty in the development of a village banking approach. This approach usually consists of encouraging people to form cooperative groups through which they can become entitled to loans. The lack of tangible guarantees – very common in poor countries – is compensated through peer pressure.

Several micro projects have been implemented in Manica province as a result of a long and tightly monitored scheme involving local associations. The preliminary results of a scheme providing credits through the Union of Cooperatives and Associations of Manica (UCAMA), are very promising (see case study below) ²².

PDHL Strategy on Micro Lending, The case of The Union of Cooperatives and Associations of Manica (UCAMA)

UCAMA, the Union of Farm workers from Manica Province was created in 1997. UCAMA, which receives support from different funding agencies, strives for “self help, responsibility, democracy, equality, equity and solidarity” among its members, defending the “socio-economic interests” of farm workers. The Union is operational in the following fields; training and information; institutional and legal support and fund raising.

At the present time, the Union is composed of 29 co-operatives and 28 farm workers associations, a total of 1.430 members (40% of whom are women). The members produce vegetables, cereals, keep cattle and undertake small (semi) industrial activities. Many of them are also involved in petty commerce, often on a barter basis.

PDHL has provided support to UCAMA in identifying new members in the northern districts of Manica province since March 1999. As UCAMA had no representation in the PDHL districts and there was a demand from the local population to create associations, PDHL contracted UCAMA to concretise some of these informal groups into formal associations. The new associations received training in topics such as leadership and organisation; business management; the marketing of agricultural produce and the principles of credit and finance.

As there was no association in the area providing micro credits to farm workers, PDHL raised the idea of creating an independent “Finance Unit” within UCAMA, making use of its’ extensive network of contacts and the good reputation of UCAMA ²³.

As UCAMA did not have much experience in this field, PDHL then contracted a local consultant who began investigating possibilities in January 2000.

By September, an international consultant was also hired to provide additional technical input and to develop the required technical structures and mechanisms within UCAMA. As an outcome of her work, the original “Finance Unit” was re-baptised in “Micro Enterprise Development Department”, reflecting the shift in thinking within UCAMA (and among its members) that there is more to business development than credit. By December the first contract was signed between ILO (PDHL) and UCAMA and the first 11 micro-credits were disbursed, most of these smaller than 1.000 US\$.

It is wonderful to note that after only 8 months, the repayment rate is almost 100% and the 256 people that were reached through the associative credits have converted themselves from “credit illiterates”, into trustworthy

²² Unfortunately, experience with cooperative groups in Central Mozambique has been very disappointing on the whole, mainly due to the lack of trust and solidarity among local farmers or traders.

²³ Following the recommendation of the ICC study (2000).

clients²⁴. The success is down to an extensive “financial literacy campaign” undertaken by PDHL to make potential clients understand what it means to work with a credit.

In order to become eligible for a credit, the members of the association were obliged to participate in several short training sessions and they had to prepare their own “business plan”. This plan had to be approved by the newly established credit committee before the first instalments were disbursed. The association also had to contribute at least 10% of the value of the loan, as their own contribution and operates at the same time as a guarantor. Those associations that manage to pay back the full 100% after 10-12 months can become eligible for a second round of credits, in the meantime the screening process has started to select a new group of associations that will participate in the same scheme.

PDHL has also invested a great deal of energy in preparing UCAMA for this task by training two staff members to deal properly with the management and registration of the outstanding credits. PDHL also supports UCAMA with their monitoring role in the field. As UCAMA does not have the conditions to provide the necessary “control” in the field, and also cannot give the required technical support to the individual projects, PDHL technical staff in the field is providing this additional (but very essential) support.

Through the creation of the Micro Enterprise Department, PDHL has managed to provide a short-term (immediate) answer to the wider demand for micro credits at the district level. It is expected that other funding agencies currently involved in supporting UCAMA (such as USAID and GTZ), will also provide support to strengthen the Micro Enterprise activities of UCAMA.

However it is not expected that this mechanism will become self-sustainable as there are too many uncertain factors that cannot be handled by UCAMA alone. Nevertheless, the learning element is very important. People in the rural areas of Manica are beginning to learn how to deal with money and responsibilities.

- 2) **Small loans:** The PDHL team – through ILO – has signed two credit contracts with FFPI (Fundo de Fomento de Pequena Indústria) through which 61 shops, small carpentries, tinsmiths and grinding mills in the districts of Sofala and Manica are being financed. A preliminary study carried out by GAPI revealed a recovery rate above the Mozambican average by the end of March 2001²⁵. It is expected that through GAPI several new small industrial and fishery activities will be financed in the near future.

With the support of PDHL and ILO, CREDICOOP, a credit cooperative operating exclusively in Maputo province, has opened a branch in Matutuine district in February 2001. CREDICOOP is concentrating its activities on deposits to begin with and is yet to disburse any loans²⁶. Despite this CREDICOOP has grown from zero to 52 clients in a period of three months and manages overall deposits of more than 20.000 US\$.

- 3) **Big loans:** Although commercial banks have not shown a great interest in implementing Guarantee Funds or Trust Funds, there might be more interest once concrete projects are presented involving a considerable amount of investment (10.000–100.000 US\$).

²⁴ PDHL has invested much time in meeting with the farmers to convince them to be realistic about their repayment schedules. As many people involved in the credit scheme had no previous experience in dealing with credit, there was a danger that they would throw themselves high risk ventures and not be able to deal with the unpleasant consequences.

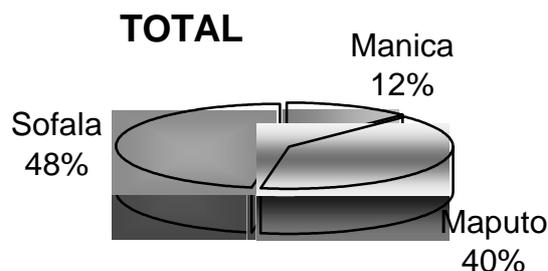
²⁵ Currently a more detailed study on the recovery rate is being carried out PDHL.

²⁶ In general most of the Mozambican banks concentrate their efforts on managing deposits and have hardly any funds outstanding in credits.

Total Number of Credits Disbursed (Up to March 2001)

| Province | Number | Number Beneficiaries | Type of activity |
|----------|------------------|----------------------|---------------------------------------|
| MANICA | 20 ^{*1} | 68 | Shops, petty trade and grinding mills |
| MAPUTO | 65 | 65 | Animal Breeding |
| SOFALA | 76 ^{*1} | 155 | Shops/Petty Trade and small industry |

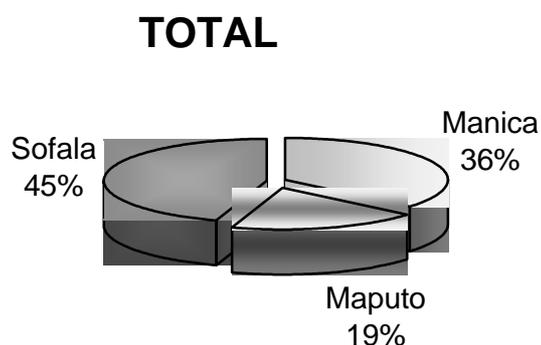
^{*1}Six of the 19 credits in Manica and 2 in Sofala, have been financed through FFPI regular funds and are not part of the agreement PDHL established with FFPI; they are however, an indirect result of the PDHL-FFPI agreement



Amount of Credit Disbursed ^{*1}

| Province | Amount in US\$ | Institution | Sort of loan |
|----------|----------------|----------------------------|---|
| MANICA | 99.000 | FFPI, UCAMA | Small Trade Loans, Agricultural credits |
| MAPUTO | 52.000 | DPADR Maputo | Credit-in-kind |
| SOFALA | 124.000 | FFPI, UPCS, Amai apa Banda | Loans for trade activities |

^{*1} This includes only the outstanding amounts through ILO and UNOPS credit contracts, not direct investment of FFPI or UCAMA in the districts



Rate of Recovery Of Credits

Information from UCAMA (April 2001) shows that they have a 100% recovery on time.

Study on Marketing of Agricultural Produce

A promising project proposal where PDHL is involved in is a study on marketing of agricultural produce. The Governor of Manica Province asked GTZ (German Technical Cooperation) to finance a study on the marketing of agricultural produce in the central part of Manica Province. One of the recommendations of this study was to create a provincial administrative office to coordinate the marketing of agricultural produce from Manica province and to advise different (private and public) how to do it. This office would also provide information regarding prices, and the main market trends. This project is to be co-financed by GTZ, DANIDA and UNOPS.

Project on Sunflower and Oil Production

Another project initiated by PDHL during the promotion of the ADEM was one on Sunflower Oil Production in Manica province:

An example from the field

Sunflower oil is one of the main products sold on local markets throughout the country and is used for baking. Although many small holder farmers grow sunflowers, there is no tradition to produce the oil locally.

With the assistance of AFRICARE, an American NGO, PDHL worked for two years with a group of small holder farmers in the northern part of Manica Province, launching a major awareness-raising campaign to encourage and convince them to introduce new manual presses to produce sunflower oil.

However, in spite of the obvious benefits of using the presses, including the production of oil for their own consumption as well as extra revenues from selling the oil on local and regional markets, the farmers remained unreceptive. They preferred to have an immediate benefit from their activities, selling the sunflower directly to intermediaries as they have always done. They were not prepared to take a – small – credit. Only very few of the presses were sold and the initiative has had a very limited impact.



The failure to have a positive impact is not due to the technological complexity of the process involved in producing the oil. Neither is it due to the price of the presses (although the responsibility of taking a loan is indeed something that frightens many small holder farmers). The promotion campaign was both thorough and efficient. The main reason for its failure lays in the unwillingness of the farmers to take a risk and try something different. As one of the participants of the sunflower project pointed out, "we prefer to count with the secure income we get through our (sunflower) buyer then to be thrown into some new adventure".

Once the ADEM was established, PDHL decided to transfer the responsibility for the administration of some its more successful projects to the agency, giving an important signal of trust to the newly establishe institution.

In order to install confidence and gain credibility among its members, as well as among the local population, the ADEM will have to show some visible, concrete results as soon as possible. Currently the ADEM has several projects in the pipeline, focussing on: processing fruit and vegetables; processing milk; fishery project of sweet water fish; the production and marketing of tea and coffee; the creation of a transport association.

A promising result so far has been the interest of DANIDA (Danish Technical Cooperation) in one of these projects. DANIDA decided to expand its financial support to local economic development activities in Manica province working directly through the ADEM.

Creation of Business Information Database

The compilation of a Business Information Data Base at the ADEM is a further support activity in the framework of the LED initiatives. The gathering and supply of information on different markets, producers and buyers will be one of the principle services provided the ADEM and this will also facilitate establishing contacts between producers and clients. To date, the types of data most often requested include:

- address details of companies, business institutions or administrative offices;
- information about products, supplier or potential markets;
- sources of funding (credit lines, assistance programs, bank documents or procedures);
- trade events (fairs, exhibitions or commodity exchanges) ²⁷;
- information on custom tariffs, concessions, exemptions or quotas;
- updated information on legal and taxation regulations;
- LED projects in the pipeline.

In the future, the ADEM should look into the possibility of creating a databank on investment and training opportunities (locally and in the region), special credit lines and specific technical assistance.

Networking and lobbying

...at the national level

A national network of LEDAs is foreseen as a single reference point for local economic development initiatives. This network will become a channel of communication between the individual LEDAs in Mozambique and the central Government Institutions. It could also serve as a mechanism for sharing experiences and developing joint projects between different regions of the country and soliciting additional funding, projects and resources.

²⁷ The ADEM sponsored and organized a local trade fair in Manica district on 30th of June 2001 and foresees a wide participation in the yearly Manica Province Trade Fair traditionally held in September in Chimoio.

In order to enhance the political understanding of the LEDA at central level²⁸, and as a first step towards the creation of a national LEDA network, PDHL organized a mission to Italy (end of June 2001). The Minister of State Administration, the national counterpart of the PDHL program, the Governors of the respective Provinces and the presidents of the 3 Mozambican LEDA participated in this trip and negotiated additional technical and financial support, both from Italian LEDA and the Italian Decentralized Cooperation (funds coming from Italian Regions, Provinces and Municipalities).

As a result of the mission, PDHL in collaboration with the LEDA, is planning to organize a National Seminar on Local Economic Development bringing together the international community and technical cooperation agencies. The objective of this meeting will be to solicit additional financial and technical support, but the meeting will also focus on sharing experiences relating to the advantages and disadvantages of the LED Approach in Mozambique.

...and at the international level

ADEM is involved in activities extending beyond the provincial border. The president of the ADEM has already participated three times in international seminars and meetings relating to LED issues, both within and outside Africa. The ADEM has also become an important partner in discussing national representation issues.

Technical Training

Any newly created LEDA requires intensive technical support at the outset. However, training should be conceived as a continuous process. In the case of the Mozambican LEDA training activities, these can be sub-divided into 4 different categories:

- a) tailor-made technical training courses;
- b) exchange programs and Study Tours;
- c) distance learning;
- d) on the job training.

a) *Technical training courses*

On the basis of an inquiry among the technical staff and board members of the LEDA in Sofala and Manica Province, a shortlist of priorities was produced. The training areas have been divided into two different categories - technical and organizational.

Identification and selection criteria for projects:

- How to elaborate, implement and monitor (development) projects;
- Preparation of Business Plans and Feasibility Studies;
- Resource mobilization and resource management;
- Budgeting and cost control;
- English language skills;

²⁸ At the moment of writing, the mission was foreseen to take place towards the end of June 2001, with the National Seminar on LED in September 2001.

-
- How to organize, structure and conduct meetings;
 - Leadership, how to manage a development institution;
 - Work Planning (delegation of tasks);
 - Conflict Resolution;
 - Human Resource Management.

Many of the training activities can and will be carried out internally through PDHL. For more specialized areas, external consultants will be contracted.

Aside from the formal training activities, both Presidents of the LEDA have shown an interest in organizing discussion meetings between LEDA members and external experts to discuss development related topics, such as “the role of a LEDA in the development process of Manica Province”.

b) Exchange visits

Representatives of the LEDAs in Manica and Sofala provinces have expressed the opinion that there should be more frequent contact with other local development initiatives within the country, for example the SIDA (Swedish International Development Agency) program in Niassa. They stated that familiarity with the experiences of successful LEDA initiatives overseas would enable them to gain a better understanding of economic development processes within their own geographic area.

c) Distance Learning

DELNET is an ILO distance learning training course taught via e-mail and the Intranet. The training course specializes in local development issues, including the basic concepts of local development, techniques for social research, project management and finance, job creation, entrepreneurship development. It is aimed especially at those people working on decentralization and local development issues.

PDHL has made it possible for 5 people, involved either directly or indirectly in the LEDA in Mozambique to participate in the course on Local Economic Development.

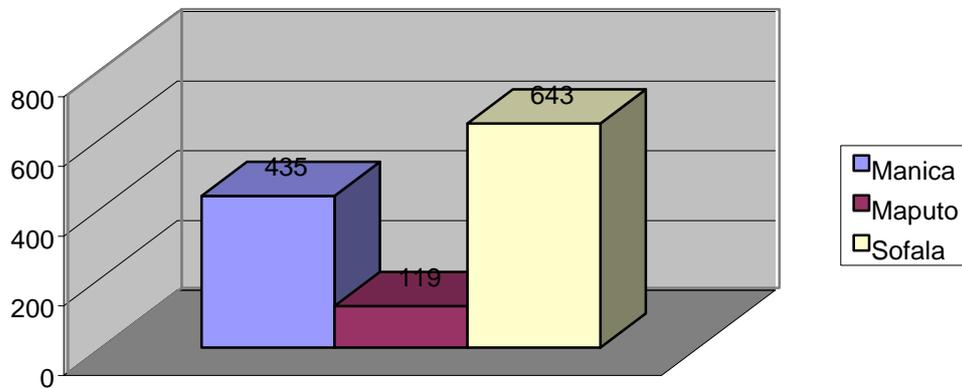
d) On the job training

Contacts have already been established with potential providers of on-the-job training. At this stage no concrete arrangements have been made. However the possibility of attaching additional technical expertise within the ADEM has been very well received by the Board. This type of training would be provided through PDHL at the outset with the possibility of involving international voluntary organizations in the country, such as VSO (Voluntary Service Overseas from Britain) or DED (Deutscher Entwicklungsdienst) later on.

Job and enterprise creation (up to March 2001)

It would be difficult to calculate the exact number of people who have found employment as the result of PDHL projects and activities. Nevertheless, graph 1 provides an indication of the number of people whom have created or found a new, full day-time job since the PDHL began. The in-direct or invisible impact may be even greater, as many micro-entrepreneurs have seen their businesses strengthened or expand as a result of participating in training courses.

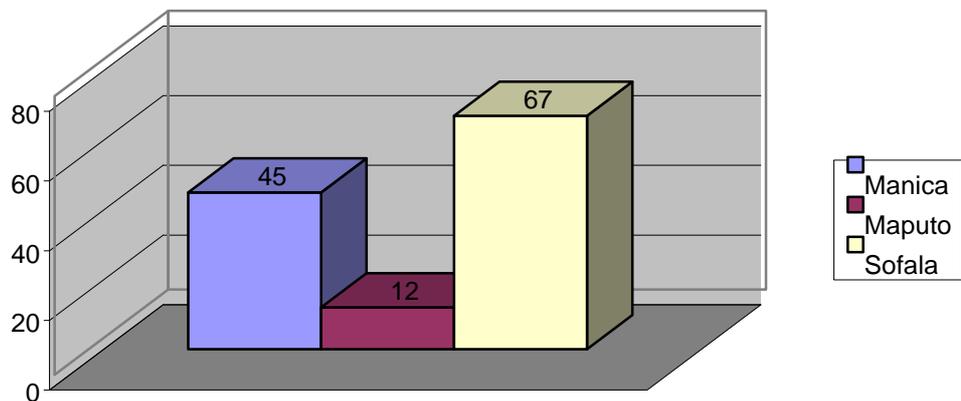
Number of jobs created in the Provinces of Manica, Maputo and Sofala (up to March 2001)



In terms of physical impact, several schools, health posts, districts offices, shops, dipping tanks and the PDHL field offices have been constructed during the first year of operation, or are still being build. This has involved different teams of local construction workers, 90% of whom are temporary²⁹ and male. In Matutuine it was always the same groups of men that were employed for all the construction works.

Regarding enterprise creation³⁰, PDHL has concentrated its activities in those sectors where the use of the local human and financial resources promised the highest rate of return, both in terms of job creation. And economic growth potential.

Number of enterprises created in the Provinces of Manica, Maputo and Sofala (up to March 2001)



²⁹ Temporary work refers to those activities that are being carried out under temporary labour contracts.

³⁰ “Enterprise” refers to both formal and informal sector activities (producers, artisans, merchants, etc.) consisting of one or more persons.

Here the local stakeholders identified some priority fields of action, such as the food processing and agricultural commercialization. Such activities are likely to add value to the relatively developed agricultural sector in the three provinces and to create synergies among enterprises working in complementary sectors. The processing and commercialization of agricultural produce not only aims to diminish the dependence of local producers on foreign investors but also to revalorize local production techniques and traditions.

Table 2. Type of enterprises created and Partners involved in the Provinces Manica, Maputa and Sofala

| Province | Partner | Type of enterprise |
|----------|-----------------------|---|
| MANICA | AFRICARE, UCAMA, FFPI | Oil Seed Producers, Trading companies, small industry |
| MAPUTO | DDADR/DPADR | Poultry farms, shoe repair, bars |
| SOFALA | FFPI, Amai apa Banda | Shops, Bakeries, Grinding mills, Carpentry, Trading companies |

Table 2 illustrates the different types of enterprises created in each of the provinces and the partners involved in the rehabilitation the local businesses (i.e. shops, grinding mills, bee-keeping etc.).

3. Conclusions and recommendations

The generation of nearly 1200 jobs in almost 120 newly formed enterprises in less than 2 years reflects the sizeable impact of the Local Economic Development Approach in Mozambique to date.

Mozambique was devastated by a long civil war between 1975 and 1992, which contributed to a deterioration in the economic and social fabric of many areas of the country, hitting the rural populations particularly hard. In fact, local populations were unanimous in their agreement that social peace was a critical foundation to long-term economic development.

The reestablishment of dialogue among the different social and economic actors in a particular geographic area and the building of consensus around LED goals has been a major long-term goal in the three provinces featured in this report. To this end, a great deal of time and resources has been spent on organizational and preparatory work around the creation of a Local Forum and its institutionalisation through the Local Economic Development Agency.

“Tem que dar tempo ao tempo”

Although the Local Economic Development Agencies are still relatively new institutions in Mozambique, they have generally experienced warm reception at all levels, from the national government to the local administration, from the private sector to the NGO’s working in the areas. One of their main objectives and achievements has been to foster social dialogue and to increase the participation of a wide range of socio-economic actors. At the same time one of the important contributions of the new institutions has been to generate a local ownership of the development effort.

In this context it is however important to recall the remark of the Director for Agriculture of Caia District, in Sofala Province during an evaluation session of the PDHL program in October 2000. At that time, he stated that events did not move according to the time frame of the PDHL, but according to local time. He went on to suggest that observers should “give time the time” (“tem que dar tempo ao tempo”).

While enjoying a generally positive acceptance as a result of its consensus building function, the future of the LEDAs will therefore depend largely on three major elements: Firstly, the technical capacity of its staff. Secondly, the LEDAs will necessitate some financial support and professional guidance during the initial phase of their existence. Thirdly and consistently with the suggestion of the Director for Agriculture of Caia District, the LEDAs need time to consolidate the trust they have acquired among the local stakeholders so far. Although the need of time seems to contradict the requirement of quick and tangible results of external funding partners, there is increasing evidence that *time as a cultural value* is a crucial ingredient for social dialogue and sustainable development and therefore needs a lots of consideration.

Upgrading skills – but within a comprehensive development strategy!

Organizational, technical and business skills are poorly developed among the people in Mozambique, especially in the rural areas. There is little documentary evidence to suggest the extent of the demand for business goods and services and little is known about

potential markets within the provinces. The supply side is also weakly developed, with very few adequate tailor-made programs that really respond to local demands.

In terms of market development, this translates into a weak absorption capacity for small-scale investments or the inability to reach a critical mass to justify such investments. The lack, or rather unsuitability, of appropriate business and administrative skills also hampers implementation of technical activities within the PDHL framework.

While purely technical matters can be addressed more or less effectively through a program of training to local technical assistance personnel, the creation of a strategic vision, transparency within political structures and participatory decision-making (guaranteeing an active involvement of local actors) are more difficult to achieve.

The training of the technical staff of LED-related institutions be it public or private, and members of the Management Board and Assembly of the LEDA should be a continuous process and sufficient financial means should be reserved to make this possible.

The need for better reporting systems

One of the crucial characteristics of a successful LEDA consists of its technical nature and a possibly wide autonomy in terms of project management and financial administration. Only if the LEDA is considered to be a politically “neutral” actor, the local stakeholders will agree on accepting it as “their” development forum. Therefore a comprehensive reporting system must be developed to ensure that the Mozambican LEDAs can become self sustaining in the future. This would guarantee its political autonomy and prevent the LEDAs from falling victim to potentially conflicting interests of their members.

Consensus building: A major task for the future

Given the above, conflict management will be a crucial task of the LEDA Board and Manager. However, the art of conflict management is not as evident an activity as, for instance, administrative planning or formulating business plans. The PDHL must therefore insist on its monitoring role and should be very closely involved in the day-to-day affairs of the LEDA during the early stages¹.

One of the ways of coping with threats from “the inside” is by making sure that all members are actively involved in, and concerned about, the daily activities of the LEDA. The LEDA has to be conceived as a common good (a facility) where every member has an individual responsibility in ensuring that it achieves its goals. Achieving this “local commitment” may only be possible however when the institution is capable of producing concrete results. If its members do not see any advantage in being member of a LEDA, or

¹ It is interesting to compare the different development of the ADEM Manica on the one hand and the ADEL Sofala on the other hand. Both were created around the same time, but in the case of Sofala, there has been much more insecurity about how the LEDA should be developed as an institution. This has generated an intensive debate among its members regarding its potential responsibilities and even regarding the opportunity of its existence. In spite of these hiccups, internal disagreements have been widely discussed and dealt with in a very professional and constructive way, helping to strengthen the internal cohesion and acceptance of the institution. This episode provides evidence on the need of consensus building at the very first stage of the creation of a LEDA. It also shows that a LEDA can be sustainable only if it is tailored to the needs of the local stakeholders and accepted as “their” institution.

are not able to see how the LEDA can meet its objectives, they will most likely leave (normally the first to leave are the most committed, most active members who very often also are the most powerful)².

Micro-finance: The need for coordination with other services

The demand for medium and big loans in provincial areas is very low and while there is a large demand for micro-credits³, this will not initiate and sustain a balanced economic development process.

Small holder farmers can only become more economically profitable producers once they have access to credit, since it would allow them to enlarge their scale of production to take up more high return and high risks projects or occupational choices. But they also need training in other aspects of entrepreneurship and technical issues. Such an encompassing program of business support will require better coordination between financial providers, training institutions and business development services within the framework of a long term monitoring program.

Vulnerable groups: The need to enlarge the target group

While primary target group for LEDA consultancy services is the local business community, LEDAs should also try to meet the needs of the most vulnerable groups in society. The LED initiative in Matutine has resulted in the start-up of five poultry businesses by women which then employed a further nine women. In Caia, a woman recently opened a bakery employing another woman. However, the majority of jobs have so far been created by male owned enterprises.

Given that women head the majority of households in the provinces and that there is significant out-migration by males in the working age population, support for women owned enterprises and cooperative ventures will be imperative to the success of the LEDAs and to overall poverty reduction strategy. Successful local women whom have demonstrated “entrepreneurial spirit” must be involved in the LEDA from the outset in order to convince others, both women and men, to start their own business.

Accountability

The Management Board of the LEDA has been given a mandate by the General Assembly to carry out certain functions and to supervise and monitor others. A mechanism of accountability has to be put in place within the LEDA that permits all its members to become aware of what the LEDA is actually doing, how and why. However in order to prevent accountability becoming a mechanism of control, it has to be linked with responsibility.

For the development process to be led by a bottom-up strategy, the people to whom the LEDA is accountable have also to play their part in terms of responsible behaviour. In

² Membership of the LEDA Mesta in Bulgaria was considered to be prestigious honour. Only the most “serious” local institutions were represented which imbued it with a professional image and helped to create a positive business culture.

³ See studies of UCM Beira and UEM in Maputo.

this way the intended beneficiaries mobilize their own resources, become responsible for their own efforts, learn from their own mistakes and get out of the unproductive process of blaming each other, or blaming the globalization process.

Strive for financial sustainability – but not only!

The strive for financial sustainability⁴ is a major goal for the LEDAs in Mozambique. In order to achieve this goal, the local stakeholders will have to come up with innovative ideas of how to increase slowly the income of their new development institution. To date the absorption capacity for medium and bigger loans in the provinces is relatively low. However, the big demand for micro-credits that might promise higher incomes in the future.

Despite the good political and economic perspectives Mozambique is still considered to be a high-risk country. Therefore the solidity of an institution like the ADEM will depend and is highly related to other factors, such as the level of conflict and social unrest. Consequently a major concern of LEDAs or Regional Development Agencies (RDA) should be its social, political but also technical sustainability:

- | *Social sustainability concerns the legitimacy of its actions.* By involving the target group in all phases of the project the social sustainability of the initiated activities is more ensured as these activities are conceived as indigenous rather than exogenous processes (from an external program). Social sustainability can be measured through the internal dynamics of the activities, do members participate actively, are members assisted in their organizational development, are other organizations adopting some of the actions or policies?
- | *Political Sustainability.* The activities designed and developed at the local level will have much more longevity when embedded in a broader political (national) strategy. Therefore a tight and transparent link should be developed with relevant institutions at the national level in order to guarantee the necessary political support.

Another important aspect is the technical sustainability of the institution. As mentioned earlier local capacity building, is one of the fundamental aspects of the LED approach. Technical sustainability refers to the capability of the personnel of the LED institution (or their member organizations) to handle adequately the majority of the basic daily technical matters. Having a basic technical capacity in place contributes to the independence of the LED institution from outside support. On the other hand locally available technical support has turned out to be, not only more enduring, but also much more appreciated by the members of the local community.

Local – National: The need constructive dialogue

The political neutrality, the technical approach and the general recognition among local and national stakeholders are some important characteristics that favour the LEDAs potential role as an intermediary among different institutions and organizations dealing with development issues. Thus the LEDAs could act as a “round table” at the

⁴ Financial sustainability refers to that situation in which the organization is in the position to cover all its operational, investment and acquisition costs by their own income. This means a LEDA must be able to pay salaries, rent, fuel, etc. but also promotion activities, participation in travels, seminars, and tenders out of their own income.

local/provincial level and contribute to an increasing and more constructive dialogue both between the central and provincial levels of government and the public and private sectors.

The LEDA: An attractive solution for funding agencies and private investors

The LEDAs in Mozambique will play an important role as an intermediary between the geographical areas in which they operate and (inter) national development projects. Fortunately, the international Technical Cooperation framework is a major source of income for Mozambique for the time being, and this will be definitely crucial for the continued existence of the LEDA that will be expected to provide services to the different development partners. It will therefore be essential for the LEDA Directors and Presidents to be able to provide high quality consultancy services to these programmes, especially in light of the fact that national and international development interventions often place a high priority on national and institutional visibility. Nevertheless, coping with all the different internal public and private interests and expectations and matching these with the requirements of foreign funding agencies will be a huge responsibility.

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Glossary

Business Development Services: BDS refers to a set of “business services” understood to include any that improve the performance of the enterprise and its access to, and ability to compete in, markets. Critical to any BDS intervention is an understanding of existing markets, in terms of gaps, market distortions and the reasons behind the lack of demand for, or supply of, goods and services. Not only does this understanding help to choose the intervention instrument and strategy, it could also be useful in identifying local institutions and networks that could be strengthened, and in providing a baseline for measuring progress in market development.

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

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

Entrepreneurial training: Entrepreneurial training is one form of Business development services and refers to guidance and instruction on business basics (such as accounting and marketing) so that businesses improve their competitiveness and chances of success.

Export development services: Like entrepreneurial training these services are part of the BDS family. Export assistance programs can help businesses to diversify their customer base, expand operations and become more profitable. Export services include: assessing company capacity for exporting; market research; information services (on exporting, trade regulations, transportation, etc.); international lead generation and trade shows/exhibitions or promotional marketing trips.

Foreign direct investment (FDI): FDI is investment that is attracted from abroad. It can mean either “Greenfield investment” (i.e. investment in building new facilities on hitherto undeveloped sites) or portfolio investment (i.e. buying into an established business). *Inward investment* has almost the same meaning. However it could include investment from within your country as well as from abroad.

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

Hard ware: includes all the tangible physical assets that contribute to the economy of an economic area. For example, transport infrastructure (roads, railways, ports, airports), industrial and commercial buildings, water, waste disposal, energy, telecommunications etc.

High road techniques: stress the need to make more efficient use of resources and invest in processes, technological innovation and employee skills. It views labour as an

important commodity and skill enhancement as a crucial targeted investment. It entails the mobilization and upgrading of local resources and the maximization of local strengths and advantages to balance relatively higher wage rates.

Indigenous potential: refers to a set of local assets that might generate economic development. The indigenous potential includes the local soft-and hardware, such as human resources and knowledge, natural resources, infrastructure, local business, public organizations, etc.

Local Economic Development Agencies: are professional institutions that promote and support income-generating projects. They identify development opportunities for the local population, mostly based on local potential and mobilize technical and financial resources required to materialize these opportunities.

One-stop shops: One stop-shops are facilities where local and foreign entrepreneurs and investors can go to obtain advice and support to help them establish, operate and expand their business on a defined territory – One stop-shop strategies aim to improve the local business environment by reducing transaction costs through the decrease of the number of separate agencies and business support services on the one hand. They also save public and private time and improve efficiency on the other hand.

Small and Medium Enterprises: There is no definitive delineation between a small and medium sized business. As a general reference, small is often from 5 to 20 employees, medium from 20 up to 200. Businesses with fewer than 5 employees are usually called micro-enterprises.

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

Stakeholders: are persons who have an interest in the immediate social and economic impact of activities. They may act alone, but normally represent the interests of a wider constituency composed of individual stakeholders.

Supply chains: are the products and processes that are essential to the production of a good or service. For example, the elements of a supply chain in the production of frozen fish would extend from fish catching, handling, processing, and freezing to packaging, storing and distribution. In this case fish processing, packaging, storing and distribution will be adding value and therefore be seen at the higher end of the value chain.

Relevant links

The following list contains links to members, participants and other contacts that make part of the LED network in Mozambique.

| Partner | Web-link | e-mail/phone | Address |
|--|---|--|--|
| Official website of the programme PDHL | http://www.pdhlmz.org/ | | |
| LEDA (ADEM) Maputo | | Tel.: +258.1.490.027 Fax.: +258.1.490.551 Mr. Geert van Boekel Geert.van.boekel@undp.org | |
| LEDA (ADEM) Manica | | Adem.chimoio@teledata.mz Phone: +258 51 22414 Fax: +258 51 22418 Mrs.Marjon van Logtestijn Tel.: +258.51.24.206 Fax.:+258.51.24.208 marjon.van.logtestijn@pdhlmz.org | Rua dos operaios, edificio INSS, Chimoio |
| LEDA (ADEM) Sofala | | Mr. Michiel ter Ellen Tel.: +258.3.323.193 Fax.:+258.3.323.199 michiel.ter.ellen@pdhlmz.org | Beira |
| LED programmeme ILO | www.ilo.org/employment/led | led@ilo.org | International Labour Office 4, route des Morillons CH –1211 Geneva 22 |
| ILS-LEDA | www.ilsleda.com | ilsleda@ilsleda.com | |
| EURADA | http://www.eurada.org/ | | |
| Social Finance Unit ILO | http://mirror/public/english/employment/finance/ | edemp@ilo.org | International Labour Office 4, route des Morillons CH –1211 Geneva 22 |