

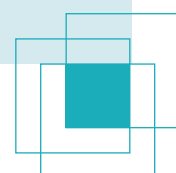
Local Development Strategies



Women street vendors in Siem Reap, Cambodia.

9.1 OPPORTUNITIES FOR INTEGRATED SUPPORTS FOR MOVING OUT OF INFORMALITY

■ This brief focuses on local development strategies - integrated, participatory approaches anchored in social dialogue, which can generate comprehensive, localized responses to support informal economy workers and entrepreneurs. When local government, social partners and civil society organizations support informal economy workers and enterprises to move out of informality, they create the foundation by which the poorest and most vulnerable segment of the population can achieve decent work and sustainable livelihoods. For society at local and national level, the dividends from the transition of informal firms into formality come in the form of a more dynamic economy that is economically and socially inclusive, and which generates revenues and investments that can be channeled back locally. For the enterprises, wide-ranging support from local authorities can enable their businesses to grow and encourage them to move out of informality.



KEY CHALLENGES

- **Local development and informality**
- **The relationship between local government and the informal economy**
- **Weak managerial capacity at local level**
- **Weak dialogue mechanisms**
- **Poor policy coherence linking national and local levels**
- **Constraints on local business regulatory environment**
- **Poor outreach and service delivery**

■ **Local development and informality.** Local government authorities and community organizations are the primary, and sometimes only, contact point for informal economy actors to access social and economic development services¹. Local government and civil society organizations have closer spatial, organizational, and social proximities and a more intimate understanding of their communities' priorities. They are ideally suited to delivering interventions that address localized social dialogue and inclusion, economic development and employment promotion, and social protection.² Indeed local development strategies offer opportunities for multifaceted and comprehensive approaches to upgrading informal economy workers and economic units. Setting up basic infrastructure, establishing streamlined regulatory environments and zoning regulations, supporting SME development, facilitating public contracts and tendering processes, fostering public-private partnerships, targeting support to the especially disadvantaged such as women and youth, encouraging labour-intensive methodologies in infrastructural development and facilitating employment creation are just some of the means available to municipalities to support the move out informality for the populations within their territory. The combinations of these tools and strategies have the largest possible impact in contrast to piecemeal approaches.

■ **The relationship between local government and the informal economy.** Despite its potential, local development strategies are under-utilized to support the upgrading and the move out of informality for the informal economy at the local level. Indeed the actors and economic units within the informal economy often have a fraught and uneasy relationship with local authorities. At best the links may be of a benign tolerance on the part of local government – but with the vast majority of its resources and policies directed at the formal economy; at worst it can include harassment and hostility. Slum clearance and eviction of traders is not uncommon given that many local authorities perceive petty traders, street vendors, waste pickers, and other informal economy actors as a public menace. Yet supporting upgrading of enterprises and the transition to formality can be equally beneficial to local authorities since it can increase their revenues, reinvigorate local economies and attract investment, as well as ensure greater social cohesion.

What is local development?

The objective of local development is to create a participatory environment that strengthens capacities of local institutions to implement socially inclusive and employment-rich interventions. In many regions of the world, the process of decentralization and democratization has greatly enhanced the role of local authorities in determining the avenue for economic growth in their communities. Bolstering local social dialogue and strengthening the managerial capacities of government and civil society are essential mechanisms behind the design and implementation of locally-led initiatives to advance the economic and social welfare of communities.

Core to the principles of local development is the simultaneous implementation of economic and social interventions to create an environment where social activities support economic objectives and vice versa. For example, strengthening community groups' capacity to engage in social dialogue strengthens economic development through enhanced communication of local priorities (i.e. business sectors to support, infrastructure to build), more timely responses to capture economic opportunities and mitigate natural disasters

1 See Resources section to access: ILO, the Informal Economy, Governing Body, 298th session Geneva, March 2007 GB.298/ESP/4

2 Boschima Proximity and innovation: a critical assessment, Regional Studies 29, 2005 Routledge: London.

and man-made shocks, and greater social cohesion through more equitable distribution of economic opportunities. Local social dialogue offers an opportunity to translate national rights and employment policy frameworks into action and align them with existing local strategies.

Within local development strategies are specific methodologies for local economic development (LED). LED is an important mechanism for employment promotion through micro and small enterprise development, support of social dialogue and development planning. At the centre of the approach is the creation of public-private partnerships that brings together stakeholders in the local economy, including representatives of regional and local government, employers' and workers' organizations, Chambers of Commerce, cooperatives, producers' associations, women organizations and other NGOs. Based on the rational use of local capacities and resources, the stakeholders define common priorities for the development of their region taking into account the social and environmental contexts. Local development strategies which include the informal economy as active participants and beneficiaries can catalyse economic regeneration, tackle poverty and facilitate the strengthening of their voice. Local development strategies therefore are an important tool to ensure the democratisation of policymaking and planning.

Adapted from van Empel, C. Van Boekel, G. What is LED?
<http://www.ilo.org/public/english/region/afpro/abidjan/publ/ilo9/decent6.pdf>

In order for local development strategies to fulfill their promise of being a fertile ground for supporting transition to formalization a number of challenges need to be overcome. These challenges include weak capacity at local level, weak dialogue mechanisms, disconnect between national and local level policy alignment, constraints on the local regulatory environment as well as poor service delivery especially to remote and rural areas.

■ **Weak managerial capacity at local level.** Municipalities, specialized government agencies (for example chambers of commerce, local employment offices), social partners (workers' organizations and employers' organizations) and civil society organizations (e.g. NGOs, CBOs) will often be the primary implementing agent for opening opportunities for informal economy actors to link with the mainstream economy. The strength of intervention lies not only in its design, but also the capacity of the implementing agents to convert planned strategy into tangible action.

The growing commitment by national-level government to frame policies and deliver services at the local level has led to the decentralization of executive authority and fiscal space at local level. Decentralization improves the responsiveness of sub-national government agencies and community based organizations to better respond to local needs and capture opportunities. However for local governments to achieve the intended aims of decentralization, the challenges of weak local capacities to deliver plan and services, and poor coordination and policy alignment at local and national levels will need to be addressed. Part of this process also involves overcoming inherent reluctance to engage with the informal economy and view those who work in it as potentially dynamic economic actors. The majority of budget resources and policies at local level are therefore often directed to what are perceived as stronger economic actors, often in the formal economy.

■ **Weak dialogue mechanisms.** Social dialogue is the central pillar of local development strategies, which in turn is grounded in strong representative capacities of local stakeholders. Yet a defining feature of the informal economy is its weak organization and representation. Vulnerable groups particularly women and youth are rarely represented and are often without voice at policy level. This problem of poor organization often means that those in the informal economy remain marginalized from dialogue and planning processes and there is a risk that resources and policy direction may be captured by elites or those with stronger bargaining power. Indeed, while decentralization offers good opportunities for greater democracy at the local level, it cannot be assumed that there will always be a commonality of interests among the stakeholders. Local territories can be fractured by conflicts of interest along economic, class, religious, ethnic, gendered and other lines, and there is also the danger that there is less incentive at the local level to translate national level rights into effect at the community level.

Dialogue mechanism need to be established which can help build the capacity of workers' organizations and entrepreneurs' organizations in the informal economy. Even where dialogue mechanisms have been established with the informal economy, maintaining commitments to these dialogue platforms requires ongoing intensive efforts. The example of Durban city council which has been lauded as international good practice in supporting the informal economy (see box later in this section) has seen some policy reversals, in part due to setbacks in social dialogue processes.

■ **Poor policy coherence linking national and local levels.** Decentralization has increased both the role and the expectations on local governments. But there is plenty of scope for disconnect between the national and local levels, partly because of inappropriate understanding of local realities by national entities and weak capacity on the part of local governments. National frameworks may be viewed by local government as a matter of national-level policy and regulatory reform, but not pertinent or actionable at the local level. On the other hand there are dangers that national level frameworks may abrogate responsibilities for public goods such as education, health, utilities, infrastructure as well as compliance with legal frameworks to the local level - which however cannot generate the resources and economies of scale required to meet these needs. Policy coherence between the national and local level therefore requires alignment and coordination of objectives, and opportunities for partnership and joint ventures. Local government may need guidance to develop the appropriate understanding and strategies to localize national frameworks. Local development strategies need to incorporate guidance to government and civil society actors in filling in compliance gaps between national and local actors.

■ **Constraints on local business regulatory environment.** A factor that can hinder local economic development is unclear and complex business registration and licensing environment for micro and small enterprises. When business licensing procedures are highly bureaucratic, involve steep financial or documentary requirements, and officials are allowed to exercise discretion arbitrarily, then enterprises may be intimidated and discouraged from registering. Moreover, overly bureaucratic business registration and licensing processes can be a signal to firms that local government is unfriendly to business and as a result keep enterprises in informality. (see brief on Informal Enterprises).

■ **Poor outreach and service delivery.** Local authorities may cover terrain which includes vast areas of rural and agricultural sectors. Delivery of services to remote areas is not surprisingly costly and complicated, and local authorities may be less inclined to invest scarce resources into these areas. Rural actors, who make up a large part of the informal economy and a considerable proportion of the world's poor, are often therefore geographically isolated and unable to access information, services, resources and facilities which can support their economic activities. The high cost and lengthy journey of own-account workers living in remote rural communities areas may dissuade many from registering their enterprises, or seek out vocational training or other business supports. However it is not just in rural areas that service delivery is poor. Even in urban informal settings, access to supports including market information, business development services, training, labour administration may be impeded by the orientation of these institutions and services to the needs of the formal economy.

● Policy coherence between the national and local level requires alignment and coordination of objectives, and opportunities for partnership and joint ventures

● Overly bureaucratic business registration and licensing processes can be a signal to firms that local government is unfriendly to business and as a result keep enterprises in informality

● Delivery of services to remote areas is costly and complicated, and local authorities may be less inclined to invest scarce resources into these areas



Street vendor in the rain, Chengdu, China.

EMERGING APPROACHES AND GOOD PRACTICES

- **Strengthening social dialogue**
- **Public-private partnerships**
- **Building local authority capacity to support local development**
- **Local Development supports for employment promotion**
 - Upgrading the local skills base
 - Supporting inward investments including employment intensive methodologies
 - Promoting enterprise competitiveness
 - Creating an enabling enterprise environment at the local level
- **Infrastructural development**
- **Improving access to social protection**

Where local development strategies have managed to overcome these obstacles and reorient their policy attention to the informal economy there has been significant impact for workers and economic units, and in many cases progress towards formality. While the innovations discussed below are taken as self-contained they are in fact part of integrated and comprehensive strategies at local level, and therefore have a far greater impact than stand-alone interventions. In all cases the key underlying mechanism for local development is the support and institutionalization of social dialogue mechanisms at local level, and hence the active participation of informal economy actors in planning and implementation.

■ **Strengthening social dialogue.** Local development strategies are anchored in social dialogue. Local tripartite social dialogue between workers, employers and government, like that of national tripartite social dialogue, creates a platform where informal economy actors can organize their collective voice to debate key issues from labor laws to land tenure to the social inclusion of marginalized groups. Successful local economic development requires the collaboration of government, the private sector, workers organizations and civil society. The entire society has a stake in the types of investments that are made in their locality. Thus, the interests and experience of different groups will contribute to overall planning process. Locally led initiatives in ideal cases are highly democratic, participatory, and inclusive of all groups within a community, especially the vulnerable, marginalized, and minorities. However as noted in the challenges section, weak organization within the informal economy risks elite capture of community-led projects and may reinforce existing divisions and conflicts within a community.

There are several avenues by which participation in planning and implementation have been institutionalized.

- Some governments have created multi-sectoral local councils that provide recommendations to local executives and local legislative bodies on the design and prioritization of development programs, including those related to economic and employment promotion, health and education, and infrastructural projects. In Ghana, the ‘Decent Work and Local Development through Dialogue and Partnership Building Project’ leveraged

● Local tripartite social dialogue between workers, employers and government creates a platform where informal economy actors can organize their collective voice to debate issues from labor laws to land tenure to the social inclusion of marginalized groups

gains made from 10 district initiatives in agricultural sector promotion, skills upgrading and job creation for youth, and labour intensive infrastructure to demonstrate to national level policy makers the success and replicability of local economic development strategies.

- Within local legislative bodies of decentralized regimes, civil society and private sector groups can participate in the discussion and deliberation of proposed local ordinances and resolutions.
- Within administrative bodies, private groups can enter into cooperative or joint ventures with the local government in implementing programs, projects and activities, including the delivery of certain basic services.

How effectively these participatory mechanisms are used depends upon whether these mandated mechanisms are actually implemented; it also depends upon the degree to which informal economy groups and local communities are mobilized and organized.

Good practices from Cambodia and Uganda show the importance of public and private partnerships to enhance service delivery

■ **Public-private partnerships.** Partnerships between the public and private institutions can be a key factor to effectiveness in service delivery. In Cambodia, private-public partnership in managing local health units has been critical in improving the quality of health services in poor and remote villages. In Uganda, the management of a public market was transferred from the municipality to a joint management coalition consisting of a number of stakeholders including: the municipality which sets service delivery standards, a local council which monitors revenue collection and service delivery, a private company which collects dues and provides basic services such as water, electricity and sanitation, and vendors association which look after security and settlement of vendor disputes.³ Similar partnerships have been carried out in waste collection, community infrastructure improvements and street cleaning in several countries with positive results not only in service delivery but also in deepening dialogue between local governments and local associations. Avenues for participation need to be institutionalized and made credible to local communities. To enhance equity and prevent dominance by any one single interest, they must include marginalized groups in a meaningful way.

In Sri Lanka the Enter-Growth project in several districts focused on the creation of a business enabling environment for micro and small enterprises. The project was firmly grounded in social dialogue between the public and private sectors. Local institutions were supported to strengthen labour market governance. As a result of strong lines of communication between stakeholders, Enter-Growth enhanced productivity and competitiveness of SMEs. Forums for SMEs were set up and supported by the training of some 2,000 local officials in enterprise licensing and registration⁴.

3 ILO 2001 Local Employment in the Informal Economy. ILO Geneva.

4 For more details see the Resources section to access: Staermose, T. 2008 The role of public sector in Private Sector Development (PSD) at the local level.

Ways Local Development frameworks can support the transition to formality

Local Economic and Social Development Responses

- | | |
|--|--|
| Economic Development & Employment Creation | <ul style="list-style-type: none"> • Improve local government's policy and fiscal space to allow for greater inward investments via community sub-contracting and hiring of local firms for slum upgrading, road construction and other local public works projects • Increase the number of employment-intensive infrastructure (as opposed to mechanized) creation and maintenance projects to create jobs, and create socially (i.e. schools, hospitals) and economically (i.e. marketplaces) supportive infrastructure • Strengthen the capacity and opportunities of informal workers by enhancing the outreach of local vocational centers, employment offices and community organizations in vocational demand assessment, capacity building, and job matching • Increase linkages between formal and informal economy firms to increase the economic opportunities for both sets of firms • Mapping of the local economic strength and opportunities to prioritize the levels of support to local capacity development, firm strengthening, infrastructure creation, and inward investments. • Promoting local-level business environment reform • Opening access to productive resources including finance, market information, business development services, training opportunities. |
| Social Protection | <ul style="list-style-type: none"> • Creating local development frameworks and action strategy plans at the municipal and village levels to translate national initiatives (e.g. occupational safety and health, elimination of child labour and ensuring maternity protection) to actionable elements for local government and civil society organizations • Working with specialized agencies (e.g. government, donor) to providing technical guidance in creation local level social protection and security initiatives (e.g. employment guarantees) that are inclusive of the informal economy • Local level advocacy to employers the economic and social dividends that result from investing into workers' occupational safety and health standards • Integration of cross-cutting issues (e.g. HIV/AIDS, child labour, environment) into local economic development activities |
| Social Dialogue and Rights | <ul style="list-style-type: none"> • Improving policy cohesion between national and local government policy through local development frameworks • Strengthen organization and voice (e.g. business associations, cooperatives, trade unions) and establishing social dialogue platforms (e.g. local economic development forums and networks) to develop consensus and democratic planning • Strengthen community based organizations' ability to define economic and social development priorities, engage in participatory planning and coordinate with local authorities in local project governance • Improve the quality of public-private forums and partnerships to increase responsiveness and efficiency of public institutions and the private sector in implementing local level initiatives • Support and strengthen coordination activities between local economic actors to prioritize activities, reduce redundant efforts, and maximize yield of scarce developmental resources • Mainstream women, minority, indigenous people, and other marginalized groups into the participation process • Upholding the rights of freedom of association and collective bargaining, elimination of forced labour, abolition of child labour, and elimination of discrimination in respect of employment and occupation |

■ **Building local authority capacity to support local development.** Substantive policies measures that promote local economic development and employment can be categorized into the following:

- those that improve competitiveness and stimulate demand for investment and employment,
- those that enhance the supply of employment through social investments and consumption, and
- institutions that match supply and demand- or where they do not, to address such market inefficiencies or failures⁵.

The role of local governments has often been confined to administering public services and regulating business activities. Institutions traditionally found at the local level support enterprise regulation (i.e. business permit and licensing office) and physical planning (i.e. planning and engineering offices). In some countries that have undergone decentralization, functions traditionally performed solely by line ministries have been devolved to – or at least shared with – the regional and municipal levels of government, reflecting a growing mandate and responsibility at the local level. Many of these roles are new to local governments and stakeholders. Examples that are relevant to the informal economy are:

- **trade and industry** - promoting micro and small businesses, market linkages and business logistics services to producers within value chains,
- **labour promotion and protection** - collecting labour market information, dispute mediation among contractors, extending social security, job placement,
- **occupational safety and health** - delivery of occupational health information and services,
- **education** - vocational training, aligning curricula with industrial priorities, and
- **agricultural training** - promoting efficient and safe production techniques and equipment among small landholding farmers.

Stages of Local Economic Development

Local development strategies, including methodologies linked to Local Economic Development (LED), are often based on phased processes described below. These are particularly important for project implementation but have relevance to the core work of the local authorities.

- Preliminary data collection, initial territorial analysis, and detailed territorial diagnosis.⁶ Coordination of core stakeholders in institutional mapping of public, civil society and private sector and defining local economic assessment of strength, weaknesses, opportunities and challenges. Focus is on the prioritization of local socio-economic needs and identification of high-growth, high-employment sectors. Based on the primary analysis the core stakeholders will mobilize a wider segment of the community to participate in the decision making and implementation processes.

⁵ Adopted from Parisotto, A. 2007. "Local employment generation - LGU practices in the Philippines." Local economic development for employment generation, peace and security: Approaches, tools, and good practices in the Philippines. Report of an ILO-SRO Manila Technical Workshop. Manila: International Labour Office

⁶ For more details see Resources section to access: Onalan, F et.al.2007. Dialogue at the local level in Europe: Comparison of case studies

- Establishing or strengthening of local economic and social development forums and networks. The establishment and/or strengthening of forums and networks provides government and social partners with a platform to advocate concerns, share knowledge, coordinate activities and contribute to the overall planning and implement of local interventions. The forum is a means by which national-level frameworks, growth strategy and partnerships can develop policy cohesion with sub-national partners.
- Design of an integrated local strategy and action plan. Local stakeholders create medium and long term strategic plans to outline vision, objectives and actions to stakeholders. Local forums and networks need to be active partners in the development and implementation of the plan. Having strong local ownership will enhance the sustainability of the initiative's activities.
- Monitoring and evaluations. A strong feedback loop between beneficiaries in the field and implementers enables mid-course corrections of activities and the incorporation of lessons learnt into new initiatives. Knowledge sharing of the initiatives successes and lessons learnt will be used in the replication of the initiative's activities in other regions.

■ **Local Development supports for employment promotion.** With the proper financial and human resources, local authorities and private sector organizations have the means to actively strengthen their businesses support to enhance the opportunities for actors and economic units in the informal economy. A locality can develop its economic strength and competitiveness by investing in its human capital, physical infrastructure, and other business supports. Local economic and social development is designed to facilitate transactions between the market and the community. Increased local governance, social dialogue and advocacy can heighten the ability of local authorities and social partners to respond to demands in social services by the community and as well as demands by the labour market.

There is tremendous scope for local authorities to support micro, small and medium sized enterprises. These will be discussed in the following areas: enhancing capabilities and skills; promoting inward investment including local tendering and employment intensive methodologies; enhancing enterprise competitiveness; creating an enabling environment for enterprise registration; and developing infrastructural support. Together, they create a comprehensive set of business supports which can significantly improve prospects for supporting the transition to formalization.

- **Upgrading the local skills base.** Own-account workers account for some 33% on a global basis, 51.4% in South Asia, and 25.5% in Latin American and the Caribbean of the total global workforce⁷. With self-employed workers accounting for a substantial percentage of the workforce, training in business management and basic accounting is critical in building the capacity of entrepreneurs to improve current operations, plan for future growth, and prepare for unforeseen events (e.g. illness, weddings, economic crisis, natural disasters). Employment upgrading can be achieved by enhancing the skills of workers thereby increasing the range of employment opportunities that are available to them. Local government and community can develop sub-sector

● Local development strategies anchored in enhancing skills and capabilities can give a local territory a significant edge in competitiveness and in attracting investment, rather than relying on low wages as a competitive advantage

⁷ See Resources section to access: ILO 2007 Decent work and the transition to formalization: Recent Trends, Policy Debates and Good Practices

interventions by identifying and supporting location specific advantages, that may provide them with a means to generate employment and income for local workers. The market demand ultimately dictates the types of trainings that are to be provided for. Local development strategies anchored in enhancing skills and capabilities can give a local territory a significant edge in competitiveness and in attracting investment, rather than relying on low wages as a competitive advantage. Areas that rely heavily on the low cost of labour to attract firms are in a vicious, competitive cycle with other regions that are similarly driving down labour costs. The result is an overall depression of wages across regions.

The cost-oriented view of lowering wages and relaxing labour protection systems has the negative consequence of reducing labour productivity and undermining the true base of competitive advantage: skills, education, health, and training opportunities. It also brings cities to a low “skills equilibrium” where the resulting demand for low productivity labour is met with low level of skills supply, wasted human resources, and labour “shortages.” This approach is unsustainable and corrosive to sustainable, high quality economic growth. The key measure for building an effective human capital base, in fact, is the promotion and preservation of human capital.

● Local authorities need to engage with workers’ and employers’ organizations in the identification of in-demand skills, since generating supply without demand does not result in employment

Local authorities can engage with workers organizations and employers in the identification of in-demand jobs. Generating supply without demand does not result in employment. For local government administration, skills training in development and crisis risk management may improve the ability for administrators to design, deliver and optimize local projects tailored to address local requirements. The ILO “Job Opportunities for Young Women and Men” (JOY) project focuses on skills building and employment creation for the youth. JOY intends, among other things, to revitalize the Indonesian Youth Employment Network to enable new graduates job matching services, entrepreneurial assistance and continued education for beneficiaries.

The supply or training of workers is not always the problem. The lack of employment opportunities for vocation training graduates results in unemployment or underemployment. As a result, the informal economy must absorb the surplus labour supply.⁸ Local government and the private sector can be part of a broad initiative to better align supply with demand, including supporting job matching, apprenticeships and other forms of post-training opportunities.

Local policy makers need to have a good understanding of what types of skills are available and in-demand by local industries. The accurate forecasting of promising industries and desired job skills needed to power the industries requires quality labour market intelligence. Identifying economic and employment opportunities requires industrial and labour market information. The data, which often is unavailable or incomplete, needs to be properly analyzed into tangible training, education, research and industrial support materials.

⁸ Atkinson, A. 2009. Cities with Jobs: Full and Productive Employment and Decent Work for All. ILO: Policy Advisory Note

Upskilling of Labour Shanghai Municipal Level Vocational Training Programme

An example of how policies can be geared towards supplying talent and labour to emerging industrial needs can be seen in the Shanghai Municipal Government's initiatives to integrating informal economy workers into the greater local economy. In 2004, the Municipal Government defined ten priorities to address. These priority, consisting of among others, attraction of highly skilled Chinese emigrant returnees, specialized training for highly skilled managers, scientists, engineers, politicians and public servants; and wider programmes to upskill Shanghai's labour force. In 2006, the list of ten priorities was narrowed down to five with key priority given to training of migrant workers and rural surplus labour in Shanghai. Notably, training is now delivered on the basis of an annually reviewed, "Talent Development Catalogue" which prioritizes skills that are in demand by employers. The introduction of Shanghai's training intelligence observatory enables the area's vocational training centres to promote in-demand skills and subsequently develop more accurate supply of labour to meet market demand.

- **Supporting inward investments including employment intensive methodologies.** Increasing the fiscal autonomy to the local level encourages greater inward investment and reduction of investment leaks, since they can support local enterprises that supply the needs of local demand. Community sub-contracting is an important part of employment intensive strategies to support local development. The ILO Nepal's 'Employment Creation and Peace Building through Local Economic Development Project' invests heavily in the construction and maintenance of rural roads and irrigation canals. Short term employment is created for poor households through employment-intensive methodologies. The assets for the community can be found not only in the multiplier effects of generating employment but also in the building of infrastructure and physical assets for the community that enable agricultural crops and other goods to flow to local market, and improving rural access to health care, education, and other social services. When donors and firms select tenders from local firms or engage in community sub-contracting, the local economy experiences a rise in employment and the wages that are spent locally stimulates the local economy.

Employment intensive infrastructure creation and maintenance has also been used as a mechanism for cash infusions into weak economies, and temporary job creation for vulnerable households. Cash-for-work activities by CHF International in the North Darfur were established to rehabilitate rural roads. The cash earned by individuals provided the community with seed money for petty trading, agriculture, and other economy activities.⁹

Local authorities have at their disposal increased budgetary autonomy and the means to ensure that public procurement is embedded within local communities. Their decision on the selection of public tenders for infrastructure has significant impact on local employment. City councils can opt for labour-intensive and local firms vs. equipment intensive and non-local firms. The result is that labour-intensive infrastructure creates more jobs, and the hiring of local firm enables a greater degree of investments to be retained within the local economy. However, in some instances central government places restrictive rules onto local governments. Bureaucratic requirements, security deposits and other regulations can make the tendering process difficult for small, local firms in the informal economy. Local government needs to be able to get negotiate with central government to push for reduced local procurements.

Employment intensive infrastructural development such as those undertaken by Nepal, have multiplier effects by generating local employment as well as building community assets

In North Darfur labour intensive infrastructure maintenance has been an important mechanism of cash infusion in weak local economies

9 For more details see Resources section to access CHF International

Municipal government infrastructure development via local tendering: Employment Intensive Infrastructure in Limpopo Province, South Africa

In South Africa under the Gundo Lashu Programme, the Limpopo provincial government collaborated with local municipalities to implement and identify rural infrastructure projects. The programme aims to utilize local resources rather than a central government public works or road authority to construct the roads and bridges. As a result, 24 local businesses were contracted to build roads, bridges and other related infrastructure. After the process, local businesses were knowledgeable in the public tendering processes and were able to garner additional contracts resulting in increased local employment. The programme achieved its aim by engaging with municipal government and local businesses to build business enabling infrastructure while creates jobs locally and stimulates the local economy. This municipal government played a crucial role as it had the managerial capacity and local knowledge to engage smaller formal and informal sector businesses in the immediate area, more so than provincial or central government which would have contracted a large infrastructure development company.

Source: Kuiper, M, van der Rees, K. 2003. "Growing out of Poverty: How employment promotion improves the life of the poor". SEED Working Paper 74. ILO: Geneva

- **Promoting enterprise competitiveness.** Value chain upgrading and cluster building are avenues that can increase the competitiveness of a territory. Through increased integration of network relationships in the form of linkages to markets, buyers and suppliers (i.e. value chains), and business clusters, the efficiency in product and service creation can be improved; previously untapped markets may be opened; and innovations in products are made possible. Value chain upgrading helps resolves production inefficiencies (i.e. high cost, low production) due to constraints in a production processes or a business supplier. Cluster development revolves around the agglomeration of complementing (i.e. businesses within a product chain) and competing businesses (i.e. businesses in the same industrial segment).

In Mongolia, value chain development and clustering have been used to address the challenges of enterprise growth in remote and rural areas

Having a dense network of businesses in close geographic proximity enables enterprises to reduce transaction costs, improves responsiveness to demand, and enables new products or services to be developed. Network linkages and improved coordination enables smaller firms in the formal and informal economy to achieve big business advantages in areas such as bulk buying and cost sharing of logistic services. UNDP Mongolia's 'Enterprise Mongolia: Microcredit and Entrepreneurship' Project has engaged in value chain and cluster development to address the challenges of enterprise growth in very remote, rural areas. Co-location of workshops, cost sharing of transportation services and tighter integration in the value chain has made rural products increasingly competitive with foreign imports and capital city made goods.¹⁰

In the Philippines streamlined registration procedures include one-stop shops, computerization and networking information, partnering with the private sector as well as education strategies

- **Creating an enabling enterprise environment at the local level.** A well functioning business licensing process is one that is transparent in both the fees that are required and services that will be available to the applicant after registration. A streamlined business registration and licensing system provides a number of benefits. It can:
 - Increase local tax revenues for the government, which bolsters local reserves for further the local business enabling environment
 - Create opportunities for sub-contracting with larger, formal sector clients, and government
 - Reduce vulnerability to corruption and provides enterprises with access to legal recourse

10 For more details see Resources section to access UNDP website on the project

- Build a local roster of businesses to better coordinate government, donor or civil society sub-sector development and promotion (e.g. marketing, branding, procurement networks)
- Broaden enterprises' access to financial services, while at the same time lowering the cost for credit by increasing the clients and creditors

In a study of 16 local government units in the Philippines which streamlined local business registration systems, six types of good practices were identified¹¹. One of them is improving the registration process through reducing the number of steps and signatures needed for business registration and renewal. Other good practices identified included setting up a business one-stop shop; computerizing and networking information; partnering with the private sector; creative information, education and communication strategies; and soliciting customer feedback.

■ **Infrastructural development.** The creation of infrastructure can enhance an enterprise's ability to engage in the physical production and market exchange of goods and services. Roads, railroads, and utilities enable the transfer of products and service and have the capability to bridge isolated communities to global markets. Communities then have increased exposure to greater economic opportunities and social services (e.g. hospitals, schools, vocational training centers). Infrastructural development targeted to informal economy actors can significantly improve their productivity and incomes. Establishing physical venues for street trading and vending for example can enable entrepreneurs to have fixed site for their economic activities while also facilitating access to a range of services including security, utilities, finance and information. A number of Asian cities, such as Bangkok, Chiang Mai and Singapore, have tapped into the productive potential of infrastructural support and space allocation for local entrepreneurs. The impacts can be seen in vibrant local markets which provide much needed goods and services to the community and beyond.

A number of Asian cities have tapped into the productive potential of infrastructural support and space allocation for local entrepreneurs

¹¹ For more details see Resources section to access BSMBD Philippines website on good practices in streamlining business registration

Integrated supports for the informal economy at local level

Durban Metropolitan Council, South Africa

The Durban Metropolitan Council in South Africa is an example of a highly integrated delivery of enabling supports for informal economy enterprises and workers. The recognition that the informal economy comprised a large percentage of the City's overall economic output, and employed a substantial percentage of the poor and vulnerable prompted the City to reexamine its social and economic policies with respect to the informal economy. As a result, in 2000, Informal Economic Policy was adopted by the eThekweni Municipality, of which Durban City is a part of, with the aim of including informal trade organizations and being responsive to the needs of the informal economy.

The Council recognized that the informal economy, like that of the formal economy, would require access to services and infrastructure. The City worked with informal economy workers to upgrade local infrastructure, strengthen business development and microfinancing services, and improved business licensing system. Through the Council's infrastructure initiatives, workers in informal economy have better places of work and increased access to marketplaces. The results of infrastructure upgrading have improved firm productivity and worker occupational safety and health. Moreover, the Council has been working to increase the breadth and depth of business development and microfinancing services by strengthening linkages between service providers so as to deliver a comprehensive package of vocational and business training, technical assistance, and access to finance to firms. In the area of business licensing, the Durban Metropolitan Council has been working to simplify and consolidate the licensing process and introduce incentives, such as vocational training and lower utilities tariffs, for informal sector businesses.

Moreover, the Council worked to develop the capacity of informal economy organizations to increase community level advocacy and increase sustainability by ensuring that the services provided by the Council were truly needed by the beneficiaries.

However recent policy reversals have signaled the importance of maintaining commitment to social dialogue and the participation of local actors in planning and policy making.

Source ILO. 2007. Decent work and the transition to formalization: Recent Trends, Policy Debates and Good Practices. ILO: Geneva

Argentina: LED in the face of the previous financial crisis

In the wake of the 2001 financial crisis the ILO supported local actors to design and implement LED strategies. The priorities identified included: strengthening public employment services (PES), setting up a labour market observatory, identifying growth sectors, enhancing access to training, and capacity building for ministries and local authorities. Over 170 municipality-based PESs were established and strengthened through training. Job creation pacts at the local level to support SMEs. Over 4,000 local officials and stakeholders were trained in LED methodologies, while over 6,000 workers – many drawn from the informal economy were trained and received certified skills.

The evaluation from the project revealed that municipalities have a critical role in employment policy implementation, particularly when targeting more vulnerable groups in the community. The evaluation also stressed the key role that social dialogue played in successful planning and implementation.

Source: Final report AREA programme, ILO 2008

■ **Improving access to social protection.** Considerable gaps exist in social protection coverage for those in the informal economy for a variety of reasons (See brief on Social security). The role of local governments in the delivery of social protection is less apparent relative to other functions. However in some countries, local governments have been given powers to address health promotion and social protection of its workforce. This mandate motivates local governments to look for ways to finance health services, leading it to consider and implement health insurance programmes. The existence of a national social security and health insurance schemes provides local governments with a mechanism for delivering social protection. The ability to share risks and pool larger contributions reduces the cost of insurance making beneficiaries less vulnerable to shocks. At the same time, the participation of local governments and local stakeholders helps extend the coverage of national schemes to remote and hard-to-reach workplaces, including informal workers with no clear addresses.

Social protection mechanisms include a wide range of instruments such as employment guarantee schemes. An employment guarantee's scheme is an income stabilization instrument designed to provide a subsistence wage. Employment guarantees schemes are designed as poverty alleviation initiatives and temporary income support in the economic recovery process as a result of natural disasters (e.g. floods, droughts) or man-made crises (e.g. conflict, commodity speculations, economic shocks). The schemes often involve employment intensive public works projects that are designed to create temporary employment and infrastructure that improves the social (e.g. schools, hospitals) and business environment (i.e. building roads, irrigation canals). As the work is labour-intensive and non-competitive to productive sectors (i.e. wages in guarantee scheme are non-competitive to higher compensating and more productive private sector employment), as a result there is a self selection process whereas the poorer and more disadvantaged beneficiaries with little or no employment options choose to do this work. (See also brief on Social Security).



Stall holders in a market in Khan El-Khalili District, Egypt.



Traditional market of Ghotheye, Niger.

RESOURCES

This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

Relevant Publications

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- Tipple AG. 1995. Shelter provision and employment generation. ILO Geneva.
<http://www.unevoc.unesco.org/go.php?q=Online+library&lang=en&akt=id&st=&q=2908>

Tools

Bureau of Small and Medium Enterprise Development (BSMBD), 2006. "Streamlining Business Registration in LGUs: Good Practices." BSMBD, Philippines
http://www.dti.gov.ph/uploads/DownloadableForms/09_RA9501.pdf

CHF International North and South Darfur project
<http://www.globalcommunities.org/node/21047>

ILO 2005 Local Development SEnsitisation Package Modules 1-5 (ILO Geneva)
http://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/documents/instructionalmaterial/wcms_159822.pdf

ILO 2006, Local Development and Decent Work (ILO Geneva)
http://www.ilo.org/empent/Whatwedo/Publications/lang--en/docName--WCMS_112255/index.htm

ILO 2007 An Operational Guide to Local Value Chain Development (ILO Geneva)
http://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/@ifp_seed/documents/instructionalmaterial/wcms_101319.pdf

ILO Women's Entrepreneurship tools
https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/genericdocument/wcms_111366.pdf

ITC Turin, Creating an Enabling Environment for Small Enterprise Development (training course)
http://www.ilo.org/empent/Eventsandmeetings/WCMS_100951/lang--en/index.htm

ITC Turin, Strategies for Local Economic Development. (training course)
http://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/@led/documents/event/wcms_124044.pdf

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UNDP Annual Report 2010-2011 Creating Resilience in Economies in Mongolia
http://web.undp.org/annualreport2011/poverty_reduction_and_achieving_the_mdgs.html

For further information see the ILO's Local Economic Development unit website <http://www.ilo.org/empent/areas/local-economic-development-led/lang--en/index.htm> and the Employment Intensive Investment Development programme website <http://www.ilo.org/emppolicy/units/employment-intensive-investment-unit-empinvest/lang--en/index.htm>

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Street vendor, Brazil.

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