

## Module II

# What is LED?

by

**Andrés Rodríguez-Pose**

and

**Sylvia Tijmstra**

Department of Geography and Environment  
London School of Economics

Correspondence: [a.rodriguez-pose@lse.ac.uk](mailto:a.rodriguez-pose@lse.ac.uk)



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## **1. Aims of the module**

This module seeks to clarify what is meant by Local Economic Development (LED). The term ‘local economic development’ has been used to describe a wide variety of initiatives, ranging from industrial policy and regional planning to community development, which, although part of a LED strategy, are not in and of themselves LED. This module will seek to clarify the approach and its key principles in order to focus the discussion in the subsequent modules

Specifically this module will:

- a) Define the key concepts in the approach and contrast it with other development approaches
- b) Present the core values of LED, most importantly the principles of voice and representation, equality and inclusiveness
- c) Stress the importance of key principles within the approach

## **2. Structure of the module**

In order to achieve these goals, this module is divided into the following sections:

- a) **Defining LED:** A characterisation of the approach and what sets it apart from other approaches to development.
- b) **Main advantages:** A look at how LED can be instrumental in achieving social and economic development goals.
- c) **Key principles:** A presentation of the key principles of the approach. These aspects will be more fully developed in successive modules.

## **3. Defining LED**

The Local Economic Development approach was initially developed in high income countries as a response to the social and economic problems created by globalization, localization and the rise in spatial inequality (Nel, 2001). As discussed in the previous module, traditional top-down, supply-side, sectoral development strategies often proved relatively unsuccessful at combating spatially-concentrated unemployment and regional income inequality (Roberts, 1993). Under these circumstances, LED surfaced as an alternative development strategy that could potentially offer opportunities for growth to all areas.

In low and middle-income countries, LED has gradually been introduced for similar reasons. The changes in the national and international economic environment combined with the persistence of problems of slow economic growth and poverty in many areas fostered a reconsideration of traditional development strategies. Globalization and the effective inability of many central states to intervene at the local level have created a need for more locally based initiatives (Nel, 2001).

Although interest in the LED approach has been spreading rapidly, it often remains unclear what is meant by the concept and how it differs from other development approaches. To clarify the concept and focus the discussion, this section will aim to:

- a) Give a definition of LED
- b) clarify the Local in Local Economic Development
- c) contrast LED with traditional development strategies
- d) contrast LED with community development approaches

### **3.1. Defining LED**

Several definitions of LED exist. Some are relatively general, simply stating that LED “is the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic development and employment generation” (World Bank Urban Development Unit, 2003: 4). Others are more specific about the type of participatory development process that is intended. For instance the ILO defines LED as “a process where the local actors shape and share the future of their territory. We could define it as a participatory process that encourages and facilitates partnership between the local stakeholders, enabling the joint design and implementation of strategies, mainly based on the competitive use of the local resources, with the final aim of creating decent jobs and sustainable economic activities” (Canzanelli, 2001: 9). This definition clearly puts forward five crucial elements of LED:

- 1) It is a locally owned approach that aims to empower local actors in order to shape the future of the locality they live in. Although other actors are and indeed need to be involved as well in order for LED to be successful, it is in essence a local approach that is to a large extent shaped and implemented by local actors.
- 2) LED is a participatory approach to development. A wide range of local stakeholders work alongside regional and national governments and international organizations to realize a locality’s economic potential.
- 3) Through its focus on participation, LED creates incentives and opportunities for partnership between local private and public sector stakeholders as well as social and political groups.
- 4) It enables the joint formulation and implementation of development strategies, which are based on making better use of and building on existing local resources and competitive advantages
- 5) The LED approach ultimately aims to create decent jobs and sustainable economic development. Through the involvement of a range of stakeholders, it aims to find solutions that will combine the goal of economic development and employment creation with the objective of poverty reduction and maintaining and increasing the quality of locally available jobs.

As this definition shows, LED presents a number of core values that are not necessarily found in other development approaches. It seeks to promote a truly inclusive policy process, valuing the opinions of a wide range of local stakeholders and promoting equality among them.

It encourages the creation of new opportunities for voice and social dialogue, both in the shape of formal processes, such as elections, and more informal local meeting and forums. Such inclusive processes are crucial for the aim of developing the local economic potential in a balanced way, focusing on sustainable development and the creation of decent employment within the locality.

Before turning to how these characteristics make the LED approach different from other development approaches, the question of the spatial scale of the approach – or what is local? – must be addressed.

### **3.2. What is Local?**

LED is a territorial approach to development. This begs the question of which territorial scale the *Local* in Local Economic Development is referring to. Unfortunately there is no general answer to this question. The geographical dimension and population size of the ‘ideal’ policy territory will differ from context to context and policy to policy. Defining the concept of local too rigorously would therefore hinder the flexibility that is inherent to the LED approach.

There is a trade-off between coordination and economic potential in choosing the size of the territorial unit at which the LED approach will be implemented (Gasser *et al.*, 2004). In other words, the size of the locality will influence both the ease with which joint decisions and broad participation can be achieved and the degree to which effective and efficient policies can be developed and implemented.

As a rule, defining narrowly-bounded territories has three key advantages. First, within smaller localities, the local stakeholders will generally have a stronger and more comprehensive knowledge of the local conditions, problems and needs. Second, reaching a consensus on the goals of LED and the actions that need to be taken will tend to be easier in smaller areas, where the number of stakeholders is lower and their preferences tend to be more similar. As territories become larger, the increase in the number of stakeholders and the greater diversity of interests may make it difficult to reach an agreement. Finally, when territories are not too large, it will, in general, be easier to coordinate and oversee the implementation of the LED strategy.

Choosing a larger territorial unit, on the other hand, may have a number of advantages too. Firstly, larger territories may be able to take advantage of economies of scale that are not available to their smaller counterparts, making them more efficient at implementing LED strategies. Secondly, larger territories will tend to have a stronger ability to lobby the central government. This may put them in a better position to secure resources and defend the interests of the locality in the national arena. Finally, bigger areas will be better able to engage in international competition with territories or cities in other countries.

Apart from these more theoretical considerations, the existing governmental structure plays an important role. The territorial scale chosen will generally correspond to the division prevalent in the pre-existing governmental structure, since local governments are very well positioned to champion the LED approach locally and guide the formulation and implementation process.

### **3.3. What distinguishes LED from other development approaches?**

Having roughly defined what LED is and which territorial scale it refers to, the remainder of this section will seek to clarify its distinctive properties by contrasting the approach with two other common development approaches, namely traditional top-down and community development approaches.

There are three main differences between top-down traditional development approaches and strategically-planned LED (Rodríguez-Pose, 2002).

1. **Locus of development:** Traditional approaches to development tend to adopt a sectoral focus; they attempt to increase growth and employment through devising policies aimed at promoting industrial sectors that are seen to increase economic dynamism. LED, on the other hand, takes a territorial approach, focusing on the development of a region or locality rather than an industrial sector. From this perspective, economic development and employment is achieved through a thorough diagnosis of local economic, social and institutional conditions and through the formulation of a tailored strategy aimed at allowing each territory to reach its economic potential.
2. **Level of intervention:** Traditionally, development strategies have been largely top-down strategies devised by the central government. Central officials decide where to intervene and in what way with little or no input from local actors. In contrast, LED seeks to give localities the tools to promote development from below. It is based on the idea that national institutions are often too remote to respond to the rapid changes local and regional needs effectively. Local institutions can be much more flexible and are better positioned to interact with other local economic and social actors. This allows the formulation of strategies which are better tailored towards local needs.
3. **Type of instruments:** Traditional approaches often focus on the development of large industrial projects, in the hope that such project will generate additional economic activity in the area. In this approach, infrastructural investments and financial incentives are often the preferred instruments for attracting firms to a given locality. LED, on the other hand, sees development as related primarily to the ability of the locality to exploit and build on its comparative advantages and local economic potential. It therefore tends to rely more on improving the basic local conditions for development and reducing the dependence of the local economy on one or a limited number of local employers. To achieve these goals a variety of instruments, including business support systems, educational programmes, and micro finance, will usually need to be used in tandem with more traditional instruments. (This point will be discussed more fully in module 3)

Due to its focus on bottom-up, participatory development and the tendency to combine social and economic roles, LED is often confused with other development approaches that seek to move away from top-down, economic growth focused development strategies. Although LED shares some of the same methods and goals as such community development approaches, it is important to distinguish between the two.

There are two main areas where LED and community development approaches differ:

1. **Goals:** Community development approaches focus primarily on addressing social issues, such as poverty and social exclusion, and problems of short-term survival related to them. In doing so, they leave many of the economic issues that lie at the basis of underdevelopment virtually untouched. LED, on the other hand, primarily aims at creating economic development and decent work. These goals are clearly compatible with poverty alleviation and encouraging a greater inclusion of previously excluded groups in social and economic life.
2. **Actors involved:** Community development projects can be initiated by a variety of individual actors, such as NGO's and international organizations. In the planning and implementation phase, it seeks primarily to involve previously excluded groups and the poor. The LED approach, however, is based on broad coalitions of actors, including local stakeholders, international organizations and NGO's. Local governments often play a key role in the formulation and implementation of the strategy. During all phases of the project, the initiators will seek to adopt an all-encompassing approach, involving local firms as well as residents and social and political groups.

## **4. Main Advantages**

As the previous section shows, LED is an inclusive approach that seeks to promote development in all territories. It aims to provide localities with the tools to create a local economic system that is better able to adjust to a changing economic environment. Put differently, it seeks to enable localities to reach their full economic potential and take advantage of the opportunities that globalization and localization have to offer, while minimizing the negative impacts of these trends. It does so through advocating a bottom-up, participatory approach to development, which is based on a thorough analysis of the local conditions and the formulation of a locally designed and locally implemented development strategy. Such an approach can create both economic and social benefits within the locality.

### **4.1 Economic advantages**

In an era which is marked by economic globalization and an increased localization of economic activity, adopting an LED-based approach to development can have a number of potential economic advantages (Rodríguez-Pose, 2002).

Firstly, it can help to embed economic activity more firmly in the locality. In contrast to more traditional top-down approaches, LED employs a truly territorially-based and grounded concept of development.

It focuses on exploiting the economic potential of a locality through strengthening to local conditions and economic structure. Strategies to achieve this goal are formulated and implemented in cooperation with local firms. By focusing on the local economic environment and devising tailored strategies in cooperation with local actors, it helps to embed economic activity by making it more strongly dependant on local conditions and advantages.

Secondly, because firms are more embedded in the locality and local stakeholders take joint action to promote a more favourable local environment, the local economy will be better able to withstand changes in the global environment. Firms within the locality will therefore be in a condition to produce sustainable employment.

Finally, LED cannot only make jobs more sustainable, but may also help increase the quality of jobs. The involvement of a variety of local stakeholders, ranging from large firms and small and medium-sized enterprises, to local residents and social groups, and the rooting of economic activity mean that LED strategies consider a wide range of interests and perspectives and aim to provide balanced strategies tailored to local conditions and interest. The formulated strategies are therefore more likely to take due notice of the need for decent work and suitable employment conditions.

#### **4.2 Social advantages**

Apart from these potential economic gains, LED also has a number of potential social advantages (Rodríguez-Pose, 2002).

First, LED generates local dialogue and empowers local communities. A variety of local stakeholders are involved in the whole process, from the planning to implementation stage. This focus on wide-range participation and extensive consultation means that groups that previously had little or no influence on their future are now offered the opportunity to express their opinions and take charge of their local area.

Second, bringing government closer to the people can help to make it more transparent and accountable (Blair, 2000). Local agendas are less complex than central agendas. This makes citizens better able to understand and form an opinion about the policy issues at hand. The proximity of policy makers to the public combined with the inclusive nature of the LED process means that residents may be better able to monitor the behaviour of policymakers and hold them accountable for their actions.

Despite the possible economic and social gains LED can bring, there are some potential downsides that need to be considered. First, LED requires a lot of effort and can be a time consuming process. Involving local stakeholders and creating consensus may not be an easy process. A strong commitment to the process all parties involved is therefore necessary to see the project through. Second, as with all policies, LED can only be successful if issues are correctly identified and the strategies to address these



issues are designed and implemented successfully. The subsequent modules will go into how to ensure a successful implementation of the LED approach more deeply. Before turning to these more practical considerations, the next section will discuss the key principles of the LED approach.

## **5. Key principles**

LED is structured around four key principles; a territorial approach to development; a preference for integrated strategies; a focus on the creation of sustainable and decent work; and an emphasis on good governance. Although these elements have been touched upon in the previous sections, it is necessary to examine them in greater depth, as they form the crucial building blocks of any LED approach. For clarity's sake, this section will discuss them in turn, but the reader is asked to remember that, in reality, these four dimensions are interrelated and work together in order to achieve economic and social gains.

### **5.1 Territorial approach**

Globalization together with urbanization and the increased localization of the economy have made development a local rather than a sectoral problem. As discussed in module one, changes in the global economy and advances in transportation and communication technologies have increased the mobility of economic factors, creating a stronger concentration of economic activity. As a result, localities and regions, rather than whole countries, have now become the locus of development. Combined with the trend towards greater decentralization of powers and resources, this restructuring creates both an opportunity and a need for more locally-based development policies.

The territorial focus of LED makes it better able to address the challenges that this new economic environment poses. Locally-owned, developed and implemented strategies are beneficial under such circumstances for two main reasons:

1. Policies that are formulated and implemented by a wide coalition of local stakeholders, NGO's and international organizations are likely to be more responsive to local needs (Lever Turok, 1999: 791; Martínez-Vázquez and McNab, 2003: 1603). The involvement of a wide range of actors many of whom have an intimate knowledge of local conditions and issues enables the formulation of locally-tailored development strategies. LED therefore offers a more efficient allocation of resources that top-down centrally planned policies can.
2. Local coalitions may be able to find more efficient and cost-effective ways of producing goods and services (Lever Turok, 1999: 791; Martínez-Vázquez McNab, 2003: 1603). The locally-owned nature of the LED process means that those formulating and implementing a strategy have a personal interest in seeing the programme succeed. Especially when such incentives are combined with local public-private partnerships and expert help – for instance from international organizations or national governments – this can lead to a situation within which relatively few resources are needed to make a real difference to the lives of local people.

## 5.2 Integrated approach

Some types of development approaches tend to have a focus on attracting large, often international, firms to a locality through financial support, incentive packages, and subsidies. Recent experience in many areas of the world shows that these types of policies may not be effective, and can make a locality more vulnerable, as it becomes heavily dependent on one or a limited number of employers.

The LED approach, on the other hand, is more focused on building on the existing local economic potential. Local government officials, together with local stakeholders and outside experts, analyse the local situation and devise a strategy that aims to improve the basic conditions for development. In combination with the locally-tailored and inclusive nature of the LED process, this focus on improving local conditions creates the stronger incentives to employ more integrated policies.

Based on the analysis of local strengths and weaknesses and external opportunities and threats, local forums decide on strategies to tackle problems and create the conditions to take advantage of opportunities for development. Comprehensive and balanced local development strategies are usually centred around four main axes (Rodríguez-Pose, 2002: 9):

1. **Local firms:** In order to reduce dependency and create a dynamic economic environment, many LED policies attempt to devise policies that will improve the competitiveness of local firms.
2. **Inward investment:** Extra employment can sometimes be created through the attraction of inward investment.
3. **Human capital:** The economic climate in a locality can be made more attractive to local and national or international firms through the upgrading of human capital and labour skills.
4. **Infrastructure:** Upgrading the physical infrastructure may be crucial to achieve economic and social development goals, especially in areas where regional and local infrastructure tends to be particularly weak.

Although not all four elements need to be necessarily included in an LED strategy, it is important to make sure that intervention in any of the four axes is matched by sufficient capability in the other three. If care is not taken to ensure a balanced development of all four axes, intervention may have unintended effects, such as brain drain, dependence on outside firms, or subsidizing uncompetitive firms. These issues will be discussed in greater depth in module 3.

### **5.3 Sustainable and decent work**

Development strategies in the twenty-first century cannot focus solely on the creation of more jobs. Rather both the quantity and quality of jobs is important. The creation of sustainable employment of an acceptable quality, or *Decent Work*, for all those who are willing to work should be the ultimate goal.

The LED approach is well positioned to create sustainable and decent employment within localities. It does so by:

- Ensuring a participatory process that takes account of the views of the main public and private stakeholders
- Identifying opportunities for using local and external resources to create employment
- Being more sensitive to the needs of vulnerable groups, such as the poor and those in informal employment
- Encouraging social dialogue and public-private partnerships

The link between LED and decent work will be discussed in greater detail in module 4.

### **5.4 Good governance**

Throughout the world, there is a growing awareness that good governance practices are important enabling factors for successful development strategies. Good governance can in this context be understood to involve both the provision of adequate voice options and the capability to successfully manage the social and economic development challenges within the territory (Huther and Shah, 1998).

LED creates incentives for good governance in several ways:

1. It encourages the creation of new opportunities for voice. These include both formal opportunities, such as local elections, and a range of informal mechanisms, such as consultation meetings and the creation of local forums.
2. The approach involves a broader range of stakeholders in the decision-making and implementation process. Local residents, including previously excluded groups, public and private actors, and other local stakeholders, like NGO's and international organizations, are all involved in the process.
3. Locally, LED encourages horizontal cooperation between key stakeholders at all phases in the programme. Such cooperation creates opportunities for knowledge sharing and consensus building, leading to the formulation of better informed and more widely supported policies.

4. Nationally, it promotes vertical coordination between local, regional and national government tiers. Such coordination helps to address shared problems effectively and avoid policy overlap.

The role of governance within LED will be more fully discussed in module 5.

## Exercise

<b>Local Economic Development</b>	
Think of a Local Economic Development initiative in your country. Is it...	
<ul style="list-style-type: none"> <li>▪ Locally-owned?</li> </ul>	
<ul style="list-style-type: none"> <li>▪ Participatory?</li> </ul>	
<ul style="list-style-type: none"> <li>▪ Focused on wide participation and public-private partnership?</li> </ul>	
<ul style="list-style-type: none"> <li>▪ Aimed at creating decent work and sustainable development?</li> </ul>	
What is Local in your country's context?	
<ul style="list-style-type: none"> <li>▪ At what scale are existing LED initiatives implemented?</li> </ul>	
<ul style="list-style-type: none"> <li>▪ Do existing governmental units lend themselves for LED?</li> </ul>	
<ul style="list-style-type: none"> <li>▪ At what scale would coordination be easy to achieve? Why? Do differences between localities exist?</li> </ul>	
<ul style="list-style-type: none"> <li>▪ At which scale would governments be large enough to foster economic potential? Why? Do differences between localities exist?</li> </ul>	
<b>Key principles</b>	
Think of a Local Economic Development initiative in your country. How does it fit into the key principles of ...	
Territorial approach?	
<ul style="list-style-type: none"> <li>▪ What is the territorial scale at which it is implemented?</li> </ul>	
<ul style="list-style-type: none"> <li>▪ How does it differ from traditional, sectoral policies?</li> </ul>	
Integrated approach?	
<ul style="list-style-type: none"> <li>▪ What types of policies are employed to encourage development?</li> </ul>	
<ul style="list-style-type: none"> <li>▪ Does this strategy strike you as balanced?</li> </ul>	

Sustainability and decent work?	
▪ What is the stated goal of the LED policy?	
▪ Can this goal be related to the creation of decent work and sustainable development?	
Good governance?	
▪ Does the LED project create opportunities for voice and involve a wide range of stakeholders?	
▪ Is there local cooperation between key stakeholders?	
▪ Do local, regional, and national governmental tiers coordinate their actions?	

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