Local Economic Development in Post-Crisis Situations

Operational Guide

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Local Economic Development
InFocus Programme on Social Dialogue,
Labour Law and Labour Administration
FOREWORD

Development strategies have undergone an almost complete overhaul over the last couple of decades. The evidence that traditional development policies and procedures were in many cases not delivering growth, and that, when economic growth was achieved, it was often at the expense of equality and of the creation of decent jobs, led to a thorough rethinking of how development problems should be addressed. Local economic development strategies (LED) have matured in recent years amidst this need to provide alternatives to traditional strategies. The use and valorisation of local assets, of local institutions, and the empowerment of local societies that LED brings to the development process are starting to bear fruit in different parts of the world. Many areas where LED strategies have been implemented over the last few years have witnessed not just the emergence of greater prosperity, but also a greater embeddedness of economic activity, and a better quality of employment. Territories that have followed this path are, in most cases, more capable of withstanding changes in the global economic environment than in the past.

LED strategies are, however, by no means without problems and risks. The likelihood of success of LED actions increases in cases where solid institutions are already in place and where the endowment of infrastructure, local firms, and human resources is in a relatively good state. In fact, the most widely mentioned examples of LED strategies – the Third Italy in Italy, Baden-Württemberg in Germany, Jutland in Denmark, or the Silicon Valley in the US – already enjoyed excellent starting points and first-rate institutional settings on which to construct their success. In contrast, the building of local capacity inherent to LED strategies is proving much more difficult and lengthy in those areas where such conditions are absent. Fragile and/or corrupt local institutions, the lack of community networks, and the weakness of local assets contribute to disenfranchise and disempower local populations, thus profoundly undermining the participatory nature of LED and jeopardizing its future development impact. And nowhere are these conditions more prevalent than post-crisis situations. Armed conflict, major social or political upheaval, natural disasters, or abrupt financial and economic downturns not only have a profound negative effect on the physical and human assets of each territory, but also often rip right through the institutional and communitarian fabric of societies, profoundly limiting the potential impact of development efforts, in general, and LED, in particular.

Yet, nowhere is the need for LED greater than precisely in post-crisis situations. Once outside the international spotlight and once humanitarian support withers away, LED provides the bases for a gradual rebuilding of society and for sustainable development in places that otherwise would normally become dependent on international aid and would most likely spiral again into a crisis. The path is neither an easy, nor a fast one to tread, but it is possibly the only solution in order to build the foundations of stronger and more prosperous societies. From this perspective, the ILO’s operational guide on “Local Economic Development in Post-Crisis Situations” is a welcome instrument in an essential
development area that – alas – had hitherto deserved little attention. The commendable effort made by Martin Gasser, Carmela Salzano, Alfredo Lazarte Hoyle, and Roberto di Meglio in order to provide a much-needed guide for the implementation of holistic and co-ordinated approaches to development in post-crisis situations will prove priceless for all those engaged in trying to generate sustainable development in areas of the world that otherwise would harbour little hope for progress and prosperity.

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ACKNOWLEDGEMENTS

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The usual disclaimer applies.
Territories and populations affected by a crisis such as armed conflicts, natural disasters, political and economic transitions or financial downturns, have to cope with a range of especially acute and complex social, economic and institutional challenges. Emergency actions like the provision of shelter, medical care, security and food are only some extremely important interventions usually carried out by a variety of local, national and international organisations in the short term and require enormous organisational and logistical efforts.

Soon after the emergency phase of a crisis, however, local people, enterprises and governments have to cope with medium and long term strategies for the socioeconomic recovery and development of their territory. There is evidence that these strategies identified and implemented through the participation of the affected population rather than through outside actors and resources are most likely to be successful.

The involvement of all local stakeholders in the re-construction and recovery process after a crisis may have various benefits. In the first place participation of all interested parties may contribute to reduce previously existing tensions or disputes, especially in the case of post-conflict situations.

Increasing dialogue among various stakeholders coming from both the private and public sector may help the identification of common interests and thus facilitate a more efficient use of scarce resources. In various occasions, channelling investments through local enterprises and promoting the use of local labour force during the reconstruction process has shown wide social and economic benefits in the medium and long term.

Last but not least, participation by the local stakeholders creates ownership and ownership creates sustainability of the development process of the crisis affected territory.

This operational guide proposes the Local Economic Development (LED) approach as a particularly suitable development process for Post-Crisis Situations. As opposed to traditional development approaches, LED uses participation, public-private partnerships and dialogue at the local level as tools for sustainable employment creation. It forwards processes and actions to achieve consensus and cooperation at the local, regional and national level, taking into account specific local needs without neglecting the challenges produced by globalisation and socio-economic restructuring.

Göran Hultin
Executive Director of the Employment Sector
International Labour Organisation
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1.2 LED and the deficit of decent jobs

In today’s world, crises occurring from natural catastrophes, armed conflicts, political and economic transitions or financial downturns are a frequent occurrence. The vast majority of crises take place in the developing world, where some countries appear to be more vulnerable than others due to their geographical, climatic, environmental or socio-economic situations, and the impacts of these crises are often intensified due to poverty and under-development. However, thanks to worldwide media communication and faster means of travel, the international community is now more quickly informed of these events and can respond accordingly.

Whatever their causes, most crises tend to have similar effects in that they create massive social and economic dislocation, with civilian casualties, refugees and internally displaced persons and the collapse of state and civil society institutions. They strip away livelihoods, break up communities and hinder people’s access to basic services. Humanitarian assistance plays a vital role, since populations long affected by crises are unable to feed themselves, and the supply and distribution of goods are often hampered because infrastructure and means of transportation have either been heavily damaged or destroyed.

On a broader level, however, there is now recognition of the need for interventions aimed at ensuring the smooth transition between relief and rehabilitation and longer-term development. This implies listening to the community’s needs, involving them in the institutional decision-making processes, creating linkages across policy areas and greater coordination between the different national development agencies, international organizations and NGOs that have a role to play in a post-crisis situation.

1.2.1 Crisis response within a longer-term perspective

The traditional response of the development community to crises has usually been to provide emergency assistance within the shortest possible time. Given the need to act quickly, this usually means hiring external staff and implementing activities that are designed without a proper analysis of territorial development problems or the specific needs and competencies of beneficiary groups. Ultimately this can undermine the community’s own ability to become self-reliant.

Along with other UN agencies, the ILO has now recognized the need for a more holistic and coordinated approach. The latest report of the Director-General of the ILO stated that the organization is committed “to building support for a balanced and integrated approach to sustainable development and growth in the global economy”\(^1\). Strategies have been designed and tested that offer immediate impact measures within more comprehensive packages of assistance.

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2. LED and the deficit of decent jobs
3. About this guide
4. Symbols and acronyms

1.2.2 Local economic development and the generation of “decent work” opportunities

The World Employment Report, 2001 estimated that there are around 160 million unemployed people all over the planet, with a particular concentration in the poorest nations.

Natural catastrophes, armed conflicts, political and economic transitions or financial downturns hit hardest in those areas of the world where globalization has not improved living conditions nor the ability of the poor to generate adequate income. Communities and families engage in a number of activities to increase their income, but these rarely provide any surplus income or the opportunity to save towards improvements in health, education, pensions, etc.

Once the situation has stabilized, affected population groups face a number of more critical challenges: replacing destroyed physical and productive infrastructure, incrementing domestic and foreign investments, improving local market demand, precarious access to finance, and more deeply-rooted problems related to the lack of institutions, political instability, lack of social dialogue and lingering tensions.

Jobs can be a real strong point for social sustainability if they are created as a result of a genuine demand for employment within the local economy, seek to include the most vulnerable groups, have real benefits for workers, and are respectful of traditional cultures and the environment in which they are created. Decent jobs enable families to make decisions unrestrained by financial considerations, thus reducing tensions within the family and the community. Employment creation will also play a key role in stemming the brain drain of educated and skilled young people from crisis-affected areas to urban centres or further afield.
To this end, local economic development (LED) is a concrete initiative of the ILO that begins in the community and attempts to create a sustainable bridge between relief and development in the following ways:

- **LED gives a voice** to all local actors, helping to ease and narrow down what the Global Report to the Conference on Freedom of Association 2001 called the “representational gap”. The participatory nature of LED encourages the inclusion of vulnerable groups in decision-making processes, particularly women, ex-combatants and internally displaced persons as well as agricultural workers, public sector workers, environmental groups, etc.;

- **LED valorizes the development potential of local assets and resources**, particularly informal sector activities. The local dimension of development enables the identification of informal groups of workers and provides support for more formal organization;

- **LED builds upon traditional forms of cooperation** as a way of addressing some of the problems faced by the crisis-affected community;

- **LED fosters** an enabling environment for decent work in terms of workers’ rights and social security. In particular, LED fosters the creation of enterprises and cooperatives that provide social services to the local community. The process also encourages the creation of a legal environment that guarantees workers’ rights for everybody while improving access to social security systems;

- **LED fosters** economic development in harmony with environmental sustainability. Raising awareness of environmental issues among stakeholders at the beginning of the recovery process paves the way for their integration into the design and implementation of a bottom-up LED strategy. LED also aims at the involvement of environmental groups and NGOs during the early stages of the recovery process.
1.3 About this guide

1.3.1 Why a guide to local economic development in crisis-affected areas?

This operational guide is the result of a joint effort between researchers and technical experts with a broad field experience in local economic development (LED) around the world. It is based on practical experiences of managing rehabilitation and stimulating economic recovery in post-crisis situations in many different countries, and seeks to incorporate cross-cultural and sub-regional experiences.

The major objective of the guide is to illustrate:

- **Why local economic development** is particularly effective in post-crisis situations. This question will be treated in Section II;
- **How to implement LED in practice.** This is addressed in Sections III and IV. Each chapter in the section begins with advice on different points to consider before introducing practical step-by-step methodologies, enriched by toolkits that contain helpful examples, contacts, questionnaires and other tools for implementing everyday activities at the grassroots level.

1.3.2 Who should use the guide?

The operational guide has been conceived as a tool and handbook for programme managers, staff, consultants and local development partners working on social and economic recovery and development interventions in post-crisis situations.

1.3.3 How should the guide be used?

Both the theoretical and practical sections provide tools that may be used as a part of fieldwork activities (i.e. slides to explain the theory to the local stakeholders, checklists, best practice examples, etc.).

The guide is intended to be flexible enough so that it can be adapted to local circumstances and used at any point during the post-crisis recovery process and for any type of intervention, in isolation or in conjunction with others. Development practitioners may concentrate on the development of an integrated economic development strategy for the whole locality (Section III) and/or concentrate on specific areas, such as business support, stimulating investment, finance for development (Section IV). For this reason, the sequence of steps proposed in the operational guide have been conceived broadly so that the individual practitioner can adapt the mechanism to his or her own situation.
According to local circumstances, field staff might need to add, exclude or change parts of the manual and/or slides. In order to facilitate such changes, we have provided the following tools:

- A folder, which can be continuously added to in order to customize the guide;
- A CD-ROM which will make it possible to change the text and slides quickly and easily;
- The address of the ILO LED website that will contain all further updates of the operational guide. We plan to update the original LED guide periodically. The most efficient way of updating the guide will be our website;
- An ILO LED newsletter to inform you about any changes, updates and other publications relevant to the topic. If you wish to receive our newsletter, please write to the following e-mail address: LED@ilo.org, indicating the subject “LED newsletter”.

**Your contribution to the guide**

In order to update our guide we need the cooperation of people working in the field. Any suggestions regarding improvements, changes, good practices or other comments are therefore greatly appreciated.
1.4 Symbols and acronyms

1.4.1 How to read the symbols

The use of symbols aims to facilitate the use of the guide. The different symbols in each section distinguish its content and character. In the digital version of this guide, the symbols are a link to the relevant sections.

- This symbol signals the theoretical part of the guide
- This symbol signals the action-oriented part of the guide
- This symbol signals the existence of tools (checklists, examples, etc.)
- This symbol signals the existence of slides (animated PowerPoint or static slides) regarding a specific topic

1.4.2 How to read the headers

Where am I now? Slides and tools in this chapter
### Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACLEDA</td>
<td>Association of Cambodian Local Economic Development Agencies</td>
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<tr>
<td>ADEM</td>
<td>Agencia de Desenvolvimento Econômico Local da Provincia de Manica</td>
</tr>
<tr>
<td>BCTC</td>
<td>Bihac Construction Training Centre</td>
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<tr>
<td>BDS</td>
<td>Business development services</td>
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<tr>
<td>CBO</td>
<td>Community-based organization</td>
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<tr>
<td>COTEF</td>
<td>Technical Cooperation Team in Employment and Training</td>
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<tr>
<td>EIA</td>
<td>Environmental impact assessment</td>
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<td>EU</td>
<td>European Union</td>
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<td>EURADA</td>
<td>European Association of Development Agencies</td>
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<tr>
<td>FHH</td>
<td>Female head of household</td>
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<td>IFP</td>
<td>InFocus Programme</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IM</td>
<td>Institutional Mapping</td>
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<td>LDC</td>
<td>Local Development Council</td>
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<td>Local economic development</td>
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<td>Local Economic Development Agency</td>
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<td>MSE</td>
<td>Micro and small-sized enterprises</td>
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<td>NGO</td>
<td>Non-governmental organization</td>
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<tr>
<td>OCHA</td>
<td>Office of Coordination of Humanitarian Affairs</td>
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<tr>
<td>PRODERE</td>
<td>Programa de Desarrollo para Refugiados Desplazados y Repatriados en Centroamérica</td>
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<tr>
<td>RNA</td>
<td>Rapid needs assessment</td>
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<tr>
<td>SEA</td>
<td>Strategic environmental assessment</td>
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<td>SIYB</td>
<td>Start and improve your business</td>
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<td>SME</td>
<td>Small and medium-sized enterprise</td>
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<tr>
<td>SWOT</td>
<td>Strengths, Weaknesses, Opportunities and Threats</td>
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SECTION II. THEORY

2.1 Post-crisis situations: Problems and needs

This chapter sets out to briefly define what we mean by “post-crisis situations” before going on to analyse why economic development in these areas is particularly demanding. Each post-crisis situation has its own very specific characteristics and thus encounters a particular mix of difficulties during the recovery process. Nevertheless, an attempt is made to identify common characteristics from a social, economic and political perspective.

2.1.1 What do we mean by “post-crisis situations”?

Post-crisis situations are territories that have previously suffered from significant problems such as:

- Armed conflicts and their aftermath (i.e. civil wars or other violent conflicts);
- Natural disasters;
- Abrupt financial and economic downturns;
- Social movements or political transitions.

Crisis can take on many different forms. These include natural disasters that occur unexpectedly or as part of a chain of events, and complex emergencies. By “complex emergencies” we mean any crisis that has multiple origins and compounding effects, where there is a total or considerable breakdown of authority resulting from internal or external disaster or conflict, and which requires an international response that goes beyond the mandate of any one United Nations agency or ongoing system of assistance.

Crisis have different root causes, but a common characteristic is that they disrupt the everyday functioning of a society. The crisis-affected groups, who may be internally displaced persons, refugees, retrenched workers or ex-combatants, employ a wide range of survival strategies in order to make sure that there is some food and income available. During prolonged periods of crisis or uncertainty, families and population groups adapt to the new situation and survival mechanisms tend to become a regular feature of everyday living patterns.
In post-crisis situations, domestic and international financial resources mobilize very quickly to deal with immediate needs. The reconstruction process usually begins with a rapid needs assessment (RNA) to define specific measures to save and sustain lives and to estimate short, medium and long-term reintegration, rehabilitation and development needs. An RNA evaluates the capacities of local populations and institutions to cope with crises and is undertaken as early as possible to lay the foundations for development interventions.

In the past, a typical menu of emergency response assistance would focus on the provision of basic services (such as food, clothing, shelter, medicine), promoting the conditions for a return to political, economic and social stability in an effort to prevent more lives being lost. Once the situation had stabilized, interventions would then target the repair of physical infrastructure, such as transportation and communications, the rebuilding of schools, houses, health-care centres and churches, and the rehabilitation of systems for the internal provision of basic utilities such as water, food and medicines.

The process of restoring some degree of normality to the area is highly traumatic and time consuming, particularly for those people who return to their communities to find their homes and livelihoods destroyed. But in some situations, the pre-crisis situation is also one to which the community may not wish to return, since it may have triggered the crisis in the first place.

2.1.2 The SOCIAL environment

When a crisis occurs within a territory, whole communities are usually displaced both nationally and internationally, with little choice but to go in search of security and food.

One of the first, and perhaps most fundamental steps is the restoration of a sense of security. In most situations, this means providing people with the ability to return to their communities, rebuild their homes, pursue their livelihoods and benefit from basic services such as access to water and safe road networks. In the case of conflicts, a culture of militarization and fear often remains long after the signing of peace agreements.

HIGH LEVELS OF POVERTY: THE CASE OF MOZAMBIQUE

The socio-economic context of Mozambique is characterized by particularly unsafe and unhealthy living and working conditions. Particularly in the Sofala and Manica provinces, the population in rural areas is under a constant threat of disease (malaria, bilharzias), landmines or animals. Along the river Zambezi in north Sofala and Manica, hippopotamuses and crocodiles form an unseen danger to the peasants and fishermen that live on the river. In addition, HIV/AIDS is advancing at a horrifying pace, its biggest impact being on the economically active.

See Geert van Boekel, Local Economic Development Component, PDHL Mozambique – Final Report,
The next step during the early response phase is to assess and meet the needs of the different population groups, particularly the most vulnerable. These could either be people who remained in their community or were settled in refugee camps. Many will already have suffered from a **high level of poverty and will not have had access to basic assets and services**, since they have been living in unplanned settlements with poor infrastructure. Difficulties related to obtaining sufficient food, housing, water supply, infrastructure and sanitation are of course exacerbated in any area that has been subjected to natural, conflict-related, economic or social crises.

Once the emergency has abated and immediate needs have been met, the communities are still in a state of extreme vulnerability and there may be mistrust among different social groups, especially if one group is perceived as being favoured over another. **Official social safety nets**, meaning public measures to provide people with a basic level of financial and social services, are usually lacking. Health-care centres do not have enough medicines or are obliged to operate on minimal services for quite some time. Schools are forced to close down. There is a lack of employment or income-generation opportunities that can also contribute to tensions.

**DISINTEGRATION OF FAMILIES AND COMMUNITY NETWORKS: THE EXAMPLE OF PALESTINE’S REFUGEE CAMPS**

Refugee camps have the highest incidence of poverty overall. About one out of three households in refugee camps were poor in 1998, and this is 1.6 times larger than the rate of poverty in cities (20 per cent) and villages (21 per cent). But the higher incidence of poverty in the refugee camps is really due to the higher incidence of poverty in Gaza overall — Gaza had higher rates of poverty regardless of place of residence. This is reflected in the different contributions of types of residence to national poverty. A greater proportion of the poor are in villages (43 per cent) and cities (33 per cent) than in refugee camps (25 per cent).


**Vulnerable groups** experience particular difficulties in overcoming the obstacles associated with recovery, and if their needs remain unaddressed, their potential contribution to socio-economic development may well be transformed into a destabilizing element posing further security challenges. In crisis-affected areas, such groups include ex-combatants, refugees and returnees, women, the elderly and young people, as well as ethnic minorities, etc. There is in fact evidence that lack of decent work contributes to the persistence of tensions,
social exclusion and its side-effects (i.e. alcoholism, social apathy, criminal activities, and so on).

One of the biggest challenges, therefore, is to repair the social fabric so as to meet the needs of all affected groups, particularly the most vulnerable. Ultimately, this will depend on awareness of people’s social, cultural, economic and psychological needs and making use of the community’s skills in the design and implementation of long-term interventions.

**2.1.3 The POLITICAL environment**

**Political instability, low institutional density** and **overlapping agendas** at national and local levels, and the lack of grassroots participation in decision-making processes represent the most common drawbacks for local economies in post-crisis situations.

In the immediate aftermath, governments experience increasing difficulty in preserving law and order. In failed states, where legal and regulatory frameworks may have been weak to begin with, the problems are intensified. There may be a lack of confidence and trust in political mechanisms due to previous practices. The need for different ministries and agencies to be visible creates further political problems, especially if there are few local institutions through which assistance can be coordinated and which can mediate between different sectoral interests.

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VULNERABLE GROUPS: THE CASE OF SOMALIA

Many young boys, who are either ex-militia or have become school dropouts due to the war and have mingled with the militia groups, are considered to be a particularly vulnerable group in various Somali regions. The young fighters often originate from the rural areas, but do not want to return to pastoral life anymore; they do not even have the skills for it. They have not learnt any other skill but the use of a gun. Many of these people sit idle, often developing an addiction to khat or becoming a social threat.


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EFFECTS OF POLITICAL INSTABILITY AND INSECURITY: THE CASE OF SOUTHEAST SERBIA

The security situation in the region – in particular in the project area of the municipalities of Presevo, Medvedja and Bujanovac – distorts daily life and affects further the already heavily weakened local economy. Inhabitants living very near to the border with Kosovo, abandon their plots of land out of fear of landmines and snipers. In the village of Oslare, some Albanians have been forced to stay at home and the police have taken their stocks. Women working in companies nearby are afraid to travel to their work and their male family members accompany them for protection. There are probably also incidents related to ethnic tensions in the work place, but this could not be confirmed during the mission.

Consensus is the starting point for local economic recovery. However, the lack of grassroots participation by private sector and civil society stakeholders in post-crisis decision-making also undermines recovery efforts, since they are unable to articulate the real interests of the community. In developing countries, this may be symptomatic of the policy environment in general, even in “normal” conditions.

As a consequence, long-term development is slowed down by the cleavage between national policies and local priorities. Often geographical distances and the nature of information exchange mean that national policies target problems without thoroughly considering local priorities and the ability of local groups and actors to carry out interventions.

The arrival of numerous international donors during and after the crisis is likely to distract from this situation, if only temporarily. Different agencies and NGOs pursue different sectoral objectives and goals. This creates overlapping agendas and, in many cases, the national government is only able to provide an administrative framework, rather than assuming a coordination function.

### The ECONOMIC environment

**Damage to the productive infrastructure and communication networks** represents the most visible impact of crises. The magnitude of physical destruction is usually greater in the case of natural disasters, but it could also be substantial in post-conflict areas. The initial phase of post-conflict development could also be hindered by the presence of landmines. At a time when societies need to learn to live and work together, mines have the
3. Local economic development in post-crisis situations

1. Post-crisis situations: Problems and needs

The triple effect of shattering individual lives, increasing the medical burden on families and communities and preventing localities from developing land and rebuilding infrastructures.

Damage to physical infrastructure, such as road and rail networks, may cut the whole area off from the surrounding populations, and thus from suppliers and customers. Harbours and airports may be the only access to external markets; however, even if they have suffered less damage, they may not be accessible to a broad section of the population.

Broken communication networks, such as telephone, television, mail, internet, newspapers, etc., reduce the possibility of personal and commercial contacts and information exchange at the national and international levels. This is particularly harmful for post-crisis areas, where the local economy needs to be strengthened through the generation of new market opportunities.

2. Traditional development policies and their limits

In cases of financial and socio-economic crises, it is common for a large number of industrial and manufacturing workers to be laid off, which leads to an upsurge in unemployment and underemployment. The knock-on effect in all areas of the economy causes extreme hardship and has a disproportionate impact on vulnerable groups. Investment in productive assets tends to dry up, no external capital comes in and private capital is transferred overseas.

3. Local economic development in post-crisis situations

THE IMPACT OF A WEAK PRODUCTIVE INFRASTRUCTURE ON THE LOCAL ECONOMY: AN EXAMPLE FROM THE DEMOCRATIC REPUBLIC OF CONGO (DRC)

For over 30 years, DRC has suffered from a highly complicated democratic transition resulting in political tensions, violence and wars with neighbouring countries. One of the direct economic consequences of the ongoing conflicts is the severe deterioration of the transport infrastructure. Poor road conditions in the Province of Bandundu severely affect the local economy. The transport problems hinder economic activities and make the commercialization of agricultural products barely possible. As a consequence, the inhabitants returned to household production as cash flow in the local economy dried up. Today, high unemployment rates and endemic poverty characterize the rural areas in Bandundu. Moreover, population groups in expanding urban centres lack access to vegetables and other staple foods at reasonable prices, which aggravates health and living conditions of the urban population.


LACK OF INFORMATION AND COMMUNICATION: THE CASE OF THE EARTHQUAKE-AFFECTED STATE OF GUJARAT (INDIA)

The earthquake of 26th January 2001 caused extensive damage in 21 districts in the State of Gujarat. The Government death toll figures estimate 19,466 people. An estimated 320,000 houses have been evacuated and a very large number have been destroyed. In the worst affected districts, Kutch, Patan, Ssurendranagar and Banaskantha, the earthquake has destroyed people’s homes, livestock, the food stock, seeds, cattle fodder and basic artisanal tools and therefore deprived them also of their means of livelihood. The entire infrastructure and public utilities such as electricity, telephone services, roads, bridges, railways, ports, water supply, schools, health centres in 21 districts, covering 7,904 villages, have been badly affected.

The impact on human infrastructure is less visible, but equally important. Local craftsmen and workers flee the area, taking their special production techniques and personal contacts with them. For those who remain, only short-term employment opportunities in the formal sector may be available. Others engage in income-generation activities on a subsistence level.

The loss of income reduces purchasing capacity within local markets, and consequently the circulation of currency in the economy drops even further, thereby eliminating the demand for products.

The health of capital markets, particularly the availability of financial support for entrepreneurs, is critical to getting markets moving again. However, both lenders and borrowers usually lack information and guarantees, a situation which inevitably hinders constructive cooperation between banks and entrepreneurs. No bank or other financial institution is willing to take the risk of offering credit if entrepreneurs are unable to put up collateral or ensure the safety of their investments.

Finally, broken linkages in business networks, lack of confidence and lack of trust between business partners are also important obstacles since they contribute to the breakdown of industrial clusters or cooperative arrangements. Especially in post-crisis areas, business linkages and cooperative networks are highly desirable because they are capable of reinforcing the competitiveness of small and badly-equipped sectors. Nevertheless, many cooperative arrangements fail as a direct or indirect consequence of the crisis itself.

In December 1999 the state of Vargas in Venezuela was affected by serious flooding. The estimates of the natural catastrophe’s consequences include between 20,000 and 30,000 victims. Furthermore, around 200,000 people were seriously affected by the flooding, either losing their homes and/or their jobs (60% of the national population); 6-7 metres of mud covered the soil of a large part of the state, destroying, among others, the principal tourism areas near Caracas. Also the second port and the first international airport were seriously affected.

Lack of financial mechanisms: The case of Mozambique

A complete lack of any formal finance mechanism was one of the major problems in the LED projects in Mozambique. In the Sofala, Manica and Maputo Provinces there were no banks or formal financial institutions outside the main urban areas. Some international NGOs are operating in the field of micro-finance, although their success and outreach have been very limited so far. Individual moneylenders are active in the provinces, however their services are unreliable and often very expensive.

2.1.5 Summary of needs

In the short term

- Profiling of the social environment and needs of vulnerable groups;
- Provision of immediate emergency needs (food, water, shelter, sanitation);
- Efforts to stimulate income generation or labour-intensive enterprise growth;
- Mine-detector action;
- Development of a coordination strategy.

In the long term

- Education;
- Health services;
- Agricultural development;
- Institutional development (develop policy-making and regulatory capacity, develop efficient public sector service delivery, develop capacity for knowledge generation, develop credit institutions);
- Public/private partnership promotion;
- Private sector development;
- Capacity building of vulnerable groups;
- Revitalization of industry (towards job creation)/industrial rehabilitation;
- Upgrading of technical capacities of civil servants.
## Toolkit 2.1 – Post-crisis situations: Problems and needs

### Tool 2.1.1 – Analysis of problems and needs

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2.2 Traditional development policies and their limits

In this chapter we analyse why conventional approaches to development and poverty reduction are not able to provide an adequate response to localized crises. An attempt is made to illustrate the shortcomings of traditional approaches and situate them in relation to the social, economic and political obstacles faced in post-crisis situations (compare with Chapter 2.1).

During the last few decades, countries in both the developed and the developing world have gradually undergone a conceptual shift in their economic growth and development strategies. The need for economic flexibility within global markets has strengthened the argument that centrally planned, top-down policies (or the mere reproduction of development policies in different contexts) are no longer appropriate for the achievement of long-term economic growth targets. Developing countries in particular have had to restructure quickly as they attempt to enter into international markets. This has meant the deregulation or privatization of key economic spheres, cuts in public spending and the stabilization of fiscal policies and currency exchange rates.

A common feature in most countries is the withdrawal of the State from active engagement in the provision of welfare services and public goods. The position of decentralized entities, such as regions or departments, has been strengthened as these levels of administration are considered the most appropriate to respond to local needs. Unlike in the past, however, local economies that appear to be lagging will no longer be able to look to the State for support. This encourages, and even forces territories to become more proactive and allocate resources more efficiently.

In countries that are emerging from a crisis, the objectives of wider development policies become secondary while emergency relief, reconstruction and rehabilitation programmes are undertaken. Here we shall examine some of the major shortcomings of existing policies and explain why they are not appropriate in post-crisis situations.

**SOCIAL limits**

- **Lack of social impact**: Development policies are by definition directed to the most disadvantaged parts of society. Nevertheless, the benefits of traditional top-down policies have failed to reach the most excluded parts of society. The so-called “trickle-down” effect – according to which the benefits of an increasing economic activity by the main economic actors would “drip down” to the most excluded groups – has not happened in reality.
3. Local economic development in post-crisis situations

1. Post-crisis situations: Problems and needs

2. Traditional development policies and their limits

- **Time lags:** Territories in a crisis or post-crisis situation need a quick response, mainly in order to meet the most urgent needs of vulnerable groups. Traditional top-down policies are the result of centrally conceived and managed development programmes. One of the major inefficiencies of these programmes is the huge time delay between policy conception and implementation, during which time social problems may get progressively worse.

- **Unsustainable job creation:** Creating employment with public money or funds donated by international development partners does not generate decent jobs with real benefits attached. Jobs that are created as a result of a real demand in the local labour market and that are negotiated on the basis of social partnerships are more likely to be sustainable.

- **Lack of attention to local peculiarities:** National top-down approaches tend to apply identical solutions to different parts of the national territory. This attempt to standardize development policies has largely failed because each territory is characterized by different socio-economic, cultural and political needs and characteristics.

2.2.2 ECONOMIC limits

- **Priority on macroeconomic variables** (fiscal policy, monetary interventions, etc.): Long-term programmes, which are designed to stabilize the framework conditions for recovery, often have a weak or even negative impact at the local level, because they tend to emphasize aggregate levels of growth, but do not reflect the problems of under-performing regions and their difficulties in stimulating new employment opportunities. Previous economic trends, growth and declining sectors, demographic patterns and the needs of vulnerable population groups are not taken into account. This means that problems as they are experienced in concrete social settings can go unnoticed if there is no “local voice” to highlight local needs and assets and act as a barometer of progress in the crisis-affected area.

- **Priority on physical infrastructure:** Medium-term recovery strategies tend to concentrate on physical infrastructures (i.e. national highways, development zones, airports, etc.) and supply-side investments, without regard for the equally important need to create a **soft infrastructure**, meaning the institutional, business and commercial services that underpin the local economy. This can include relevant branches of local government, legal and financial frameworks, as well as business support (such as development agencies, industrial parks, BDS suppliers, banks, accountancy), a healthy and skilled workforce and technology.

Such supply-side approaches can cause further damage if they favour unbalanced power structures or repeat the socially and environmentally harmful practices of the past which may have led to the present crisis. Developing countries suffer from exceptional environmental problems, particularly in highly populated urban areas, due to unregulated pollution
levels, lack of proper infrastructures for waste dumping and water management, and others still.

**Top-down** policies overstate the importance of traditional sectors and big firms. There is evidence that sustainable development is more likely to come about through local entrepreneurship and support to small and medium-sized enterprises (SMEs). SMEs are not only the main agents of change in a globalized economy, but also have the highest potential of job creation in post-crisis situations.

- **Lack of harmonization:** Within the territory itself, top-down policy directives are often conceived without considering the need to harmonize policies for enterprise growth, education and training, land use, the environment, transport and communication infrastructure. Local business regulations or systems of subsidies for internal investment also usually remain under separate policy streams.

### 2.2.3 POLITICAL limits

- **Ignorance of conflict-resolution mechanisms:** Traditional top-down policies fail to contribute to smoothing over political conflicts. Imposing development objectives and activities from above usually reinforces the existing power structure which may have contributed to the current crisis. In the long run, this might lead to new political controversies and conflicts.

- **Decentralization and devolution:** In many countries, the hierarchical system of central planning may have been phased out, but the relationships between decisions made by different ministries at different levels of decision-making are still not clearly defined or coordinated. Many countries lack appropriate **local institutions** that have the mandate and legitimacy to represent broad-based civil society interests. Nor do they have sufficient neutrality to create bridges between different interests and open up dialogue between government, businesses and civil society representatives.

- **Lack of technical capacities:** Government staff within the politico-administrative institutions of counties and municipalities lack the expertise to coordinate and oversee social and market reforms, or to promote entrepreneurship within their local economies. As a result, they are unable to provide informed guidance to local entrepreneurs or to benefit from much of the available development financing for investment programmes.
### Toolkit 2.2 – Traditional development policies and their limits

#### Tool 2.2.1 – Elements for discussion

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<td>▶ Lack and dispersion of financial and human resources</td>
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<td>Scarce cooperation and coordination</td>
<td>NO</td>
<td>YES</td>
<td>MISTAKES IN THE PAST</td>
<td>WHAT CAN WE DO BETTER?</td>
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<td>▶ Between the public and private sectors</td>
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<td>▶ Between international donors in the territory</td>
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Local economic development in post-crisis situations

The objective of this chapter is to examine the concept of local economic development (LED) and highlight its main advantages in comparison to traditional approaches. The major lesson learned is that local economic development must integrate economic issues into the political, social and political environments. This is particularly true in post-crisis situations, where the need for social dialogue and political stability is critical.

So what are the options for the people, firms and regions that are lagging behind and have been further held back by crises?

Post-crisis conditions create a special set of circumstances that represent both a threat and a significant opportunity to address issues such as social exclusion and environmental conservation. These issues should be integrated at the earliest stage with humanitarian and development assistance. Communities in affected areas can become positive agents for change in the transition from aid dependency to self-sufficiency.

Government effectiveness in achieving long-term development goals in a territory emerging from a crisis will therefore depend to a large extent on strengthening local institutions and national and local frameworks in ways that encourage participation in decision-making and give a voice to local stakeholders, thereby rebuilding confidence and trust. The basic pillars of the system should be transparency, accountability and the rule of law.

2.3.1 What is local economic development (LED)?

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

The LED approach provides a comprehensive framework of initiatives and actions that respond to the need to integrate the economic, social, political and institutional dimensions of development at the local level. As a consequence LED is a process that will provide different solutions according to place, culture, economic potential and political circumstances, as well as social and institutional environment.
Principles of the LED approach

The above definition reveals the importance of participation, partnership, territory and the valorization of local resources for employment generation and competitiveness. Although its adaptability does not make it possible to define what actions and policies a typical LED project consists of, the inalienable principles of the LED approach are those given below.

- **Participation and social dialogue:** The involvement of local stakeholders in the development process of their own territory is a prerequisite for sustainable growth. The use of participatory mechanisms decreases the risk of conflicts and fosters social cohesion. Getting the local stakeholders around one table through a local forum helps to build trust, encourages innovation and promotes the creation of social networks and activities. The design and implementation of a bottom-up strategy further guarantees the most suitable solutions for the local needs and is a warranty for the sustainability of the development process.

- **Public/private partnership:** Complementary investments that are targeted as accurately as possible bring the highest rate of socio-economic return. LED is a means to achieving the mobilization of local resources by encouraging their efficient allocation. Partnerships between the private, public and non-profit sectors thus become crucial for a sustainable development process, allowing convergence in investment programming between the different local actors. Cooperation and coordination of development activities prevent ineffective go-it-alone approaches and support the legitimacy and sustainability of the development process.

- **Territory:** Geographical and cultural closeness favour a whole set of ideal conditions for growth, innovation and development. To begin with, stakeholders from the same territory have a better knowledge of their needs and resources. Secondly, the territory makes common interests and cultural affinities more likely. Thirdly, the territory enables frequent social, economic and political interaction among the local actors, thus generating social cohesion and trust. Finally, the territory is an ideal platform for the creation of a strong local voice on behalf of of its stakeholders. Unlike traditional community development approaches, LED provides the means and structures that represent the local voice when dealing with its national and international counterparts.

“*The LED approach provides a comprehensive framework of initiatives and actions that respond to the need to integrate the economic, social, political and institutional dimensions of development at the local level.*"
2.3.3 The SOCIAL and POLITICAL dimensions of development

According to the LED approach, sustainable development can be achieved only if development initiatives also take into account social and political factors, namely:

- **Building upon existing social institutions:** It is important to respect local traditional social structures, particularly in rural areas where village elders may be the persons who represent the interests of the community and will be the starting point for building awareness and support for bottom-up approaches. Social sensitivity also means exploring different ways of adapting economic programmes that are respectful of traditional practices and are culturally appropriate;

- **Stimulating broad-based political participation in decision-making:** LED attempts to give a voice to, and create linkages between communities, local institutions and top-level authorities so that the long-term recovery process is a close reflection of actual needs. The approach directs special efforts at identifying the weak and ensuring they can effectively participate. A broad representation of local stakeholders meets around one table through a local forum, to identify and mediate between different interests;

- **Encouraging social dialogue and cooperation:** The involvement of as many local stakeholders as possible in decision-making also increases dialogue and cooperation between employees, workers and institutional stakeholders on issues related to working conditions, wages and rights, thus setting the template for socially sustainable economic models upon which new kinds of local economic development can be built;

- **Fostering the process of institutionalization:** Once all the stakeholders have decided to participate in the local development process, the local actors might jointly decide to institutionalize the participatory mechanisms. The advantages of an institutionalized local forum stem mainly from its legal character and its juridical personality. Once a forum of local actors enjoys internal and external legitimacy, its functions might be extended beyond local activities. Often, such extension of responsibilities includes networking and lobbying with international and national actors to eliminate ineffective go-it-alone approaches, and to obtain closer harmonization with national development policies;

- **Public/private partnership:** Complementary investments that are targeted as accurately as possible bring the highest rate of socio-economic return. LED is a means to achieving the mobilization of local resources for investment in rebuilding the locality. Public/private partnerships also encourage a more efficient allocation of resources. Partnerships between the private, public and non-profit sectors become crucial for a sustainable development process, allowing convergence in investment programming between the different local actors.
2.3.4 The ECONOMIC dimension of development

The economic dimension of development is particularly important within the LED approach, since economic activities and interactions are a driving force that fosters:

- **Social inclusion**: Through self-help organizations, cooperative ventures and activities to support micro-enterprises, many marginalized people and vulnerable groups may be able to overcome their isolation;

- **Poverty alleviation**: The enhanced turnover and competitiveness of local enterprises encourages higher levels of public and private-sector investment in infrastructure. A general rise in spending power among the local population is likely to improve the general living conditions of families and the wider community through economic spillovers;

- **Greater social and political stability**: Revived markets for goods and services in a post-crisis situation are likely to involve – sooner or later – political and social actors and lead to broader discussions in which strategies and actors can most effectively contribute to recovery efforts;

- **Innovation**: More than ever before, socio-economic growth depends on the process of change and innovation. There is evidence that the majority of enterprises undertake their most important innovation at the moment of their creation. Hence, fostering entrepreneurship and enterprise creation play an important role within the LED approach.

2.3.5 The LOCAL dimension of development

The importance of the local or territorial dimension in the LED process is vital. Indeed, the local dimension reflects:

- **The degree of common interests**: The geographical proximity of people and actors within the same region creates common characteristics and points of common concern, including language, religion, tradition, access to institutions, infrastructures and resources, to name but a few;

- **The degree of self-regulation**: As a result of their stake in the territory, it is quite likely that local actors also have close bonds with, and concern for their immediate social and natural environment and are therefore more likely to support actions that contribute to an increase in quality of the business environment and overall living conditions. Their territorial interests increase the likelihood of their joining a ‘club’ of possible future beneficiaries of a LED policy;

- **The degree of knowledge**: Local actors are further likely to have a deeper and better knowledge of local assets, constraints and needs due to their geographical location, networks of contacts and daily interactions. The local economic development approach seeks to listen and learn from communities;
2.3.6 How “big” is local?

As LED is a territorial approach, any LED initiative will sooner or later have to face the question: How big is “local” in the case of our initiative? In other words, the local stakeholders will have to decide the geographical dimensions of the territory and the size of the population the LED initiative will englobe.

Any attempt to establish a set rule as to the dimension of a territory or its population would contradict the need for flexibility to adapt to different circumstances and to respond to the objectives of each specific LED initiative. However, there are some criteria that may facilitate the identification of a particular territory.

The above graph illustrates the fundamental trade-off between coordination and economic potential that has to be taken into account when defining the territory. The smaller the territory and, in most cases, its population, the easier it will be to achieve coordination and consensus among the major local stakeholders when designing a joint LED strategy and in identifying implementing arrangements.
However, the economic, political and institutional potential of small territories and populations is often lower than that of larger territories for the following reasons:

- Small territories usually have less possibility of creating economies of scale;
- The capacity of their “local” institutions to lobby at central government level is weaker; and
- They are at a disadvantage when competing at an international level.

On the other hand, if a territory or a population is too big, the closeness between institutions and citizens will decrease, as will the institutions’ knowledge of real needs and problems at the grassroots level and the possibility for consensus building and coordination.

Apart from the trade-off between coordination and economic potential, the identification of a territory should furthermore take into account the following elements that are likely to ease the LED approach in a specific territory:

- The existence of (a relatively small number of) public agencies representing the functional economic region;
- A relatively broad autonomy (in terms of jurisdiction and/or finance) of the institutions promoting the regional development of the territory (regional government, LEDA, etc.);
- A strong sense of cultural or political identity within the region;
- A willingness and tradition of cooperation between local actors;
- The presence of long-established local firms, especially if they own land and premises. Their interest in the territory make it more likely for them to join a ‘club’ of possible future beneficiaries of a LED-policy;
- Deeply-rooted local actors, such as long-established firms and organizations, are more likely to cooperate because they depend to a greater extent on social and economic interrelations that make non-participation relatively costly.
### Toolkit 2.3 – LED in post-crisis situations

#### Tool 2.3.1 – Elements for discussion

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<thead>
<tr>
<th><strong>TERRITORY</strong></th>
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<td>Where should efforts be targeted?</td>
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<tr>
<td>Why choose this region/area?</td>
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<td>‣ The territory forms an economically functional area</td>
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<td>‣ Existence of complementary economic sectors</td>
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<td>‣ Existence of common commercial practices</td>
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<td>‣ Uneven development that needs correcting</td>
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<td>What resources are available locally?</td>
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<td>‣ Enterprise associations</td>
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<td>‣ Farmers’ associations</td>
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<td>‣ Public institutions</td>
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<td>‣ Natural resources</td>
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<td>Why should private sector stakeholders be interested in LED?</td>
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<td>Why should public sector stakeholders be interested in LED?</td>
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<td>How far are these interests complementary?</td>
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<td>Are there conflicts among interests?</td>
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<td>How can these conflicts be resolved?</td>
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SECTION III. THE LED PROCESS

An overview

“LED fosters local ownership of development activities through a process of participation, information exchange, coordination of initiatives and the investment of time and resources by the local stakeholders”.

Although the fluidity of the LED process makes it impossible to prescribe a strict set of policies and actions, a typical LED intervention is led by a certain number of basic steps, which include:

1. Territorial diagnosis and institutional mapping (TD & IM)

The objective of this phase is to acquire knowledge about the local economy and its resources. It comprises a preliminary analysis of the territorial socio-economic and political data through statistics, surveys and action-research methodologies. The institutional mapping exercise focuses on the existence, objectives and activities of the different local stakeholders and the dynamics among them. There will be a wide range of short-term economic development activities funded by different bilateral donors and the UN, NGOs and foundations – social mobilization (cooperatives, CBOs), access to credit, livestock management, irrigation, watershed management, and so on. There also needs to be an inventory and assessment of existing facilities and capacity, needs, recent accomplishments, and lessons learned that would provide a basis for filling gaps, setting priorities and scaling-up.

The relevance and usefulness of TD & IM become apparent through the different stages of the LED process, since the information gathered provides the foundations for immediate quick-impact interventions, as well as activities with more socially and environmentally sustainable impacts in the medium and long terms. The collection of data should however be ongoing, as circumstances and development priorities change and new actors become more influential within the territory.

2. Sensitizing

This stage involves raising awareness among different stakeholders of how their actions impact on other stakeholders, what adjustments need to be made and how closer synergies can lead towards the achievement of common development goals. It is hoped that dialogue among the main local stakeholders on major public policy and economic issues will begin to generate solutions to common problems and opportunities. This should lead to the crystallization of a vision for economic recovery and the definition of priorities for investments and target groups. Another major expectation of this phase is that the local stakeholders will slowly assume ownership of the development process.
### 3. Creation of a local/regional forum

The creation of a local/regional forum is the continuation of the consensus-building process. The lack of forums for dialogue, where individuals and businesses can express their needs, may contribute or lead to underlying tensions and the neglect of social problems.

A forum bringing together a number of influential people with a wide range of expertise in local settings facilitates the identification of contentious areas, the sharing of knowledge and skills at all levels, and the communication of information among all partners involved in the development process. It thereby sets in motion the process of developing a coordinated action plan, encompassing the strengthening of technical and managerial skills in both the public and private sectors and key elements needed for socially and environmentally sustainable recovery.

### 4. Designing the LED strategy

During this phase, the local forum carries out an analysis focusing on the **Strengths, Weaknesses, Opportunities and Threats (SWOT)** of the territory. The SWOT analysis is based on the results of the territorial diagnosis and institutional mapping exercises and will reveal the competitive advantages of the affected area. The outcomes of the SWOT analysis will then generate the LED strategy, encompassing the long-term vision, the objectives and the action plan for the medium and long terms.

### 5. Coordination/implementation structures

The local stakeholders, according to their competence, resources and capacities, implement the bottom-up development strategy through the LED action plan. The forum coordinates their actions, and revises and adjusts the strategy according to the needs of the local/regional stakeholders.

But before implementing the LED strategy there is a need to decide “who does what” and assign responsibilities for each activity foreseen in the strategy. In the absence of existing implementation structures or bodies, the LED strategy might foresee the institutionalization of the forum or the creation of an implementation body that assumes responsibility for certain tasks.

The following chapters in this section explain in more detail steps 1 to 5 in the LED process. Section IV will then describe the outcome of the LED process: the LED actions and their implementation (step 6). These actions include some of the most common LED policies and products used in typical LED projects.
1. Territorial diagnosis

2. Sensitizing

3. Promoting a local/regional forum

4. Designing the LED strategy

5. Coordinating implementation structures

References: 38
3.1 Territorial diagnosis and institutional mapping

3.1.1 What to consider?

The socio-economic analysis of the area and its institutions is extremely important for carrying out nearly all the activities related to the LED process.

The objective of the territorial diagnosis (TD) is to collect information about the territory and its resources in order to understand the local context.

The results should be used to:

- Sensitize local stakeholders by giving them sufficient information about the territory, its assets and resources with a view to increasing the understanding of the local context for enterprise development;
- Give advice on how existing policies can be adjusted towards more economically, socially and environmentally sustainable development in the long term;
- Formulate proposals for quick-impact measures and the genesis of a longer-term LED strategy;
- Monitor and assess the ongoing performance and final outcomes of LED interventions.

While the territorial diagnosis will help to improve the key stakeholders’ understanding of local realities, it is also useful to have an overview of the organizations and institutions that have an influence over the economic development of the territory.

The institutional mapping (IM) exercise enables development partners to respond easily to requests from entrepreneurs and others for information on ongoing or planned development initiatives in the territory. This information can be used to create synergies between initiatives and, later on, as a tool with which to build consensus around priority areas for intervention. The information contained in the database can be presented in tailor-made packages. Some of the information may already be available, but not in a structured way. If the information is packaged well, it is not only useful to development partners, but also to the economic support organizations.

The IM should set out to:

- Create an exhaustive map of local stakeholders in a broad range of social, economic and political sectors;
- Establish a profile of these influential stakeholders in terms of their mission, objectives, field of action, jurisdiction, geographical coverage, etc.;

3.1.2 Territorial diagnosis and institutional mapping

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The IM should set out to:

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- Establish a profile of these influential stakeholders in terms of their mission, objectives, field of action, jurisdiction, geographical coverage, etc.;
Assess the adaptability and flexibility of existing institutions and organizations;

- Analyse the dynamics among the most important local stakeholders in order to grasp where cooperation lacks and where synergies are most likely;
- Facilitate coordination between existing programmes, institutions and organizations, as well as identify services that do not yet exist.

Apart from the practical implications of increasing the supply of information, the gathering of information on natural resources, enterprises, infrastructure, institutions, and other items increases the transparency of different actors and their agendas and assumes a vital role in the early phase of the LED process.

The local stakeholders are the most suitable actors to identify local assets and priorities.

At this early stage of the recovery process, it is appropriate to encourage as wide an involvement of actors as possible. The local stakeholders form the social, economic and institutional backbone of the territory and possess the best knowledge about its main characteristics, economic potential, possibilities and needs. For this reason, local stakeholders are the most suitable actors to identify local assets and priorities.

The LED process

3.1.2 What to do?

Step 1: Territorial diagnosis

This is carried out using the following mechanisms:

Rapid needs assessment

This assessment lists the most urgent problems and corresponding measures to be taken immediately. Although we are only at the beginning of the LED process, and not all local stakeholders have yet been consulted, the rapid needs assessment is crucial for the elaboration of short-term policies and should be discussed with as wide a range of local stakeholders as possible in order to clarify the division of roles and responsibilities. By stimulating common actions, cooperation and coordination, the quick-impact measures will thus contribute positively to the sensitization process, which takes place in parallel.
See TOOL 3.1.1 for a checklist for a rapid needs assessment in view of the design of quick-impact measures.

**Collection of socio-economic data**

This step involves the collection of general data concerning:

- The institutional and political environment;
- The legal and regulatory framework;
- Ongoing and planned initiatives;
- Key statistical information.

See TOOL 3.1.2 for more detailed information regarding the type of data required.

**Institutional mapping exercise**

An important outcome of this exercise will be a list (or a map) of the most important stakeholders in the territory, for each of which the following questions will need to be answered:

- How long has the stakeholder (organization, enterprise, institution, or other) existed?
- What is its organizational structure?
- What is its mandate?
- What are its activities in the field of economic development?
- Who are its target groups/beneficiaries?
- With which organizations does it have contact or work?

See TOOL 3.1.3 for an example of the terms of reference for data collection and institutional mapping in Eastern Slavonia and Sisak County.

The collection of data should be carried out very carefully. The accuracy of the information gathered is crucial, since it will determine the choice of the LED policies within the LED strategy (see Chapter 3.4, “Designing the LED strategy”).

When possible, the collection of the data should take place at municipal level. When municipal data is not available, it may be undertaken at county level. Where secondary statistical data is not available, it might be necessary to collect it through interviews and questionnaires.
Step 2: Data analysis

Data analysis is essential for identifying trends, linkages and possible synergies in and between different sectors and programme areas. The database can be used immediately in order to identify the most important local stakeholders that should be targeted during the sensitization phase. At the same time, the data will be used to begin formulating the LED strategy (see Chapter 3.4, “Designing the LED strategy”). As socio-economic and institutional conditions change constantly, this database should be updated periodically.

See TOOL 3.2.1 for a list of possible contributions of different local stakeholders to the LED process.

See TOOL 3.1.4 for a list of sources where relevant data concerning the existence or functioning of local or regional institutions can be found.

It is particularly important for those carrying out the information gathering and data analysis exercises to listen to what all those involved have to say and learn from these perspectives. Not all groups, especially the most vulnerable ones, will have the same viewpoint on how the recovery process should proceed, or even be in a position to articulate their interests. Care should therefore be taken to interview and research as widely as possible.

Who should do it?

The major funding, multilateral agencies and NGOs should mobilize their capacity and create an effective mechanism to carry out this assessment. Emphasis should be placed on enabling local expertise and experienced persons from within and outside the country to participate in this assessment and lead strategy development, priority setting and programme planning.
## Toolkit 3.1 – Territorial diagnosis and institutional mapping

### Tool 3.1.1 – Rapid needs assessment: A checklist

<table>
<thead>
<tr>
<th>Notes:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3.1 – GENERAL SITUATION ASSESSMENT</strong></td>
</tr>
<tr>
<td>▶ Causes of the crisis</td>
</tr>
<tr>
<td>▶ Affected areas</td>
</tr>
<tr>
<td>▶ Affected population groups</td>
</tr>
<tr>
<td>▶ Gender/socio-cultural issues</td>
</tr>
<tr>
<td>▶ Structural issues</td>
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<tr>
<td>▶ Economic situation</td>
</tr>
<tr>
<td>▶ Human rights and political context</td>
</tr>
<tr>
<td>▶ Social system and programmes</td>
</tr>
<tr>
<td>▶ Legal and administrative framework</td>
</tr>
<tr>
<td>▶ International and local assistance programmes</td>
</tr>
<tr>
<td>▶ Potential ILO partners</td>
</tr>
<tr>
<td><strong>3.2 – CAPACITY ASSESSMENT FOR CONSTITUENTS, PARTNERS AND OTHERS</strong></td>
</tr>
<tr>
<td>▶ Institutional capacities</td>
</tr>
<tr>
<td>▶ Constituent capacities</td>
</tr>
<tr>
<td>▶ Civil society institutions and organizations</td>
</tr>
<tr>
<td><strong>3.3 – SECTORAL ASSESSMENTS FOR ILO PROGRAMME PLANNING</strong></td>
</tr>
<tr>
<td>▶ Vocational training</td>
</tr>
<tr>
<td>▶ Public employment programmes</td>
</tr>
<tr>
<td>▶ Social security protection</td>
</tr>
<tr>
<td>▶ Labour market and employment prospects</td>
</tr>
<tr>
<td>▶ Social dialogue</td>
</tr>
<tr>
<td>▶ Business advisory services</td>
</tr>
<tr>
<td>▶ Micro-finance</td>
</tr>
<tr>
<td>▶ Labour-intensive works</td>
</tr>
<tr>
<td><strong>3.4 – SPECIAL TARGET GROUPS</strong></td>
</tr>
</tbody>
</table>
### Tools
- Tools for assessing capacities and vulnerabilities
- People with disabilities
- Youths
- Ex-combatants, including child soldiers
- Female-headed households
- Unemployed
- Refugees
- Internally displaced persons
- Returned refugees
- Returned economic migrants

### 3.5 - ECONOMIC GAPS
- Declining markets
- Declining sources of raw materials and inputs
- Weakened industrial clusters
- Declining sources of financing
- Economic opportunities generated by post-crisis reconstruction and the transition to a market-oriented economic system
- Reconstruction investment
- New sources of financing
- Restructuring of less-profitable industrial activities
- Foreign investments
- New markets
- Other

Source: Adapted from: ILO Rapid Needs Assessment in Crisis and Post-Crisis Situations
### Tool 3.1.2 – Territorial diagnosis and institutional mapping: Information requirements

**SOCIO-ECONOMIC DATA AND DYNAMICS** (ideally gathered at municipal, if not county level)

<table>
<thead>
<tr>
<th>Category</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relevant macro-economic data</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Average income per capita</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Minimum wage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Basic basket cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Inflation and devaluation rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Sectoral GCP (gross county product)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Urban</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Rural</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Ethnic composition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Literacy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Level of education</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Employment and self-employment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- EAP (economically active population)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Sectoral employment (industry, agriculture, etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Unemployment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Wage-earners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Informal sector (estimated)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Buildings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Streets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Railways</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Airports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Ports</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Natural resources and environment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Water</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Contents

<table>
<thead>
<tr>
<th>Action</th>
<th>References</th>
<th>Contents</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Coordinating implementation structures</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Process

- Natural parks
- Cultural/historical sites
- Climate
- Sea
- Rivers
- Fauna/Flora
- Raw material and mineral resources

### Legal and Regulatory Framework

- Legal framework for decentralization regarding incentives/funds/mechanisms for investments in social and economic sector
- County and municipal laws and regulations
- Special promotional framework
  - Small and micro-enterprises
  - Farm development
  - Agricultural development
  - Tourism
  - Industrial or other sectoral development
  - Investment attraction/place marketing
  - Other relevant categories
- Banking legislation
  - Legislation for the creation, financing and administration of associations and professional organizations
    - Civil society entities
    - Entrepreneurial associations
    - Cooperatives
    - Other relevant associations/organizations
- Register legislation

### Institutional/Political Information

- Administrative boundaries (represented in a map)
- Local and decentralized institutions dealing with social and economic development
- Detailed composition of municipal structures, including human and physical resources
- Detailed composition of decentralized county structures supporting local government
NGOs with ongoing or planned activities dealing with social and economic development

<table>
<thead>
<tr>
<th>Private sector organizations</th>
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</tr>
</thead>
<tbody>
<tr>
<td>• Chambers of Commerce</td>
<td></td>
</tr>
<tr>
<td>• Producers’ associations</td>
<td></td>
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<tr>
<td>• Cooperatives</td>
<td></td>
</tr>
<tr>
<td>• Banks</td>
<td></td>
</tr>
<tr>
<td>• Micro-finance institutions (MFIs)</td>
<td></td>
</tr>
<tr>
<td>• Schools, training institutions and universities</td>
<td></td>
</tr>
<tr>
<td>• Research institutions</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>NGOs and grassroots/community-based organizations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Education</td>
<td></td>
</tr>
<tr>
<td>• Gender issues</td>
<td></td>
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<tr>
<td>• Youth</td>
<td></td>
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<tr>
<td>• Environment</td>
<td></td>
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<tr>
<td>• Economic development</td>
<td></td>
</tr>
<tr>
<td>• Community development</td>
<td></td>
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<tr>
<td>• Poverty alleviation</td>
<td></td>
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<tr>
<td>• Planning</td>
<td></td>
</tr>
<tr>
<td>• Vulnerable groups (etc.)</td>
<td></td>
</tr>
<tr>
<td>• Internally displaced persons</td>
<td></td>
</tr>
<tr>
<td>• Returnees</td>
<td></td>
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<tr>
<td>• Refugees</td>
<td></td>
</tr>
<tr>
<td>• Immigrants</td>
<td></td>
</tr>
<tr>
<td>• Indigenous peoples</td>
<td></td>
</tr>
<tr>
<td>• Other relevant groups</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Employers’ and self-employed persons’ associations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Business development services</td>
<td></td>
</tr>
<tr>
<td>• Market access</td>
<td></td>
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</tbody>
</table>

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2 For further information regarding the different BDS categories, see the “SEEP Guide to Business Development Services and Resources” website: www.seepnetwork.org/bdsguide.html
<table>
<thead>
<tr>
<th>Action</th>
<th>References</th>
<th>Contents</th>
<th>Theory</th>
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</thead>
<tbody>
<tr>
<td>5. Coordinating implementation structures</td>
<td></td>
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</tr>
</tbody>
</table>

### Tools

- Infrastructure
- Policy/advocacy
- Input supply
- Training and technical assistance
- Technology and product development
- Finance/micro-finance
- Loans
- Insurance
- Other relevant matters
- Irrigation systems
- Mechanical pool
- Storage facilities
- Other relevant matters
- Religious organizations and entities

### Ongoing and Planned Development Initiatives

- International cooperation programmes with activities in the social and economic sectors
- National/regional/local investment plans impacting on the social and economic environment
- Preferential lines of credit available in the market
- Private initiatives related to key strategically economic sectors
- Decentralized investment programmes for social and economic infrastructures
- Other relevant matters
- Shipping
- Aluminium
- Tourism
- Electromechanics
- Other relevant sectors
<table>
<thead>
<tr>
<th>Intra-firm cooperation and synergies/industrial clusters</th>
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</thead>
<tbody>
<tr>
<td>▶ Between firms within/outside the territory</td>
</tr>
<tr>
<td>▶ Number of firms</td>
</tr>
<tr>
<td>▶ Number of employees</td>
</tr>
<tr>
<td>▶ Intra/infra-sectoral cooperation</td>
</tr>
<tr>
<td>▶ Importance of sector(s)</td>
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<td>▶ Development of sector(s)</td>
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</tbody>
</table>

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<thead>
<tr>
<th>Economically dynamic segments</th>
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<tbody>
<tr>
<td>▶ Expanding segment(s)</td>
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<td>▶ Declining segment(s)</td>
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<table>
<thead>
<tr>
<th>Economically dynamic areas</th>
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<tbody>
<tr>
<td>▶ Expanding area(s)</td>
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<td>▶ Declining area(s)</td>
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</table>

<table>
<thead>
<tr>
<th>Socially sensitive segments</th>
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<tbody>
<tr>
<td>▶ Nature of problem</td>
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<tr>
<td>▶ Origin of problem</td>
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</table>

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<thead>
<tr>
<th>Socially sensitive areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Nature of problem</td>
</tr>
<tr>
<td>▶ Origin of problem</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cooperation among private and public actors</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Institutions/firms</td>
</tr>
<tr>
<td>▶ Nature of cooperation</td>
</tr>
</tbody>
</table>
Tool 3.1.3 – Basic data collection and institutional mapping in preparation for the establishment of two LEDAs in Eastern Slavonia and Sisak County

Terms of reference

Background and objectives

Within the framework of the Rehabilitation and Social Development Programme for the war-torn areas in Croatia, three Local Economic Development Agencies (LEDAs) have been established in Sibenik-Knin, Eastern Slavonia and Sisak County.

Since Eastern Slavonia and Sisak County were new areas for the RSD Programme, data (including statistics) had to be collected and organized on the socio-economic situation, legal and policy framework (for example the new investment law for Vukovar county) and a map of administrative boundaries (reflecting the most war-affected municipalities) drawn up. For the most part, the organization of already available information was the immediate objective.

As LEDAs are associations in which organizations/institutions from the public and private sectors are represented, the first step during the pre-launch phase was the institutional mapping exercise. This set out to make an inventory of the most important territorial organizations, institutions, training programmes, agricultural support institutions, producers’ associations, NGOs, and other bodies.

On the basis of this information, key stakeholders in local economic development were identified and specific regional development sectors became more evident, as did ways of improving coordination between the different organizations/institutions/programmes.

The report was one of the documents with which the LEDA working groups operated in order to determine the LEDAs’ territorial management, main services, and other responsibilities.

Two studies were carried out: one in Eastern Slavonia (Osijek County and Vukovar County) and one in Sisak County. As in Sisak County, a regional development plan was elaborated by IMO with the gathering of basic data directly based on this plan.

Geographical coverage

- **Osijek County**: The focus of the study is on Baranja, the most war-affected region in the county, and on programmes/organizations/institutions covering the whole county, war-affected municipalities or targeting conflict-affected groups in particular.

- **Vukovar County**: The focus is on Vukovar town and EC target municipalities.

- **Sisak County**: The focus is on Sisak, Petrinja and the most war-affected municipalities.

Tasks

Under the supervision of the ILO Geneva, UNOPS and in collaboration with IMO-Zagreb, the consultant carried out the following tasks:

- To collect, through research on available resources (annual reports, legislation, internet and other documentation), basic data on the socio-economic situation, the legal and policy framework and administrative structures according to Annex I;

- To collect, through interviews/questionnaires, information on the organizations/institutions/programmes according to Annex II;

- To organize and analyse the information and present it in a “user-friendly” way (maps, tables, overviews, annexes, etc.).

Output

For each region, the results of the study were presented in a report containing descriptive sections illustrated with tables, maps and statistics. The completed questionnaires were attached to the report.

The final report was in English.

Duration

The consultancy studies took three weeks to complete (including submission of the report). The consultant was also available for improvements after submission of the report.

Dates

September 2000.

Institutional arrangements

ILO supervised the studies and briefed the consultants by telephone.

IMO advised on potential consultants (University of Osijek, Local Democracy Agency) and briefed the consultant(s) in detail on existing sources of information and contacts. UNOPS contracted the consultants and
covered the costs on an output basis (including transportation, communication, editing, etc.).

**ANNEX I**

**Basic data collection**

In the report the following issues were addressed. (It is important to use the most recent figures/information and to refer to the situation before the war)

**Socio-economic situation of the region**

- Number of inhabitants, refugees, returnees, IDPs in EU target municipalities and main towns (shown if possible on a map or in graphic form);
- Employment/unemployment figures and profiles (unemployed, economically active population, sectoral (un)employment, informal sector);
- Level of education;
- Average income per capita at county level;
- Gross product at county level;
- Main economic activities/sources of income (employed, self-employed, self-subsistence activities);
- Main industries (sector, state-owned/privatized, future prospects: planned reconstruction/investment or to be closed down);
- Micro-enterprises and SMEs/handicrafts (sectors, number, how many employees, capital, when started);
- Main markets/economic centres in the region, clusters;
- Economic growth potential and opportunities in the region (according to previsions of institutions, planned national/foreign, public/private investments, expanding sectors, demand/supply of goods and services).

**Legal and policy framework and administrative structures**

- Map(s) reflecting administrative boundaries (counties, towns, municipalities);
- Laws, regulations or economic development policies in the region that support the most war-affected areas, cross-border areas or any other specific areas (for example the recently adopted Vukovar investment law, industrial zones, productive/economic infrastructure).

**ANNEX II**

**Institutional mapping: Questionnaire**

Interviews based on the questionnaire below were conducted in the institutions/organizations. A more detailed questionnaire was sent out as well, but this was used depending on time constraints. Questions that were not relevant for a particular institution were left open.

- The public sector
  - Decentralized departments of the Ministry for SMEs
  - County departments for economy, agriculture and labour/social affairs
  - Town/municipal departments for economy, agriculture and labour/social affairs
  - Chambers of Commerce
  - Employment offices
  - Agricultural counselling services
  - Regional representatives of the National Consultant Network
  - Colleges and universities
- The private sector (profit or semi-private sector)
  - Chambers of Handicrafts
  - Cooperatives
  - Producers’ associations (sectoral, product-based or other)
  - Farmers’ associations
  - Technology centres
  - Business incubators
  - Banks
  - Research and training institutions
- The private sector (non-profit)
  - Centres for SMEs
  - Employers’ organizations
  - Trade unions/wareners’ organizations
  - Returnees’ associations
  - Village committees
  - Women’s associations
  - Minority associations
  - Church organizations (for example CARITAS)
  - International NGOs (for example ASB, Local Agency for Democracy)

Any other organization providing financial (credit, grants) or non-financial services for entrepreneurs (starting up a business) or for economic/agricultural/reconstruction activities.
<table>
<thead>
<tr>
<th>INSTITUTIONAL MAPPING: QUESTIONNAIRE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Name of organization</strong></td>
</tr>
<tr>
<td><strong>Contact details</strong></td>
</tr>
<tr>
<td><strong>Name and function of contact person</strong></td>
</tr>
<tr>
<td><strong>Address</strong></td>
</tr>
<tr>
<td><strong>Tel./fax/e-mail/website</strong></td>
</tr>
<tr>
<td><strong>Type of institution/legal status</strong></td>
</tr>
<tr>
<td>(public, private/for profit, semi-private, association/NGO, interest group, other)</td>
</tr>
<tr>
<td><strong>Created in (year)</strong></td>
</tr>
<tr>
<td><strong>Main objective/mission</strong></td>
</tr>
<tr>
<td>(Why was the organization created?)</td>
</tr>
<tr>
<td><strong>Main field(s) of activity</strong></td>
</tr>
<tr>
<td>(education, training, financial support services, non-financial support services, information, technology transfer, resource mobilization, conflict prevention/resolution, social welfare, awareness creation/lobbying, other)</td>
</tr>
<tr>
<td><strong>Target group/clients/members</strong></td>
</tr>
<tr>
<td>(For whom?)</td>
</tr>
<tr>
<td><strong>Geographical area of intervention</strong></td>
</tr>
<tr>
<td>(Where?)</td>
</tr>
<tr>
<td><strong>Main operational activities</strong></td>
</tr>
<tr>
<td>(ongoing)</td>
</tr>
<tr>
<td><strong>Total budget for operational activities</strong></td>
</tr>
<tr>
<td>(per year or if less than one year, per activity period)</td>
</tr>
<tr>
<td><strong>Planned activities</strong></td>
</tr>
<tr>
<td>(indicate short, medium or long term)</td>
</tr>
<tr>
<td><strong>Amount and source of funding for planned activities</strong></td>
</tr>
</tbody>
</table>
### Tool 3.1.4 – Where to find information for the territorial diagnosis

**Sources of in-country information**

<table>
<thead>
<tr>
<th>National government structures</th>
<th>Embassies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional or local authorities</td>
<td>Universities, research institutes</td>
</tr>
<tr>
<td>UN Coordinator for Humanitarian Assistance</td>
<td>Trade unions</td>
</tr>
<tr>
<td>Local staff of UNHCR, UNDP, UNICEF, OCHA, WFP, WHO</td>
<td>Affected people, representatives of the affected groups</td>
</tr>
<tr>
<td>Other international organizations</td>
<td>Producer associations</td>
</tr>
<tr>
<td>Community groups and organizations</td>
<td>Chambers of Commerce</td>
</tr>
<tr>
<td>Employers’ associations</td>
<td>Media</td>
</tr>
<tr>
<td>UNDAC (Disaster Assessment and Coordination Team)</td>
<td>Libraries</td>
</tr>
<tr>
<td>Bilateral agencies</td>
<td>Religious organizations</td>
</tr>
<tr>
<td>NGOs</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from ILO Rapid Needs Assessment in Crisis and Post-Crisis Situations
3.2 Sensitizing

3.2.1 What to consider?

Once all the socio-economic and institutional data has been collected and analysed (see Chapter 3.1), the awareness-raising and consensus-building phase begins.

Many of those involved may not have a technical knowledge of the dynamics between economic, social, political, environmental and demographic factors on their territory and need to be convinced of how they can work in a more synergistic way with different development partners.

At the same time, local actors, including institutional stakeholders, may not be used to participatory decision-making or taking the lead in suggesting different activities vis-à-vis national political structures. They may neither know how to go about formulating their ideas, nor have expertise on how to kick-start a local development process.

The major objective of this phase is therefore to broadly raise awareness and understanding of the issues that impact on the socio-economic development of the territory and to slowly instil a sense of ownership of the LED process.

During this phase, the institutional and private sector/civil society stakeholders should come to recognize:

- The usefulness of participatory mechanisms and partnership arrangements for achieving common development goals and social dialogue;
- That dialogue and communication is a fundamental pillar of the LED approach and a key to rebuilding trust in public institutions;
- The wider spillover benefits of entrepreneurship, productivity and innovation to the local community;
- The significance of environmental and social sustainability issues to the durability of economic development prospects (i.e. political, financial, environmental sustainability);
- The differences compared to other development approaches.

Institutions and prominent economic actors will readily be visible through their official representatives. Special attention should therefore be paid to the informal sector, meaning all those groups which, by definition, lack formal representation within the economic and political spheres. Vulnerable groups in particular should be targeted, meaning disenfranchised persons, returnees, ethnic minority groups, ex-combatants.
In doing so, the LED process:

- Increases the awareness of the informal sector of its importance/contribution to the local economic community;
- Gives informal sector actors an equal voice in decisions made about the future of their territory;
- Allows problems, needs and opinions to be expressed;
- Facilitates the transition from the informal to the formal sector.

It is also essential that local political and institutional stakeholders be kept fully aware of the different steps being taken to initialize an LED process and to avoid the conception that LED is external to the existing power structure and political/economic environment. It is crucial to explain clearly what steps have to be taken and why.

### What to do?

**Step 1: Decide who will lead the sensitization process**

The sensitization phase should begin with the identification of the people who will lead the consultations with local stakeholders. The team should ideally combine local and external technical experts. The size of the team will depend on the scope of operations, requirements and resources. Usually, involving a group of people is best because:

- It encourages participation and gets more people interested in the process;
- It increases the amount of time and energy participants are willing to put into it;
- It enhances the visibility and status of the LED process;
- It provides for a broad perspective on issues.

A country may also decide that members of an existing development steering committee should participate in the consultation exercises to take advantage of the opportunity this would give for feedback and communication.
### Step 2: Make initial presentations of the information gathered during the TD and IM to the identified local stakeholders

Initial consultations should be held with the regional and local authorities followed by meetings with other local stakeholders. During the meetings with the stakeholders, their interest can be stimulated by presenting and explaining the results of the territorial diagnosis and institutional mapping exercises and introducing the basic concepts that make up the LED approach.

- Use the results of the territorial diagnosis and institutional mapping (see TOOL 3.1.1 and TOOL 3.1.2);
- Organize meetings in the form of workshops, presentations, study tours, etc., with the local stakeholders;
- Adapt each presentation to the actors involved;
- Give practical examples: the presentations have to be interesting and stimulating. It is useful to give practical examples when explaining difficult concepts. For examples of successful LED experiences, use the case studies of Mozambique, Croatia and Central America (see BIBLIOGRAPHY).

All these activities help to stimulate the stakeholders’ involvement and commitment in the LED process.

To ensure that the output of the discussions can be coordinated into meaningful guidance, it is suggested that they centre around a number of key topics which could include the following:

- Coherence between policy and societal trends – demographic, cultural, economic developments;
- Pressing social, environmental, economic, political problems/issues affecting the territory;
- The extent to which issues have been addressed in the past;
- Process and participation – participatory decision-making processes: who participated? successful approaches: what has worked and what has not worked? what is acceptable?;
- Institutional capacities and needs;
- Legal frameworks;
- Monitoring progress;
- The role of external assistance partners and NGOs – what types of assistance and approaches have worked/have not worked?;
- The role of the private sector.
Step 3: Begin to identify priority areas for intervention and potential actors who can be responsible for leading the LED process and implementing LED activities.

See TOOL 3.2.1 for a more detailed explanation of the potential contribution of different local stakeholders in the LED process.

The objective of the meetings and presentations is NOT to find a remedy, but to help the different actors analyse their present situation and look for solutions to problems. It is therefore essential to think of the initial presentations as the first step towards generating interest and creating possibilities for further discussions.

You should continuously be on the lookout for opportunities to build awareness, educate and train personnel, test procedures, and involve all levels of management, all departments and the entire community in the planning process.
During the sensitizing phase, interaction among local stakeholders can be stimulated through meetings, presentations, events, etc. During meetings, the potential contribution of local actors to the economic development process will be analysed. There is no exhaustive list of institutions and organizations, nor of the role they can play. Nevertheless the following list mentions some common local/regional organizations and outlines some examples of how they might be involved in a common development effort.

**Farmers’ and other producers’ associations:**
In many countries in transition, farmers’ and other producers’ organizations play a central role in the local economy. This role is often reinforced by the relatively well-organized network of farmers’ cooperatives, veterinarians, agricultural schools and research institutions. Furthermore, agricultural products often constitute the biggest part of the local economy’s exports and offer a great potential for economic expansion. Farmers’ knowledge and experience may offer great opportunities for the innovation and growth of other sectors, such as the agro-alimentary industry (transformation of agricultural products) and the tertiary sector (agro-tourism).

**Trade unions:**
Trade unions can offer their organizational structure and provide important inputs on the needs of the workers. A joint strategy with employers’ representatives and government bodies can lead to innovative solutions in fields such as training, employment creation, cooperation, etc. Particularly useful may be their contacts with other union bodies at regional and/or national levels.

**Employers’ and self-employed persons’ associations:**
The active participation of employers and self-employed persons in a local forum is vital. Their entrepreneurial approach, together with their experience and knowledge concerning problems and opportunities in the local employment market, may offer important clues as to what key bottlenecks to development there are and how to overcome them.

**Local government:**
The local population elects local governments. In centralized states, these institutions may either not exist at all, or exist merely as decentralized structures of the national government (see below). In their role as political entities they are responsible for the following: identifying new development opportunities; defining economic development priorities; managing local resources; disseminating information, enabling coordination and cooperation at the horizontal as well as vertical levels (institutions at regional and national levels); lobbying for the needs of the territory; promoting initiatives aimed at attracting investments, as well as financial resources to the area; monitoring key development and other projects. They also represent a democratic expression of the political options open to the territory. Their participation in the local economic development process is therefore essential.

**Local banks**
Local financial institutions play a central role in the local economic development process. Their participation in a local forum is crucial, as their knowledge might reveal important problems and views concerning the provision of finance to the local entrepreneurs. Moreover, financial institutions may be involved in a future micro-credit scheme in cooperation with a guarantee fund.

**Grassroots community organizations and private development organizations:**
These organizations are very effective in their ability to voice the needs of the marginalized population (women, returnees, minorities, others) giving them the chance to express more powerfully their view of the conditions in which economic development can affect the general interests of the community.
Decentralized representatives of the central government:
While the local population elects local government, decentralized representatives of the State are the voice of the local options of national politics in the territory. Particular attention should be given to their involvement in the LED process, as they possess effective ability to mobilize resources. Furthermore decentralized representatives of the central government may play a key role in the lobbying process at the central government level and act as a useful networking actor in the territory.

Chambers of Commerce:
The provision of economic services and the improvement of the local economic environment are in most cases the main goals of local Chambers of Commerce. Their contribution to the local economic development strategy is particularly important because they generally have a deep insight concerning major trends and problems in the local economy. Another contribution would be their provision of statistical data concerning the local economy (see territorial diagnosis).

Schools, training institutions and universities:
Most of the regions in transitional economies can count on a number of educational institutions (public and/or private). An active participation of these institutions in a local partnership is highly desirable, insofar as they are able to play an important part in the conception and implementation of a local or regional training and education programme after careful examination and discussion of the local needs in terms of skills and capacities.

Religious representatives:
Religious institutions play an important social and economic role within many local communities. Their role becomes even more essential in the absence of other public or governmental institutions. The value of the participation of religious representatives in a future local forum lies in its contribution to a better knowledge of social needs, mostly with regard to the socially and economically excluded categories of the local society. Religious institutions may represent the interests of these groups, as they often lack their own organizational structure.

Environmental organizations:
NGOs and other local organizations dealing with environmental issues are important participants and actors in a local forum for economic development. Since economic development usually stimulates physical development (building of infrastructure, deforestation, use of energy, etc.), the early consideration of environmental issues helps to reduce the occurrence of unsustainable short-term solutions.

Media:
Although the media usually has a relatively minor stake in the local economy, its participation in a local forum (either active or with an observer status) carries important advantages in terms of disseminating information concerning local economic development activities. This function is useful in stimulating discussion and participation among local actors. On the other hand, the media also contributes to the transparency of decisions and activities carried out by a future forum for local economic development, thus guaranteeing its sustainability.

Important!
The above list of actors is neither binding nor exhaustive. It should therefore be extended where possible and if necessary. It is however important that those involved come from both the private and public sectors, and that there is a balance between their interests and influence in the development process. Such a balance might be guaranteed through a numerous presence of stakeholders on the one hand, and the transparency of their interaction on the other.
3. Promoting a local/regional forum
3.3 Promoting a local/regional forum

3.3.1 What to consider?

Actors who involve themselves early in discussions on recovery strategies have the opportunity to influence the institutional set-up in the post-crisis period. However, the noticeable absence of official discussion forums at local level in developing countries becomes even more apparent in territories where lines of communication have broken down due to a crisis.

Representatives of the public sector, civil society and the local business community may have few opportunities to come together to discuss issues of concern, to design projects and/or to identify appropriate implementation structures. In many cases, there may be no history of public/private sector cooperation and the private sector/civil society is unaccustomed to presenting articulated calls for action to local policy-makers.

Information does not flow easily, and there may be latent conflicts between the various actors due to the difficult conditions. As a result, there are often very poor perceptions about what kind of joint actions are feasible. The lack of communication can be deeply entrenched within political, social or cultural business practices.

The LED process attempts to provide all actors with a voice, irrespective of their representational status within the existing power structure, and to create a common vision among the different agendas. An organized and coordinated effort is necessary to restore a degree of normality and stability to territories having experienced a crisis. This transformation begins with a vehicle through which local actors can articulate their needs to a wider audience. Two of the major objectives of the local/regional forum are therefore to continue the process of consensus building at the local level and to act as an arena in which common interests can be identified and differences mediated.

Through the local/regional forum, an opportunity is provided to increase the understanding of how different interventions impact positively or negatively on the “victims” of the crisis in the long term, and the capacities of vulnerable groups to respond by themselves to meeting their needs before the international community arrives.

The role of a local/regional forum for all interest groups, both public and private, is to act as a catalytic hub of information and resource sharing, enabling stakeholders to:

- Share their perspectives on local economic development priorities;
- Increase understanding of particular areas of public policy or bottlenecks that impact on the territory;
Identify workable solutions to these issues through joint planning and cooperative ventures;

- Identify local resources and mobilize them more effectively;
- Suggest synergies to the ministries of enterprise, labour, culture, communication, finance and trade in support of the territory;
- Formulate local economic development strategies that can draw together all the different economic, social, political, trade, educational and industrial elements;
- Build consensus around the LED strategy in coordination with the activities of public institutions at the central, regional and local level;
- Coordinate, monitor and evaluate the implementation of the local economic development strategy.

**The LED process**

**What to do?**

**Step 1:** Make an assessment as to whether a local/regional forum is desired by stakeholders

Make an assessment of the general feeling of local stakeholders towards whether such a mechanism is actually wanted or relevant at the particular stage of post-crisis recovery.

This should come about through:

- Consultations with institutional and private sector stakeholders on the level of administration that the forum is intended to cover;
- Consultations with national and international development partners.

Consultations should be geared towards bringing out lessons learned from existing development processes, identifying areas of best practice and common constraints/gaps and encouraging participation.
Step 2: **Identify a leadership figure who can carry the process of creating the forum forward**

This means identifying a “consensus” figure or a core group of key local actors who can lead the consultations and create a momentum to take the creation of the forum forward.

The quality of leadership at this stage is crucial, as success in establishing a local/regional forum will depend on the ability to command and keep the respect of the different groups, not all of whom share the same level of power and interests. The person/persons chosen should be known for their fairness, transparency and ability to communicate/negotiate in high-profile settings.

**Step 3: ** **Begin to identify potential members of the forum**

Begin to identify who could be active members of the forum and who could serve in an advisory capacity. In most cases, one or two people will be doing the bulk of the work. At the very least, you should obtain input from all functional areas:

- Local government (labour, engineering and maintenance, safety, health and environmental affairs, public information officers, community relations, legal, finance and purchasing);
- International and national development agencies;
- NGOs, private foundations, community-based organizations;
- Local economic and trade bodies (Chambers of Commerce, professional associations);
- Village elders;
- Representatives of vulnerable groups.

**Step 4:** **Make a proposal of the geographical area that the forum will cover, and identify priorities in the economic and social sectors, as well as other relevant aspects of intervention**

**Step 5:** **Make a budget proposal for activities to take place under the auspices of the forum for the initial investments to be made in the framework of the quick-impact measures**

This will include operational costs and capital for the projects to be promoted.
Step 6  Promote local forums on specific issues

It is likely that different sub-groups of local actors will emerge, depending on the issue. For example, a forum may evolve dealing specifically with the issue of business development services (BDS), and this will act as a representative body for lobbying on such issues with local development partners. Other sub-groups may focus more on how to stimulate investment or increase networking. Different actors could be members of several sub-groups, depending on how far their interests are affected. However, it is critical that dialogue is ongoing and, as far as possible, helps to create synergies and facilitate the process of defining priorities for the LED strategy.

At the same time, it is vital to keep discussions going between the broader constituency through the local/regional forum, which should meet periodically to discuss which issues are becoming either more or less relevant, to monitor the consensus-building process and to continue mapping the LED strategy.

It is essential to explain clearly which steps have to be taken and why, and to keep the political and local authorities informed on any kind of initiative taken by the LED experts. Every actor (formal or informal) should be involved and has to feel the value of his or her own participation in the development process. This is particularly important in order to make sure the local stakeholders want to retain the ownership of the LED process.

See TOOL 3.2.1 for a more detailed explanation of the potential contribution of different local stakeholders to the LED process.

Who should do it?

Initial presentations are fundamental for a successful LED approach. At this stage local stakeholders might ask questions about basic concepts and methods. Presentations should therefore be held by an LED expert with a wide experience in the various fields of local economic development. Also, the capacity to involve and to motivate should be essential qualities of the person who is doing the presenting.
5. Coordinating implementation structures

4. Designing the LED strategy

3. Promoting a local/regional forum

2. Sensitizing

1. Territorial diagnosis

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<th>References</th>
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3.4 Designing the LED strategy

3.4.1 What to consider?

The LED strategy is one of the most important concrete outcomes of the consensus-building process among the local stakeholders. The LED strategy document assumes a central role in the local development process, since it will act as the main reference document upon which interventions are based and be a milestone against which progress is measured.

The LED strategy should include the following elements:

- **An overview of the local socio-economic environment**: This overview should be a synopsis of the findings of the territorial diagnosis and institutional mapping exercises and the consultations held so far. It will reveal the strengths, weaknesses, opportunities and threats (SWOT) for the local economy. It will be the justification and benchmark for all actions that follow;

- **A LED vision statement by the local forum**: The LED vision is an ideal snapshot of the local economy. The local stakeholders should see it as a reference point as to what kind of development path should be chosen for the territory. The vision helps to maintain coherency in the development process and should be taken into account each time new development policies and projects are designed and implemented;

- **Concrete LED objectives**: The forum should build consensus around a set of concrete medium- to long-range LED activities to achieve the LED vision. The LED objectives act as development goals and are usually bound to specific deadlines;

- **LED policies, projects and products**: In order to achieve the above objectives, the forum proposes the corresponding policies in the third part of the LED strategy paper. These policies will then be realized through specific projects and products (see Section IV);

- **LED implementation structures**: The LED strategy paper should foresee which implementation structures are responsible for each of the agreed LED interventions. The assignment of specific responsibilities is of great importance for two reasons: in the first place, it gives each local stakeholder a defined position within the overall LED strategy, thereby instilling development ownership; secondly, it guarantees the effectiveness of the policies, because each stakeholder will be carrying out those parts of the policy that correspond best to his or her knowledge and capacities;
Indicators for monitoring and evaluation: The evolution of the development process and its policies will depend to a large extent on the capacity of the local stakeholders to learn from their positive and negative experiences. Self-monitoring and evaluation are useful tools in this learning process. Indicators help to benchmark the initial situation and ongoing activities in order to achieve innovation and progress through learning-by-doing, avoiding the repetition of mistakes and making best practices more accessible to everybody.

In the absence of the above phases, the LED strategy would be no more than a concept on paper.

The LED process

What to do?

Step 1: Identify challenges and prioritize activities

This should begin with an analysis of the results of the territorial analysis and institutional mapping exercises, of the discussions held during subsequent phases and of the SWOT analysis (use TOOL 3.4.1), which should cover:

Identification of strengths and weaknesses

It is important to remember that strengths and weaknesses are mainly the consequence of the territory’s socio-economic profile analysed during the territorial diagnosis. Eventually, this will lead to the identification of the main bottlenecks in local/regional development.

Identification of opportunities

Opportunities often arise as a direct or indirect consequence of the problems and weaknesses. Therefore the identification of opportunities depends on the creativity and innovativeness of the local milieu. Only through frequent discussions, exchanges of information and knowledge on an informal basis can such a milieu be fostered. The forum guarantees the main conditions for such a milieu and is therefore to be considered at the heart of the LED process.
Identification of threats

Future threats to the local economy should be identified by taking into account a wide range of economic, political and social factors that might influence the functioning of the local economy (i.e. political instability, technological innovations, inflation, etc.). This exercise is without doubt the most difficult one in the SWOT analysis, as it deals with uncertainties and unpredictable aspects. It requires a very broad knowledge of past and present events in the global economy, and of the degree to which the local economy is embedded in these events.

Identification of the competitive advantages of the local economy

This exercise also has to be carried out within local forum meetings and should be based on the findings of the SWOT analysis. Its aim is in fact to ascertain possible policies and actions that might increase the strengths and opportunities of a local economy, and prevent further weaknesses and threats that might overcome the local economy from occurring. Consequently the forum will have to discuss to what extent the various factors are likely to influence the competitive advantage of the locality, and how they might be changed or improved according to the local needs.

See TOOL 2.1.1 for an analysis of difficulties and possible improvements.

Step 2: Write the plan

Step 3: Establish a work schedule and planning deadlines

Establish timelines for writing the LED strategy. These can be modified as priorities become more clearly defined. Assign each member of the group a section to write. Determine the most appropriate format for each section. Provide enough time to complete the work, but not so much as to allow assignments to linger on. Establish a schedule for first draft, review, second draft, final draft, printing, distribution.

See TOOL 3.4.2 for an outline of a LED work plan.

Step 4: Develop an initial budget

For such things as research, printing, seminars, consulting services and other expenses that may be necessary during the writing process.

Step 5: Establish key areas for intervention

Based on the outcomes of the SWOT analysis, the local forum members should begin to generate a vision for their local economy. Here it will be necessary to undertake frequent negotiations with the relevant local government authorities to ensure their commitment, and to promote an atmosphere of
cooperation by “authorizing” which steps the key stakeholders are able to take
to develop an LED strategy.

The group responsible for writing the LED strategy should be guided by members
of the local forum and external LED specialists. It is necessary to establish a clear
line of authority between group members and the group leader, though this
should not be so rigid as to prevent the free flow of ideas.

The SWOT analysis helps to determine specific goals and milestones. Determine
how you will address the problem areas and resource shortfalls that were
identified. Make a list of tasks to be performed, by whom and when.

A mix of specific policies has to be designed in order to achieve the LED vision.
All these policies will then be implemented through a range of projects making
use of existing or new products, whether these relate to training or finance,
infrastructure or business development services. During this stage, it will be
necessary to reach consensus on the budget for each of the policies.

Interventions in the short, medium and long terms should be based on
maximizing opportunities and strengthening weak areas. The interventions
should be agreed upon from different levels of abstraction and according to the
LED vision. First it will be necessary to view opportunities and problems from a
‘helicopter’ point of view and to make trade-offs between different activities
according to sectoral/policy priorities. It will then be possible to narrow down
the scope of the interventions and propose the main axes towards problem
solving, after which it will be possible to distinguish a hierarchy of objectives
and interventions, varying from the general level for the end-goals (e.g.
decrease of unemployment) to more specific objectives (e.g. support to small
businesses). In this regard the construction of a hierarchy diagram might be
illustrative.

Any policy within the LED strategy should possess:

- A well-defined set of quantitative and qualitative objectives;
- A series of corresponding indicators.

There are obvious difficulties when trying to estimate progress. Easy indicators
can be created in terms of how far objectives have actually been met (i.e. how
many enterprises do we aim to create during the next 12 months). However, it is
much more difficult to quantify the ongoing or final results of a policy (i.e. how
to measure increased social dialogue or decreased conflict, etc.). Nevertheless,
discussion on how to measure the different policy outcomes and how to monitor
them will make an important contribution to the decision-making and
consensus-building processes.
A matrix can be helpful in improving the understanding of a structured LED strategy, as well as the coherence of its policies. Furthermore, it will give a quick overview to the public, who has to be constantly informed about the progress made by the LED forum.

### How to structure a LED strategy

- **SWOT analysis**
- **Vision**
- **Objective 1** ➔ **Policy 1.1** ➔ **Project 1.1** ➔ **Work plan 1.1**
  - **Policy 1.2** ➔ **Project 2.1** ➔ **Work plan 2.1**
  - ... ➔ ... ➔ ...
- **Objective 2** ➔ **Policy 2.1** ➔ ... ➔ ...

### Step 6: Discuss the outline of the LED strategy with all relevant development partners and actors

Meet periodically with local government agencies, development partners, and community organizations to keep them informed of progress in the elaboration of the LED strategy. While their official approval may not be required, they will be likely to have valuable insights and information to offer.

### Step 7: Review and revise

Distribute the first draft to local forum members for review. Revise as needed.

For a second review, have participants discuss their responsibilities and how they would implement activities. Based on these discussions, identify areas where there is confusion and overlapping, and modify the LED strategy accordingly.

### Step 8: Seek final approval

Arrange a briefing for members of the local/regional forum and obtain written approval.
Step 9: Distribute the final plan to:

- Local government senior managers;
- Relevant national government ministries and bodies;
- Donors and NGOs;
- Chambers of Commerce and professional associations;
- Community leaders.

Step 10: Implementation

Implementation means more than simply getting the plan moving. It means acting on recommendations made during the territorial diagnosis and institutional mapping exercises and SWOT analysis, integrating the plan into the daily operations of local institutions and development partners, training enterprises, employees and community stakeholders and evaluating the plan.

Step 11: Monitoring and evaluation

Conduct a formal review of the LED strategy at least once a year. Among the issues to be considered are:

- How can you involve all development partners/actor/levels of government in evaluating and updating the strategy?
- Are the problem areas and resource shortfalls identified in the TD and IM exercises being sufficiently addressed?
- Does the LED strategy reflect lessons learned?
- Do members of the local forum understand their respective responsibilities? Have members been trained?
- Does the plan continue to reflect developments in the social/economic landscape of the locality? Does it reflect new actors or processes?
- Are steps being taken to incorporate the local economic development approach into other processes?

In addition to a yearly review, the LED strategy can be modified periodically:

- After each major policy intervention/training exercise;
- When personnel or their responsibilities change;
- When policies or procedures change.

Remember to brief all stakeholders on changes to the LED strategy.
3.4.3 Who should do it?

Once consensus has been reached on the need to formulate a LED strategy, this should be a priority task in the recovery process. In institutionally rich environments, a government department or agency may take responsibility and the local/regional forum will assume an advisory/coordination function. In other cases, it may be the responsibility of the forum itself to start mapping the strategy in collaboration with all the stakeholders concerned. In this case, it may be useful to institutionalize the forum as its enlarged field of action may require a legal personality (see Chapter 3.5).
## Toolkit 3.4 – Designing the LED strategy

### Tool 3.4.1 – Elements of a SWOT analysis

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<td>Local traditions</td>
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<td>Competitive local suppliers</td>
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<td>Specialized knowledge</td>
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<td>Availability of local natural resources</td>
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<td>Specialized skills within the local work force</td>
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<td>Existence of exclusive market niches</td>
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<td>Linkages between foreign and local enterprises</td>
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<td>Linkages between different sectors (i.e. agriculture, crafts, tourism, etc.)</td>
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<td>Political system</td>
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**Specific questions for each action (see specific tools in Section IV)**
## Tool 3.4.2 – Outline of a work plan

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<th>CONTRIBUTION OF ACTORS</th>
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5. Coordinating implementation structures
3.5 Coordinating/creating implementation structures

3.5.1 What to consider?

Crisis-affected areas are not lacking in motivated local actors. What they do often experience, however, is an absence of institutional mechanisms for coordination of recovery efforts within a coherent framework. Local stakeholders and national/international structures will often revert to individualistic behaviour as they follow different sectoral interests.

Regular meetings of the forum help to keep discussions going around the elaboration of an LED strategy and encourage transparency between the different development partners.

At some point in time, it may be decided that it is appropriate to institutionalize the forum, and past LED experiences have shown that this can be a possible answer to the weaknesses of the local institutional environment. In countries where the decision has been made to create a structure, this is often called a LEDA (Local Economic Development Agency). Creation of a LEDA has often been justified by the following advantages:

- The LEDA might assume responsibility for coordinating some parts of the relief and development strategy;
- The institutionalization of the forum gives it a legal personality that enables it to conclude contracts with other entities, subcontract development activities and make use of a defined internal structure (board, assembly, etc.);
- The LEDA can take over some parts of the implementation of the LED strategy in areas with no pre-existing implementation structure;
- The legal personality and broad membership give it a mandate to lobby at local, national and international levels.

It should be remembered, however, that a key objective of the LED process is to use, promote and strengthen existing local implementation structures, and to work with and through them. For example, there may already be a policy coordination committee located somewhere within local government which could be approached to oversee the implementation of certain activities. This may also be lobbied to extend its membership to a broader range of actors.

Similarly, when the LED strategy foresees business development services, territorial marketing or even financial services, the most appropriate and most qualified local institutions should assume responsibility for these activities. These institutions might be Chambers of Commerce, local universities, NGOs or other research or training institutions. It is in fact questionable whether the internal structure of the local forum or LEDA is the most suitable one for activities responding to market-based decisions.
In some cases, there is no option but to institutionalize the local forum or to facilitate the creation of other structures for the achievement of LED targets. This depends on the availability of financial resources (see Chapter 4.6). In the area of LED interventions, if the forum considers financing to be one of the major policy objectives and no financial institution is ready or able to carry out the LED policy locally, then the creation of a micro-finance institution (MFI) in combination with a guarantee fund might be a suitable option. Another example might be the creation of a training institution if there are no vocational education facilities, universities or other adequate institutions available in the local area.

In El Salvador the LEDAs have turned their financing operations over to their member local financial institutions, which ordinarily handle other financial flows too. In Nicaragua, the Nueva Segovia agency has formed a company to manage the department’s roads that provides services to all its townships and to the private sector as well. In Mozambique a provincial marketing organization is being designed. In such cases the agency takes care of planning and promotion, and, in the start-up phase, holds a majority stake in the new company alongside other public and private shareholders. As the company grows, the agency recovers its investment and reduces its stake. The territory thus develops a richer fabric of qualified, specialized services, and the agency retains its role of coordination and harmonization.

In contrast to other development actors, a LEDA is an implementation structure that does not have a specialized character, but rather works towards general and integrated development targets. In general, a LEDA assumes the following activities:

- Consensus building;
- Conflict prevention;
- Decision-making regarding the design of the LED strategy;
- Assigning of implementing tasks to different implementing structures;
- Coordination of implementation institutions;
- Lobbying at the local, national and international level;
- Networking.

In the end, there are no hard and fast rules. If local stakeholders do decide to create a LEDA, then in the interim, management authority might need to be delegated to “steering committees” (representing the different stakeholders, including central governments and funding agencies), independent trust funds or private agencies.

It may even be that the local stakeholders decide not (yet) to institutionalize the forum because some of the local actors are too powerful or, where some are under-represented or absent, to do so would “legitimate” an unbalanced situation. It might not be necessary to institutionalize a forum at all. If all the institutions needed to carry out the LED strategy exist in the territory, the forum...
can act as a facilitator. This would mean bringing local stakeholders together, creating a network between different institutions and coordinating the economic development activities in the territory. In other cases, local stakeholders, donors and national and local politicians may be in favour of and provide support for the creation of a LEDA, but progress in institutionalizing a coordination structure takes a long time and is influenced, to a large degree, by the conditions prevailing in countries.

Lastly, the creation of LEDAs, business development centres, incubators, etc. is in fact often misused as a concrete indication of the donor’s commitment to economic development. If, however, such “milestones” are created just for their own sake, then they soon lack sustainability and are destined to fail. The bottom-up principle of LED (which foresees an analysis of the real demand for certain services and institutions among local stakeholders) guarantees the true usefulness and sustainability of the implementing institutions.

The LED process

3.5.2 What to do?

Step 1: Decide on the future of the forum

The members of the local forum must decide whether the crisis-affected area has sufficient implementation structures to effectively carry out the LED activities foreseen in the LED strategy.

If the institutional environment is relatively rich, the forum should remain an informal structure. Its main role will continue to be providing support to consensus building and coordination of LED activities.

See TOOL 3.5.1 for an overview of functions and services of local forums.

If the decision is made to create a LEDA or other implementation structure, the forum will have to decide what measures are needed to proceed. Again, this will depend on local circumstances and a careful analysis of the existing structures.

Step 2: Analysis of priorities of the locality

The process of creating sustainable systems for coordination should begin with a detailed examination of the priorities and problems affecting the locality, covering social, economic, educational, industrial, technical, commercial and legal areas. This should be followed by an appraisal and mapping of all available local, national and international resources.
Questions need to be asked, such as:

- What are the most urgent obstacles and gaps?
- Who are the key partners and agencies?
- What kind of implementation structure is required?
- Which comparable institutions already exist in the region?
- Why are they not able to carry out the policies foreseen in the LED strategy?
- What tasks could a new institution do better?
- What policies, projects and products would it implement?
- How would a new institution be financed/could it become self-sustainable?

**Step 3: Institutionalizing the forum**

In most cases, the institutionalized form of the forum is called “Local Economic Development Agency” (LEDA). Although LEDAs aren’t the only form of institutionalization of a forum, evidence shows that they are a very suitable platform for local actors and a formidable tool for local action.

See **TOOL 3.5.2** for a general overview of promoting a local/regional forum and its institutionalization.

If the local stakeholders come to the decision to institutionalize the forum, this step has to be taken very carefully as it contributes towards the creation of solid foundations for the LED process. It is absolutely necessary that the institutionalized forum reflects the socio-economic realities of the territory and that the majority of the local stakeholders support it.

**Pre-launch phase**

*Consultations and meetings*: To secure the support of all stakeholders on the organization and functions of a Local Economic Development Agency, rights and responsibilities.

*Investigation and research*: To explore financial and credit mechanisms and define financing possibilities for the LEDA, as well as arrange the support infrastructure (find the premises or building, acquire the necessary office equipment and the secretarial support).

*Identify membership*: Because of the integral relationship that a local coordination structure has with the development of policy, there will be debate about who should be included and the nature of their relationship to the State.
Some of the most frequent questions include:

- Should the coordination structure be located within the government structure and be semi-autonomous, or should it be an independent profit/non-profit non-governmental organization?
- If the coordination structure is located within government, which particular ministry should be responsible for it – Education? Industry? Information? Trade and Commerce?
- If the structure chosen is independent, should national coordination mechanisms be totally inclusive or have more limited membership?

Identify support committees: Specific commissions in charge of specific tasks, until the LEDA is operational.

See TOOL 3.5.3 for instructions for LEDA Commissions.

Establish an organizational flow chart of the LEDA (in order to determine the different decision-making bodies of the LEDA, their functions and responsibilities). Furthermore, it is necessary to define the decision-making levels, and administrative and other experts, as well as their participation and effective coordination.

See TOOL 3.5.4 for an example of an organizational structure of a LEDA: The case of Manica Province, Mozambique.

Conceive the legal framework (Municipal Law, Urban and Rural Development Law and so on). A detailed study is required to find out the “rules of the game”, in order to facilitate the participation of local, regional, and central government institutions and others in the LEDA. (Here it will be helpful to look at the data collected previously (Section II)).

Initiate procedures to obtain a legal personality: In order to avoid bureaucratic formalities that can restrain the process of establishing the LEDA, it is advisable to begin with this as early as possible.

Elect a transitional governing body: From the support committees (to lay the legal foundation of the LEDA and, among other things, to discuss and adapt the statutes and rules).

Prepare the statutes and rules of operation: The preliminary draft, to be analysed and discussed by the provisional governing body, assembly and subsequently by the official governing body.

Call a General Assembly of the LEDA members: The General Assembly will be the highest authority of the LEDA. In this phase, its principal function will be the revision and discussion of the statutes and rules and elaboration of the constitution.
Internal structuring and start-up phase

As soon as the LEDA is established, its internal organization should be adjusted to its final form, including the logistic aspects. At the same time, the LEDA should identify its initial projects. In this phase, it must carry out the following activities:

- Approve the internal statutes and rules with the Assembly;
- Negotiate, approve and sign a technical and financial support contract between the Governing Council of the LEDA and the project, to define mutual obligations when the LEDA becomes operational;
- Strengthen the LEDA through training workshops and seminars (Section IV);
- Select and contract a technical team of the LEDA, which will review and give coherence to its policies and activities, with the aim of achieving its objectives;
- Train the technical team of the LEDA and other specialists from the public and private member institutions and organizations of the Assembly;
- Prepare and approve the operational plan for the first few months, as well as an annual operational plan;
- Organize the mechanisms to select project ideas, based on a participatory system that uses the criteria and priorities established by the Assembly;
- Establish and sign collaboration agreements with public and private institutions (i.e. with guarantee funds and/or financial institutions).

Consolidation phase

- Process of self-evaluation (allows the review of its strategic choices, criteria and priorities, and at the same time verifies the efficiency of its operational structure and mechanisms);
- Preparation and approval of a master plan (able to guide the actions and institutional efforts with the aim of achieving the strategic vision and to guarantee the sustainability of the process);
- Promotion and management of initiatives with regard to the national authorities and/or sources of international cooperation;
- Establishing agreements with different sources of financing, in order to mobilize credit resources to support productive investment (see Section IV);
- Diversification of its investment promotion portfolio with projects that serve a huge number of beneficiaries, and allow them to appreciate the direct benefits of the LEDA (Section IV);
- Diversification of sources of financing, in order to guarantee their independence and economic sustainability (Section IV).
See Tool 3.5.5 and Tool 3.5.6 for examples of how to promote a LEDA.

As opposed to the local forum, the LEDA has its own legal structure and will therefore be able to engage in contracts, and have rights and obligations towards the law. These features widen the LEDA’s field of action. Nevertheless, the main elements and principles of its activities are very similar to those of the forum.

**Step 4: Running the forum**

This phase involves implementing the main activities of the forum or its institutionalized agency (i.e. LEDA). Implementation may include, inter alia, supporting initiatives to improve the policy and legal framework, lobbying for the inclusion of local priorities in regional and national policies, promoting the participation of excluded groups in the decision-making and planning process of LED and in economic activities. More specifically, the activities of the forum will be directed towards:

- Mobilizing all actors, including political ones, around the LED strategy;
- Intervening in the general development conditions (design of regional development schemes, assistance to local groups, etc.);
- Valorizing and creating a network of local resources;
- Supporting initiatives to improve the legal framework (eliminating complicated administrative procedures for entrepreneurs who are starting up a business);
- Lobbying at national and/or international level for particular investments;
- Lobbying for the inclusion of local priorities in regional or national policies;
- Promoting local financing mechanisms;
- Establishing partnerships between training and teaching institutions and enterprises;
- Promoting the participation of excluded groups in the decision-making and planning process of LED, as well as in economic activities;
- Ensuring the elaboration of sector-related studies;
- Advising local and regional authorities;
- Ensuring the balance between economic development and the environment;
- Promoting regional support cooperation with national and international financial and developmental institutions, as well as other specialized networks and bodies;
- Supporting and carrying out economic and social surveys and observation (keeping statistics, surveying branches, prospective studies, etc.).
The main purpose of a forum is to foster the economic development of the territory in which it operates, capitalizing on endogenous resources and concentrating on support for those groups with the most difficult access to regular economic and financial circuits.

This purpose comprises a number of objectives and is pursued by providing services to both private and public sectors.

The specific objectives are:

– To foster integration and coordination of local institutions and associations around a shared vision of local economic development;
– To promote local small and medium-sized businesses;
– To plan and bring into being a system of services to public and private organizations that can support local economic development.

To identify the lines of production that embody the area’s endogenous potential, first of all forums initiate negotiation between local institutions, the private sector and civil society and assist planning bodies. This results in the production of short and medium-term local economic development plans comprising the indispensable components of local development: entrepreneurial activities, infrastructure, financial systems and research and development structures, training activities. They also include specific projects to elicit and activate these components.

Special attention is devoted to identifying the most vulnerable social groups, the extremely poor, and to identifying the poverty traps specific to the area. To foster the inclusion of the most disadvantaged areas and segments of society in the economic development process, forums devise special economic animation plans intended to create an entrepreneurial culture and expected to produce results in the medium term and beyond.

They also introduce special training programmes for businesses, adapted to the particular conditions of the trainees, and provide technical assistance, accompaniment and tutoring for new and potential entrepreneurs.

In keeping with the plans, they support small and medium-sized enterprises, especially those lacking know-how and capital of their own. The spread of these businesses is the most secure source of jobs where neither government employment nor major industrial plants are an alternative; and they are the most dynamic element in grassroots exploitation of local potential.

In addition to business services, forums also provide services to local administrations, presenting themselves as tools for the implementation of projects and programmes that would otherwise lack resources and technical or operational capability. They also offer their support in conceiving and designing local development plans and organize the resources for realizing them.

If they perform this task well, they can quickly turn themselves into a monitoring post for the local economy, a sensor of needs and opportunities, a crucial link between the developmental needs arising from economic agents and the possible responses from the governmental institutions.

Functions and services

To achieve these objectives, forums elaborate a series of functions within three strategic areas: improving the surrounding social and economic environment, economic animation, and business support.

These functions are not always performed directly by the forum’s own operational structure. Where the conditions are appropriate, i.e. where public and private bodies with the technical capabilities and resources are to be found, a variably extensive range of them may be performed by organizations that are its members or are under contract. It thus avoids overloading its own small technical staff by transforming itself into a second-level centre for coordination and supervision.

Improving the socio-economic environment

Forums do not claim to manage the whole economy, so they do not concern themselves with all of the factors affecting development. They have their own specific role to play. As a major forum for discussion and encounter among local actors, they can facilitate the coordination of projects and foster a socio-economic and institutional environment conducive to development.
One of the most important contributions that forums have been able to make has been to coordinate the activities of international cooperation agencies within their territories. Notoriously, these bodies team up only reluctantly, owing to the perceived need for national visibility, to differences in planning and implementing procedures, to real or imagined differences of approach.

As independent local structures, they can enter into separate agreements with each organization that comply with the procedures and aims specific to the programme of each. This function of rationalizing the international development efforts in a given area and enhancing the efficacy and impact of each project is invaluable.

Planning also has major importance, not only in order to enhance local development but also, indirectly, to strengthen a forum’s own territorial structure. By providing project-design and intermediary services at a charge to potential investors, they can improve their own economic and operational situation. Forums in Central America, for instance, played a key role in designing local economic reconstruction plans in the aftermath of Hurricane Mitch, while those in Bulgaria offered planning services for the European Union’s PHARE and TACIS programmes.

**Economic development**

In the territories where forums operate, many of their potential “clients” among the more disadvantaged social strata face insurmountable barriers in starting up a business of their own, however modest. This is a kind of activity far outside their range of experience and existing possibilities. Thus, besides serving small operators already in business, an essential task is precisely eliciting the demand for its services, expanding the numbers of potential entrepreneurs, promoting a culture of enterprise.

This means calling into being a well-defined, structured complex of activities, chances, opportunities that constitute an overall strategy of local “economic animation”. These services are of two kinds: information and practical stimulus to economic activity. They are at the same time the precondition and a necessary support to the development of local entrepreneurship. Information services involve the gathering, processing and dissemination of data useful to men and women who are thinking of starting up an economic activity or expanding an existing business. The information base covers markets, techniques and technologies, the area’s resources and potential, laws and regulations, and consumption. This informational activity goes beyond its obvious application to all its activities and produces benefits for the area as a whole. Lack of information is in fact one of the key problems of underdevelopment; in peripheral areas even such elementary facts as the number of inhabitants may be unknown.

In practical terms the information function may include:
- Creation of initial contact offices;
- Creation of a bibliographical reference centre at its headquarters;
- Creation of data banks on markets, the socio-economic characteristics of the area, local resources;
- Link-ups with international data banks;
- Seminars;
- Carrying out or sponsoring specific studies and surveys;
- Link-ups with research centres and universities.

A second set of support functions consists of initiatives to stimulate the entire economic environment, directed particularly at potential entrepreneurs. The lack of a culture of individual initiative is a severe limit to development. A culture of enterprise means inclinations and aptitudes, such as the capacity for initiative, the willingness to take risks, to think ahead, to make decisions.

These abilities cannot be transferred as such because they cannot be reduced to a set of techniques and conveyed in a specific training course. Economic animation is designed to create opportunities for these aptitudes to emerge and take root. This activity comes before that of business promotion, especially when, as in the case of forums, the target population has traditionally been relegated to subsistence activities. The kinds of activity that can make up this broader type of stimulus may include:
- Seminars involving schools, vocational training centres, universities and private associations to build awareness of entrepreneurial issues;
- Participatory studies to locate investment opportunities;
- Business simulation workshops;
- Thematic meetings;
- Guidance for training activities.

Central to this sort of programme is its ability to orient training activities as a function of the overall economic development strategy for the area. All countries have vocational training centres, even in the most disadvantaged regions, to prepare young people for the most common trades. But very often the content of training courses is decided without taking the development potential of the particular area into account.

A Local Economic Development Agency is a powerful force for reorienting these training activities in view not only of the present state of the labour market but also – indeed, above all - of the lines of development for the future, which its own activities serve to sustain. It can thus help equip young people for gainful employment and
truly animate the area’s economy with creative and dynamic actors.

Equally important is the agency’s role in orienting the many training activities conducted by international cooperation or national programmes. Here too, the initiatives are widespread, the purpose being to improve existing economic activities and foster a new, entrepreneurial attitude among local producers. The agency can effectively complement these initiatives by directing them along the strategic lines of local development and, above all, by enabling interested producers to obtain credit so that they can put what they have learned into practice and start up or expand a business. Once again, it combines practical solutions with the dissemination of a new culture of local economic development.

**Business support**

As our account so far makes clear, the promotion and support of local businesses is in a sense the “core business” of the Local Economic Development Agency. The integrated range of services ordinarily offered by it comprises the following:

- Formulation of business plans;
- Training of human resources;
- Technical assistance in preparing business plans and during start-up and consolidation;
- Financial assistance through lending, taking stakes in businesses, provision of guarantees, location of sources of finance and help in gaining access to outside credit.

These are the classical tools wielded by business support programmes. They offer a full range of support to each single business, starting with the initial project. Often they accompany the potential entrepreneur from the outset, in the identification of the original product or service idea. One way of going about this is to build on the candidate’s previous experience or trade; an alternative is to scan the lines of production that are strategic to local development for new opportunities and suggest them to the candidate.

Once the business idea has been found, its viability has to be appraised, the business plan prepared and it has to be checked for market compatibility, technological manageability, and cost-benefit performance. This sifting process determines whether the idea can effectively be turned into a going concern.

If it can, the businessman will need financing. A bank must provide it, and the forum acts as intermediary with the bank, backing the loan with its own credit fund which goes on deposit as a guarantee fund.

However, the forum’s approval is not subject solely to technical and financial criteria. It is not a bank; it is a promoter of development with an anti-poverty perspective. So, its project selection, while respecting the standards of financial viability, also weighs other factors such as employment impact, involvement of disadvantaged groups, secondary economic impact and environmental impact.

Once the business has been set up, or the expansion investment put in place, the forum offers technical assistance during the initial phase. The most common problems are inability to meet sales and market targets, changes in tax and tariff rules, resource management, falls in prices, and supply shortages.

Ongoing business operations sometimes require massive technical assistance; forums must accordingly have sufficient human resources. When its own resources are insufficient, the forum may draw on staff made available by its stakeholders, make a small charge on the firm’s assisted, or provide services in common to businesses that have the same problem.

One instrument for assisting businesses in the start-up phase is the “business incubator”. This is an organization with physical facilities, services and technical assistance that hosts newly-formed businesses. Very common in the industrial world, incubators perform the highly useful function of helping businesses over all the initial hurdles and reducing their start-up costs. In developing countries, however, they have proved hard to set up: their costs are quite high compared to their benefits, fledgling businesses are unlikely to be able to afford these services, and governments lack the funds to allocate to such a purpose. So, without precluding the business incubator approach, as a rule the agencies arrange to support as many firms as possible with technical assistance, which may be supplied at headquarters or within the businesses themselves, and with special attention to the ones in most difficulty.
### Tool 3.5.2 – Promoting and institutionalizing a local/regional forum

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<th>PHASE</th>
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<th>RESPONSIBILITY</th>
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| Awareness-raising phase           | ◀ Political acquiescence to the process by regional and local authorities, who own the process and lead it.  
                                           ◀ Regional forums constituted and elected.  
                                           ◀ A support committee for the constitution of the Local Development Councils (LDCs) established.  
                                           ◀ A support committee for the constitution of a LEDA created, merging economic commissions of LDCs. | The first two phases are still principally the responsibility of the project.                                                              |
| Promotion phase                   | ◀ Outline of the LEDA prepared and approved by the local actors.  
                                           ◀ A definite decision about its establishment taken.                                                                 | In all steps, the responsibility for supervision and the rate of implementation of the activities still remains with the project that is supporting the idea.  
                                           In the execution phase, it must rely on the (increasing) support of the support committee, which will accompany the entire process of the establishment of a LEDA. |
| Establishment phase               | ◀ LEDA officially established, with its normative agencies, advice councils, governing body and specialists.  
                                           ◀ Internal statutes and rules approved.  
                                           ◀ Contract with the support project for setting it in motion signed and in execution.                                                                 | In this phase, the help of the project is still counted on, since it will make viable (financially as well as technically) a large portion of what has been advised. However, this is all consolidated through a constant dialogue between the local actors and the support committee. |
| Internal structuring and starting phase | ◀ Technical team in operation.  
                                           ◀ Coordination network with other institutions and/or operative organizations set up.  
                                           ◀ Mechanisms of operation support in effect.  
                                           ◀ Population identified as part and head of the LEDA.  
                                           ◀ Plan of operations approved and in effect.                                                                 | In this phase, the project maintains a coordination role, gradually transferring the responsibilities to the governing body of the LEDA Assembly. |
| Consolidation phase               | ◀ LEDA recognized as a valid and representative spokesperson by the different public and private institutions at the local, national and international level.  
                                           ◀ Its operation is self-financed.  
                                           ◀ Its capacity to mobilize resources and investment is confirmed.  
                                           ◀ Its actions are guided by its master plan.  
                                           ◀ Its social basis is consolidated through the active participation of the producers’ organizations and its development basis through its activities. | All responsibility is in the hands of the LEDA and the local actors.                                                                         |
Tool 3.5.3 – Instructions for LEDA Commissions: The case of Croatia

The following three Commissions have been established in Croatia:
- Commission I (Legal and organizational aspects)
- Commission II (Territorial aspects)
- Commission III (Services provided by the LEDA)

The table below indicates the operational recommendations that have been prepared with the aim of establishing the first LEDAs in the country.

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<th>COMMISSIONS</th>
<th>COMMISSION I LEGAL AND ORGANIZATIONAL ASPECTS</th>
<th>COMMISSION II TERRITORIAL MANAGEMENT</th>
<th>COMMISSION III SERVICES PROVIDED BY THE LEDA</th>
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<td>OPERATIONAL RECOMMENDATIONS</td>
<td>▶ Founders of the LEDA: ▶ Status of the founders (legal and/or physical) ▶ Membership (public, private, international) ▶ General outline of the bodies (consulting committee, board of directors, director, assembly, technical departments) ▶ Rules and regulations (including the decision-making process, voting) ▶ Initial contributions (international funds, stakeholders and other contributions)</td>
<td>▶ Territorial coverage, taking into account economic criteria, socio-cultural homogeneity, demography, administrative borders and war-affected areas ▶ Distribution and availability of human, financial and technical resources in order to find synergies and promote complementarity with existing programmes ▶ Physical settlement of the LEDA (including headquarters, branches, focal points) according to the presence of actors, communication facilities, networking and availability of services, minimal costs</td>
<td>▶ Type of activities to be provided, e.g. promoting discussions on economic development priorities, resource mobilization, business information dissemination, services orientation, promoting networking capacities, marketing of the region, capacity building, promotion of entrepreneurship, joint complementary services) ▶ Nature of financing ▶ Role and contribution of existing service providers (networking between stakeholders) ▶ Equipment and resources (for example: software, promotional material, trips to international fairs)</td>
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Tool 3.5.4 – The organizational structure of a LEDA: The case of Manica Province, Mozambique

The way in which a LEDA is structured internally, its decision-making processes, its relationship 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, and the composition of its membership could all be expected to have some influence on the performance of its organizational tasks, such as planning and goal setting, resource mobilization, etc. Therefore it is very difficult to present here a standard model of the organizational structure of a LEDA. However the following figure presents as an example the structure of the organization in the Mozambican case.
In March 1999, the PDHL (Human Development Programme at the Local Level) began the process of creating a Local Economic Development Agency in the three provinces of Sofala, Manica and Maputo. The PDHL assumed responsibility for providing full financial and technical support, at least during the first three years of operation, with PDHL personnel assigned to work closely together with the LEDA staff on implementing the work plan.

Three LEDAs were officially created, including ADEL Sofala (Agência de Desenvolvimento Económico Local) in October 2000, and ADEM Manica (Agência de Desenvolvimento Económico de Manica) in November 2000. Maputo Province opened the third LEDA in the country on 20 June 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 into five phases:

a) Preparatory phase;

b) Promotional phase;

c) Design and juridical procedures;

d) Start-up phase;

e) Consolidation phase.

Each of these five phases can be subdivided into different steps.

Although the following steps seem to be quite 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 proved 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 members from Manica Province participated, giving them a chance to gain insight 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 were:

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<th>No.</th>
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<tr>
<td>1</td>
<td>Metalúrgica de Chimoio Private enterprise</td>
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<tr>
<td>2</td>
<td>Fundo de Fomento de Pequena Industria</td>
</tr>
<tr>
<td>3</td>
<td>União Provincial de Camponeses de Manica</td>
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<td>4</td>
<td>Associação de Agricultores de Manica</td>
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<td>5</td>
<td>Focama – Forum das ONG’s Nacionais</td>
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<td>6</td>
<td>OMM – Organização de Mulher Moçambicana</td>
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<td>7</td>
<td>Sports Clube Association</td>
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<td>8</td>
<td>PAC – Programa de Actividades Culturais</td>
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<td>9</td>
<td>Conselho Municipal de Chimoio Municipality</td>
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<td>10</td>
<td>Conselho Municipal de Manica Municipality</td>
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b) Promotional phase

When they returned 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 the tasks 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 sustainability.

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 to all organizations that have a proper
that the Headquarters of the LEDA should be located in over such a wide area in Manica Province, it was agreed Territorial dimension: Manica Province would not depend on them!

the poor, as the economic development process in clearly that the LEDA should not focus on the poorest of marginalized groups such as female heads of households, Province, paying special attention to disadvantaged or group

The LEDA Support Committee defined the LEDA's opportunities. promoting the territory and identifying investment related to the promotion and creation of small and medium-sized enterprises and associations, as well as programmes, bringing together different kinds 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 LEDA’s target group as being all the economic actors of Manica Province, paying special attention to disadvantaged or marginalized groups such as female 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 would 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 available human, economic and financial resources. The possibility of opening a district branch office was however not ruled out.

Once the project profile had been developed in December 1999, different seminars and workshops were 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 LEDA 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 a 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 NGOs, 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 autonomy. In order to register an association, at least ten 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 the 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.

A 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.

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4 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.
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 were few requirements, in Manica, on the other hand, the administrative demands caused some delays.\(^5\)

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 Económico Local da Provincia 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 the 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 the 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 its own, the LEDA will have to be constituted based on a participatory process of promotion and preparation, involving ad hoc committees of representatives of public institutions, NGOs, local authorities, small producers and entrepreneurial organizations and representations from the community.

The fact that a LEDA is an independent legal entity has proved to be particularly important in reducing levels of conflict in areas where ordinary clashes of interest between social groups have degenerated in armed hostilities, expulsion or forced repatriation of populations. LEDAs 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.

LEDA 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, such as peasant associations, cooperatives, employers, workers’ organizations and other non-governmental organizations, as well as individual entrepreneurs). LED institutions, like LEDAs, are the first place a forum for social dialogue and negotiation in which the public and private sectors each 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 very different ideas, demands and opportunities into a common effort to plan, establish 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 sectors pool resources and share risks, projects with mixed economic and social returns bear fruit more quickly and have a better chance of success.

d) Start-up phase

During this phase, the LEDA addressed three basic issues:

- Geographical location;
- Human resources; and
- The official constitution.

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5 The following documentation was 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;
- Proof of existence of the enterprise (public register) or copy of its statutes in the case of an 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 a 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.
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. LEDAs should be set up in a well-known, centrally located area where there are sufficient amenities as well as possibilities for future expansion. A list of criteria was drawn up, including all necessary furniture and office supplies. The PDHL agreed to finance all the installation costs.

Recruitment of staff

ADEM contracted one director, an office assistant and the necessary 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 the PDHL. A balance was found between offering salaries that were generous enough to attract good, qualified and motivated people who were prepared to work in difficult circumstances, and at the same time operating within the limits of available financial resources to ensure sustainability.

Constitution

On 13 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 ten founding members. The Governor of the Province stressed the importance of the LEDA during his intervention. Four of the original LEDA Support Committee members became founding members.

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 LEDA’s objectives and its area of intervention during this meeting.

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, seven new members of the ADEM were presented 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 the 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 first.

This plan focused on the priorities and activities for the first year of operation, together with an initial budget and time frame.

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 advisory, training and information services already available in the Province);
- Organization of the 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, in its first year of existence, the ADEM would 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 and its local actors, to identify and propose investment opportunities;
- Formulation of operational and implementation mechanisms;
- Identification, selection, implementation, financing, 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 each period 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 continue to be 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 should now be to consolidate a well-functioning management information system (MIS), a personnel management system and a financial/administration system.
The ADEM Board of Directors meets once a week to 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 activates an early warning system, enabling the PDHL to detect possible problems and obstacles from the outset. At the present time, the internal rules and regulations 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 organized on 14 June 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 organization, as the members were all united around one concrete, public activity.

**Tool 3.5.6 – Example of the local economic development component in PDHL Mozambique**

In this document the following points will be analysed:

- Organization and structure of the component;
- LED methodology;
- Implementation strategy;
- Tentative work plan;
- Sustainable mechanism for economic development.

**Organization and structure of the component**

The local economic development (LED) component will be coordinated from the central PDHL office in Maputo. The ILO/LED expert will be based in Maputo and will be responsible for the overall development of the LED initiatives in the country. He will also give a closer follow-up to concrete LED initiatives to be developed in the Maputo Province. Two international LED experts will be based in the field, one in Sofala (ILO associate expert) and one in Manica (UNV). They will have the support of local LED consultants, one in each province, who will be duly prepared and trained at the beginning of the project. The day-to-day work in the field will be done in close collaboration with the local PDHL project staff.

Taking into account the methodology of the PDHL project, one cannot simply isolate the activities of one component from the other components within the project. Linking with the other components of the project is of fundamental importance for the overall outcome of the project, since education, health, employment, productive activities, environmental concerns, territorial planning and management and human rights are all interdependent factors in the local development process. Therefore, the project promotes a comprehensive systems approach to analyse local potential and limitations, for a realistic definition of economic and social development goals. In addition, it will search for consensus-based solutions to achieve a balance between various sectoral components and activities. Lastly, it will promote efficient exchanges of information between the various sectoral actors and the various levels. This means in practice that there will be a very tight collaboration with the activities in the other components.

The LED component, which in itself is an integrative approach, will also provide support to activities carried out at the community, district, provincial and national levels in support of the government’s decentralization process. This will lead to improved local capacity-building mechanisms through the establishment of a network of development committees. In turn, this network can create concrete opportunities for interaction and feedback of information between local intermediate and national levels.

**LED methodology**

The programme will operate according to the local economic development methodology applied and tested in different PDHL projects, such as PRODERE in Central America. This methodology stresses a bottom-up approach and easy replicability of its experiences. It is based on mutual agreement and consensus among local actors concerning the direction and conditions of the development of the local economy, and relies to a great extent on locally available human resources. In order to reach the programme’s objectives successfully, its methodology is based on:

- Consensus building;
- A bottom-up approach;
- Human and institutional capacity building;
- Search for synergy effects and impact;
Globalization of the local level;
- Raising public awareness.

Consensus building has to be done through an active participation of the relevant socio-economic and political actors at the local level. This means that a process has to be created which unites and creates collaborative linkages amongst local actors across political and cultural differences, ensuring a constructive exchange of ideas and opinions aimed at designing policies for sustainable development of the project area.

The bottom-up approach mobilizes to the utmost the local human potential, making those involved part of and responsible for the local economic development process. By doing so the activities initiated are more likely to be sustained, since these activities are conceived as endogenous rather than exogenous (from an external project) processes.

The element of human and institutional capacity building – the upgrading of local capacities – is essential in order to guarantee sustainability of the initiated activities and it will be a constant concern of the project.

Synergy effects and impact: In order to create trust and co-responsibility amongst the local actors for the long-term goals of the programme, it is of extreme importance to make sure that short-term, concrete and visible results (impacts) are achieved. Setting of good examples contributes to raising the level of motivation and awareness of the target population. However, these examples must have such characteristics as can easily be repeated. On the other hand, complementarities are a continuous concern, so that other similar activities in and outside the project area are not replicated.

Globalization of the local level refers to the incorporation of local experiences into a wider framework of laws and regulations at the national level. The methodology used aims at preventing the creation of isolated technical exercises that cannot be repeated or united in overall strategic development policies.

Raising public awareness boils down to the creation of a more appropriate entrepreneurial culture and a low-risk atmosphere. It is one of the most difficult aspects as it refers directly to the mentality of the people (at all levels).

**Implementation structure**

The LED component must be subject to conscious planning. Local development should not be incidental or accidental.

Spontaneous and natural evolution processes are important, but it is even more important that the activities of local and external players focus on analysing the situation (potential, needs, opportunities, etc.), developing a strategy and operational programme and undertaking efforts to implement them.

The LED component should, however, develop in accordance with the guidelines that have already been laid down in the Mozambican Provincial and District Development Plans. These Plans define the long-term strategic direction of the development of a local area, practical projects to be implemented, financial, material and technical support required to achieve the goals set and participation of individual entities in their implementation.

**Work plan**

(May –June/August – October)

The work plan presented below is divided into two different periods, May/June and August/October 1998. This is due to two different moments of the ILO intervention. In May/June the ILO mission developed the LED component for the PDHL project, initiating several activities. From the end of July onwards the ILO/LED expert’s presence in the field is more permanent.

Given the current developments, the ILO mission hopes to have the personnel in the field ‘in office’ by September, as the terms of reference and work plans are already in

<table>
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<tr>
<th>ACTIVITIES</th>
<th>MONTH</th>
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<tr>
<td>LED personnel</td>
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<tr>
<td>Elaborate Terms of Reference for local personnel, as well as UNV and associate experts</td>
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<tr>
<td>Start procedure requesting associate experts</td>
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<tr>
<td>Start procedure for UNV</td>
<td>M-JN</td>
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<tr>
<td>Select personnel (national LED consultants)</td>
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<tr>
<td>Prepare contracts for local personnel</td>
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<tr>
<td>Physically install and start activities of national LED consultants</td>
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## Support of the International Labour Organization to the LED component

ILO’s support and collaboration in the PDHL project will not only consist of permanent technical expertise in the field; through several Memorandums of Agreement the LED group within the ILO also guarantees the incorporation of additional ILO experts who can come in and strengthen the project on an ad hoc basis. Mutual agreements exist with the Micro-Finance Unit and the SIYB group, both of which are in the ILO’s ENTREPRISE Department. Apart from these contacts, the ILO also has technical expertise in SME development available in the region. Through its offices in Harare (Multi-Disciplinary Team) and the ILO Office in Pretoria regional expertise can be called upon whenever required. The ILO/LED expert will establish contacts with the different ILO regional offices as soon as he is in office.

**What is a Local Economic Development Agency (LEDAs)?**

**Local and the geographical coverage**

LEDAs vary in their geographical coverage from one or more municipalities to the level of a department. They also vary in terms of their composition. Although ‘local’ in the context of PDHL means ‘province’, the geopolitical unit is not the only criterion for the territorial definition of a LEDA. Others are cultural homogeneity, socio-economic coherence, income-generation capacity (to improve the
chances of financial sustainability) and possibilities for effective community participation.

‘Local’ by no means indicates that LEDAs will restrict their activities to the local level. Very often they will have to involve institutions at the national level in order to solve problems, acquire capital or know-how, and so on. In short, it is clear that development cannot be achieved without looking beyond the local frontiers!

The objectives of LEDAs

LEDAs try to achieve a consensus among members on the local economic development strategy most appropriate to the economic opportunities, constraints and potential of the region. LEDAs also provide technical and financial assistance to their members and others to help start, reactivate and strengthen enterprises, particularly those that have a potential for employment creation and are environmentally friendly. Since LEDAs facilitate a decision-making process based on the problems identified by the area’s population itself, they become a key instrument for the economic development of the area. They help to optimize, and sometimes even reduce the need for external technical cooperation, which often intervenes in an area in an uncoordinated and sometimes haphazard way.

Although LEDAs focus their activities mainly on the economic development of the project area, it is also widely acknowledged that conciliation, democracy and participation are initiated, or at least stimulated, through the LEDAs’ general processes of consensus building. Very often LEDAs set up, for instance, in the framework of PRODERE operate in geographically backward areas characterized by an institutional vacuum. Therefore they are one of the few, or perhaps the only active institution in the area and, compared to the Church or the local administration, they are definitely more ‘neutral’, and thus less conflictive. On the other hand, it is frequently found that the local actors who are active in the LEDAs also play an active role in health-care matters, education or general community development initiatives. Therefore LEDAs often find themselves involved in and functioning as a catalyst for many other activities and events with a more social character. The main focus of the LEDAs is, however, on economic development. In general they are involved in:

- Supporting the creation of a competitive business environment;
- Improving the technical qualification of the human resources in the area;
- Improving the infrastructure;
- Building effective institutions;
- Lobbying for a supportive governmental attitude for the region;
- Improving health and environmental conditions.

Organizational structure of LEDAs

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 organized civil society (peasants’ associations, cooperatives, private sector employers, workers’ organizations and other non-governmental organizations).

Though a technical cooperation programme such as PDHL can promote the constitution of LEDAs, they should be independent bodies with a proper legal structure. It is therefore important that the local actors assume responsibility for the process of creating LEDAs right from the start. In order to ensure that the local community considers the LEDA as an institution of its own, LEDAs should only be constituted after an intensive participatory process of promotion and preparation has been conducted, involving ad hoc committees of representatives of public institutions, NGOs, local authorities, small producers’ organizations and community organizations.

Ideally, the composition of a LEDA Assembly should reflect the variety of organizations and agencies active in the area, including local authorities, decentralized central government agencies and organized civil society. Experiences throughout the world show, of course, that there are differences between LEDAs with respect to the definition of eligible civil society organizations, considering the fact that LEDAs are about economic development. The members of a LEDA elect from their midst a representative board of directors; the board, in turn, manages a small professional staff.
2. Attracting investment
4. Environment
5. Planning
6. Financing LED
7. Vulnerable groups
8. Training for LED
9. Sustainability of LED
SECTION IV. LED IN ACTION

An overview

The illustration above displays a typical LED process as a sequence of steps (from the bottom to the top) within time (from the left to the right). The graph reflects the same steps as described in Section III, but introduces two fundamental axes that should be taken into account when discussing the LED process:

- **Short-term interventions vs. long-term policies**: For obvious political and motivational reasons LED projects in post-crisis areas cannot focus only on the long-term needs of a territory, such as lack of drinking water, destroyed housing infrastructure, broken road networks, unavailability of credit, etc. The process of analysing the territory, sensitizing, promoting the local forum and designing the LED strategy guarantees sustainability, but it might take a long time. The LED strategy should also make allowances for quick responses to immediate needs while
encouraging social dialogue, participation and cooperation. Quick-impact measures might even be beneficial to the sensitizing process, since they design and implement collective actions such as common decision-making, coordination and responsibility sharing. The quick-impact measures should be revised and adjusted during the design of the long-term LED strategy.

**LED process vs. LED policies/products:** The blue boxes in the graph represent the fundamental steps of the LED process. The orange boxes stand for LED policies and products that are the outcome of the process.

As explained in Section III, a key objective during the implementation of the LED policies and projects should be to use, promote and strengthen existing local implementation structures. For example, local training institutions, Chambers of Commerce or universities, should always carry out training activities. 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. 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.

Apart from implementation structures, the LED strategy also foresees the formulation of LED policies and the development of LED tools and projects (see table). The content of the strategy will inevitably be different for each specific locality, depending on the results of 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
---|---|---
**Finance** | Credit programmes  Guarantee funds  Revolving funds  Joint ventures  Special credit lines for youths and women | Local banks  Micro-finance institutions  Financial intermediaries  Development banks  Other
**Business development services** | Market research  Setting-up of businesses  Databanks  Business incubators  Consultancies  Export promotion  Cluster support | Chambers of Commerce  Local government  Private service providers  Universities  Research institutions  Business incubators  Other
**Training** | Management courses  Study tours  Distance learning courses  Special courses for women, ex-combatants, displaced persons, etc. | Research institutions  Private/public schools  Universities  Chambers of Commerce  Business service providers  Other
**Infrastructure investment and planning** | Local development plan  Environmental plan | Local government  NGOs  Research institutions  Other
**Investment attraction** | Territorial marketing | Local government  Private marketing agencies  Chambers of Commerce  Other
**Networking** | Lobbying with central government, international organizations, NGOs, international investors, Local Economic Development Agencies and LED networks, etc. | Local government  Chambers of Commerce  Local/regional development agencies  Other
**Geographical coordination of local resources** | Orientation and reorientation of investment on the territory, cluster strategies | Local government  Chambers of Commerce  Local/regional development agencies  Other
**Functional coordination of local resources** | Delegation of development functions to the most appropriate stakeholders | Local government  Chambers of Commerce  Local/regional development agencies  Other

The LED actions (policies and products) will be explained more thoroughly in this section.
2. Attracting investment
4. Environment
8. Training for LED
5. Planning
6. Financing LED
9. Sustainability of LED

4.1 Supporting business

What to consider?

For the economy to stabilize and begin to grow in post-crisis situations, interventions are needed to restore political stability and security, as well as critical economic and financial functions. At a national level, the focus will nearly always be on strengthening the basic governing, regulatory and legal frameworks, as well as targeted interventions to restore a sound investment climate. In this chapter, however, we shall focus on practical ways of supporting business at the local level so that communities can respond quickly to the need to generate income and revenue.

The contribution of SMEs to the recovery process

It is increasingly recognized that SMEs are a key factor in local and regional economic development, with a strategic role in the revitalization of the local markets where large state-owned or monopolistic industries have downsized or closed. In post-crisis situations, where communities may already have been experiencing difficulties in stimulating new economic activity before the onset of the crisis, they may be the key to long-term economic recovery prospects.

Small and medium-sized enterprises (SMEs), which are embedded in the local economy, are dynamic actors because they adjust easily and quickly to new market signals and have an enormous growth potential. Local enterprises are usually highly integrated into local supply and distribution networks, with numerous forward and backward linkages within their territory (compare with Chapter 4.2).

However, during their first five years of existence, SMEs face extreme difficulties. Even in industrialized countries many have trouble surviving. Their “mortality rate” during the initial years of business activity averages 70 per cent. This often depends on an ill-considered or hastily planned idea, or on credit bottlenecks and high interest rates. But it may also depend on perfectly ordinary problems that the small businessman alone may not be able to solve. Lack of basic infrastructure, uncertainty, increasing competition, sudden changes of suppliers or markets and consequent financial shortages are only some of the major difficulties facing small enterprises.

Entrepreneurs require support throughout the life cycle of the business idea, from initial conception through to product development and market expansion. Under normal circumstances, business development services (BDS) are usually solicited by enterprises to find ways of overcoming difficulties in the economic and productive environment. BDS are non-financial services aimed at improving the performance of small, medium and micro-enterprises (e.g. business training, counselling, advisory services, consultancy, market assessment, business linkage promotion, assistance in development and technology transfer). There is
evidence that company-tailored assistance is the most effective, but it is fundamental that this support is coherent with the common regional strategy and does not undermine wider efforts to promote more socially and environmentally friendly business practices.

In post-crisis situations, the types of BDS required are similar, but should also be seen from the broader dimension of the impact of reconstruction and rehabilitation on local development. In the immediate recovery period, the local government and community require certain products and services to be available in order to rebuild roads, houses, schools, churches, etc., and to provide food, clothes, and other necessities. In most cases, the initial response is overwhelmingly to supply these needs through contracts with larger national or international firms. However, the resumption of local economic activity could be given a massive boost by interventions to support the inclusion of local businesses in tenders for public works contracts.

On a smaller scale, many families and individuals will begin to engage in economic activities that respond to everyday immediate needs and are designed to maximize their own income-generating opportunities. These micro-entrepreneurs could also benefit from packages of business support.

However, once political and economic stability is achieved, a way must be found to stabilize the local economy through more institutionalized support services. Such activities can be formal in nature, provided through local government authorities and departments, or through funding agencies, NGOs and private foundations.

Whichever their path or mechanism, the purpose of business support activities in a post-crisis situation should be to strengthen the local SME sector, which in turn can trigger the process of employment creation and, if carried out responsibly, has wider social and environmental benefits for the community. Moreover, large-scale domestic, and in due time foreign investment is more likely to return to crisis-affected areas that have demonstrated the ability to stabilize and support thriving local supply and demand chains.
What kinds of business development services are needed?

Some of the main tools of business support include the following:

**Provision of information**

Most managers of SMEs are too busy with everyday business problems to invest in market research and information-gathering exercises on new technologies or suppliers. Lack of information is also one of the most common problems of managers of small enterprises in post-crisis situations. It may be that the entrepreneur is not aware of how to start looking for certain types of information, or is unable to use or cope with the huge amounts of information available. Collapsed business and information networks take time and energy to rebuild, and business managers may be dedicating all their efforts to crisis mitigation.

As a consequence, information services that involve the gathering, processing and dissemination of data to new enterprises and established businesses are a critical element of the services offered by BDS providers. Information can cover markets, technologies, the area’s resources and assets, laws and regulations, as well as consumer trends and behaviour.

**Practical advice on immediate recovery activities**

Most enterprises, both small and large, are continuously looking for opportunities to save money. Sometimes just by providing information on cost-saving opportunities, it is possible to become a catalyst for change. An effective way of helping SMEs and potential entrepreneurs is to provide advice on how to organize human and productive resources more effectively, to created
self-help forms of enterprise, for example through agricultural and manufacturing cooperatives that create common supply, credit and marketing systems. Traditional forms of cooperation can be supported during the early recovery period, such as systems of work sharing (e.g. at harvest time), irrigation/water sharing arrangements, rotating savings and loan clubs, etc. Assistance can also be provided in helping the local business community to create practical and sustainable infrastructures that enable them to increase their connectivity to markets and expand their business opportunities.

In an area affected by crisis, concrete possibilities may exist for:

- sharing access to sites and utilities;
- establishing or improving common storage or processing facilities for inputs or products;
- sharing loading equipment;
- improving the organization of physical production space;
- sharing transportation costs to wider markets;
- gaining access to marketing services and developing promotion strategies;
- gaining access to new technologies;
- increasing the awareness and technical competence of entrepreneurs on business growth strategies.

Another area concerns access to low-cost technologies. A sustained development process will not take place unless the affected territory is able to participate in the progress made possible by the rapid advances in science and technology that have characterized the global economy in recent years. Appropriate technologies have to be deployed and shared, not only for promoting growth, but also for environmental management and poverty alleviation. In the case of environmental disasters, the actions of businesses may have contributed to the present situation. It is therefore important that those technologies that may create further damage to the surrounding area are not used (see Chapter 4.4).

Retrieving information as to whether support for any of the above possibilities is available through government or funding agency budget lines will require time to be spent on research and discussion with local enterprise departments and Chambers of Commerce. However, through the local forum or LEDA, this also provides an opportunity to bring local actors to discuss how businesses engaging in similar or complementary activities can reduce their costs through closer linkages. Where local businesses enter voluntarily into cooperative arrangements with one another, this in turn increases the stock of social capital, since it promotes an environment for trust and reciprocal actions (see Chapter 4.3).

In fact, the role of business linkages in improving enterprise performance and creating competitive regional advantage is now recognized. Mechanisms for facilitating cooperation among enterprises are now accepted as a vital tool in many successful economies.
Facilitating access to credit

The importance of providing financial support to new enterprises and to SMEs cannot be overstated. Difficulty in obtaining credit may prevent small and medium-sized enterprises (SMEs) from making important investments in improving production methods and expanding markets, or in submitting bids for involvement in local infrastructure contracts.

Even in developing countries, new business ventures and SMEs often face enormous obstacles in obtaining credit for their projects. In crisis areas, where traditional financial markets may shut down completely (if only temporarily), this problem is intensified. The main problems include insufficient information (transparency) regarding financial interventions to assist during the recovery process, low density of institutions and insufficient financial products offered by credit institutions and micro-finance institutions (MFIs).

In these circumstances, the role of BDS would be to ensure that all interested businessmen, entrepreneurs and micro-entrepreneurs are aware of what is available on local financial markets (whether formal or informal), and to act as an intermediary for these services (see Chapter 4.6).

Towards the stimulation of an entrepreneurial culture

This is probably the most difficult task as it concerns the attitude towards risk, organizational skills, creativity, initiative and training, etc. Such competencies cannot be directly transferred, and in many cases the entrepreneurial attitude or spirit is transferred from one generation to another within the same family enterprise or from the boss to the employee. These elements also depend on a very wide range of institutional, social, economic and cultural factors.

Nevertheless, some concrete tools to stimulate entrepreneurial activities can still be conceived by working on the broader socio-economic and institutional environment to make it more conducive to productive activities (see also Chapter 4.8), and management training courses and better information for new enterprises may facilitate the first steps in creating a business.

Such activities tend to focus on increasing:

- The capacity for initiative;
- The talent for creativity;
- The willingness to take risks;
- The gift to bear with uncertainty;
- The ability to make decisions.
The role of LEDAs

The revitalization or rejuvenation of a local socio-economic and institutional environment embraces the whole array of measures that may stimulate participation, interaction and cooperation between local actors and institutions. These measures include not only support for existing SMEs and new enterprise ventures explained in the current chapter, but may also include activities that foster training, access to finance, infrastructure investment, FDI attraction, etc. as will be explained in the following chapters.

In countries that have experienced a crisis, LEDAs could potentially play an important role in triggering inter-firm linkages among local enterprises, identifying sources of business support at the national and international levels, lobbying for local business interests in discussions with different development partners, and building linkages to wider markets through organizing fairs, shows and seminars, or study tours for entrepreneurs to regions where clusters are developed, and so on.

What to do?

Step 1: A market and needs assessment (demand side)

Carry out an in-depth analysis on micro, small, medium and large enterprises as well as different business sectors. The diagnosis should distinguish the needs of male and female entrepreneurs in order to properly address their specific requirements.

See TOOL 4.1.1 for a market and needs assessment.

Step 2: The analysis of information services and institutions (supply side)

See TOOL 4.1.2 for an analysis of services and service providers.

See TOOL 4.1.3 for a joint SWOT analysis and needs assessment.

Step 3: Sensitizing

At this stage, the results of the market and needs assessment and SWOT analysis should be presented to local stakeholders.

Discussions should raise awareness of the most pressing issues facing the local business community and micro-entrepreneurs, the demand for services, identification of potential resources to meet this demand, and linkages between the involvement of the local private sector in recovery strategies and long-term development prospects.
Step 4: Promoting a forum

Since local SMEs often lack political influence in local planning procedures, as well as the vantage point from which to understand the overall competitive system in which they operate, the local forum can act as an interface with institutional and development partners. Through this forum, decision-makers are made more aware of local capacities and the need to tune infrastructure plans and projects to the issues and concerns of the local business community. In fact, the business community can lobby for its interests vis-à-vis national and international development partners.

Broad participation in the local forum is essential for ongoing adjustment of the LED strategy as priorities change and new actors emerge or existing actors get stronger. The forum will also bring to light ongoing constraints with regard to the provision of information, business services and entrepreneurial initiatives, as well as stimulate discussion on new areas for cooperation.

Step 5: Designing the LED strategy

Depending on the results of the SWOT analysis, the action plan will include ways of increasing access to:

- The most relevant types of information (i.e. market opportunities, financial opportunities, training and technology);
- The provision of services;
- The stimulation of entrepreneurship.

The stimulation of an entrepreneurial culture is probably the most difficult task as it concerns the attitude towards risk, organizational skills, creativity, initiative, etc. These elements depend on a very wide range of institutional, social, economic and cultural factors. As a consequence, entrepreneurship will be influenced indirectly by the general socio-economic environment in the area (see all the LED measures). Nevertheless, some direct tools that can influence entrepreneurship concern the improvement of information and education.

See TOOL 3.4.2 for an outline of a work plan.

See TOOL 4.1.4 for elements of a work plan regarding BDS.

Who should do it?

Where possible, the provision of the necessary services to local businesses should be coordinated by the local forum and provided by local consulting enterprises, Chambers of Commerce and training centres.

Where the required service providers don’t exist or work ineffectively, it might be necessary to fill the institutional gap. One way of doing this would be to institutionalize the local forum.
## Toolkit 4.1 – Supporting business

### Tool 4.1.1 – Market and needs assessment (demand side)

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<tr>
<th>General market and needs assessment (demand)</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
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<td>How do enterprises want the services to be delivered?</td>
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<td>Enterprises that enjoy business linkages or are part of a cluster network</td>
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### Tool 4.1.2 – Analysis of BDS and BDS providers (supply side)

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<th>Provision of Information</th>
<th>Practical Support</th>
<th>Accessibility of Service</th>
<th>Characteristics of Service</th>
<th>Cost of Service</th>
<th>Quality of Service</th>
<th>Elements to be Improved</th>
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<td>TYPE OF SERVICE PROVIDED (SUPPLY)</td>
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### Tool 4.1.3 – Elements of a SWOT analysis on BDS

**ELEMENTS OF A SWOT ANALYSIS (BDS)**

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<td>Existing BDS system</td>
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<td>▶ Existing products offered by BDS institutions</td>
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<td>▶ Range of products offered by the informal sector</td>
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<td>▶ Number of enterprises making use of BDS products</td>
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<td>▶ Characteristics of enterprises making use of BDS products</td>
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<td>▶ Management capacities of BDS providers</td>
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<td>▶ Management capacities of potential BDS clients</td>
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<tr>
<td>▶ Level of communication and knowledge sharing between BDS providers with other local stakeholders (business community, financial institutions, local government, NGOs, gender organizations, universities, etc.)</td>
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<td>▶ Level of integration of BDS with financial services</td>
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<td>▶ Level of access to BDS</td>
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<tr>
<td>▶ Other</td>
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</tbody>
</table>

**General questions (BDS)**

- What are the major difficulties facing local SMEs?
- What are their most urgent needs?
- Which sectors are declining in the local economy and why?
- Which sectors are expanding within the local economy and why?
- Which sectors, products, and technologies, labour force or other resources enjoy competitive advantages?
- How can these competitive advantages be created/improved?
- How can this strategy be included in a framework of a general LED strategy that considers other fundamental issues?
### ELEMENTS OF AN ACTION PLAN (BDS)

<table>
<thead>
<tr>
<th>Activities to improve the provision of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Creation of a bibliographical reference centre at the forum’s (or LEDA’s) headquarters</td>
</tr>
<tr>
<td>- Creation of data banks on markets, the socio-economic characteristics of the area, local resources and other</td>
</tr>
<tr>
<td>- Link-ups with international data banks</td>
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<tr>
<td>- Seminars</td>
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<tr>
<td>- Elaboration of or the sponsoring of specific studies and surveys</td>
</tr>
<tr>
<td>- Link-ups with research centres and universities</td>
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<tr>
<td>- Creation of initial contact offices</td>
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<tr>
<td>- Other</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Activities for the productive process</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Assisting entrepreneurs to develop good ideas and their business plan. This means providing information on business opportunities and offering specific technical assistance</td>
</tr>
<tr>
<td>- Assisting businesses during start-up and early expansion phase through supporting improvements in the organization of production, perfecting technology and administration, managing markets and marketing</td>
</tr>
<tr>
<td>- Helping the entrepreneur to access financial support on reasonable terms</td>
</tr>
<tr>
<td>- Facilitating technical and business training through access to available resources at the local and national level and channelling training resources from international cooperation programmes</td>
</tr>
<tr>
<td>- Supporting the creation or strengthening of professional organizations</td>
</tr>
<tr>
<td>- Advice on market expansion strategies and development of niche markets through LEDA networks and other associated institutions</td>
</tr>
<tr>
<td>- Technological support to local enterprises (through information, the creation of business innovation centres, contacts with universities, research institutes etc.)</td>
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<tr>
<td>- Understanding the legal framework and regulatory systems, etc.</td>
</tr>
<tr>
<td>- Entrepreneurial awareness raising (i.e. risk taking)</td>
</tr>
<tr>
<td>- Special training and vocational courses relating to management, marketing developing business ideas, etc.</td>
</tr>
<tr>
<td>- Assistance and training relating to research and development</td>
</tr>
<tr>
<td>- Study trips and visits to successful business in different sectors, but in other locations to stimulate ideas, networking, linkages, etc.</td>
</tr>
<tr>
<td>- Other</td>
</tr>
</tbody>
</table>
### ELEMENTS OF AN ACTION PLAN (BDS)

<table>
<thead>
<tr>
<th>Activities that improve productive management</th>
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<tbody>
<tr>
<td>Supporting initiatives in favour of the development of the productive infrastructure (markets, communication, roads, etc.)</td>
<td></td>
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<tr>
<td>Designing projects to improve the efficiency and supply of economic support services (training, reinforcing information systems, business advice, etc.)</td>
<td></td>
</tr>
<tr>
<td>Supporting the creation or strengthening of entrepreneurial organizations</td>
<td></td>
</tr>
<tr>
<td>Supporting research and development and technology transfer</td>
<td></td>
</tr>
<tr>
<td>Mobilizing financial resources for projects</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Activities that help entrepreneurs who are starting a business</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Undertaking research studies on regional investment and business opportunities</td>
<td></td>
</tr>
<tr>
<td>Creating databases on markets, technology, and financing systems</td>
<td></td>
</tr>
<tr>
<td>Preparing needs assessments</td>
<td></td>
</tr>
<tr>
<td>Providing advisory services on business plans, marketing, feasibility of projects, etc.</td>
<td></td>
</tr>
<tr>
<td>Providing financial advice</td>
<td></td>
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<tr>
<td>Other</td>
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</tbody>
</table>
Stimulating and attracting investment

What to consider?

“Putting the region on the map” is an important step in attracting private and public investment from the national and international levels, and stimulating wider markets for local products and services. Enhancing the visibility of what a region has to offer in terms of people, lifestyle and business opportunities is increasingly related to the competitiveness of regions and the companies within them.

Of course, in post-crisis situations, where there is political and social instability and the flow of business has broken down, the difficulties involved in stimulating and attracting new investments and business opportunities are increased tenfold, and economic decision-making is usually reduced to questions surrounding reconstruction issues, such as:

- Local or international contracting companies?
- Local or international inputs for materials?
- Labour-intensive production or high technology?
- Salaries, free employment or food for training?

In some cases the lack of local resources, capital, appropriate technology or knowledge might represent a major obstacle to the revitalization of the local markets. The other major problem is how to retain investments, since large firms are unlikely to keep their money where the situation is unstable, or they are unable to receive guarantees on the protection of their investments.

In many cases, large firms will only be attracted by the possibility of contracts for large infrastructure rebuilding or maintenance projects and the supply of basic goods or services. The capacity of international firms to do the job quickly and efficiently enables communities to reconnect to the outside world and reclaim some degree of normality. However, the involvement of larger firms can also lead to spillovers in the local economy in terms of backward linkages with local suppliers, transfer of technology and managerial expertise, and the temporary employment of local staff.

In the long term, however, sustainable employment and income-generation activities are needed, and local stakeholders are faced with some critical questions such as how to design interventions that have an immediate impact in terms of generating investment and creating employment opportunities, while at the same time aiming for longer-term sustainable investment and development objectives.
LED instruments can be used to steer a course between the valorization of local assets and resources in terms of involvement in the rehabilitation process, and the creation of opportunities for endogenous growth in the long term, especially by attracting larger and more long-term investments into the region through area promotion, foreign direct investment or tourism promotion strategies.

**Stimulating local business growth**

In regions where basic needs (such as housing and water supply) still need to be met for certain population groups and where there are few large-scale employment opportunities, the identification of such unmet needs and their transformation into actual demand may possibly be a new source of SME growth and employment.

*Labour-intensive infrastructure and maintenance projects* make optimal use of local contractors, services and labour to create jobs. The skills acquired during the construction phase remain in the local community, and can be made available for and applied to maintenance works elsewhere. The benefits are widely felt as income generated through employment is ploughed into consumption of goods within the local economy.

The added challenge is further to ensure that infrastructure projects also benefit the informal economy – the hawkers, street vendors, flea market stallholders, unregistered craftspeople and service providers that are scraping a living every day.

**Promoting the region**

Cities and areas that portray an attractive and business-friendly environment are more likely to draw in and stimulate investment.

A good territorial marketing programme identifies resources available and illustrates the opportunities that the area can offer to potential investors in terms of natural resources and economic activities. It also sets out the advantages that flow from the presence of the LED strategy itself, with its participatory planning component, logistical and technical support, services to local enterprises and emphasis on coherency in investment programming.

Regional authorities will have varying amounts of funds at their disposal for creating a promotion strategy. Unfortunately, the strength of the regional/local economy is usually the main determining factor for use of the resources available, meaning that stronger regions have even greater chances of getting ahead. However, even in a post-crisis situation, economies can also be eligible for subsidies from national government, and there is room for significant improvement depending on the level of interaction/partnership with the business community.
For example, where a region is known for its expertise or excellence in the supply of a certain product, it is worth getting a group of producers together with local institutional stakeholders to discuss the possibility of elaborating joint promotion strategies. These producers can create a regional brand and act as ambassadors for the territory.

**Stimulating investment**

Local, national and international firms are unlikely to invest in an area if they feel that the performance of their firm will suffer, if the situation has not stabilized or if their investment might not be protected. But in the local area it is important for the LED strategy, as “development harmoniser”, to discourage outside investors who are attracted only by cheap raw materials or labour, or those interested only in unrestrained exploitation of virgin territory, as well as those who will generate no added value for the local economy or spoil the natural environment.

A very successful way of attracting foreign enterprises that are likely to create added value for the territory is by targeting very specific, growing market sectors. In fact, a foreign firm that “hunts down” investment grants and tax exemptions is likely to be more footloose than a firm that comes into the territory because of qualitative local advantages.

Apart from FDI, attracting external resources into a territory might include:

- Political, financial or technical support from the central government;
- Political, financial or technical support by international organizations, donor countries, NGOs, etc.

**Tourism promotion**

Once the situation has stabilized, attracting visitors to the area is another way of “injecting” foreign capital into the local economy. This is particularly true in areas where local consumption is low, preventing the growth of local enterprises. The tourist industry may stimulate not only the service industry itself, but also indirectly other sectors such as the crafts sector, food industry, agriculture, etc.

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**THE LEDA AS A “ONE-STOP SHOP” FOR FDI ATTRACTION: THE CASE OF WESTERN SLAVONIA, CROATIA**

Rural and war-torn areas in Croatia are rarely provided with institutions that attract investment from foreign countries or other parts of the country. The LEDA of Western Slavonia is today acting as a “one-stop shop” for information on investment opportunities in the region. It provides information on the labour market, skills, infrastructure, possible linkages with the local business to potential foreign or national investors. As many investors are keen on knowing more about Western Slavonia, the LEDA took the initiative to design a “Regional investment guide”, in cooperation with the Ministry of SMEs and the Soros foundation. …attraction is… that are considering to establish a production plant in the region or who are looking for trade partners regularly approach the LEDA.

*Davor Ilijasic, Executive Director of the LEDA in Western Slavonia.*
What to do?

Step 1: Diagnosis

The first step (check whether this has already been done in one form or another) is to work with the local business community to identify the competitive potential of the region (infrastructure, growth clusters and corridors, for example). This can be done either through a market and needs assessment, a SWOT analysis or feasibility studies on the resource base of the area.

The outcome of the research should address regional strengths in terms of strategic location, business opportunities available, niche products and markets, quality of life, skills and education level of the workforce, universities, education and training institutes, access to government policy-makers, investors and capital markets, local traditions and culture, natural resources and tourism attractions.

In addition to the general analysis (Section III), a territorial diagnosis should focus on investment attraction and stimulation.

See TOOL 4.2.1 for a market and needs assessment related to attracting investment.

See TOOL 4.2.2 to get an idea of the elements used in a SWOT analysis related to attracting investment.

Step 2: Sensitizing

Based on the outputs of step 1, the sensitization activities would mainly involve raising awareness and providing advice to local authorities and agencies on the most suitable strategies for stimulating and attracting investment. This may involve:

- Analysis and communication of existing policy opportunities and constraints;
- Advice towards the upgrading of regional promotion strategies in line with new development goals and priorities;
- Direct advocacy on behalf of SMEs to ensure that the concerns of the local business community are reflected in the policy-making process;
- Provision of (on-the-job) training for key persons (decision-makers and technical staff) in the design of promotion strategies as well as in the prioritized thematic areas;
- Helping to strengthen the links between private sector initiatives and public development programmes;
- Providing assistance in the institutionalization of coordination instruments (round-table discussions, etc);
- Bringing together stakeholders from different regions to pave the way for formal institutional “twinning”.

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On the other hand, there may be occasions when it is necessary to work exclusively with private sector actors on increasing market access through regional promotion. This may take the form of:

- Creating market linkages through trade fairs, product exhibitions and forums, marketing trips and meetings;
- Assistance in creating regional brands and marketing strategies around agricultural products, handicrafts, tourism, sites, etc. for domestic trade and export;
- Assistance to groups of local producers in creating cooperative marketing frameworks focused on the sectors of investment promotion, trade and export promotion, tourism promotion, major events and the film industry;
- Facilitating contacts between firms in export processing zones and local small and medium-sized enterprises.

**Step 3: Promoting a local/regional forum**

The involvement of the private sector in dialogue with government bodies brings about a broader and firmer belief in the development potentials of the region. The benefits of the strategy will be visible to the politicians and they will recognize and realize their specific roles in the process.

It may be deemed necessary to have ongoing meetings on how to continuously improve and upgrade the territorial promotion strategy. The role of the local forum would be to foster a greater sense of vision for the region’s economic future and to encourage the government, agencies and the private sector to work more closely together in realizing this vision. This depends on participation and consultation during the planning and implementation of all interventions. As with any type of LED intervention, success will ultimately depend on the demand, the appropriateness of the instrument for the local environment and it’s degree of ownership by local stakeholders.

**Step 4: Designing the LED strategy**

Armed with the information gathered during step 1, it is possible to design a package of services that are finely tuned to local needs.

See **TOOL 4.2.3** in this section for elements of a work plan related to attracting investment.
There are many different ways of stimulating investment and conveying important messages about the region and regional products to a wider audience. Some of these include:

- Territorial marketing campaigns;
- Foreign direct investment;
- Trade shows, fairs, exhibitions;
- Study tours.

Different combinations of media and tools are used depending on the scale and reach of the strategy. However these can be quite expensive and the method should be proportionate to the goals and budget. Radio, newspaper adverts and internet are usually fee-paying and could be out of reach of the smaller businesses and regional budgets. Here, collective marketing opportunities may be available through intermediary institutions, and this will require consultation with the institutions in the region. There may also be possibilities for creating cooperatives among producers for this purpose. Sometimes, special events and promotions such as trade fairs, shows, exhibitions and missions, as well as export workshops and seminars, can also be fully or partly subsidized by local government.

Who should do it?

The most suitable actor for territorial marketing campaigns is the local forum or its institutionalized agency (i.e. the LEDA). The forum speaks with the “voice” of the local stakeholders and is therefore able to decide whether investment opportunities contribute to the development plans devised under the agency’s auspices or are compatible with the local economic development strategy (i.e. need for decent jobs, economic growth, social and environmental sustainability, etc.).

For the local area it is important for the agency, as “development harmoniser”, to fend off outside investors who are attracted only by raw materials or cheap labour, or those interested only in unrestrained exploitation of virgin territory, as well as those who will generate no added value for the local economy and will spoil the natural environment.
## Toolkit 4.2 – Stimulating and attracting investment

### Tool 4.2.1 – Market and needs assessment related to attracting investment

<table>
<thead>
<tr>
<th>ANALYSIS OF THE CURRENT SITUATION WITH RESPECT TO FOREIGN INVESTMENT</th>
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</thead>
<tbody>
<tr>
<td><strong>Direct investment through enterprises</strong></td>
</tr>
<tr>
<td>▶ Which foreign companies have a stake in the regional economy?</td>
</tr>
<tr>
<td>▶ Are some sectors more attractive to FDI and why? (cheap labour force, skills of labour force, infrastructure, grants, incentives, tax cuts)</td>
</tr>
<tr>
<td>▶ How many jobs depend on FDI?</td>
</tr>
<tr>
<td>▶ Who are the main beneficiaries and who are the least advantaged?</td>
</tr>
<tr>
<td>▶ Are there any backward linkages between foreign companies and local SMEs?</td>
</tr>
<tr>
<td>▶ Through which intermediary/linkages did they invest on the territory?</td>
</tr>
<tr>
<td>▶ Local governments</td>
</tr>
<tr>
<td>▶ Local Chambers of Commerce, industrial associations</td>
</tr>
<tr>
<td>▶ National institutions or organizations</td>
</tr>
</tbody>
</table>

| **Direct investment through tourism**                         |
| ▶ What is the importance of tourism to the regional economy? Describe the linkages to local goods and services |
| ▶ Describe the type of tourism (city tourism, mass tourism, agro-tourism, adventure tourism, etc.) |
| ▶ Origin of tourists? (country of origin, age, etc.)          |
| ▶ What are the problems faced by the local tourism industry? (social, environmental, etc.) |
### Tool 4.2.2 – Elements of a SWOT analysis related to attracting investment

<table>
<thead>
<tr>
<th>ELEMENTS OF A SWOT ANALYSIS RELATED TO ATTRACTING INVESTMENT</th>
<th>S</th>
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<tbody>
<tr>
<td>What are the major problems linked to the presence of foreign firms and tourists?</td>
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<tr>
<td>What are the advantages of the current FDI policy?</td>
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<tr>
<td>What needs do attracted enterprises cover?</td>
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<tr>
<td>How can the presence of investors/tourists improve the socio-economic environment in the territory?</td>
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<tr>
<td>What local factors are most likely to attract further investments/tourists?</td>
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<tr>
<td>How can we achieve new sources of income through tourism or foreign enterprises?</td>
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</table>

### Tool 4.2.3 – Elements of a work plan related to attracting investment

<table>
<thead>
<tr>
<th>ELEMENTS OF A WORK PLAN RELATED TO ATTRACTING INVESTMENT</th>
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<tbody>
<tr>
<td>Local meetings with potential investors</td>
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<tr>
<td>Brochures</td>
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<tr>
<td>Study tours abroad</td>
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<tr>
<td>Publicity through a local website</td>
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<tr>
<td>Investment guides</td>
<td></td>
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<tr>
<td>Tourism and trade fairs, trade missions</td>
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<tr>
<td>Marketing campaigns tailored for certain clients (specific sectors)</td>
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<tr>
<td>Other</td>
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Networking and lobbying

What to consider?

Post crisis areas suffer in particular from broken social, economic and political networks. As these networks are vital for the functioning of the local economy, one of the main tasks of the LEDA will be strategic networking. It is important to mention that any networking activity within and outside the territory has to be coherent with the local economic strategy and follow agreed development targets.

Below we examine some of the ways in which networking contributes to the long-term recovery process.

Networking towards social capital and competitiveness

Certain academics have underscored that virtually all economic behaviour is embedded in networks of social relationships. When these relationships are sustained over time, they lead to trust and reciprocity in actions. This is what we mean by social capital. In post-crisis situations, networking can make economic transactions more efficient by facilitating valuable information exchange about products and markets, reducing the costs of contracts and creating an environment in which there is a greater degree of self-regulation. Providing occasions to strengthen social capital through networking can therefore play a critical role in stabilizing the situation and stimulating market activity.

Considering that isolation, lack of information and lack of contact with new trends and technologies are factors contributing to poverty, the potential for establishing wider relationships is crucial for a local economy’s success in quickly recovering from the crisis. Local firms can benefit from information on potential partnerships with large-scale overseas contractors, who would be able to share their expertise and technology for the duration of the contract.

Formalized cooperative arrangements, such as cluster networks, provide a forum to resolve practical issues such as training, infrastructure and procurement, and to create effective public/private partnerships. Through networking with different development agencies, local clusters of firms can also benefit from an improved flow of information on tender procedures (which are often designed for large enterprises), selection criteria, the true financing costs of projects, hidden risks and other matters.
Networking towards consensus building and resource mobilization around development goals

In post-crisis situations, many national and international development agencies, organizations and NGOs arrive on the scene to carry out different types of interventions, whether for food security, provision of medicines, building shelters, re-establishing water supply and basic services. They can have conflicting and vested interests, and different priorities in short-term vis-à-vis long-term objectives. At the same time, national authorities do not often seem to be aware of the impact different actors have, either directly or indirectly, on the establishment of an enabling environment for local economic development.

The lack of strategy and exchange of information, and the gap in technical understanding between policy-makers, donor agencies, civil society partners and the local business community lead to inefficient use of resources and hamper the formulation of local economic development strategies that could better serve the needs of territories. Civil society organizations, NGOs and the local private sector hold a vast store of knowledge on what types of interventions work best for which age groups and in which settings, but they are often excluded from the decision-making processes.

More effective use of resources is required among the various governmental, non-governmental, funding agency, civil society and commercial sector actors whose activities have a direct or indirect impact on the achievement of development goals at the local level. This helps to avoid overlapping agendas and “go-it-alone” approaches to interventions. Communication and sensitization on the need for a holistic approach to assistance can lead to more effective joint strategies towards the transition from relief to development. In terms of financial resource mobilization, getting the institutional and international development partners’ backing is important when lobbying large-scale corporate and private sector actors and attracting investment (see Chapter 4.2).

Networking is therefore critical to the creation of frameworks for dialogue and exchange of expertise. In countries where the LED process has been introduced, the role of the local/regional forum or the LEDAs has been to start “joining up the dots”. Due to their legal status, the LEDAs have been able to enter into negotiations with institutional and development partners to create strong linkages at local level and strengthen contact with similar agencies in other regions and countries. LEDAs not only play a major role in relations with financial intermediaries and/or funds in the territory, but are also the main actors in attracting and managing funds coming from external resources such as NGOs, international organizations and other donors.
4.3.2  

What to do?

**Step 1: Diagnosis**

The local forum/LEDA should identify priority areas where networking can facilitate the implementation of the LED strategy.

The local forum/LEDA should then use the **institutional map** to identify existing linkages and networks at the local, national or international levels. In particular, attention should be paid to networks that were strong before the crisis and which could become the axis for post-crisis recovery strategies.

These could include:

- Networks in the private sector;
- Networks with business partners in different regions or countries, sectors, etc.;
- Networks with foreign investors;
- Networks in the public/non-profit sectors;
- Networks among local institutions, associations, NGOs in the crisis-affected area;
- Networks with national institutions, ministries, foundations, etc.;
- Networks with international donors, governments, foundations etc.

See **TOOL 4.3.1** for a market and needs assessment related to networking and lobbying.

See **TOOL 4.3.2** for elements of a SWOT analysis related to networking and lobbying.

**Step 2: Sensitizing**

The results of the territorial diagnosis and institutional mapping exercises should be used to raise awareness and stimulate discussion as to how different stakeholders can reach their development targets through networking activities, in which areas and at which levels of decision-making.

**Step 3: Promoting a local/regional forum**

Networking is an issue that touches all the local stakeholders. Everyone will benefit from a networking strategy at all levels. Distinct networks in different sectors don’t weaken but rather strengthen each other. The local forum will help to discover existing networks and will automatically foster the strengthening and creation of new ones.
Step 4: Facilitating the LED strategy

The first step will be the analysis of the data collected previously in step 1. The local forum will carry out this exercise in order to decide how different networking activities can facilitate the general LED strategy.

Depending on the outcomes of the market and needs assessment and the SWOT analysis, the process of strategic networking may embrace the following activities:

- Building and rebuilding interaction and relationships between the most important local stakeholders. This networking function is achieved through the creation of a local forum (see Section III). The immediate result of this function will be social dialogue that will foster social interaction and consensus building, decrease social and political conflict and lead to a wide public/private partnership;
- Lobbying the national ministries concerned with the territory’s social, economic and political interests (i.e. labour, economy, foreign affairs, education, health, etc.) in order to obtain assistance and funds for the reconstruction of the territory;
- Lobbying international organizations, NGOs and other donors in order to obtain complementary funds for the national aid programme. The forum will act as the official and unique “voice” for the socio-economic interests of the local stakeholders;
- Lobbying for technical assistance at the national and international level;
- Acting as the major contact point for potential donors, private investors and other commercial partners;
- Representing the territory at conferences, discussions, trade fairs, etc.;
- Participating in the existing international or regional LEDA networks such as ILS-LEDA⁶, EURADA⁷ or DELNET⁸.

See TOOL 3.4.2 in “Designing a LED strategy” for an outline of a work plan.

See TOOL 4.3.3 for elements of a work plan related to networking and lobbying.

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⁶ Internacional Liaison Service for Local Economic Development Agencies (www.ilsleda.com).
⁷ European Association for Development Agencies (www.eurada.org).
⁸ DELNET is a Programme of the International Training Centre of the ILO, Turin, in support of local development (www.itcilo.it/delnet).
Who should do it?

Representatives of the local forum or LEDA in territories where there are no representative institutions will be expected to take the lead on networking and lobbying.

The LEDA should draw on all existing contacts and tools to carry out its functions.

See TOOL 4.3.4 to access the existing LEDA networks ILS-LEDA, EURADA and DELNET.

An additional available instrument for the LEDA’s networking is the European Association of Development Agencies (EURADA). This Association plays an important role in establishing linkages with EU programmes, exchange of experiences and market opportunities between regional development agencies in Western, Central and Eastern Europe, transatlantic networks and north-south cooperation.

The ILS-LEDA has developed a twinning programme to fund feasibility studies for projects agreed on by the two partners that should form the foundations for a lasting relationship. The benefits of twinning are multiple. In the first place, there is planning and implementation of the practical initiatives the two parties will carry out together. Second, agencies in industrialized countries can help to secure new funding to develop projects, expand them and increase their impact. This interchange may permit the creation of joint ventures that can qualify for the abundant funding allocated to this specific purpose by the industrialized countries. Third, the two agencies, which ordinarily operate in quite different territories, can grow together in a process of horizontal exchange, learning from each other’s experiences and capacities.
### Toolkit 4.3 – Networking and lobbying

**Tool 4.3.1 – Market and needs assessment related to networking and lobbying**

<table>
<thead>
<tr>
<th>ANALYSIS OF THE CURRENT SITUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying the key actors and institutions in local/regional networks</td>
</tr>
<tr>
<td>Identifying the institutions and organizations providing financial support to the territory (government ministries and bodies, international organizations, NGOs, etc.)</td>
</tr>
<tr>
<td>Identifying the supply of private financial contributions: What external financial resources (FDI) are invested in the territory by national and international private actors?</td>
</tr>
<tr>
<td>What is the legal and regulatory background for the receipt and management of external resources by local institutions and organisations?</td>
</tr>
<tr>
<td>Identifying the institutions and organizations that provide commercial support to the territory (NGOs, international organizations, funds, etc.)</td>
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<tr>
<td>In which sectors/areas do networks mostly exist?</td>
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<tr>
<td>Which sectors do networks poorly serve?</td>
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<tr>
<td>Analysis of political networks</td>
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<tr>
<td>Analysis of institutional networks</td>
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<tr>
<td>Informal networks</td>
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<tr>
<td>What effects do they have on the local economy?</td>
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<tr>
<td>Other</td>
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</tbody>
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**Tool 4.3.2 – Elements of a SWOT analysis related to networking and lobbying**

<table>
<thead>
<tr>
<th>ELEMENTS OF A SWOT ANALYSIS (NETWORKING AND LOBBYING)</th>
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</thead>
<tbody>
<tr>
<td>Networks (political, commercial, institutional, etc.) at local level</td>
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<tr>
<td>Networks at national level</td>
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<td>Networks at international level</td>
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<tr>
<td>Use of networks in order to increase financial resources</td>
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<td>Use of networks in order to emphasize political presence</td>
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<tr>
<td>Use of networks in order to foster technological innovation</td>
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<tr>
<td>Use of networks in order to foster training and exchange of knowledge</td>
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<tr>
<td>Use of networks in order to foster territorial marketing</td>
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<td>Other</td>
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</tbody>
</table>
### Tool 4.3.3 – Elements of a work plan related to networking and lobbying

<table>
<thead>
<tr>
<th>ELEMENTS OF A WORK PLAN RELATED TO NETWORKING AND LOBBYING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and rebuilding interaction and relationships between the most important local stakeholders</td>
</tr>
<tr>
<td>Establishing contacts with national ministries (i.e. labour, economy, foreign affairs, education, health, etc.) by involving them in the design of the LED strategy</td>
</tr>
<tr>
<td>Establishing contacts with international organizations and NGOs in order to create synergies and partnerships for projects</td>
</tr>
<tr>
<td>Lobbying for technical assistance at the national and international level</td>
</tr>
<tr>
<td>Acting as the major contact point in the territory for potential donors, private investors and other commercial partners</td>
</tr>
<tr>
<td>Representing the territory at conferences, discussions, trade fairs, etc.</td>
</tr>
<tr>
<td>Participating in international or regional LEDA networks such as ILS-LEDA, EURADA or DELNET</td>
</tr>
<tr>
<td>Analysing how to get better access to the sources of external financing/donations</td>
</tr>
</tbody>
</table>

### Tool 4.3.4 – Internet references for LED/LEDA networks

<table>
<thead>
<tr>
<th>INSTITUTION</th>
<th>INTERNET REFERENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>LED Programme – International Labour Organization</td>
<td><a href="http://www.ilo.org/employment/led">www.ilo.org/employment/led</a></td>
</tr>
<tr>
<td>DELNET</td>
<td><a href="http://www.ltcilo.it/delnet">www.ltcilo.it/delnet</a></td>
</tr>
<tr>
<td>ILS-ADEL</td>
<td><a href="http://www.ils-leda.com">www.ils-leda.com</a></td>
</tr>
<tr>
<td>EURADA</td>
<td><a href="http://www.eurada.org">www.eurada.org</a></td>
</tr>
</tbody>
</table>
4.4 Strategic environmental assessment (SEA)

4.4.1 What to consider?

Traditionally, development policies have focused on the provision of physical, or “hard” infrastructure that pays more attention to market needs, rather than the “soft” infrastructure that supports local economies and the impact of economic changes on the social and ecological environment.

Developing countries suffer from exceptional environmental problems, particularly in highly populated urban areas, due to unregulated pollution levels, lack of proper infrastructures for waste dumping and water management, and so on. In general, these countries are also more prone to the impacts of natural disasters due to their poverty levels and underdevelopment.

In developing countries, the need for special consideration of environmental issues is clear. However, even when environmental impact assessment (EIA) has been conducted during the planning phase, development projects have still been designed according to economic criteria, with checks on their environmental effects taking place at a later date.

Most of the results of such an approach have been disappointing for the following reasons:

- The EIA procedure is relatively detailed and requires a huge amount of data. The availability of environmental data is very limited in developing countries;
- The EIA procedure tends to create unbearable financial burdens. Often, the assessment procedure is too costly compared to the costs of the project itself. Therefore many traditional development policies choose the “no assessment” option;
- The EIA procedure is often too time-consuming, and if the development project is rejected, the whole project design procedure has to start again from scratch. This creates high costs in terms of time and money, and is consequently undesirable to many policy-makers and business people.

In the case of crisis situations, the lack of concern for environmental issues in past recovery strategies has almost certainly been related to the need for expediency in meeting immediate short-term social and economic needs, and the time needed to consider all the complex issues involved in environmental protection.

The LED approach offers the chance to create a template for environmentally sensitive forms of economic recovery. For example, the approach favours profitable activities that can still be generated through agro-tourism, biological production through cooperatives, etc.
To this end, the LED approach introduces the concept of strategic environmental assessment (SEA) and aims towards:

- Facilitating the collection of environmental data to be used in project design;
- The integration of environmental concerns throughout the LED strategy and at the Policy level, as well as for single development Programmes or Projects (PPP);
- Fostering the establishment of institutionalized mechanisms for monitoring environmental management, as a condition of “good governing”;
- Providing support, and acting as the intermediary for environmental organizations, so that they can encourage sound environmental management at the local level through dialogue with the local administration;
- Facilitating the adoption and implementation of environmental guidelines by both public and private companies, through regional and local governments;
- Ensuring the inclusion of an environmental component in local government information and monitoring systems for the planning of strategic investment projects.

What to do?

Step 1: Diagnosis

This involves the collection and analysis of basic environmental data that will provide an overview of the most pressing environmental issues and feed into the design and implementation of LED activities. Local environmental groups and associations should be consulted, as these will possess a great deal of environmental data already.

See TOOL 4.4.1 for a market and needs assessment related to SEA.

See TOOL 4.4.2 for elements of a SWOT analysis related to SEA.

Step 2: Sensitizing

In this phase the local stakeholders should be made aware of the importance of the protection of the natural environment for a sustainable LED approach. Economic actors should be informed of the fact that economic development and environmental sustainability are not a contradiction, but complement each other.

- Organize environmental training courses;
- Involve economic and political actors in the environmental debate.
Step 3: Promoting a local/regional forum

Environmental groups should be included in the local/regional forum. Furthermore, and most importantly, they should participate in the local forum in order to contribute their knowledge, concerns and technical expertise in the matter.

Step 4: Designing the LED strategy

See TOOL 4.4.3 for elements of a work plan related to strategic environmental assessment.

Part of this work plan should include further awareness-raising and training activities.

See TOOL 4.4.4 for an example of LED and the environment.

The SEA procedure should follow a number of steps at policy, programme and project level:

- Deciding whether the project needs SEA;
- Describing the project’s objectives and identifying alternatives for the project that fulfil the strategy/objectives;
- Identifying key impacts and their boundaries, therefore making it necessary to establish indicators and targets and identify problem areas;
- Predicting impacts and comparing alternatives;
- Proposing a monitoring programme;
- Reviewing the SEA report, making a formal decision;
- Monitoring and evaluating impacts.

Who should do it?

Environmental consequences of local development projects are often not perceived by the local leaders and population. Gradually, the LEDA can promote this awareness and help the authorities and local population recognize and prevent these dangers, that are not only a menace to the environment, but also in the social and economic spheres. Coordination with public and private institutions is particularly important. Together with the government and private organizations at the local level, as well as with the private sector, the LEDA could prepare, organize and promote unified actions.
The key partners of the LEDA in the process of harmonizing local economic initiatives in line with environmental improvement should be the following:

- Municipal, district and provincial authorities and leaders;
- Local public services;
- Local actors;
- Municipalities and other local administrations.
## Toolkit 4.4 – Strategic environmental assessment (SEA)

### Tool 4.4.1 – Market and needs assessment related to SEA

#### ANALYSIS OF THE CURRENT ENVIRONMENTAL SITUATION IN THE TERRITORY

<table>
<thead>
<tr>
<th>Analysis of environmental sensibility</th>
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<tbody>
<tr>
<td>Existence of environmental organizations in the territory</td>
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<tr>
<td>Existence of environmental training/sensitizing courses</td>
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<td>Existence of projects/initiatives that address environmental issues/problems</td>
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<tr>
<td>Environmental sensibility of local actors</td>
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<tr>
<td>Level of participation in the environmental debate by all local stakeholders</td>
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<tr>
<td>Levels of pollution</td>
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<tr>
<td>▶ Air</td>
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<td>▶ Water</td>
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<td>▶ Soil</td>
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<td>▶ Noise</td>
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<tr>
<td>▶ Etc.</td>
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<tr>
<td>Source of environmental problems</td>
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<td>▶ Agriculture</td>
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<td>▶ Industry</td>
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<td>▶ Tourism</td>
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<td>▶ Households</td>
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<tr>
<td>▶ Conflicts</td>
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<tr>
<td>▶ Etc.</td>
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<tr>
<td>Existence of particular natural resources such as</td>
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<td>▶ Natural parks</td>
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<td>▶ Lakes</td>
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<td>▶ Rivers</td>
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<tr>
<td>▶ Forests</td>
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<tr>
<td>▶ Etc.</td>
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<tr>
<td>What effects do they have on the local economy?</td>
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<tr>
<td>In which socio-economic sector does environment play a fundamental role?</td>
</tr>
<tr>
<td>Who are the key actors and institutions at the local/regional level?</td>
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<td>Other</td>
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### Tool 4.4.2 – Elements of a SWOT analysis related to SEA

<table>
<thead>
<tr>
<th>ELEMENTS OF A SWOT ANALYSIS (SEA)</th>
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<tr>
<td>Environment and current development policies</td>
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<td>Environment and the institutional framework</td>
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<td>Environment and agriculture</td>
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<td>Environment and tourism</td>
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<td>Environment and technological innovation</td>
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<td>Environment and training</td>
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<td>Environment and health</td>
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### Tool 4.4.3 – Elements of a work plan related to SEA

<table>
<thead>
<tr>
<th>ELEMENTS OF A WORK PLAN RELATED TO SEA</th>
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<tbody>
<tr>
<td>Promoting a policy to protect the environment in harmony with the requirements of sustainable economic development</td>
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<tr>
<td>Promoting the establishment of groups for the preservation of the environment</td>
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<tr>
<td>Integrating an environmental approach in the writing of feasibility studies</td>
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<tr>
<td>Promoting projects related to the reconstruction and rehabilitation of war-torn areas (clearing of mines, clearing of war damages to housing, physical infrastructure, landscape, etc.)</td>
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<tr>
<td>Promoting entrepreneurial projects with a direct positive impact on the recovery of the environment</td>
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<td>Promoting the diffusion and application of soil conservation techniques</td>
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<td>Promoting alternative energy usage</td>
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<td>Promoting reafforestation programmes</td>
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<tr>
<td>Organizing and promoting unified actions with public and private institutions</td>
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I. INTRODUCTION

The Morazan Province in the Eastern region of El Salvador has historically been on the margins of the national development process. Twelve years of conflict have served to widen this chasm even further, and this has particularly affected the rural zones of the Province.

One of the determining factors has been the structure of land ownership. For the most part, the land is divided into smallholdings. However most of these have limited productive capacity. High levels of illiteracy, health problems, housing, and ecological deterioration further exacerbate this imbalance.

As a result of the conflict, many communities were forced to abandon their homes and relocate to precarious rural shanty towns on the outskirts of provincial capitals/major towns and other cities of the region. In 1985, the eastern region represented an estimated 55% of the persons displaced by the war, although only 20% of the country’s population.

The armed conflict in Morazan has continued even more intensely, thus increasing existing socio-economic problems. The social fabric has been torn down, the main economic sectors have lost their production value, the economic infrastructure has become outdated, the value of agricultural production has dropped, and social safety nets are low in quality and limited in coverage.

The conflict has created an increasing number of widows, crippled persons and orphans, leading to a growth in female-headed households with the matriarch as the main provider. Figures show that 40.5% of women are heads of households, and 80% of women in the rural areas of the Province contribute to the production of crops on a commercial scale.

The economic activity in the Province is based on cattle-raising and traditional agriculture. Growing basic grains, henequen, exploiting the forests, coffee growing and animal husbandry (cows, pigs, chickens) are the main activities.

Household production is mainly intended for self-consumption. However, any surplus is sold through intermediary agents in the main marketplaces of the Province (Osicala, San Francisco Gotera and Corinto), and outside the Province in the cities of San Miguel and Santa Rosa of Lima.

Settlement remittances are another major influence in the Province’s economy. Of the 800 million dollars that enter the country annually, an estimated 4.5 million are destined for Morazan, and are specifically intended for the marketing of goods and services and not for investment projects.

In general, the economic downturn in the Province is most deeply felt in the absence of industrial agricultural business sectors, a situation that fails to generate permanent jobs and capital and causes the economically active population to migrate to other regions or go overseas. There is also a lack of productive diversification, an absence of institutions that would promote development and a lack of access mechanisms to credit and technical assistance services.

Public and private investment is not very significant, given that only 4% of the national budget is given over to public sector provincial costs.

However, there is a potential for increasing the human capital and material resources. This could take the form of productive organization in a cooperative and communal form, new forms of civil participation, advanced levels of consciousness for socio-economic change and development.

These initiatives have been encouraged by non-governmental organizations (NGOs), whose joint activities with other self-help organizations have achieved great relevance in the eastern region, and particularly in Morazan.

NGOs have played a vital role in encouraging cooperation within and among different population groups. This has provided space for beneficiaries to determine their own goals, develop their own approaches and make their own decisions.

In the management of external financial resources, NGOs have become receivers of requests for technical services, material support for concrete needs and support for institutional organizational development.

The dual capacity of the NGOs to respond to the demands of the organized population and to encourage organizational processes in those populations where they do not operate, is one of their most important characteristics.

The Chapultepec agreement marks a new phase in the development of the country. However, the Province may find itself in a situation of socio-economic instability due to:

- Absence of municipal development plans;
- Limited presence of ministries in the conflict zones;
- Legal situation of the land;
- Deterioration of the basic infrastructure.
In the economic plan, there is no organizational mechanism that allows for the guiding of productive efforts, particularly the fostering of self-sustaining productive projects capable of generating surpluses.

The Morazan Province must secure socio-economic integration with the rest of the eastern provinces, given that the majority of the population are impoverished peasant farmers. The present situation does not favour internal development towards the rest of the region.

The development of the Morazan Province should be expressed in a plan connecting the central ideas of provincial development to the rest of the region. In addition, it should facilitate the coordination and integration of other efforts and programmes in the region; this would contribute to generating a capacity for planning, management and execution of regional projects.

Considering this situation, a Local Economic Development Agency for the Morazan Province was created as a tool to assist in the revitalization of local markets, and the valorization of local resources as a stimulus for endogenous growth.

II. NATURE
The Local Economic Development Agency (LEDA Morazan) is a development instrument made up of representatives of the different economic/productive organizations of the Province. It is a political body, but it is non-profit. Its purpose is to contribute to economic development within a socio-cultural and ecological framework for development. It is based on participatory and democratic processes and its legal personality is that of a foundation.

III. PARTICIPANTS IN THE PREPARATORY STAGE
The Agency is composed of representatives from the following institutions, organizations, private enterprises, and governmental and non-governmental bodies.

Governmental institutions:
- Ministry of Agriculture and Cattle;
- National Centre of Agricultural Technology CEGA Morazan;
- Regional Agricultural Planning Office;
- Ministry of the Interior;
- Ministry of Planning;
- Local governments (governorships and mayoralties of the Province).

Non-governmental organizations:
- Development Board of the El Salvador Communities (PADECOES);
- Salvadorean Foundation for Reconstruction and Development (REDES);
- Foundation for the Self-management and Solidarity of Salvadorean Workers (FASTRAS);
- Second Foundation (FSM).

Societies:
- Development Board of the Morazan and San Miguel Communities (PADECOMS);
- Association of Salvadorean Women (AMS);
- Women’s Community Movement (MCM);
- Association for the Development and Cooperation of the Salvadorean East (ADECOSAL);
- Second Community (CSM);
- Coordination for the Development of the Union and South Morazan (CODELUM);
- Council of Communities for the Development of Cacahuatique (CODECA).

Private enterprises:
- Cooperative of Savings, Credit, Production and Agricultural Services of Limited Responsibility (CAPCYSA DE R.L.);
- COAGRO;
- Association Cooperative of the San Carlos Agrarian Reform of Limited Responsibility.;
- PROESA.

Support organizations (international cooperation):
- Canadian Cooperation;
- European Economic Community;
- Development Programme for Displaced, Refugee and Repatriated Persons in Central America (PRODERE);
- Others.
IV. OBJECTIVES

GENERAL
To encourage human development within a framework of social stability.

SPECIFIC
To foster the revitalization and modernization of the Province’s economy, taking the following policies into account:

- Diversify the agricultural conservation of the natural resources and environment and their rational use;
- Stimulate agricultural business ventures;
- Encourage industry;
- Strengthen alternative financial sources;
- Institutionally strengthen productive agents;
- Encourage competition and effective production;
- Create and strengthen marketing instruments;
- Apply appropriate techniques in different projects.

To strengthen the social development of the communities and to encourage businesses with social responsibility to:

- Invest part of their profits for the social benefit of the local communities;
- Promote savings schemes for employees;
- Persuade employees to invest in the business assets, to encourage economic initiatives that will increase the capacity of consumption, to improve the quality of life in the communities;
- Integrate excluded groups, especially women, in the development process through their organized participation in local planning;
- Strengthen the coordination mechanisms that will allow for the participation of the State, NGOs and businesses of the Province;
- Encourage the State, NGOs and businesses to supply, through cooperation, services complementary to development;
- Encourage the participation of citizens in productive schemes;
- Facilitate, through actions promoted by the LEDA, conditions for the participation of women in all the stages of development;
- Foster and strengthen local producer organizations;
- Construct and institutionalize short, medium and long-term planning with the participation of the production agents of the Province;
- Manage, negotiate and channel the financial and technical resources that will be required for the implementation of the projects, under the scrutiny of national and international organizations;
- Foster the creation and development of productive community agencies, to promote consumption and marketing that will contribute to the economic development of the communities.

V. RESULTS

By July 1993, the Morazan LEDA was assembled and operating in accordance with the planned objectives:

- To legalize the LEDA and make sure that LEDA participant organizations were installed and appropriately equipped;
- To have a master plan;
- To contract the necessary personnel and draw up agreements for the organizational needs.

An updated and integral information system was established that would contain:

- Technical, financial, national, regional and provincial information;
- Provincial potential;
- Directory of supply and demand for products and services;
- Bank of productive projects;
- Directory of consulting businesses and technical assistance consulting agencies;
- Directory of imported and exported products;
- Directory of financial organizations and backers;
- Technical library.

Socio-economic impact was achieved through the implementation of three economically profitable projects:

- Strengthening of local alternative financial systems;
- Establishment of a marketing system and an advertising office;
- A productive cattle project.

The cooperation mechanisms between different public and private institutions were consolidated.

Its economic sustainability was consolidated.

It was able to rely on financing for continuing its operations and on appropriate mechanisms for financing new projects.

Incentives were stimulated and provided for the development of the productive agents (producers’ associations, commercial market).
Jobs and income resulting from the implementation of the projects were generated.

The rebuilding of the productive infrastructure and of the services through governmental management was achieved.

It was able to rely on a productive and enterprising investment programme that would be in agreement with the integral development plan.

The formulation of an integral development plan was agreed to and supported by all the provincial actors.

The participation of women in the productive projects was consolidated.

The creation and development of productive community agencies was fostered, to promote consumption and marketing that would contribute to the economic development of the communities.

VI. STRATEGIES

GENERAL STRATEGY

To maintain strict coordination with the inter-institutional technical committee, with the goal of drawing up concrete plans and projects in a framework of integral development of the Province.

Short-term strategy (starting period)

– To legalize and strengthen the organization and technical administrative capacity of the economic and social agents presented by the LEDA;

– To encourage the participation of governmental institutions, NGOs and private enterprises in the recovery of the vital infrastructure damaged by the war, restoration of public services, technical and financial support to economic, socio-cultural and ecological projects executed by the socio-productive organization, for the benefit of the provincial communities;

– To secure technical and financial support for a minimum period of 36 months, through an agreement between PRODERE and LEDA Morazan, to guarantee the continuation of the PRODERE programmes or their substitutes;

– To design management mechanisms for technical and financial resources at the local, national and international levels;

– To foster lasting inter-institutional cooperation at the local, national and international levels;

– To foster productive projects of economic impact, and socio-cultural and ecological effect, encouraging support to existing production, creation of marketing mechanisms, strengthening alternative financial systems and existing businesses, and encouraging the creation of new businesses.

Medium-term strategy (consolidation and development)

The LEDA will:

– Develop a technical and financial strategy that is able to sustain itself;

– Lend continuity to the inter-institutional coordination and cooperation between the participants;

– Develop and support agricultural diversification and a staggered substitution of traditional cultivation methods;

– Support new economic areas, services, industrial and agricultural businesses and commercial enterprises;

– Consolidate the organization and technical administrative capacity of the economic and social agents, in order to achieve self-sustainability;

– Stimulate support for the expansion and building of infrastructure towards the development of economic and productive activities and/or services;

– Contribute to the design of and agreement with the development plan of the Morazan Province;

– Consolidate and expand the participation of women in the initiatives and productive projects.

VII. ORGANIZATION AND OPERATION

LEVELS OF DECISION AND OPERATION

Levels of decision-making and establishment of policies for fundamental strategies:

– General Assembly

– Board of Directors (see statutes)

– Technical Operative Units

Manager

Responsible for the integral coordination of the technical and administrative management of the Agency. Guides the functions and tasks of the different units. Reports to the Board of Directors. Heads the Technical Committee.

Technical Committee

Internal in character. Supports the Manager in the formulation, execution and monitoring of specific plans and activities. Guarantees the interconnection of the different Technical Units. It will comprise representatives from each Unit, and meet regularly and when the Executive Director considers it pertinent. It has no line of command.
**Technical Operative Units**

They will constitute the substantive axis of the LEDA. Four basic interconnected units are proposed, to cover the start-up phase and all the functions and responsibilities of the LEDA:

- **Financial Assistance Unit:** Channels the resources for the development of businesses (pre-investment, assembly, realization) and supervises their application. It sponsors or promotes financial support mechanisms to the projects and basically guides their application through mediation.

- **Planning, Pre-Investment and Evaluation of Projects Unit:** Has the responsibility of identifying investment opportunities and prioritizing them. Supports studies to make them viable (profitable) and promote their implementation. These functions will be performed within the framework of a business plan or programme, which will be a strategic component of the Integral Plan of Provincial Development.

- **Technical Support and Training Unit:** Responsible for encouraging and developing new businesses or setting them in motion through advising and/or managerial or technical vocational training. It will perform actions in the administrative, financial, legal, marketing, organizational and technical fields.

- **Computer Unit:** This is an instrument of support to the identification and promotion of projects. It will operate a database system and physical archive on investment opportunities, financing sources, technologies, structures that can provide training and technical assistance, and market dynamics (prices, supply of materials, tax regulations, etc.).

**Administrative Department**

Supports the management and administration of the Agency, particularly the management and internal control of the human, patrimonial and documentary resources. Operates the accounting and budgeting systems. Produces financial reports for management and internal decision-making. Proposes and manages funds for internal (management) sustenance of the LEDA (donations, external cooperation, shares, payment for services).

**Legal Advice Unit**

Assistance in the management needs of the LEDA in terms of its institutional relations, procedures within the governmental superstructure, agreements and contracts. Given its level and the subject matter it deals with, it constitutes a support unit both to the Manager and to the Board of Directors. It does not have a programme advising capacity.
Strategic planning

What to consider?

Planning for local economic development cannot be reduced to the reconstruction of roads and bridges, to the assignment of spaces for industries, to the provision of business support services and facilities, etc. Instead, it must be the expression of a wider concept of economic development as defined by the interests of the local stakeholders and within a long-term vision for the territory. What this requires in practice is consideration as to how policies on business support, investment, the environment, regional promotion, planning, employment creation, credit, the integration of special groups, agriculture, tourism and training all link together, and whether these impact in an environmentally and socially sustainable way on the territory concerned.

The immediacy of the need to respond in a crisis situation means that such linkages are not often made, and policies that may have contributed to the onset of crisis may be replicated. For example, the quality of planning for previous infrastructure may have contributed to environmental degradation, which may also slow down recovery prospects. Questions should be raised as to whether it is appropriate to rebuild or to reconstruct the infrastructure with the same characteristics, or even rebuild in the original location.

It may also be an opportune moment to think about opening up connections to new market locations and new sites for production, which in turn will help to improve the supply of inputs and raw materials.

Strategic planning means asking several important questions:

- Are these systems compatible with those for analysis and participation?
- How do national, local and regional strategies relate to each other, and how do existing strategies link into the planning and decision-making systems?
- Is it clear where responsibilities lie for building on existing strategies and their activities, for formulating new strategies where relevant, for implementing them, and for monitoring them?
- Are there systems for defining priorities in environmental, economic and social terms, so as to keep the number of strategy objectives manageable (at any one time)?
- Do the institutions concerned have sufficient rights, resources and effective relationships to undertake this?
- Is there continuing identification and participation of concerned stakeholders – including government, civil society and market players at different levels, and representatives of global environmental interests – in strategy preparation, planning, implementation, monitoring and review?
Do fiscal and regulatory frameworks internalize social and environmental costs in order to redress market failure and open doors to best-practice investment? Are these frameworks efficiently monitored and enforced, by government or private bodies as appropriate?

What to do?

Step 1: Diagnosis

A strategic planning initiative should start jointly with the territorial diagnosis. In addition to the general diagnosis (see Section III), the first step consists of collecting data and creating maps. See TOOL 4.5.1 for elements in carrying out a market and needs assessment related to strategic planning.

Step 2: Sensitizing

In order to obtain the above-mentioned maps, it will be necessary to conduct surveys and hold workshops with the major local stakeholders. This may be done at the same time as the institutional mapping process. The working groups will jointly:

- Analyse the maps produced;
- Create a “planning profile”.

Step 3: Promoting a local forum

The planning profile created in the previous step is presented to the local forum. Nevertheless, it will be necessary to consider all the other results of territorial diagnosis and institutional mapping. The planning process needs input from different sectors in the local economy, and should therefore involve all the local stakeholders (i.e. entrepreneurs, public stakeholders, environmental groups, etc.).

Step 4: Designing the LED strategy

Planning has to be strategic. In other words, it should not merely be limited to assigning spaces to industries, roads, sports facilities, and so forth, but should be the expression of a wider concept of economic development. Therefore, the planning strategy should be in line with the social, economic and political priorities identified in the SWOT analysis. See TOOL 4.5.2 for elements of a SWOT analysis related to strategic planning.
Once there is a wide consensus about the LED vision (long term), the objectives (mid term) and priorities (short term), the local stakeholders will:

- Agree upon the need for a planning strategy;
- Agree upon the priorities in this matter;
- Agree upon the design of the investment plan.

**Step 5: Coordinating/creating implementation structures**

Employment creation is a major issue when deciding on the implementation of the investment plan. On this occasion, the forum will have to decide:

- Whether the community will take on all the work itself;
- Whether the work will be contracted entirely to an external organization;
- Whether it will be a mixed partnership;
- Which local SMEs would be suitable for the reconstruction of the local infrastructure network.

For elements of a work plan related to strategic planning, see TOOL 4.5.3. Once the contractors for the implementation of the territorial investment initiative have been found, it will be necessary to choose the most adequate type of contract between the LEDA and the enterprises that will carry out the work. In general terms, we can identify three types of contracts:

- Community contracts between the local government (or LEDA) and a service provider based in the territory, in which the work is executed entirely by the community;
- A mixed contract between the LEDA and an external service provider (public or private), in which the work is executed jointly;
- A mixed contract between the LEDA and an external service provider (public or private), in which the external service provider executes the work.

See TOOL 4.5.4 for an example of successful planning. For a more detailed and practical guide to strategic territorial planning, see Van der Goes and Mastwijk (2001) and other planning material listed in the BIBLIOGRAPHY.
4.5.3 Who should do it?

The LEDA should carry out the design and coordination of the territorial planning initiative through the local forum. By doing so, the local stakeholders will have the opportunity to consider other objectives and priorities of the LED process, and to adjust them according to the planning needs.

Where possible, the planning initiative should be implemented by local enterprises in order to stimulate the local economy. Otherwise, partnerships with external organizations may be considered.
**Toolkit 4.5 – Strategic planning**

**Tool 4.5.1 – and needs assessment related to strategic planning**

<table>
<thead>
<tr>
<th><strong>ANALYSIS OF THE CURRENT SITUATION REGARDING STRATEGIC PLANNING</strong></th>
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</thead>
<tbody>
<tr>
<td>Identify local and national legislation with respect to infrastructure projects</td>
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<tr>
<td>Identify the local and national authorities responsible for planning initiatives</td>
</tr>
<tr>
<td>Identify other organizations responsible for planning issues (NGOs, architects, research institutions, etc.)</td>
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<tr>
<td>Create a land tenure map, combining tenure with population density</td>
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<tr>
<td>Create a land use map, showing the major land uses such as</td>
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<tr>
<td>➢ Commerce</td>
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<tr>
<td>➢ Industry</td>
</tr>
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<td>➢ Agriculture</td>
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<td>➢ Transport (road, rail, sea, river, etc.)</td>
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<td>➢ Settlements</td>
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<tr>
<td>➢ Vacant areas</td>
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<tr>
<td>➢ Other</td>
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<tr>
<td>What effects do they have on the local economy?</td>
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<tr>
<td>Other</td>
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</tbody>
</table>

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### Tool 4.5.2 – Elements of a SWOT analysis related to strategic planning

<table>
<thead>
<tr>
<th>ELEMENTS OF A SWOT ANALYSIS (STRATEGIC PLANNING)</th>
<th>S</th>
<th>W</th>
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<tbody>
<tr>
<td>Past/current territorial initiatives</td>
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<tr>
<td>Initial diagnosis</td>
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<tr>
<td>Involvement of local stakeholders in the design of strategy</td>
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<tr>
<td>Consideration/integration of other development issues (job creation, SMEs, environment, finance, etc.)</td>
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<tr>
<td>Quality of institutions responsible for planning issues</td>
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<td>Cooperation among institutions responsible for planning issues</td>
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<td>Financial resources for infrastructure</td>
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<tr>
<td>Local/regional responsibility (autonomy) of planning</td>
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<td>Other</td>
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### Tool 4.5.3 – Elements of an work plan related to strategic planning

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<thead>
<tr>
<th>ELEMENTS OF A WORK PLAN RELATED TO STRATEGIC PLANNING</th>
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</thead>
<tbody>
<tr>
<td>Lobbying the national authorities for a better consideration of local concerns regarding the design and implementation of planning initiatives</td>
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<tr>
<td>Considering employment-intensive investment programmes for small projects</td>
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<tr>
<td>Designing and implementing training programmes for SMEs in the construction sector</td>
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<td>Considering financing mechanisms for local SMEs</td>
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<td>Other</td>
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</table>
Tool 4.5.4 – Example of a successful multi-sector integrated approach: The UNDP/ILO Employment Generation Programme (EGP) in Cambodia

This large-scale multi-sectoral programme targeted three different groups of persons affected by conflict. It was actually found that many of the programme beneficiaries moved between programme areas as their needs changed.

In the first instance, the Programme targeted some 6,000 poorly educated and often illiterate people, who often had little to offer other than their labour. These persons were offered training and employment in largely community-based infrastructure rehabilitation projects utilizing labour-based appropriate technology (LBAT). At their peak, the projects employed a workforce of 6,000 workers and created some 1.2 million working days of employment, 240 km of secondary roads, 66 km of irrigation canals. They were also responsible for the major cleaning-up and partial restoration of the World Heritage Site of Angkor, as well as providing literacy training for 1,000 persons (most of whom were women).

At the institutional level, the Programme ensured that the Ministry of Rural Development made use of labour-based technologies in local contracts, and provided technical training for more than 150 engineers and technicians. The Programme also established the framework for the national institutionalization of ILO local-level planning systems. LBAT was also incorporated into the basic curricula for undergraduate professional engineers studying at the Institute of Technology of Cambodia.

The second group targeted comprised more than 3,000 workers who needed to upgrade their skills for employment. The Programme focused on vulnerable groups, particularly female-headed households, and involved short-cycle demand-driven training through a network of provincial training centres and outreach units and a national training secretariat. This part of the Programme was delivered through various channels, including existing NGOs.

Working with the Ministry of Education, the Programme influenced curriculum development, prepared training materials and instructor training, and left in place a national institution forming the basis for a modern, relevant and employment-focused skills development capacity which evolved into a major programme funded by development banks.

Thirdly, the Programme established LEDAs to support 4,000 persons and families in five provinces, and provided services which comprised business opportunity identification, training in entrepreneurship and small business management, credit and micro-credit, business counselling and marketing advice and, more importantly, referrals to the ILO skills training programmes mentioned above.

An association of LEDAs was also formed and is known as ACLEDA. It is registered as a local NGO and today operates as a fully registered Bank for the Poor.

A synergy existed between the three components of the Programme, even though they were initially designed as “stand-alone” projects. What was clearly noticeable was that as the roads were built, economic revival invariably followed. The improved roads provided much-needed access to markets and to basic services and facilities such as schools and health posts. The rehabilitated irrigation schemes also resulted in a significant multiplier effect on employment in agriculture, since more water being available meant that additional crop cycles were possible and farm incomes could increase. The ILO approach to restoring the irrigation system was to facilitate the establishment of a water-user association so that the operation and future maintenance of the systems was in local hands. The additional crop production also generated more jobs and small businesses to process the agricultural products.

In addition, as the local capacities for infrastructure works were strengthened, the training of local small-scale contractors for this work meant that local enterprises were able to become involved, either in public or community-based work projects or in the local communities on private property improvements and buildings.

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Example of dynamic local markets: The CARERE case (Extract of the Evaluation Report of September 1993)

CARERE’s Project Document doesn’t identify a technical approach for the promotion of income and employment generation activities. As a consequence, each of the PSUs activities in this area reflects different strategies. It is therefore necessary to briefly review a few examples, in order to understand their goals and establish the basis to a general approach.

In Banteay Meanchey, the mission observed the positive impact of road construction, de-mining and resettlement on employment levels and income.

Over 1,500 ha have been made available for rice production through these actions. Using conservative estimates for labour requirements, this translates into 90,000 to 120,000 working days of employment.

The labour-based methodology used by the road project directly generated more than 600,000 working days of employment, totalling US$ 700,000. This money in some cases was used to finance seed or fertilizer for rice production, livestock, tools or other non-agricultural activities.

The CARERE road construction training taught some 200 people construction, basic bookkeeping and other skills linked to construction activities. This constitutes an important base for future business development in this field.

One of the main long-term impacts of road construction is its effect on market development, in the transition from a socialist model to a free market system. Roads had a significant impact on rice marketing by removing the middlemen; hence more money is going into the community. The cost of inputs has also been reduced.

Finally, roads have attracted small businesses that supply goods and inputs along the feeder roads. Roads have also stimulated other economic activities. For example, near the Cambodia-Thailand border one new road functions as a dam. The mission observed more than 50 persons, mostly women, fishing at the spillway. This was not possible prior to road construction.
Financing LED

What to consider?

The 1990s witnessed a growing crisis in the whole issue of financing for development. Shifting development priorities and the general withdrawal of governments in developed countries from welfare issues had an influence on the availability of concessional flows for development, such as external development loans and grants. Within developing countries themselves, there was more questioning as to the legitimacy of domestic revenue raising and management structures. In response, the past decades have witnessed an increase in non-concessional financial flows, such as foreign direct investment (see Chapter 4.2) and commercial credits focusing on large-scale industry and investment projects.

In post-crisis situations, funds flood in for emergency assistance and tend to taper off as the crisis abates. Until recently, valorizing and strengthening local capacities to manage the recovery process was not seen as a pressing issue. The debate is now changing course, from the preoccupation with “supply” issues, meaning enhancing the inflow of financial services, towards “demand-side issues”, i.e. enhancing the capacities of individuals, families, communities, institutions and governments to access and effectively allocate and manage resources. The issue of how to create sustainable financial flows for development is a contentious one, and was debated during the Finance for Development Conference in Monterey in May 2002.

Financing LED activities

The LED process recognizes the importance of funding for immediate impact measures. However, there is also awareness of the need to expand resource mobilization methods for LED activities, focusing on the savings that can be made through strengthening institutional capacities (see Chapter 4.8), networking for broader resource mobilization (see Chapter 4.3), strategies to stimulate and increase investment (see Chapter 4.2), and increasing access to capital for small and medium-sized enterprises and micro-enterprises.

Invisible savings can be made from institutional strengthening towards a more efficient and equitable allocation of existing resources and better coordination of activities between the development partners who have complementary or seemingly different sectoral interests. Networking, partnership building and effective regional promotion strategies are also needed to increase the effectiveness of projects and programmes.

This chapter focuses mainly on how to increase direct access to financing and resources for small and medium-sized enterprises, and financing the activities of the LEDA itself.
Credit to SMEs

While small and medium-scale credit has the potential to generate massive opportunities for livelihoods, small business growth and income generation, its supply is often viewed by commercial credit sources, such as banks, as too costly to provide. Most SMEs lack information on solutions offered through credit institutions, microfinance institutions (MFIs) and national and international development partners. Often there are only a limited number of local banks that are able or willing to lend small amounts of money to SMEs or micro-entreprises, mainly for the following reasons:

- Small loans involve relatively high costs in terms of screening and risks;
- SMEs are often unable to provide evidence of their trustworthiness in terms of credit history or viable business plans;
- Local entrepreneurs are often unable to offer collateral for the loan, either because they are poor or because the legal framework is not clear on ownership issues;
- Banks usually prefer large business customers. Dealing with bigger businesses usually involves less costs and yields safer profits because they are able to provide more detailed documentation and information in support of their dependability.

Experience shows that the creation of a range of innovative lending arrangements can help small borrowers to obtain credit more easily. Depending on local circumstances and traditions, there are three main lending arrangements, namely:

- **Direct disbursement**: The absence of intermediaries allows credit to be granted at moderate interest rates, enabling the credit provider to serve the neediest in the population. On the other hand, the combination of low interest rates and relatively high operating expenses means that credit provider adopting this approach may find it difficult to expand their credit fund;

- **Indirect channelling of credit through financial intermediaries**: This allows the agency to widen the geographic coverage of its credit activities, fosters local saving and enhances participation by the member intermediaries. This procedure involves higher interest rates than direct disbursement, but also lower operating expenses for the LEDA;

- **Indirect channelling through non-member financial intermediaries**: The credit provider uses its funds as a guarantee to back the loans that a bank grants to borrowers, so that the bank puts up resources of its own without taking on the credit risk. Most arrangements provide for the guarantee fund to be leveraged. This approach implies that the agency is able to place its relations with the bank on a firm and professional footing, keeping their very different respective aims in mind.
Through the LEDA, partnerships of local firms can position themselves well to take advantage of available enterprise credits, development and training opportunities available through government and wider development partners, and especially possibilities for participating in infrastructure contracts in the post-crisis situation (see Chapter 4.3 on Networking).

**Financing the Local Economic Development Agency**

In institutionally poor environments, the availability of funds will decide where it is possible to bring together a forum or to create an institutionalized coordination mechanism. The commitment of stakeholders in the beginning is crucial, as the long-term success of the LEDA depends on broad-based participation, which has few financial incentives in the short term. Initial start-up support will most likely depend on funds that have been secured from funding agencies and on the ties that have been created and maintained with institutional partners.

Over time, self-financing activities will be the key to the LEDA’s sustainability. This includes possibilities to offer or contract out professional expertise and services to public and private “clients”, to establish fees for the provision of consultancy services or training, and membership dues. Through “earned income” activities, the LEDAs can expand their programme activities, provide security for permanent or professional staff salaries, establish endowment funds and provide opportunities and support to their constituents. Earned income is a necessity if the LEDA is to reduce or completely eliminate its dependency on the funding agency.

Not all LED activities require big budgets. What they require is analysis, strategic thinking and commitment. By lobbying on issues related to the local economy, such campaigns can proceed without expensive workshops and conferences, provided that the will exists to pursue them. Some LEDAs thrive by concentrating on a few core activities, perhaps related to business consultancy services, networking or capacity building, and doing them well.

**What to do?**

**Step 1: Diagnosis**

Coherently with the LED approach, the availability of, and demand for resources to achieve the goals of the LED strategy should be ascertained before taking any further steps. Thus, during the territorial diagnosis and institutional mapping phase (see “Territorial diagnosis”) the following basic questions should be examined:

- **Identify the supply of credit:** One of the first step should be to identify all existing finance institutions and banks in the vicinity of the crisis-affected area, as well as funds available through local government departments, national and international development assistance partners for SME development and micro-enterprise support. What micro-finance services do they provide (i.e. savings, credit, individual loans, group loans, guarantees, micro-insurance, micro-leasing, etc.)?
Identify the demand for credit: A proper “map” of the financial landscape should demonstrate that the target group concerned has sufficient demand for credit at a price that both covers the cost of the lender and enables the (potential) borrower to invest the loan profitably. The most likely candidates for financial services appear to be those who remained in their communities during the crisis and returnees, both of whom tend to have at least some assets and an incentive to stay where they are if they can earn a living. Internally displaced persons and refugees pose greater challenges, although experience with both populations exists.

Demand usually reaches high levels during periods of reconstruction, and is responsive to the stimulus of credit availability. Often the greatest hindrance to programme growth is a lack of loan capital to meet demand.

See TOOL 4.6.1 for a market and needs assessment related to financing (demand side).

See TOOL 4.6.2 for a market and needs assessment related to financing (supply side).

The information necessary for the territorial diagnosis and institutional mapping can be gathered from the following resources:

<table>
<thead>
<tr>
<th>FORMAL SECTOR</th>
<th>INFORMAL SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>Money lenders</td>
</tr>
<tr>
<td>Credit unions</td>
<td>Friends/relatives</td>
</tr>
<tr>
<td>Leasing/hire-purchase companies</td>
<td>Supplier credit</td>
</tr>
<tr>
<td>(Agricultural) development banks</td>
<td>Pawn shops</td>
</tr>
<tr>
<td>(International) NGOs</td>
<td>ROSCAs/ASCRAs</td>
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<tr>
<td>Etc.</td>
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</tbody>
</table>

A SWOT analysis and the action programme will precede the implementation of the strategy.

See la TOOL 4.6.3 for elements of a SWOT analysis related to financing.

The SWOT analysis will be carried out based on the findings of the territorial diagnosis and institutional mapping process.

Step 2: Sensitizing

Efforts should also be made towards mobilizing support and widening financial resource bases through broad-based partnerships with national and international development partners. Chambers of Commerce, investment centres, foundations, corporate bodies or individuals that support private sector development are also potential collaboration partners.
See “The LED process” for a better understanding of sensitizing activities.

**Step 3: Promoting a local/regional forum**

There is evidence that the participation of local financial intermediaries guarantees the most promising outcomes for a local financial strategy. Therefore their participation in the local forum is essential.

Depending on the outcomes of the territorial diagnosis and SWOT analysis, local actors might decide to improve the local financial system through a better coordination among financial and non-financial institutions, such as different credit programmes and BDS, training, etc.

See “The LED process” for a better understanding of the promotion of a local/regional forum.

**Step 4: Designing the LED strategy**

Depending on the outcomes of the previous steps, the local forum might decide to act on the local financial system. Such interventions might seek to extend the geographical coverage of financial services or increase coordination between existing financial services, institutions and BDS providers. Additional resources can be mobilized through pre-investment funds or through the convocation of external resources and so forth.

Increasing access to credit in post-crisis situations mirrors strategies in normal circumstances in many respects, but there are some key differences. In post-crisis situations, strategies tend to be implemented more flexibly to respond to changing circumstances. Programmes may offer lower interest rates or grace periods in the initial stages and ratchet them up as normality returns. They also often de-emphasize savings for security, inflationary, or legislative reasons.

Programmes are also designed to be responsive to specific conditions: dual operations may be initiated where populations remain divided, and programmes may integrate or build off of basic needs activities initiated during an emergency response. This meshing of relief and economic strategies may occur intermittently as crises re-occur. It is certain that additional counselling and training inputs must be part of any package of support.

A SWOT analysis can be useful in analysing the needs and limitations of access to the sources of financing of the population concerned. This can then be used to design a promotional strategy to overcome existing limitations and target the corresponding segment of the population.

See TOOL 4.6.4 for a case study on the credit scheme proposal for a local economic development strategy in the Canton of Travnik in Bosnia and Herzegovina.

See TOOL 4.6.5 for elements of a work plan related to financing.
Past experiences show that credit guarantee programmes might be effective tools to improve the local financial system. If the local forum decides to include credit guarantee programmes as part of their LED strategy, the following steps might be considered:

See **TOOL 4.6.6** for an example of key issues for guarantee agreements.

Identifying a suitable financial intermediary: The territorial diagnosis and institutional mapping exercise provides all the information regarding the current financial intermediaries in the territory. The outcome of the SWOT analysis will help to identify the suitable financial intermediary for a closer cooperation with the forum.

See **TOOL 4.6.7** gives a checklist for the selection of financial intermediary.

Establishing an agreement between the LEDA and financial intermediaries: The LEDA has an important role in the management of financing within the LED support programmes. Therefore the future relations between the LEDA and the local financial intermediaries and/or fund should be set out very precisely in order to establish rights, duties and responsibilities.

Ver la **TOOL 4.6.8** for an example of an agreement for financial cooperation.

Setting up a joint Credit Committee: The agreements between a LEDA and a bank obviously call for the bank to disburse loans according to the priorities established by the Agency. In order to ensure that the bank is fully involved in all phases of credit management, the establishment of a joint Credit Committee is recommended. The LEDA should assist in the preparation of projects, establish their priorities and propose them to the Credit Committee. It can also negotiate with the bank and establish the most suitable procedures for collaboration.

See **TOOL 4.6.9** for an example of establishment of operational rules with an agreement for financial cooperation.

See **TOOL 4.6.10** for a checklist on conditions for successful intermediation in guarantee programmes.

If it is impossible to set up a guarantee fund, the LEDA can use the classic form of guarantee or simple current accounts. Here again, the LEDA negotiates the interest rate on the credit fund, which will necessarily be lower than in the previous case.
## Toolkit 4.6 – Financing LED

### Tool 4.6.1 – Market and needs assessment related to financing (demand side)

<table>
<thead>
<tr>
<th>GENERAL MARKET AND NEEDS ASSESSMENT (DEMAND)</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Sector</th>
<th>Area</th>
<th>Men</th>
<th>Women</th>
<th>Why?</th>
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<tbody>
<tr>
<td>Number and percentage of enterprises using financial services</td>
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<td>Number of enterprises not currently using financial services</td>
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<td>Type of financial service used</td>
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<td>Type of financial services not used</td>
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<tr>
<td>Level of satisfaction of entrepreneurs with current provision</td>
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<td>Which services are needed most?</td>
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<td>What are the main concerns (speed of transaction, amount, repayment schedule, etc.)?</td>
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<td>Are there certain periods of the year when most households go heavily into debt?</td>
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<td>How do enterprises want the services to be delivered?</td>
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<td>Declining enterprises</td>
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<td>Rising enterprises</td>
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<td>Enterprises cooperating among each other</td>
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<td>What are the needs for different financial services?</td>
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<td>Other</td>
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</tbody>
</table>
Tool 4.6.2 – Market and needs assessment related to financing (supply side)

INFORMATION ON EXISTING PROVIDERS AND BENEFITS OF SERVICES (SUPPLY)

<table>
<thead>
<tr>
<th>Type of institution</th>
<th>Type of service provided</th>
<th>Target market</th>
<th>Area of intervention</th>
<th>Characteristics of service</th>
<th>Cost of service (interest rate)</th>
<th>Quality of service</th>
<th>Elements to be improved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institution 1</td>
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<td>Institution 2</td>
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<tr>
<td>Institution x</td>
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</table>

General information

What is the current macro-economic climate?
Identify the culture, history and traditions of the local/national financial markets
What lending methodologies are typically used?
What source of informal credit is normally available to the individuals of the target groups?
How is the repayment schedule established?
What type of insurance and risk management is available for loan applications?
What sources of formal financial services do members of the target group use?
Is access to these sources particularly difficult for women? If so, why?
What sources of finance exist within half a day’s walking distance from the project implementation area?
What might be the reasons for banks or other formal institutions not giving loans to the target group?
What kind of collateral is available to the target group?
How high are the transaction costs?
How difficult is the monitoring and follow-up?
Is the coverage of operational and risk-related costs by interests and other incomes sufficient?
What is the legal and regulatory environment concerning micro-finance programmes?
Are there any central bank directives for distributing credit to specific target groups? (i.e. quotas for sectors)
Is there a history of subsidized credit in the project area? If so, does it still exist? Is our target group involved?
Are there other funds set up by aid agencies in the area? For which target groups? Are they effective? If so, why? If not, why not? Is there any duplication?

Other
## Tool 4.6.3 – Elements of a SWOT analysis related to financing

<table>
<thead>
<tr>
<th>ELEMENTS OF A SWOT ANALYSIS (FINANCING)</th>
<th>S</th>
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<tbody>
<tr>
<td>Existing financial system in the territory</td>
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<td>Existing products offered by financial institutions</td>
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<td>Financial products offered by the informal sector</td>
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<tr>
<td>Number of enterprises that make use of financial products</td>
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<tr>
<td>Characteristics of enterprises that make use of financial products</td>
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<tr>
<td>Management capacities of financial institutions</td>
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<tr>
<td>Management capacities of potential clients of the financial sector</td>
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<tr>
<td>Level of communication and sharing of knowledge between financial institutions and other local stakeholders (business community, BDS providers, local government, NGOs, gender organizations, universities, etc.)</td>
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<tr>
<td>Level of integration of financial services with non-financial services</td>
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<td>Level of competition in the financial sector</td>
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<tr>
<td>Level of access to financial services</td>
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<tr>
<td>Other</td>
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Introduction
The PRINT project, executed by UNOPS, is implemented in the Canton of Travnik in Bosnia and Herzegovina and has a territorial approach. In the field of employment creation and income generation, the project follows the local economic development (LED) strategy, towards which the ILO provides technical support.

The credit scheme proposed in this document is part of the LED strategy and will be an essential instrument in the promotion of partnership between CeBEDA and the financial institutions operating in the Canton of Travnik.

1. General objective
The credit scheme aims to facilitate access to the financial market for low-income farmers and (potential) micro-entrepreneurs. This enables them to develop a credit record that eventually leads to their graduation as mainstream borrowers of bank loans.

2. Principal constraints to access the financial credit market
Since the second half of the 1980s, Bosnia has been involved in a transition process from a centrally planned to a market-oriented economy. This process was hampered by prolonged warfare during the early 1990s. The country is presently engaged in a post-war reconstruction process, but the transition process is lagging behind compared to other Eastern European economies.

Initially, transition, war and reconstruction affected the efficiency of many business support institutions. The newness of private institutions, a different political framework, an unfinished privatization process and an insufficient knowledge of the new entrepreneurial sector, all result in a limited attention to the expanding market for credits.

This situation explains the conservative attitude of the financial institutions, which generally offer limited services and give a priority to guaranteed borrowers, preferably in medium and large-scale operations. Financial institutions are not particularly interested in rural small enterprises (agricultural or non-agricultural).

Banks have identified the following constraints:
- Uncertainty concerning the economic efficiency of small enterprises (micro and small businesses, non-irrigated crops, subsistence production and non-integrated small-scale units);
- The relatively high cost of small credit operations;
- A lack of real guarantees to underwrite the credit risks.

3. Principal alternatives to bypass these constraints
In the light of the above-mentioned constraints, the programme should identify, among the existing financial institutions, a bank that can be motivated to work with this sector in order to expand its own credit portfolio on a permanent base.

To achieve this goal, different conditions should be assured simultaneously:

A. Guaranteeing an optimum repayment capacity
- Selection of the economic activities to invest in, through market analysis and economic feasibility studies;
- Reduction of the risk of poor technical management in newly introduced economic activities through prioritizing those activities that have proved successful in the area;
- Facilitating access to technical training and advisory services when necessary;
- Facilitating the improvement of the entrepreneur’s management skills;
- Reduction of the items to be financed to those strictly necessary;
- Reduction of the risk of credit deviation by paying directly to external suppliers and by visiting the clients during the investment period;
- Monitoring of the whole process of credit.

B. Increasing portfolio profitability
- Transfer of some of the administrative costs of each credit operation to the CeBEDA. Examples can be the verification of prerequisites to apply for credit, and the analysis of the solvency of the potential client;
- Reduction of the operational costs regarding risk of operation (through insurance and special provisions);
C. Complementing the lack of real guarantees and collateral by providing fiduciary support through a guarantee fund mechanism

4. Complementary financial mechanisms

The first step in the realization of the credit programme is to identify the most suitable financial partner. A selective analysis of different banks is therefore called for. The requisites should be measured in terms of technical expertise, attractive conditions and involvement in the programme with the aim of expanding the financial institutions’ clientele in this production sector. The programme should begin a process of negotiating a medium-term agreement foreseen in two phases under the following conditions:

THE FIRST PHASE

– During this phase, which is expected to last one year, a programme of credit will be established through a trust fund mechanism between CeBEDA, the bank and the PRINT project.
– This mechanism will provide the bank with the opportunity to assess the quality of the portfolio. In this phase the PRINT-CeBEDA provides the financial resources for the credits and assumes 100% of the portfolio risk.
– The total amount of resources available will be deposited in a special account identified as “CeBEDA, Special Credit Programme”.
– The main account will be divided into different sub-accounts:
  - The first account, called “Operational Costs of the Programme”, should be a savings account. This amount will increase with the net deposits of the different financial revenues (active and passive) generated by the programme. Savings accumulated in this account will be used to cover the operational costs of CeBEDA and the fees to the bank for provision of services. These services will be defined in detail in the operational rules that will be part of the contract to be defined between the bank, CeBEDA and PRINT. Disbursements from this sub-account will be made according to CeBEDA’s work plan and fees to the bank will be paid quarterly.
  - The subsequent sub-accounts should be opened based on CeBEDA’s estimated quarterly cash flow in the credit programme for the first year. Three categories of remuneration (passive interest rate) should be considered: the amount estimated for the first quarter as a “current account”, the amount foreseen in the second quarter as a “savings account” and the rest as a medium-term deposit. The bank could offer an alternative treatment for the funds in a single mechanism, taking into account an average of the expected revenues of other, low-risk investments.
– A joint credit committee, in which the bank and CeBEDA are represented, will approve or reject the credit applications. The technical/financial feasibility analysis carried out by CeBEDA will be one of the main inputs for decisions made regarding the amount of credits, mechanisms and periodicity of disbursements and reimbursement plans.
– The loan conditions (regarding the interest rate, penalties and loan duration) should be the preferential ones the bank offers to its low-risk clients.
– Shortly before the end of the first phase the signatories of the programme should carry out a joint evaluation of quality of the portfolio. In order to obtain a representative picture, not less than the 50% of the portfolio should have completed its term at the time of the evaluation. If the portfolio shows a healthy performance (in relation to specific benchmarks previously defined by both organizations), the second phase starts automatically.

THE SECOND PHASE

– In the second phase a guarantee fund mechanism will be established. The different assets of the first phase of the programme (cash balance and active credit portfolio) should be considered as initial resources of the fund.
– Under this mechanism, the bank will provide loans out of its ordinary credit resources. The risks of individual credit operations will be covered through complementary fiduciary guarantees provided in subsidiary terms by the most recent guarantee fund.
– Complementarity and subsidiarity are crucial characteristics in order not to reduce the responsibility of the borrowers in facing their financial obligations. This means that their personal assets (including those purchased with the credits), mortgages or other instruments normally accepted by the banking system will be considered as formal collateral of the credits. The programme will then offer an individual fiduciary guarantee for the difference required to reach the standard levels that the bank requires of its regular clients.
- “Subsidiarity” means that, if it is necessary to call upon the guarantees (under the regular procedures of the bank), the first item to be affected is the collateral of the borrower.

- This second phase passes through different steps:
  - During the first step, the total amount of credits guaranteed by the guarantee fund mechanism will have a 1:1 ratio (it cannot be more than the total amount of deposits in this account). In this way, one DM of deposits in the account can only support one DM in guarantees for credits;
  - After a new joint evaluation of the total portfolio, the guarantee fund progressively takes on the role of a credit insurance. This means that the guarantee fund keeps on offering complete coverage for each credit operation but, referring to the total amount of the portfolio, it can guarantee a total amount of credits twice or several times more than its cash assets;
  - This concept, known as financial leverage, is a common practice accepted by the financial insurance market. This practice justifies the reason why the capacity of leverage should be determined in function of the “high risk expectation of the credit portfolio”;
  - The bank thus begins to share the risk of the total portfolio, but this risk will be effective only in the case of a total collapse of the portfolio;
  - The subsequent steps are related to a progressive increase of the level of leverage, which could be repeated several times under the same procedures. It is recommended not to exceed a prudent level, that should never be more than half of the “high risk expectation of the credits portfolio” ratio;
  - In terms of the resources of the guarantee fund, the cash balance of the first phase, and the reimbursement of capital of the portfolio of credit of the first phase should be deposited in a specific account called “Guarantee Fund CeBEDA”. This account will be a long-term deposit account, receiving the highest return available in the market. The interests generated for this account together with those coming from the reimbursement of the portfolio of credit of the first phase should still be deposited in the “Operational Costs of the Programme” sub-account. The procedure for using these resources should be the same as in the first phase (except for the fees of the bank that are not justified during this phase);
  - Additional resources could be added to the “Operational” sub-account from different sources.
Tool 4.6.5 – Elements of a work plan related to financing

<table>
<thead>
<tr>
<th>ELEMENTS OF A WORK PLAN RELATED TO FINANCING</th>
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<tbody>
<tr>
<td>Establishing coordination agreements with different credit programmes</td>
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<tr>
<td>Identifying and mobilizing additional technical resources through pre-investment funds</td>
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<tr>
<td>Identifying and mobilizing financial resources through external resources (see “attracting investment”)</td>
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<tr>
<td>Identifying and mobilizing resources from the financial system, through the creation of mechanisms such as</td>
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<td>guarantee funds for local economic activities</td>
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<td>Identifying new products and services and adapting existing ones</td>
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<td>Client protection</td>
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<td>▶ Allowing withdrawal of savings</td>
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<td>▶ Rescheduling of loans (but no wiping out of debts)</td>
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<td>▶ Emergency loans</td>
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<td>▶ Social/humanitarian relief services</td>
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<td>▶ Remittance services</td>
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<td>▶ Housing loans</td>
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<td>Portfolio protection</td>
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<tr>
<td>▶ Rescheduling of old debts</td>
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<tr>
<td>▶ Asset replenishment loans</td>
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<td>▶ MFI crisis funds</td>
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<tr>
<td>▶ Staff training and incentives</td>
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<tr>
<td>▶ Coordinating with guarantors/donors</td>
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<tr>
<td>Making a decision on the most suitable financial instrument</td>
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<tr>
<td>Identifying a suitable financial intermediary</td>
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<tr>
<td>Establishing an agreement between the LEDA and the financial intermediaries</td>
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<tr>
<td>Setting up a joint credit committee</td>
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<tr>
<td>Other</td>
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</table>
**Tool 4.6.6 – Bank-NGO relations: Key issues for guarantee agreements**

**Information as a prerequisite for transparent negotiations**

Because banks have little information about the financial needs and savings behaviour of small clients, they find it difficult to assess credit risks. In general, NGOs and their clients/members are also ill-informed about the way banks operate.

An initial assessment should concern loan conditions, the physical distance to bank branches, quality and timeliness of services, the autonomy of bank branch managers in the loan approval process and the prospects for a smooth exchange of information on the guaranteed portfolio. These criteria are generally valid. If, in addition, a guarantee fund is to be deposited in the bank, it might be advisable to also look at the financial situation of the bank.

Because of their developmental orientation, development banks appear to be the most interesting partners, but experience shows that their services are often limited, the branch network is small, and there is always the risk of political interference. Cooperative banks and (municipal) savings banks may be better tuned to provide appropriate small-scale financial services.

**What must guarantors offer?**

Guarantee funds operated by NGOs have a number of advantages based on their proximity to clients and their capacity to offer non-financial services such as training, counselling and marketing services. The availability of these services is particularly important for a bank, since they are likely to contribute to the viability of the business of the borrower. These services may also produce extra information on the status of the business and possible problems faced by the borrower. This information would allow the bank to act more rapidly, if required.

**Risk sharing**

A guarantee scheme must effectively allow for risk-sharing, the precise proportion of which should provide an incentive to the bank to monitor these loans just as normally guaranteed loans, i.e. the bank must bear a share of not less than 40% or so; at the same time, the bank’s share cannot be too large either, otherwise there would be no point in getting involved in a guarantee scheme.

**Reduction of transaction costs**

In many countries specialized public guarantee facilities have emerged that go beyond the mere provision of a guarantee and provide other services to encourage bank lending. For banks unfamiliar with the sector of small borrowers, it is extremely difficult and costly to identify potential borrowers and to collect the required information on their financial needs, their business proposals, their collateral situation and their management orientation to ensure that the right information is given. These orientations can be low in cost if done simultaneously with other NGO activities.

Client/member identification and selection is normally assumed by the NGO, in light of its proximity to information about potential bank clients.

Possible assistance in the preparation of a business plan and loan application is a responsibility of the NGO. Banks should advise the NGO on the kind of information required for loan applications. Procedures and requirements can be rather formal, particularly when guarantees are issued for longer maturity loans and/or for risky target groups such as start-up businesses.

Information on business plans and loan applications can vary substantially, depending on the situation. Banks tend to emphasize cash flow analysis and market analysis, while NGOs are often inclined to put more emphasis on the profile of the entrepreneur, such as his/her character and capabilities.

Loan appraisal and approval should be undertaken by both the NGO, as guarantor, and the bank, as lender. The NGO presents a complete file on the client to the bank for appraisal and approval after it has internally approved the guarantee application and determined the supplementary services it may possibly provide to the client. In other cases, banks and non-financial institutions form joint committees for appraisal and approval.

Loan contracting, loan disbursement and loan recovery is a responsibility of the bank, often in close coordination with the NGO. The NGO should not interfere in loan disbursement and collection, as this will hamper the development of a normal bank-client relationship.

The bank and the NGO take care of loan supervision and monitoring jointly. The bank should provide information on loan disbursements and repayments to the NGO at least on a monthly basis. Annex 4 gives an example of what such a monthly report may look like. Arrears and defaults need to be defined clearly, as do the conditions and procedures for loan restructuring and for following up problem loans.
Follow-up on problem loans should be left as much as possible to the bank. It should be clear to the borrower that the loan contract is with the bank and not with the NGO. In addition, it will be difficult for an NGO to combine the tasks of business counselling with that of enforcing repayment.

These loans might lead to the realization of securities. Legal action is costly, particularly vis-à-vis small borrowers, but it may be necessary to maintain discipline. Again, the higher the risk shared by the bank, the more it will be concerned with timely follow-up on problem loans. Active monitoring and follow-up by the bank is also important from the perspective of eventual client graduation, as this is one of the means through which banks learn about small borrowers.

In the matter of realization of securities, the NGO is usually in a better position to approach the debtor personally and to mobilize extra-legal pressure, but it may have limited capacity to take legal action. The bank should have more experience in legal matters, although it may be reluctant to take action in view of the disproportionately high costs involved.

**Bank charges, fees and commissions**

For very small borrowers/savers the charges involved in opening savings and current accounts as well as other fees often create an unpleasant surprise. Given the small loan size of the target group, these charges may take on unrealistic proportions. This could be negotiated. The NGO will also have to state clearly what it will charge for its services. Certain fees can be directly charged up front by the NGO. For commissions on the interest rate, it will need the collaboration of the bank. If there are no interest ceilings or other legal restrictions, the bank may be able to charge an additional commission on the interest repayments, which can be subsequently passed on to the NGO. Depending on the bank’s involvement and costs related to the scheme, the NGO may try to negotiate a part of the bank’s own margin. However, practice shows that banks seldom accept this.

**Leverage and risk sharing**

Negotiating risk sharing and leverage requires skills and should be based on an excellent understanding of the mechanisms of a guarantee scheme and a good knowledge of the local financial market. It is important to determine the existing risk exposure of the bank prior to negotiations. The extent of coverage should also be clarified, whether outstanding loan principal only or also outstanding interest and bank charges. In the latter case, the maximum number of months should be set for which such costs may be charged by the bank. If a bank does not accurately follow up on arrears, such interest and other bank charges can rapidly accumulate.

An annual review of the risk-sharing agreement is recommended. It is important to insist on a minimum level of risk sharing by the bank in the first year. In addition, the bank should make a commitment to increase risk sharing, taking into account portfolio performance.

**Conditions and procedures for calling on a guarantee**

For a bank a guarantee is of good quality if it can be easily called on at minimum cost.

Banks often claim guarantees for loans in arrears for more than 90 days. The guarantor should negotiate with the bank to specify clearly what can be claimed: only outstanding principal, or principal plus accumulated interest due or also other charges, such as penalties. Secondly, a guarantor should satisfy the claim only against evidence of follow-up by the bank between the first date on which arrears were registered and the default date. This may entail visits by a loan officer, letters of demand to the debtor or co-guarantor, or loan restructuring. After the claim has been settled, the bank should continue legal action.

**Cooperation agreement**

A transparent agreement enhances collaboration and avoids situations that may lead to legal disputes. A written agreement is in the interest of all parties concerned. The agreement should allow for renegotiation.

**Risk-sharing instruments**

The bank and guarantor can choose from a variety of risk-sharing options: international standby letters of guarantee, local guarantee funds and contingency funds.

*International standby letters of guarantee:* These guarantees, issued by a recognized international bank to the local bank, can either take on the role of principal guarantee or that of counter-guarantee (a guarantee re-insuring the local guarantees). These international guarantees can be made available by international guarantee institutions, which manage them on behalf of donors or on behalf of non-financial institutions in the south.

*Local guarantee funds:* Guarantee funds placed in the collaborating local bank are another option. One part is put in an interest-bearing deposit account, the other serves as a first-call account for claims. Part of the amount or the entire fund may be deposited in hard currency with a view to maintaining the real value of the fund.

*Contingency funds:* These are reserve funds or provisions for unforeseen costs, which are often demanded by the local bank when the principal guarantee consists of an
international letter of credit. The contingency fund functions as a first-call account in order to avoid small claims having to be made on the international guarantee. In the context of the ILO-RAFAD project, NGOs used capital reserves. In Peru this was done by means of a monthly commission, but it can also take the form of a one-time levy at the time when a loan is issued. In Sri Lanka, the beneficiaries of a prawn farmers’ guarantee scheme created a contingency fund. The members of the association are the owners of the contingency fund.

Example of an Agreement for Financial Cooperation

AGREEMENT FOR FINANCIAL COOPERATION BETWEEN UNOPS PROJECT CRO/00/Q02, ILO AND SISACKA BANKA

Between subscribers:

- The United Nations Office for Project Services, in its capacity of executing agency of project CRO/00/Q02, represented by Denis van Dam, Chief Technical Adviser of the project (hereinafter referred to as PROJECT CRO/00/Q02);
- The International Labour Organization, in its capacity of associated agency to PROJECT CRO/00/Q02, represented by Mr. Hans Hofmeijer, Task Manager, Employment Sector (hereinafter referred to as ILO); and
- Sisacka Banka.

All of them have the legal capacity to contract and decided to subscribe to this agreement, under the following considerations and clauses.

CONSIDERATIONS

I

The government of Croatia, with the technical cooperation of UNOPS and the financial cooperation of the European Commission (EC), is executing the Project “Programme for the Return of Displaced Persons to the War-torn Area of Banovina” – PROJECT CRO/00/Q02 – in order to support the income generation activities of the population affected by the war.

II

Within the framework of the UN interagency collaboration, the ILO participates in the PROJECT CRO/00/Q02, with the responsibility to promote the development of income and employment generating activities.

III

As part of the immediate objectives of PROJECT CRO/00/Q02, the following issues are considered:

1. To help re-establish normal conditions for economic growth and job creation, and to strengthen local managerial and delivery capacities in the social and economic sectors.
2. To support the reconstruction process at the local level, through enhancement of decision-making capacities in a context of economic recovery.
3. To facilitate the return and reintegration of displaced populations as well as their participation in civic life at the local level, thus complementing efforts currently undertaken by other United Nations agencies.
4. To support the efforts of governmental authorities in promoting decentralization policies by strengthening local economic and administrative capabilities and promoting local participation.

IV

In order to achieve these objectives, PROJECT CRO/00/Q02 proposes:

1. To strengthen institutions at local and regional levels.
2. To facilitate coordination and synergies between different organizations for international cooperation, especially the United Nations Agencies.
3. To promote the non-discrimination of the target populations, by providing assistance to the displaced and returnees, as well as inhabitants who stayed in the affected areas throughout the war period.
4. An organized participation of the target population in the design and execution of the different components of the PROJECT CRO/00/Q02.
5. To establish a mechanism which enables access to credit.
6. To offer technical assistance for agricultural and non-agricultural small enterprise development.

V

The BANK has adequate experience in dealing with small-scale credit operations. It is interested in securely extending its own portfolio, in order to attend small farmers and micro-entrepreneurs who normally have no access to the financial system, but who present economically and financially feasible business plans.

VI

The subscription and execution of this agreement is foreseen in the operational planning of PROJECT CRO/00/Q02.
CLAUSES

1. OBJECTIVE OF THE AGREEMENT
The parties have decided to subscribe to the present agreement in order to constitute a Programme for Financial and Technical Assistance, which will allow small farmers and micro-entrepreneurs to access credit resources on a permanent basis. (Hereinafter referred to as the PROGRAMME).

The loans granted by the BANK as part of this PROGRAMME are guaranteed by the mechanism which is constituted by this agreement. This mechanism operates according to the conditions given in the following clauses and in its Operational Rules (Annex II), in accordance with Clause 9.

The PROGRAMME will offer technical assistance, which enables the improvement of (agricultural) production, as well as its diversification, in order to obtain better conditions vis-à-vis the market.

2. FINANCIAL RESOURCES OF THE PROGRAMME
The financial resources of the PROGRAMME, granted by the European Commission (EC), will be contributed by UNDP/UNOPS, through the ILO, according to the Interagency Agreement Letter subscribed between UNOPS and the ILO for PROJECT CRO/00/Q02.

The total amount of resources to be deposited by the ILO, on behalf of UNDP/UNOPS, for the present Agreement will be Four Hundred Twenty Thousand United States Dollars (US$ 420,000), which will be deposited in three instalments, two of US$ 150,000 each and the last of US$ 120,000, according to the attached calendar (Annex I).

Additional resources could be assigned to the PROGRAMME as part of this Agreement (be it through the ILO, the BANK or other institutions), if the parties, in mutual agreement, consider this necessary. Different institutional contributions should be deposited in specific sub-accounts.

The BANK agrees that this Guarantee Fund serves to cover the real risk that can be expected from a credit portfolio and is willing to promote credit operations for an amount that is superior to the Guarantee Fund itself. This leverage level will build up as follows:

Initially the BANK earmarks an amount of funds that equals the guarantee fund multiplied by two (2), that is to say Eight Hundred Forty Thousand United States Dollars (US$ 840,000).

3. USE OF FINANCIAL RESOURCES
The ILO transfers custody to the BANK, once subscribed to the present agreement, the amount of US$ 420,000 (Four Hundred Twenty Thousand US Dollars) to deposit in the quality of a Guarantee Fund, in a special account that will be administrated by the BANK and PROJECT CRO/00/Q02 and will be called GUARANTEE FUND PROJECT CRO/00/Q02 (hereinafter the GUARANTEE FUND).

4. INVESTMENT OF THE GUARANTEE FUND
The GUARANTEE FUND will gain a yearly interest of two per cent (2% pa). The part of the fund that is not invested to avoid possible liquidity problems will be deposited in an interest bearing account.

Interests and other values generated by the GUARANTEE FUND will be deposited in a special savings account. The funds deposited in this account are oriented to finance the maintenance of the GUARANTEE FUND, its operational costs and part of the costs of the technical assistance that is part of the PROGRAMME. The operational procedure of the deposits in the savings account will be defined and approved by the Agreement Committee within the first 30 days after subscribing to the present document.

5. USE OF THE GUARANTEE FUND
The GUARANTEE FUND will be used to back credit operations of the BANK. The Fund will be subsidiary and complementary to its own collateral presented by the clients.

Economically and financially viable investments in the following activities will qualify for guarantee certificates:

a. Agriculture and livestock production;
b. Non-agricultural micro-enterprise;
c. Other economic activities to be defined in mutual agreement by the parties.

The real basis of the guarantees is constituted by the actualised value of the resources, deposited by ILO in custody of the BANK, and its possible complementary contributions during the validity of the agreement. These funds will be at the disposition of the BANK for automatic execution in case of default payments as defined in the Operational Rules of this Agreement (Annex II).

6. RESTRICTIONS ON USE OF CREDIT PROMOTED BY THE PROGRAMME
The GUARANTEE FUND is not oriented to issue guarantees for credit operations that include:

a. The purchase of any type of used machinery or equipment except for the cases in which this machinery or equipment has been completely revised or reconstructed by a competent mechanic or mechanical firm, recognized by the BANK and the PROJECT, and in which it counts with a guarantee certificate valid for at least 12 months;
b. To refinance outstanding debts the client has with third parties or with the BANK;
c. Lease or purchase of land; or
d. Payment of profits or recuperation of investments made by members of cooperatives or other associations.

7. **LOAN CONDITIONS**

The operational mode established by PROJECT CRO/00/Q02, is based on granting individual guarantees to qualified clients in order to facilitate their access to credit funds of the BANK and the national financial system.

The conditions that the BANK sets to the eligible beneficiaries, in terms of amounts (maximum of U$S 7,000 per family/loan), interest rates (fixed at 8% pa), repayment and grace period, shall be those established by its regulations, by the Operational Rules (Annex II), and according with the monetary norms established by the Central Bank of Croatia.

8. **CLIENTS OF THE PROGRAMME**

The beneficiaries of this PROGRAMME will be the inhabitants, displaced persons and returnees who belong to the municipalities of Petrinja, Glina, Vojnic, Karlovac, Turanj and Sisak in Banovina region. The clients of the Programme’s resources will be small farmers and micro-entrepreneurs under the following conditions:

- that they present economically and financially feasible business plans;
- that they lack the sufficient collateral for normal access to credit resources; and
- that they comply with the other requisites as settled in the Operational Rules of this Agreement.

9. **AGREEMENT COMMITTEE**

With the objective of overall coordination and follow-up to the PROGRAMME, an Agreement Committee will be installed and composed as follows:

- A representative for the ILO, assigned by the ILO LED expert, who is responsible for the backstopping of the ILO activities in the context of the collaboration with UNOPS;
- A representative for PROJECT CRO/00/Q02, assigned by the national coordinator of the project;
- A representative of the BANK, assigned by its General Manager or its Executive Board.

The Agreement Committee will have the following tasks and responsibilities:

- Coordination of the parties that subscribe to this agreement;
- Approve the technical guidelines for the agricultural activities and farming models to be financed for the duration of this agreement;
- Approve the Operational Rules of the agreement and approve the modifications it considers necessary;
- Propose reforms and/or improvements to the Agreement;
- Obtain from the BANK and from the Technical Committee any report it considers important concerning the Agreement and inform the parties accordingly;
- Request audits concerning the management of the financial resources mentioned in this Agreement, whenever it is considered necessary; and
- Prepare and submit to the parties, within the first 30 days of each calendar year, an evaluation report on the progress and the impact of the PROGRAMME.

10. **TECHNICAL COMMITTEE**

In order to approve the use of the Guarantee Fund for specific loans, a Technical Committee will be installed, composed by:

- A representative of PROJECT CRO/00/Q02, who will coordinate the committee;
- A representative of the donor (EC), or its implementing Agency in Croatia, ASB; and
- A representative of the BANK.

The Technical Committee has the following main tasks:

- Select possible clients of the PROGRAMME, considering that the micro-business plans presented to be financed should meet the criteria established in present agreement, the Guarantee Rules and the Credit Rules of the BANK;
- Coordinate the participating institutions in the technical aspects of execution of the PROGRAMME;
- Design and submit to the Agreement Committee, the technical guidelines for the agricultural crops and farming models to be financed; and
- Propose to the Agreement Committee modifications in the Operational Rules and the Guarantee Granting, considered necessary to improve the functioning of the PROGRAMME.

11. **OBLIGATIONS OF THE PARTIES**

The organization, operational mechanisms and functions of the parties in this Agreement must be explained in its Operational Rules, which have to be approved by the Agreement Committee within 15 days after subscribing this Agreement.
11.1 ILO
a. To provide the BANK with the financial resources established in clause two (2) of this Agreement;

b. Participate in the meetings of the Agreement Committee;

c. Provide technical backstopping and strategic orientation to the project in the field of LED to support the development of local capacities and to facilitate the long-term sustainability of the PROGRAMME;

d. Support the PROGRAMME through promoting organizational strengthening and training among the beneficiaries; and

e. Recognize the Bank’s capacity to recuperate automatically the default payments made in operations guaranteed by the programme, according to the procedures to be defined in the Operational Rules.

11.2 PROJECT CRO/00/Q02
a. Inform the beneficiaries of PROJECT CRO/00/Q02 in Banovina region about the criteria, rules and regulations of the credit scheme;

b. Organize meetings, training sessions or workshops in order to animate and organize potential clients;

c. Assist clients with loan applications through field visits, interviews and analysis of their loan requests;

d. Participate, through the Technical Committee, in the analysis of the qualification of clients, as stated in the present Agreement and its Operational Rules;

e. To provide, directly or indirectly, technical assistance to the clients of the PROGRAMME, in order to obtain a correct use of the resources;

f. To remunerate the personnel (United Nations Volunteers) that will provide technical assistance as part of the PROGRAMME, as settled in the Operational Rules;

g. Monitor and follow up on the field all loans granted to the clients and inform the technical committee and the BANK about any misuse, deviation or problems concerning the loans; and

h. Participate in the Agreement Committee.

11.3 THE BANK
a. Participate in the Agreement Committee and in the Technical Committee;

b. Decide on the applications presented by the Technical Committee, following its own mechanisms of loan approval;

c. Not to substitute with the resources of the present Agreement the cover of its own credit schemes. The PROGRAMME should strictly benefit the clients described in clause B;

d. Submit to Project CRO/00/Q02 a monthly financial report on the state of the account;

e. Cooperate in the implementation of annual external audits, or whenever the Agreement Committee considers it necessary; and

f) Assign a representative responsible for the follow-up of the PROGRAMME and for any information the BANK has to submit to the Agreement Committee and the Technical Committee as stated in this agreement and its corresponding Operational Rules.

12. DURATION OF AGREEMENT
This agreement will come into effect immediately after it is signed by the parties and will expire with the termination of PROJECT CRO/00/Q02, unless the parties decide otherwise.

If the parties decide to extend the agreement after the termination of PROJECT CRO/00/Q02 the BANK agrees that ILO and PROJECT CRO/00/Q02 can be substituted by an institution that guarantees a sustainable follow-up to the financial and technical assistance towards the target population and that will be chosen in mutual agreement between the parties.

13. TERMINATION OF THE AGREEMENT
This agreement may be terminated by any of the parties, communicating in writing to the other parties its intention and the causes to withdraw.

Unless the parties otherwise agree, within 30 days following the receipt of a termination notice, this Agreement will be automatically terminated.

14. DISTRIBUTION OF FUNDS
Upon expiring or termination of this Agreement, or its rescission, the BANK commits itself to return the balance of the deposits in money and values that the ILO contributed to the PROGRAMME, along with the interest generated, deducting the discounts charged for default payments.

Also will be deducted that part of the fund that guarantees outstanding loans. This will be progressively repaid with the exception of amount charged for default payments.

15. SETTLEMENT OF DISPUTES
Any dispute between the parties, concerning the interpretation or execution of this Agreement as well as any claims on amount and mode of recuperation of the contribution made by ILO and its respective interests,
should be submitted to arbitration if this dispute cannot be settled in mutual agreement.

Three members will form the body of arbitration; each party will assign one. The members will assign from their midst a president.

This body of arbitration will follow the norms and rules of UNCITRAL (United Nations Commission on International Trade Law) and its decisions must be accepted as final and valid for the parties involved, and they will be obligated to comply immediately.

Nothing in this Agreement or relating thereto shall be interpreted as constituting a waiver of the privileges or immunities of the International Labour Organization.

Hans Hofmeijer
ILO Senior Programme
President Managing Board and Coordination Officer
Sisacka Banka dd
Denis van Dam
Project Manager
CRO/00/Q02

HONOR WITNESSES
Per Vinther, Prefect
Head of Delegation
Sisacka – County
European Commission Office in Croatia
Director
Arbeiter-Samariter-Bund

Tool 4.6.7 – Checklist for the selection of a financial intermediary

<table>
<thead>
<tr>
<th>ELEMENTS OF A WORK PLAN RELATED TO FINANCIAL INTERMEDIARIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is there a bank with experience of lending to the identified target group?</td>
</tr>
<tr>
<td>Does the bank have procedures for sanctions in case of default?</td>
</tr>
<tr>
<td>Are interest rates and other fees affordable to the target group?</td>
</tr>
<tr>
<td>How promptly does the lender normally respond to a loan application?</td>
</tr>
<tr>
<td>Are the loan amounts appropriate in view of the target group’s repayment capacity?</td>
</tr>
<tr>
<td>Is the bank capable of collecting information to evaluate the risks?</td>
</tr>
<tr>
<td>Are training and advisory services provided to the target group (for instance by a government structure or an NGO)?</td>
</tr>
<tr>
<td>Are collateral requirements realistic?</td>
</tr>
<tr>
<td>Can the expected self-financing requirements be met?</td>
</tr>
</tbody>
</table>

**Non-bank financial intermediaries**

| Do they have enough qualified staff? |
| Does the NGO have adequate budgetary support? |
| How is the NGO perceived by other aid agencies when it comes to management of micro-credits? |
| Is the collection of loan repayments a source of conflict between the NGO and the target population? |
| Other |
Between subscribers:

- The United Nations Office for Project Services, in its capacity of executing agency of project CRO/96/002, represented by Denis van Dam, Chief Technical Adviser of the project (hereinafter referred to as PROJECT CRO/96/002)

- The International Labour Organization, in its capacity of associated agency to PROJECT CRO/96/002, represented by Masaru Ishida, Director of the Enterprise and Cooperative Development Department (hereinafter referred to as ILO)

- Jadranska Banka Sibenik, represented by Ivo Sinko, in his function of General Chairman (hereinafter referred to as BANK)

- The Association of CARITAS Croatia, represented by Slavko Mikelin, in his function of Director Caritas Sibenik (hereinafter referred to as CARITAS)

- The Association Drustvo Gradanja “Faust Vrancic”, represented by Drazen Skarica, in his function of President (hereinafter referred to as FAUST VRANCIC)

All of them in the legal capacity to contract, have decided to subscribe this agreement, under the following considerations and clauses.

CONSIDERATIONS

I
The government of Croatia, with the technical cooperation of UNOPS and the financial cooperation of UNDP, is executing the Project “Rehabilitation and Sustainable Development in War-torn Areas in Croatia” – PROJECT CRO/96/002, in order to support the national process of reconstruction through integral attention to the needs of the populations affected by the war.

II
Within the framework of the UN interagency collaboration, the ILO participates in the PROJECT CRO/96/002, with the responsibility to promote the development of income and employment generating activities.

III
As part of the immediate objectives of PROJECT CRO/96/002, the following issues are considered:

1. To help re-establish normal conditions for economic growth and job creation, and to strengthen local managerial and delivery capacities in the social and economic sectors.
2. To support the reconstruction process at the local level, through enhancement of decision-making capacities in a context of economic recovery.
3. To facilitate the return and reintegration of displaced populations as well as their participation in civic life at the local level, thus complementing efforts currently undertaken by other United Nations agencies.
4. To support the efforts of governmental authorities in promoting democratic institutions and decentralization policies by strengthening local economic and administrative capabilities and promoting local participation.

IV
In order to achieve these objectives, PROJECT CRO/96/002 proposes:

1. To strengthen institutions at local and regional level.
2. To support concerted action of the different organizations for international cooperation, especially the United Nations Agencies, in order to achieve multiplying effects of the different programmes and projects.
3. To promote the non-discrimination of the target populations, by providing assistance to the displaced, returnees, as well as to inhabitants who stayed in the affected areas throughout the war period.
4. To facilitate organized participation of the target population in the design and execution of the different components of the PROJECT CRO/96/002.
5. To establish a mechanism which enables access to credit.
6. To offer technical assistance for agricultural and non-agricultural small enterprise development.

V
CARITAS, through its office in Sibenik, has been developing various economic and social programmes for war-affected communities in Sibenik County.
VI
FAUST VRANCIC, as a local non-governmental organization, sets out to support and implement activities and projects in order to improve the living conditions of the poorest rural populations and most vulnerable social groups in Sibenik County.

VII
The BANK has experience in dealing with small-scale credit operations. It is interested in extending permanently its own portfolio in a secure way, in order to attend small farmers and micro-entrepreneurs who normally have no access to the financial system, but who present economically and financially feasible business plans.

VIII
The subscription and execution of this agreement is foreseen in the operational planning of PROJECT CRO/96/002.

CLAUSES

1. OBJECTIVE OF THE AGREEMENT
The parties decided to subscribe the present agreement in order to constitute a Programme for Financial and Technical Assistance, which will allow small farmers and micro-entrepreneurs to access permanent credit resources for the realization of their economically efficient investment initiatives (hereinafter referred to as the PROGRAMME).

The loans granted by the BANK as part of this PROGRAMME are guaranteed by the mechanism, which is constituted by this agreement. This mechanism operates according to the conditions given in the following clauses and in its Operational Rules (Annex I).

The PROGRAMME will offer technical assistance, which enables the improvement of (agricultural) production, as well as its diversification, in order to obtain better conditions vis-à-vis the market.

2. FINANCIAL RESOURCES OF THE PROGRAMME
The financial resources of the PROGRAMME will be contributed by UNDP/UNOPS, through the ILO, according to the Interagency Agreement Letter subscribed on 17 February 1997 between UNOPS and the ILO for PROJECT CRO/96/002.

The total amount of resources to be deposited by the ILO, on behalf of PROJECT CRO/96/002, for the present Agreement will be Five Hundred Thousand United States Dollars (US$ 500,000), which will be deposited as follows:
- Two hundred fifty thousand United States Dollars (US$ 250,000) as soon as this agreement is signed.
- Two hundred fifty thousand United States Dollars (US$ 250,000) in the second semester of 1998.

Additional resources could be assigned to the PROGRAMME as part of this Agreement (be it through ILO, the BANK or other institutions), if the parties, in mutual agreement, consider this necessary. Different institutional contributions should be deposited in specific sub-accounts.

The BANK agrees that this Guarantee Fund serves for covering the real risk that can be expected from a credit portfolio and is willing to promote credit operations for an amount that is superior to the Guarantee Fund itself. This leverage level will be built up as follows:
- Initially the BANK will allot to credit operations, as part of this agreement, twice the amount of the guarantee fund, that is to say One million United States Dollars (US$ 1,000,000).
- In the first month, following the first operational year of the agreement, the BANK, after discussion with the parties, will modify the proportions of funds allotted to credit operation depending on the percentage of loan recovery during the first year of operation.

3. USE OF FINANCIAL RESOURCES
The ILO gives in custody to the BANK, once subscribed the present agreement, the amount of US$ 500,000 (Five Hundred Thousand US Dollars) to deposit in the quality of a Guarantee Fund, in a special account that will be administered by the BANK and PROJECT CRO/96/002 and will be called GUARANTEE FUND PROJECT CRO/96/002 (hereinafter the GUARANTEE FUND).

4. INVESTMENT OF THE GUARANTEE FUND
The GUARANTEE FUND will gain the highest revenues possible that the BANK can obtain by investment. The part of the fund that is not invested to avoid possible liquidity problems will be deposited at an interest bearing account.

Interests and other values generated by the GUARANTEE FUND will be deposited in a special savings account. The funds deposited in this account are oriented to finance the maintenance of the GUARANTEE FUND, its operational costs and part of the costs of the technical assistance that is part of the PROGRAMME. The operational procedure of the deposits in the savings account will be defined and approved by the Agreement Committee, referred to in article 9 below, within the first 30 days after subscribing the present document.
5. USE OF THE GUARANTEE FUND

The GUARANTEE FUND will be used to issue guarantee certificates to back credit operations of the BANK. The Fund will be subsidiary and complementary to the own collateral presented by the clients. Economically and financially viable investments in the following activities will qualify for guarantee certificates:

a. Agriculture and livestock production,

b. Non-agricultural micro-enterprise,

c. Cooperatives and other associative enterprises,

d. Other economic activities to be defined in mutual agreement by the parties.

The real basis of the guarantees is constituted by the actual value of the resources, deposited by the ILO in custody of the BANK, and other possible complementary contributions during the validity of the agreement. These funds will be at disposition of the BANK for automatic execution in case of default payments as defined in the Operational Rules of this Agreement (Annex I.)

6. RESTRICTIONS ON USE OF CREDIT PROMOTED BY THE PROGRAMME

The GUARANTEE FUND is not oriented to issue guarantees for credit operations that include:

a. The purchase of any type of used machinery or equipment except for the cases in which this machinery or equipment has been completely revised or reconstructed by a competent mechanic or mechanical firm, recognized by the BANK and the PROJECT, and in which it counts with a guarantee certificate valid for at least 12 months.

b. To refinance outstanding debts the client has with third parties or with the BANK.

c. Lease or purchase of land.

d. Payment of profits or recuperation of investments made by members of cooperatives or other associations.

7. LOAN CONDITIONS

The operational mode established by PROJECT CRO/96/002 is based on granting individual or collective guarantees to qualified clients in order to facilitate their access to credit funds of the BANK and the national financial system.

The conditions that the BANK sets to eligible beneficiaries, in terms of amounts, participation in total cost of projects, interest rates, repayment and grace period, shall be those established by its regulations and according to the monetary norms established by the Central Bank of Croatia.

8. BENEFICIARIES OF THE PROGRAMME

The beneficiaries of this PROGRAMME will be small farmers and micro-entrepreneurs, cooperatives and other associative enterprises of inhabitants, displaced persons and returnees who belong to the municipalities of Drnis, Unesic, Ruzic, Oklaj, Skradin and the eastern part of Vodice, under the following conditions:

a. That they present economically and financially feasible business plans,

b. That they lack the sufficient collateral for normal access to credit resources,

c. That they comply with the other requisites as settled in the Operational Rules of this Agreement.

The Operational Rules of this Agreement may be revised to include a system for categorizing clients in light of their credit capacity and productive potential.

9. AGREEMENT COMMITTEE

With the objective of coordination of and follow up to the PROGRAMME, an Agreement Committee will be established and composed as follows:

- A representative of the ILO, assigned by the ILO regional Technical Adviser, who is responsible for the backstopping of ILO activities in the context of the collaboration with UNOPS,
- A representative of PROJECT CRO/96/002, assigned by the national coordinator of the project,
- A representative of the BANK, assigned by its General Manager or its Executive Board.

The Agreement Committee will have the following tasks and responsibilities:

- Coordination of the parties signatory to the agreement;
- Approve the technical guidelines for each agricultural activity to be financed and give follow-up to its application;
- Approve the Operational Rules of the agreement and approve the modifications it considers necessary;
- Propose reforms and/or improvements to the Agreement to the parties;
- Obtain from the BANK and from the Technical Committee any report it considers important concerning the Agreement and inform the parties accordingly;
- Request audits concerning the management of the financial resources mentioned in this Agreement, whenever it is considered necessary;
- Prepare and submit to the parties, within the first 30 days of each calendar year, an evaluation report on the progress and the impact of the PROGRAMME.
10. TECHNICAL COMMITTEE

In order to issue qualified guarantee certificates, a Technical Committee will be established comprising:

- A representative of PROJECT CRO/96/002, who will coordinate the committee;
- A representative of CARITAS;
- A representative of FAUST VRANCIC;
- A representative of the Local Development Council (LDC) of the Municipality where the loan applications to be evaluated are originated;
- A representative of the BANK.

The Technical Committee has the following main tasks:

a. Select possible beneficiaries of the PROGRAMME, considering that the micro-business plans presented to be financed should meet the criteria established in present agreement, the Guarantee Rules and the Credit Rules of the BANK;

b. Coordinate the participating institutions in the technical aspects of execution of the PROGRAMME;

c. Design and submit to the Agreement Committee the technical guidelines for the agricultural crops and farming models to be financed, taking into account the characteristics of the different areas;

d. Propose modifications to the Operational Rules and the Guarantee Granting considered necessary to improve the functioning of the PROGRAMME.

11. OBLIGATIONS OF THE PARTIES

The organization, operational mechanisms and functions of the parties in this Agreement must be explained in its Operational Rules, which have to be approved by the Agreement Committee within 15 days after signing this Agreement.

11.1 ILO

a. To provide the BANK with the financial resources established in clause two (2) of this Agreement;

b. Together with PROJECT CRO/96/002, to support the BANK, CARITAS and FAUST VRANCIC in training their personnel in project formulation and in specific financial and technical issues;

c. Participate in the meetings of the Agreement Committee;

d. Support the PROGRAMME through promoting organizational strengthening and training among the beneficiaries;

e. Recognize the BANK’s capacity to recuperate automatically default payments made in operations guaranteed by the programme, according to the procedures defined in the Operational Rules.

11.2 PROJECT CRO/96/002

a. To support the realization of technical assistance to the beneficiaries of the PROGRAMME, in order to obtain a correct use of the resources;

b. Participate in the Agreement Committee;

c. Participate, through the Technical Committee, in the analysis of the qualification of beneficiaries, as stated in the present Agreement and its Operational Rules;

d. Transfer the methodology used for selection, evaluation and follow-up of the credits granted to the beneficiaries;

e. Define the mechanisms, which assure the cooperation of the other institutions;

f. To remunerate the institutions which provide technical assistance as part of the PROGRAMME, as settled in the Operational Rules.

11.3 THE BANK

a. Participate in the Agreement Committee and in the Technical Committee;

b. Decide on the applications presented by the Technical Committee, following its own mechanisms of loan approval;

c. Not to substitute with the resources of the present agreement the cover of its own credit schemes. The PROGRAMME should strictly benefit the beneficiaries described in clause 8;

d. Submit to the Agreement Committee a monthly report on the state of the account;

e. Cooperate in the implementation of annual external audits, or whenever the Agreement Committee considers it necessary;

f. Assign a representative responsible for the follow-up of the PROGRAMME and for any information the BANK has to submit to the Agreement Committee and the Technical Committee as stated in this agreement and its corresponding Operational Rules.

11.4 CARITAS AND FAUST VRANCIC

a. Inform the beneficiaries of PROJECT CRO/96/002 in Sibenik’s hinterland about the criteria, rules and regulations of the credit scheme;

b. Organize meetings, training sessions or workshops in order to animate and organize potential beneficiaries;

c. Assist beneficiaries with loan applications through field visits, interviews and analysis of their loan requests;
d. Participate in the Technical Committee for the selection of beneficiaries;

e. Monitor and follow up in the field all loans granted to the beneficiaries and inform the technical committee about any misuse, deviation or problems concerning the loans;

f. Prepare monthly reports to PROJECT CRO/96/002 concerning the progress of the PROGRAMME and the main problems encountered in the field.

12. DURATION OF AGREEMENT

This agreement will come into effect immediately after it is signed and will expire with the termination of PROJECT CRO/96/002, unless the parties decide otherwise.

If the parties decide to extend the agreement after the termination of PROJECT CRO/96/002, the BANK agrees to replace the PROGRAMME by an institution that guarantees a sustainable follow-up to the financial and technical assistance towards the target population to be chosen in mutual agreement between the parties.

13. TERMINATION OF THE AGREEMENT

This agreement may be terminated by any of the parties, communicating in writing to the other parties its intention and the causes therefore.

Unless the parties otherwise agree within thirty (30) days following the receipt of a termination notification, this Agreement will be automatically terminated.

14. DISTRIBUTION OF FUNDS

At the expiry or termination of this Agreement, the BANK undertakes to return the ILO the balance of the deposits in money and values that the ILO had contributed to the PROGRAMME, along with the interest generated, deducting the discounts charged for default payments. Also will be deducted that part of the fund that guarantees outstanding loans. This will be progressively repaid with the exception of amount charged for default payments.

15. SETTLEMENT OF DISPUTES

Any dispute between the parties, concerning the interpretation or execution of this agreement as well as any claims on amount and mode of recuperation of the contribution made by ILO and its respective interests, should be submitted to arbitration if this dispute cannot be settled in mutual agreement.

This body of arbitration will follow the norms and rules of UNCITRAL (United Nations Commission on International Trade Law) and its decisions must be accepted as final and valid for the parties involved, and they will be obliged to comply immediately.
FIRST CHAPTER

Operational mode of GUARANTEE FUND

1.1 Credit related rules for credit promoted by PROJECT CRO/96/002

PROJECT CRO/96/002 guarantees the Net Debt the BANK makes in favour of the PROJECT’s beneficiaries. This will be done through the emission of guarantee letters to those members of the target population whose business proposal has been accepted by the Technical Committee. The initial GUARANTEE FUND capital is composed of the equivalent of US dollars 250,000 in German marks (DM).

The Net Debt is understood as follows: the total amount of loans granted by the BANK, backed by the guarantee letters issued by PROJECT CRO/96/002, plus the total amount of interests these credits are estimated to generate, reduced with the return payments made plus its interests and the value of the collateral the borrower disposes of him/herself.

The BANK recognizes that a guarantee fund serves for covering the real risk that can be expected from a credit portfolio and is willing to promote credit operations for an amount that is superior to the GUARANTEE FUND itself. This leverage level will be build up as follows:

Initially, the BANK will allot to credit operations, as part of this agreement, twice the amount of the GUARANTEE FUND, that is to say One million United States Dollars (U$S 1,000,000).

In the first month, following the first operational year of the agreement, the BANK, after discussion with the parties, will modify the proportions of funds allotted to credit operation depending on the percentage of loan recovery during the first year of operation.

1.2 Definition of financing plans and technical guidelines

Credit will be granted for agriculture, livestock breeding and non-agricultural small enterprises. In order to make procedures for credit granting more cost effective, individual business plans and loan applications will be compared with standard financing plans and technical guidelines.

In the case of agriculture the Technical Committee will agree on a list of crops to be financed, depending on the economical viability of each of them. The Technical Committee will also design technical guidelines for financing each of these crops, according to the data for agriculture stated in the Regional Development Plan for Sibenik County, which was prepared as part of PROJECT CRO/96/002. The technical guidelines must be approved by the agreement committee. Technical guidelines will contain:

a) Checklist for production: kind of crop, area, inputs, estimated yield, estimated return;

b) Investment plan: total investment, amount of credit, own resources;

c) Disbursement and repayment: disbursement calendar, period of grace, repayment calendar.

For livestock breeding a similar procedure will take place. Here PROJECT CRO/96/002 will base technical guidelines on the farming models prepared. Technical guidelines will contain:

a) Checklist based on farming models;

b) Investment plan;

c) Disbursement and repayment plan.

For non-agricultural small enterprise feasibility of the business plan has to be checked by the Technical Committee in each individual case. The Technical Committee will prepare financing plans for each loan application.

1.3 Qualification and approval of guarantee applications

(Prospective) Borrowers are subject to the following criteria for loan eligibility:

– Presentation of a financially viable business plan;

– Present action of imminent domicile in the geographic area covered by PROJECT CRO/96/002;

– Provision of personal guarantees and collateral, subject to ability;

– Availability of all the required inputs, including the necessary technical and managerial skills, besides what is to be financed by the loan.

The Technical Committee checks the business plans presented on their compatibility with the requisites and conditions as set in the technical guidelines. It also studies the feasibility of plans for non-agricultural enterprises and prepares financing plans.
Information dissemination and guarantee approval will be organised as follows:

- The LDCs, through their representatives in each village, inform the beneficiary population about the credit programme and hand out a questionnaire to get an insight into the potential need for credit;
- The LDCs collect these questionnaires and hand them over to CARITAS or FAUST VRANCIC, depending on the geographic area.
- Depending on the response to the questionnaire (quantity), CARITAS and FAUST VRANCIC will visit families interested in a loan or will make a first selection together with the LDCs.
- CARITAS and FAUST VRANCIC will visit and hand out loan application forms to serious candidates.
- The Technical Committee (CRO/96/002, BANK, CARITAS or FAUST VRANCIC and the LDC) will gather in each municipality to select applications for a loan guarantee.
- The BANK will sign the guarantee letters.

Applications that meet the criteria of the Technical Committee are submitted to the BANK, together with a guarantee letter and all relevant data. The application should reach the Bank at least 15 working days before loans are due to be disbursed.

The BANK makes the final decision on approval or refusal of a loan application. The reasons for which the BANK should refuse the application are the following:

- The business is considered too financially risky.
- It has information on the borrower’s record that disqualifies him/her.
- It considers that the loan clearly contradicts one of the clauses of the Agreement or one of the operational rules.

1.4 Loan amount

The loan amounts relate to the proposed loan purpose, the corresponding standard financing plans and technical guidelines as per clause 1.2 of these OPERATIONAL RULES as well as the ability to finance the investment from a borrower’s own resources.

The maximum loan amount for equipment is US$ 3,000 (three thousand US dollars), whereas any single loan will be subject to a maximum amount of US $7,000 (seven thousand US dollars).

1.5 Interest rates

The BANK will set the lowest possible market interest rates for the clients of the PROGRAMME. For the first year the interest rate is set at seven percent (7%) per annum. This interest rate is charged for the entire loan duration, including any possible grace period and over the outstanding loan principal in Kuna, assuming its value will be maintained vis-à-vis the German mark (DM).

In case of a depreciation/devaluation of the Kuna to the German mark and depending on the impact of such change, the loan interest rate will either be adjusted or the difference be met by the GUARANTEE FUND in order to maintain the value in German marks (DM) of the remaining loan principal.

1.6 Granting and disbursement of loans

The BANK shall refuse, grant and disburse out of its own resources or resources under its administration, loans that are guaranteed by PROJECT CRO/96/002 within 15 days after receiving the applications from the Technical Committee.

In principle, the BANK shall disburse the loans as much as possible in kind, paying the receipts of purchase, presented by the borrowers, directly to the providers. However, on an exceptional basis, depending on the loan purpose and on the situation specific circumstances of a particular borrower and area, a maximum of 15% of a loan can be provided in cash.

1.7 Functions of the BANK

The BANK shall open a credit file for each client that has been guaranteed by the Technical Committee.

The BANK shall also coordinate the dates of disbursement with PROJECT CRO/96/002, CARITAS and FAUST VRANCIC and shall facilitate any information these parties need for the follow up on the outstanding loans. The role of CARITAS, FAUST VRANCIC and the PROJECT in the provision of financial services shall in no way replace the usual bank procedures and operations with respect to monitoring of and follow-up to outstanding loans.

SECOND CHAPTER

Procedures for loan recovery

2.1 Guarantee execution

Once loans are expired, the BANK proceeds along its normal procedures, reporting default debt, if any, and legal requisitioning the direct collateral of the default payer.
Sixty (60) days after reporting the default debt, the BANK can automatically cover any remaining default payments with resources from the GUARANTEE FUND, if the BANK and PROJECT CRO/96/002 do not mutually agree to reschedule the particular loan within these 60 days. Default covered by the guarantee fund should not affect the process of legal requisitioning the direct collateral, which is the responsibility of the BANK. As per clause 1.1 of these OPERATIONAL RULES, it is understood that collateral and personal guarantees pledged by the borrower carry the risk of loan default in first line, followed by the capital of the GUARANTEE FUND. In a future revision of these OPERATIONAL RULES and in order to share the risk of loan default more equally over borrower, lender and guarantor, this risk sharing arrangement can be revised.

In cases in which PROJECT CRO/96/002 certifies that the borrower had no influence in the reasons for default payment, it can request the BANK, within 30 days after reporting the default debt, not to proceed with legal requisitioning, thus automatically assuming the repayment of the total debt from the GUARANTEE FUND. It can also ask the bank to refinance the default payment.

In the case a borrower starts repaying his/her debt after the GUARANTEE FUND covered the default payment, these payments should automatically flow back into the GUARANTEE FUND. Default payment recovery through legal requisitioning should also benefit the GUARANTEE FUND, if the GUARANTEE FUND covered this default in the first place.

THIRD CHAPTER
Technical Assistance and follow-up

3.1 Remuneración por Asistencia Técnica
CARITAS and FAUST VRANCIC will receive a remuneration of eight per cent (8%) of the outstanding loans by the Guarantee Fund. This remuneration will be paid by UNOPS out of the interests earned by the Guarantee Fund in first line (see also clause four (4) of the AGREEMENT) and, if not sufficient, out of its own programme resources.

FOURTH CHAPTER
Reports, inspections and audits

4.1 Reports
The BANK will submit monthly reports to PROJECT CRO/96/002, informing on the state of the guaranteed loan portfolio and the Guarantee Fund itself on the basis of its internal accounting. These reports include a detailed list of all outstanding loans – including a breakdown of arrears ages and obligations, investments and returns, pending operations, BANK costs incurred in connection with Guarantee Fund operations as well as any possible graduation of borrowers.

CARITAS and FAUST VRANCIC will submit monthly reports to PROJECT CRO/96/002, informing on the progress of the PROGRAMME, including the recovery of loan principal and interest arrears, the main problems encountered in the field as well as their actual cost of operation within the context of the PROJECT’s credit services. These monthly reports will include a section on planned activities for the following month.

4.2 Inspections
The BANK facilitates at any moment the inspection of accounts of the PROGRAMME by internal accountants, United Nations accountants or any person who operates in name of United Nations and is authorized by PROJECT CRO/96/002.

4.3 Audits
The BANK realizes an audit at least once a year, as part of its normal functions. A copy will be send to PROJECT CRO/96/002.

FIFTH CHAPTER
Duration/modification and settlement of disputes

5.1 Duration/modification of operational rules
These OPERATIONAL RULES will come into effect immediately after the Agreement Committee has adopted them. Unless the parties to the AGREEMENT otherwise decide, these Rules will expire upon termination of the AGREEMENT. In accordance with clause 9 of the AGREEMENT, the Agreement Committee upon recommendation of the Technical Committee may modify these Rules at any time.

5.2 Settlement of disputes
In case of differences between the text of these OPERATIONAL RULES in the Croatian and English version due to translation from its original in the English language, the text in the English version of these OPERATIONAL RULES will prevail.
### Tool 4.6.10 – Checklist on conditions for successful intermediation in guarantee programmes

<table>
<thead>
<tr>
<th></th>
<th>Not relevant</th>
<th>Not satisfactory</th>
<th>Weak</th>
<th>Satisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Suitability of the instrument</td>
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</tr>
<tr>
<td>‣ The guarantee fund instrument is relevant to the organization</td>
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<tr>
<td>‣ The organization has prior experience in guarantee funds</td>
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<tr>
<td>‣ The organization has experience in (direct) lending</td>
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<tr>
<td>2. Institutional culture and leadership</td>
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<tr>
<td>‣ The governing body/board is well informed on (the particularities of) the guarantee instrument</td>
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<tr>
<td>‣ The executive director/general manager is well informed on (the particularities of) the guarantee instrument</td>
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<td></td>
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</tr>
<tr>
<td>‣ The chief of the financial services division/unit is well informed on (the particularities of) the guarantee instrument</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>‣ Financial services are among the priority areas of concern for the organization</td>
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<td></td>
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</tr>
<tr>
<td>‣ There is a consensus at the different management levels about the suitability of the guarantee instrument</td>
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<tr>
<td>‣ The organization is willing to commit necessary (financial) resources</td>
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<td></td>
</tr>
<tr>
<td>‣ The organization is prepared to make necessary organizational changes (reorganization)</td>
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<td></td>
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</tr>
<tr>
<td>‣ The board/management is prepared to allocate necessary resources for staff training and the upgrading of monitoring systems</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>‣ The board/management is prepared to recruit professional staff from outside the organization (if necessary)</td>
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<td></td>
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<tr>
<td>‣ Members of the organization consider their leaders representative, capable and transparent. Absence of political interference or clientele that could pose a threat to the guarantee programme</td>
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<td></td>
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</tr>
<tr>
<td>‣ Previous financial intermediation has been transparent and professional</td>
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<td></td>
<td></td>
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<tr>
<td>3. Organizational structure</td>
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</tr>
<tr>
<td>‣ Financial services are organized in a special division/unit</td>
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<tr>
<td>‣ This division/unit has its own (decentralized) accounts (budget, balance sheet, profit/loss statement)</td>
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<td></td>
<td></td>
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<tr>
<td>‣ Day-to-day decision-making is decentralized</td>
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<tr>
<td>4. Strategic and operational planning</td>
<td></td>
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</tr>
<tr>
<td>‣ The organization has a strategic and operational planning capacity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>‣ The organization bases its activities on a mid- and long-term strategic plan</td>
<td></td>
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</tr>
<tr>
<td>Action</td>
<td>References</td>
<td>Contents</td>
<td>Theory</td>
<td>Process</td>
</tr>
<tr>
<td>--------</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>5. Financial policies and procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies and procedures have been established for financial services</td>
</tr>
<tr>
<td>Policies for financial intermediation are transparent and complete</td>
</tr>
<tr>
<td>Target group and eligibility criteria are determined for each financial service</td>
</tr>
<tr>
<td>Loan conditions are determined for each financial service</td>
</tr>
<tr>
<td>The organization has an explicit policy for the remuneration of financial services and programme sustainability</td>
</tr>
<tr>
<td>The organization has an explicit policy regarding loan restructuring and legal action</td>
</tr>
<tr>
<td>The organization has a clear agreement (policy) for calling on guarantees</td>
</tr>
<tr>
<td>Adequate procedures are defined for the following areas:</td>
</tr>
<tr>
<td>Client screening and selection;</td>
</tr>
<tr>
<td>Loan appraisal and approval;</td>
</tr>
<tr>
<td>Loan disbursement and repayment;</td>
</tr>
<tr>
<td>Follow-up on problem loans;</td>
</tr>
<tr>
<td>Calling on guarantees; and</td>
</tr>
<tr>
<td>Guarantee payments.</td>
</tr>
<tr>
<td>Procedures are contained in a user-friendly manual</td>
</tr>
<tr>
<td>A special independent committee approves loan/guarantee applications</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6. Financial situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization has at its disposal the necessary funds for the guarantee fund programme</td>
</tr>
<tr>
<td>The organization has access to outside funding sources required for the programme</td>
</tr>
<tr>
<td>The organization has at its disposal hard currency funds</td>
</tr>
<tr>
<td>Liquidity of the guarantee fund</td>
</tr>
<tr>
<td>Solvability of the guarantee fund programme in relation to the overall (activities of the) organization</td>
</tr>
</tbody>
</table>

The role of financial intermediation in the overall organizational strategy is clear and in coherence with other activities.

The financial services division/unit has its own annual mid- and long-term plan.

Financial projections and plans are made on a regular basis.

The financial service division/unit has its own fund accounting plan.

Targets are regularly reviewed and revised when necessary.
7. Monitoring and control

- The financial service division/unit has at its disposal an information system to monitor individual loans and the overall loan portfolio
- A monitoring system on the status and performance of the guarantee fund is in place
- Information on loan disbursements and repayments is easily accessible
- The management has at its disposal regular (monthly) reports on the status of the finance portfolio
- Reports contain clear indicators on loans in arrears, in default and portfolios at risk
- Regular reports are provided on the status of and calling on the guarantee fund
- The organization has at its disposal an information system to monitor costs and revenues of the finance programme
- The information system provides information on the workload and performance of each finance officer
- The management has at its disposal regular reports on programme performance, programme costs and revenues
- The level of programme sustainability is regularly measured on the basis of (pre-determined) indicators
- The management provides (semi-) annual reports to the board/governing body
- The finance programme is subject to regular (annual) external audits

8. Staff (management) capabilities

- Relevant managers have the capability to design, update and refine policies, strategies and procedures
- Programme staff have the required skills to implement necessary activities
- Managers are capable of making financial projections
- Relevant staff are familiar with (portfolio) monitoring and reporting
- Staff are familiar with bank policies and procedures
- Officers are familiar with the tools to screen business plans on their technical and financial feasibility (including cash flow analysis and market analysis)
- Officers are familiar with tools to assess business management capacities of loan applicants
- Staff are able to provide pre-loan orientation on (the use of) credit
4.7

4.7.1

Attention to vulnerable groups

What to consider?

One of the first challenges after a crisis is to make an assessment of the impact of crisis on different population groups within the territory.

The main groups targeted within the rehabilitation and local development programmes are listed in the table below:

<table>
<thead>
<tr>
<th>VULNERABLE GROUPS THAT MIGHT BE AFFECTED BY A CRISIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resettled populations in new, internal locations</td>
</tr>
<tr>
<td>Returned populations who sought refuge abroad</td>
</tr>
<tr>
<td>Returned populations internally displaced by a conflict</td>
</tr>
<tr>
<td>Returned populations internally displaced by a natural disaster</td>
</tr>
<tr>
<td>Ex-combatants of the regular and/or irregular forces</td>
</tr>
<tr>
<td>Persons disabled by a war/natural disaster</td>
</tr>
<tr>
<td>Families/households headed by women</td>
</tr>
<tr>
<td>Other affected groups</td>
</tr>
</tbody>
</table>

The need to develop specific programmes for these target groups is supported by several criteria, the most important of which are:

- Conditions of the peace agreements;
- Search for a social stability that facilitates the consolidation of the peace process;
- International pressure for humanitarian causes and economic costs of refugee programmes.
The following table lists the main characteristics of such programmes:

<table>
<thead>
<tr>
<th><strong>CHARACTERISTICS OF TRADITIONAL REFUGEE PROGRAMMES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of financial resources dependent on international aid</td>
</tr>
<tr>
<td>Very short implementation periods</td>
</tr>
<tr>
<td>Short-term vision</td>
</tr>
<tr>
<td>Strict external monitoring</td>
</tr>
<tr>
<td>Execution through international institutions with significant participation of international personnel</td>
</tr>
<tr>
<td>A certain duality, in some cases, between a militarized action (e.g. housing the combatants, disarmament and demobilization) and civil actions (e.g. psychological care, return to places of origin, education and/or professional training)</td>
</tr>
<tr>
<td>Use of certain economic tools, such as professional training, more as a way of redirecting the attention of these groups away from the conflict and offering them a transitory source of revenue (e.g. through grants for training) without the assistance appearing to be “charity”</td>
</tr>
</tbody>
</table>

For a variety of literature illustrating these processes, see the BIBLIOGRAPHY for ILO experiences with different groups affected by conflicts.

However, very often the most vulnerable groups are viewed as passive receivers of emergency development assistance rather than as proactive actors capable of contributing to the conception, implementation and adaptation of ongoing recovery strategies. As a result, in the past vulnerable groups have often had little or no say in the decisions concerning reintegration and long-term development strategies, which are conceived in isolation not only from the socio-economic realities in the crisis-affected area, but also from the experiences and personal histories of the returnees. This means that the skills, different survival strategies and the physical, emotional and social well-being of the vulnerable groups that have evolved during the crisis period are not taken into consideration as a potential asset or tool in the stabilization process and force for recovery.

Some of the problems undermining the effectiveness of many recovery programmes include the following:

- Development strategies that do not take into account pre-crisis economic trends and activities or which propose new activities for which the labour market is unprepared;
- Lack of experience, especially of the young population, in job skills and training;
Economic activities which reinforce existing inequalities in terms of access to land or productive resources, and therefore do little to combat social exclusion;

Interventions which generate mistrust in the crisis-affected area by targeting specific groups over others, for example those taking part in a reintegration programmes.

Social protection is particularly necessary for many vulnerable groups, including women, refugees and internally displaced persons, the disabled, orphans, and ex-combatant children. Central to the recovery strategy is the building of community and individual assets leading to the resumption of sustainable livelihoods. Activities could include public works programmes (food-for-work and cash-for-work), micro-credit support (especially for women), skills training and vocational support. In addition, support to key civil service institutions should include affirmative action to increase the employment of vulnerable groups at all levels.

The LED approach aims to ensure that the design of recovery strategy is broad enough to address the needs of all population groups, particularly the most vulnerable. Specific programmes should be designed in collaboration with representatives of the groups themselves, taking into account their priorities, needs and potential contribution to carrying out different activities.

For example, many women may have had to carry the burden of their family during the crisis and will have learned skills to cope with the shortage of food and income, either in the refugee camps or the community. Some may have become successful micro-entrepreneurs in the informal sector of the economy. However, these skills are often neglected by policy planners and the content and models of delivery of business development services and financial support in post-crisis situations is either gender-blind or sets a ceiling on the possibilities available to women entrepreneurs, relegating them to traditional, low-productive sub-sectors.

Specific problems include:

- Women’s unequal access to finance, assets, technology and services;
- Their restricted access to vocational training opportunities;
- Culturally and socially-rooted negative perceptions towards women in business;
- Their conflicting role demands and time constraints;
- Their lack of assertiveness and self-confidence.
4.7.2 What to do?

Step 1: Diagnosis

Programmes cannot be designed before information and socio-economic data is gathered on different population groups in the crisis-affected area. This assessment should attempt to identify needs, as well as skills and other assets, which can be made use of in the process of reactivating local economic development. Among the returnees we may find some well-to-do families who could receive better help through a bank loan rather than with a pair of oxen, a plough, seeds and fertiliser.

See TOOL 4.7.1 for detailed terms of reference for the assessment of the needs of vulnerable groups in post-crisis situations.

The institutional mapping process, on the other hand, will consist of gathering information regarding existing organizations, associations, NGOs, etc. that are implementing programmes targeted in particular at vulnerable groups.

Step 2: Sensitizing

In this phase it will be important to raise awareness among the broader constituency, i.e. local government departments and the business community, of the particular problems facing vulnerable groups and the importance of addressing these issues as part of a socially sustainable programme for recovery. The data gathered in step 1 will help to provide evidence of the issues facing vulnerable groups in the area.

Step 3: Promoting a local/regional forum

The local stakeholders representing different population groups should be members of the local forum. The presence of local stakeholders from different backgrounds will help to stimulate discussion on the most urgent problems of the most disadvantaged groups on the territory. When institutionalizing the local forum, the inclusion of representatives of vulnerable groups should be taken into account.

Step 4: Designing the LED strategy

The SWOT analysis will help to integrate the needs of vulnerable groups into the LED strategy.

The local forum will examine the data collected during the territorial diagnosis and institutional mapping process and address the most urgent questions.

See TOOL 4.7.2 for elements that can be used to carry out a SWOT analysis on the needs and strengths of vulnerable groups.
Examples of particular activities may include:

- The involvement of young people in educational activities, events, sports, etc.;
- The involvement of the elderly in social, environmental or educational activities;
- Consideration of the needs of vulnerable groups in processes of business promotion, planning, the design of financial mechanisms or investment attraction, etc.;
  
  See TOOL 4.8.4 for an example of how to include vulnerable groups in a vocational training strategy.
- The participation of ex-combatants, returnees and refugees in the implementation of the reconstruction process and social activities, according to their skills and motivations;
- The promotion of economic empowerment and job creation for women.
  
  See TOOL 4.7.3 for an example of the promotion of job creation for women in the Centre for Entrepreneurship, Devin, Bulgaria.

**Who should do it?**

The local forum is responsible for the inclusion of vulnerable groups in the design and implementation of the LED process.
## Toolkit 4.7 – Attention to vulnerable groups

### Tool 4.7.1 – Vulnerability assessment

<table>
<thead>
<tr>
<th>General questions</th>
<th></th>
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<tbody>
<tr>
<td>Describe the target group in terms of number, gender, age, family status and average family size</td>
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<tr>
<td>Where do they live?</td>
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<tr>
<td>What has been the major impact of the crisis on the group?</td>
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<tr>
<td>Are they particularly vulnerable to additional or secondary effects of the crisis?</td>
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<tr>
<td>What is the average working age of the group?</td>
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<tr>
<td>What were their pre-crisis occupations, skills and levels of training?</td>
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</tr>
<tr>
<td>What are the major constraints to their employment prospects?</td>
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<tr>
<td>What types of services or assistance are currently being provided to increase income-earning opportunities?</td>
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</tr>
<tr>
<td>Who provides these services (government, community or external assistance)?</td>
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</tr>
<tr>
<td>Are these services appropriate?</td>
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</tr>
<tr>
<td>Which coping mechanisms are used by the group?</td>
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<tr>
<td>Are positive coping strategies recognized and supported by assistance providers?</td>
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<tr>
<td>Which particular activities (public works, training, productive activities, etc.) would best reduce vulnerability and foster self-sufficiency?</td>
<td></td>
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<tr>
<td>Which activities will be needed to reduce dependency as vulnerability declines?</td>
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</tbody>
</table>

Try to identify the percentage of the following population groups within the vulnerable group:

- Women
- Poor
- Elderly
- Indigenous
- Socially isolated
- Children
- Undocumented
- Those with numerous dependents
- Chronically ill or malnourished
- Other

What programmes already address their specific needs?
### Disabled persons

How many disabled persons are there in each category of disability?

- Mobility impairments requiring adaptive equipment
- Blindness
- Deafness
- Mental disabilities
- Mental illness
- Extreme trauma
- Other

In which ways do they need help in overcoming constraints to income-earning opportunities?

### Youths

What was the socio-economic situation of youths before the crisis?

What are they interested in doing?

What are their expectations?

Who is specifically supporting them?

What are the employment possibilities for young people of working age?

### Ex-combatants (including child soldiers)

Has disarmament and demobilization been carried out successfully?

What are the expectations and hopes of the vulnerable groups regarding their occupations after their return to civilian life?

What are the constraints to successful reintegration?

What is their social status in society?

What are the motivations for youth involvement in military activities?

Is it socially acceptable to target them using the available funds?

Are there any national structures in place to coordinate disarmament, demobilization and reintegration?

Which specific economic sectors could absorb ex-combatants?

### Female-headed households

What are the disadvantages faced by women in the labour market and what impact has the crisis had on their ability to work?

What is the average number of family members supported by FHH?

What is the risk of continued hardship on women’s reproductive role (difficult pregnancies, miscarriages, stillbirths, infant mortality, etc.)?
### Unemployed

<table>
<thead>
<tr>
<th>Question</th>
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<tbody>
<tr>
<td>Is the level of unemployment chronic or was it brought on by the crisis?</td>
</tr>
<tr>
<td>Have social safety nets or coping strategies alleviated the economic stress on the families of the unemployed?</td>
</tr>
</tbody>
</table>

### IDPs and refugees

<table>
<thead>
<tr>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are there legal barriers to their employment in the country of asylum?</td>
</tr>
<tr>
<td>What is the expected duration of their status as refugees?</td>
</tr>
<tr>
<td>What are their daily occupations?</td>
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<tr>
<td>Could their time be used more productively through, for example, vocational and business training?</td>
</tr>
<tr>
<td>What do they expect to do when they come home?</td>
</tr>
<tr>
<td>Do they need additional skills?</td>
</tr>
<tr>
<td>Is there any information available on the demands of the labour market from the country they are returning to?</td>
</tr>
<tr>
<td>Is there a lack of products in the refugee camps? Assess possibilities for income-generating activities in the camps (soap, shoes, etc)</td>
</tr>
</tbody>
</table>

### Recent returnees (refugees)

<table>
<thead>
<tr>
<th>Question</th>
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<tbody>
<tr>
<td>What are their expectations and hopes regarding occupation after their return?</td>
</tr>
<tr>
<td>What are the constraints to their successful resettlement or reintegration?</td>
</tr>
<tr>
<td>Will they have to compete with host community members for available employment?</td>
</tr>
<tr>
<td>What assistance is planned for supporting employment prospects for the returnees as well as the host community?</td>
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</tbody>
</table>

### Returned economic migrants

<table>
<thead>
<tr>
<th>Question</th>
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<tbody>
<tr>
<td>What are their expectations and hopes regarding occupation after their return?</td>
</tr>
<tr>
<td>What are the constraints to finding employment when they return?</td>
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</tbody>
</table>
## Tool 4.7.2 – Elements for a SWOT analysis related to vulnerable groups

<table>
<thead>
<tr>
<th>ELEMENTS FOR A SWOT ANALYSIS (VULNERABLE GROUPS)</th>
<th>S</th>
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</thead>
<tbody>
<tr>
<td>The current system or mechanism in the territory that focuses on vulnerable groups</td>
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<tr>
<td>The role of institutions in the inclusion of vulnerable groups in the territory</td>
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<tr>
<td>The vulnerable groups’ access to social and political spaces within the community</td>
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<tr>
<td>The formal (and recognized) organization of vulnerable groups</td>
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<tr>
<td>The participation of representatives of vulnerable groups in local/regional decision-making</td>
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</tr>
<tr>
<td>Prevention mechanisms of further conflicts between vulnerable groups and the “majority”</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
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</tbody>
</table>

### General questions (finance)

- How can the participation of vulnerable groups not only in the LED process but also in social, economic and political processes be increased?
- What are the likely problems concerning vulnerable groups (immigration, unemployment, social exclusion, conflicts, etc.) in the future?
- How can these problems be avoided?
- How can weaknesses related to vulnerable groups be transformed into strengths?
The development objective of the project is:

"Promotion of economic empowerment of and job creation for women in the Devin region. This objective will be achieved through supporting the creation of new enterprises and the expansion of the existing ones owned by women".

The project was conceived and founded by the "Centre for Entrepreneurship Promotion/Business Centre/Devin". The core-activities of the Business Centre include:

- Promotion of an entrepreneurial culture where potential businessmen and women become aware of the responsibilities, risks and potential of a self-run enterprise;
- Delivery of a locally-based package of support services to potential or actual small and medium-sized enterprises;
- Introduction of new management techniques and new technologies.

Delivery of a wide range of information services

- Consulting services to facilitate guidance in formulating and selecting “bankable” projects;
- Implementing new projects or rehabilitating existing ones;
- Follow-up and counselling on projects’ operations with a view to consolidating their sustainability;
- Assisting in the promotion and marketing of the product on an international level;
- Mobilization of opportunities and resources, as well as guidelines and procedures to facilitate access to credit and incentives for employment generation and training.

Stimulation and support of dialogue at the local and national level

Aimed at promoting private entrepreneurship in order to create a relationship built on confidence between the public institutions and the private sector.

The immediate target group of the project consisted of unemployed women from the Devin region, entrepreneurs in all sectors (mainly women), potential entrepreneurs (men and women), representatives and decision-makers of local public bodies, responsible for local economic and social development.

Project objectives and concrete results

OUTPUT 1: A core group of national consultants capable of providing consulting and training services to women entrepreneurs.

Activity 1: Select national professionals/consultants and support staff through an open, structured selection process.

Activity 2: Train national personnel.

OUTPUT 2: Establishment of a Centre for the Promotion of Women in Business in Devin.

Activity 1: Identify appropriate premises for the Centre and complete its refurbishment.

Activity 2: Select and provide equipment for the Centre.

OUTPUT 3: Increased entrepreneurial awareness and development of basic business skills among women in Devin region.

Activity 1: Assess the business awareness level and training needs of women in the region through a limited survey and based on direct contacts with target beneficiaries.

Activity 2: Identify the main opportunities and obstacles in business development in the region.

Activity 3: Provide counselling services to existing and potential entrepreneurs in areas related to their business/project, especially to unemployed women.

Activity 4: Develop specially tailored training programmes based on existing material provided by RER/97/005 (and other sources, i.e. ILO’s “Start Your Own Business”).

Activity 5: Periodically carry out business training programmes for women in the region.

Activity 6: Assist women in the production of viable business proposals for expanding enterprises so that they can obtain loans from banks and other financing organizations.
Activity 7: Contact banks and other financial sources operating in the region in order to conclude cooperation arrangements, collect information, and improve access to funds for bankable business projects developed by women or creating jobs for unemployed women.

OUTPUT 4: The establishment of a carefully designed micro-capital scheme for women entrepreneurs in Devin.

Activity 1: Define the appropriate procedures for the operation of the micro-capital scheme.

Activity 2: Define eligibility criteria, training, performance evaluation criteria, payment mechanisms, documents for appraisal and follow-up, etc.

Activity 3: Launch a promotion campaign for the micro-capital scheme among women in Devin region.

Activity 4: Screen proposed projects to be financed through the micro-capital scheme.

Activity 5: Form a project appraisal committee which will evaluate and decide on approval of grants.

Activity 6: Monitor the implementation of the micro-capital scheme.

Impact

The project has replicated the successful model of Business Centre Mesta, now a fully self-sustainable non-governmental organization. The Business Centre Mesta provides services to the business community in the Razlog region, as well as playing an active role in local economic development initiatives, supported by the ILO/UNDP and other donors. By replicating this successful model, the project has also mainstreamed gender as an inclusive poverty alleviation approach for unemployed women and men in Devin region.

The project follows a bottom-up, participatory, local economic development approach by establishing direct links with the National Employment Service, municipal authorities, CBOs and the private sector.

Through the provision of training, consultancy services, information and a loan guarantee scheme (USD 35,000 collateral for small loans and up to USD 3,000 for small businesses), the project raises awareness and informs all stakeholders that this could be one mechanism for poverty alleviation at a local level, since it tackles local unemployment within an integrated approach.

Among the initial success stories of the project was the creation of 60 jobs for Muslim women, in large part due to the support in the establishment of a local textile company.

The loan guarantee scheme is helping to stimulate the creation of small businesses while strengthening existing ones. It is hoped that the scheme will be a learning mechanism for banks in order for them to understand that micro and small businesses are credit-worthy customers. The scheme could also prove to be an effective mechanism for SME development and poverty alleviation (currently, banking policy for SME credits is extremely restrictive and it is impossible for people willing to start a small business to access credit funds from banks).

Lessons learned

An integrated approach to gender mainstreaming is fundamental to the project’s success.

The bottom-up, participatory approach, involving all stakeholders – government, municipal authorities, local community, private sector – is necessary for long-term sustainability of the NGO and the goals behind it.

For any business centre to be successful, it must be socially recognized and accepted by the local community.

The project is executed nationally and has also made use of related initiatives and experience in Central and Eastern Europe, through two umbrella projects: RER/97/005 – Regional Umbrella Programme to Support Small and Medium Enterprise Development, and RER/97/002 – Gender-in-Development.

The project has been supported by the technical assistance provided by the ILO and by the established good partnership formula for local economic development in Bulgaria, jointly devised and implemented by ILO and UNDP (for more information please refer to the BUL/95/001 and BUL/97/012 projects).

Achievements of the Centre for Entrepreneurship Devin

<table>
<thead>
<tr>
<th>Activity</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training</td>
<td>226 people (156 women)</td>
</tr>
<tr>
<td>Business Consulting</td>
<td>240 clients (139 women)</td>
</tr>
<tr>
<td>Business Information Services</td>
<td>Over 97 clients (55 women)</td>
</tr>
<tr>
<td>Economic Development</td>
<td>Support 167 new jobs (136 women)</td>
</tr>
</tbody>
</table>
Excellent working relationship with:
- Municipality – counterpart
- Local labour office – counterpart
- Local bank branches

Monthly Information Bulletin, since loan guarantee scheme
Access to credit increased
Women’s and small family businesses set up

The relationship between banks and small businesses facilitated and improved
A loan guarantee fund established
Fund established with $35,000 USD
The full loan amount guaranteed
Loan amounts $500 – $3,000
Loan period up to 36 months
4.8

4.8.1

Training for LED

What to consider?

As the world becomes increasingly integrated, the competitive advantage of regions is falling more and more on the quality of the soft infrastructure, including institutions, and the skills, flexibility, education and technical competencies within the local business environment and labour force.

Training is one of the key elements in local economic development. Needs should be served through as wide a range of local training providers as possible.

**Training of trainers:** All business advisers and persons assisting local government require skills to be able to work with enterprises throughout their life cycle. Although there are common areas, not all companies need the same types of assistance. It will be necessary to identify potential trainers and courses within universities, businesses and professional associations, and local training or industrial institutes offering courses on marketing and business development, entrepreneurship education, ICT, accounting. These trainers can be brought into the LED strategy but should first undergo some basic training so that they are familiar with the principles of the LED approach.

**Capacity building for institutional stakeholders:** Staff of local government authorities may need assistance towards strengthening their administrative capabilities to manage the recovery process, particularly institutional capacities for approving and managing reconstruction contracts with the private sector, and for transferring resources to communities and strengthening local institutions. Specific skills include handling budgets, auditing accounts and reports, monitoring the impact of activities and their evaluation.

Training may also be needed for technical staff within offices responsible for enterprise growth and labour market training in areas such as labour market analysis, revision of labour law and labour market information systems, the importance of different types of BDS and credit facilities, and participatory decision-making methodologies.

Certain national and provincial level institutional structures could also be targeted, such as professional and vocational training institutes and employment centres, to make them more aware of local needs.

**Training for enterprise managers and entrepreneurs:** Managers, particularly of small enterprises and those starting up, will probably need practical management skills to enhance the competitiveness, profitability and growth of their enterprises. Programmes can also be designed for micro-entrepreneurs and people engaging in informal sector activities to encourage them to expand. Here, the ILO’s Start and Improve Your Business course will play a major role.
Training for the labour market: The ILO has developed a community-based approach to training the rural and urban poor for employment and income generation. The methodology consists of a set of procedures for systematically identifying employment and income-generation opportunities at the local level, designing and delivering appropriate training programmes, and providing the necessary post-training support services. These services include credit, technical assistance and market information, with the aim of launching and sustaining income-generating activities.

The approach differs from conventional vocational training programmes in three main ways:

- By identifying potential income-generating activities and related training needs before designing the content and duration of specific training programmes;
- By involving the local community directly in each phase of the identification, design and delivery process;
- By facilitating the necessary post-training support services, including credit, to ensure that individuals or groups can initiate and sustain the income-generating activity for which training was provided.

Human resource development schemes should be:
- Developed on the basis of social partnership;
- Integrated with continuing education;
- Gender sensitive;
- Managed locally and flexible;
- Delivered close to where people live.

What to do?

Step 1: Diagnosis and institutional mapping

See TOOL 4.8.1 for a more detailed list of data to be collected for the purpose of designing a training strategy.

Consider the training and information needs of small and medium-sized enterprises, employees, contractors, local government departments, managers and all those with a role in long-term development interventions identified in the LED strategy.
Step 2: Determine for a 12 month period:
- Who will be trained;
- Who will do the training;
- What training activities will be used;
- When and where each session will take place;
- How each session will be evaluated and documented.

In this phase, the forum will take the responsibility for developing the training programme based on a SWOT analysis.

See TOOL 4.8.2 for elements in carrying out a SWOT analysis on training needs and activities.

Step 3: Sensitizing

The analysis of the data gathered in steps 1 and 2 should be presented to the local stakeholders. The sensitizing exercise will help them to get an overall picture regarding the current training system and training issues that are critical to achieving the objectives of the LED strategy.

Step 4: Promoting and running a local forum

If a forum is created for dealing with training issues, this should include representatives of all organizations dealing with education and vocational training in the crisis-affected area (i.e. schools, training institutions, universities, Chambers of Commerce, etc.).

Step 5: Implementing the training plan

There are various possibilities for implementing training programmes.

Existing training institutions: The forum or LEDA may activate local and national training institutions to organize specific courses, or it may seek to match the training being offered locally with the needs of local businesses.

If there is a lack of training institutions, it will be the forum or LEDA itself that takes over the most urgent needs of training.

Decentralized cooperation: An interesting source of training programmes is decentralized cooperation, i.e. cooperation between agencies or, more generally, between the local communities and their counterparts in the developed countries. Initiatives have included formal technical-managerial courses and training of businessmen by businessmen.

Networking: The role of the LEDA can be even more important in developing and implementing monitoring and evaluation of the training programmes, as well as in establishing networks with other training providers at the local and regional level.
Other programmes: Other possibilities of providing training might be distance-learning programmes, such as DELNET of the International Training Centre of the ILO in Turin. See also the chapter on networking and lobbying.

See TOOL 4.8.3 for elements of a work plan related to training.

TOOL 4.8.4 provides information on the SIYB programme of training packages.

See TOOL 4.8.5 for an example of a successful project implementing training in the Razlog region, Bulgaria.

See TOOL 4.8.6 for results achieved in the Vocational Training Project in Bihac, which is also an example of economic and financial sustainability of a training programme.

Vocational training represents one of the most effective ways of preparing to enter the workforce, and for entering into new employment areas.

See TOOL 4.8.7 for proposals of activities to be integrated into vocational training programmes.

See TOOL 4.8.8 for an overview of some of the skills, knowledge and attitudes required by stakeholders in the local development process.

Training activities should:

- Be developed in close collaboration with the stakeholders concerned;
- Be participatory, job-oriented and problem solving;
- Enhance homogeneity (for disadvantaged groups);
- Enhance social and economic mobility;
- Be financed increasingly by means of trainee contributions.

Step 6: Monitoring and evaluation

Consider how to involve beneficiaries in monitoring and evaluating training activities on a frequent basis. What systems can be put in place for feedback into the LED strategy?

Begin by conducting reviews after each training activity.
### Toolkit 4.8 – Training for LED

#### Tool 4.8.1 – Market and needs assessment related to training

<table>
<thead>
<tr>
<th>MARKET AND NEEDS ASSESSMENT RELATED TO TRAINING</th>
</tr>
</thead>
<tbody>
<tr>
<td>A list of existing institutions and organizations, etc. currently providing vocational education and skills training</td>
</tr>
<tr>
<td>• Schools</td>
</tr>
<tr>
<td>• Universities</td>
</tr>
<tr>
<td>• NGOs</td>
</tr>
<tr>
<td>• Chambers of Commerce</td>
</tr>
<tr>
<td>• Associations</td>
</tr>
<tr>
<td>• Other</td>
</tr>
<tr>
<td>Resources available (financial and human) within these institutions</td>
</tr>
<tr>
<td>A list of training services provided</td>
</tr>
<tr>
<td>• Youth training. Which skills? Duration of the courses (in hours)</td>
</tr>
<tr>
<td>• Initial training for adults and young people. Which skills? Duration of the courses (in hours)</td>
</tr>
<tr>
<td>• Continuous training</td>
</tr>
<tr>
<td>• In-service training</td>
</tr>
<tr>
<td>• Special courses for specific target groups</td>
</tr>
<tr>
<td>• Training of trainers</td>
</tr>
<tr>
<td>• Support on training material development</td>
</tr>
<tr>
<td>• Business training</td>
</tr>
<tr>
<td>• Other services</td>
</tr>
<tr>
<td>Quality of the courses, judged on the following criteria:</td>
</tr>
<tr>
<td>• Do the courses correspond to (local) labour market requirements?</td>
</tr>
<tr>
<td>• Does the institution have links to businesses where they “place” former students?</td>
</tr>
<tr>
<td>• Is the programme offered innovative?</td>
</tr>
<tr>
<td>The current beneficiaries of the courses/training held</td>
</tr>
<tr>
<td>Condition and availability of training facilities</td>
</tr>
<tr>
<td>The existence of synergies/cooperation between training institutions and local businesses and/or employment agencies, etc.</td>
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<tr>
<td>Other</td>
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</table>
### Tool 4.8.2 – Elements of a SWOT analysis related to training

<table>
<thead>
<tr>
<th>ELEMENTS OF A SWOT ANALYSIS RELATED TO TRAINING</th>
<th>S</th>
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<tbody>
<tr>
<td>Existing training strategy</td>
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<tr>
<td>Institutions and organizations currently involved in training activities</td>
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<tr>
<td>Qualifications of training staff</td>
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<tr>
<td>Synergies among training institutions and areas (finance, BDS, environment, etc.)</td>
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<tr>
<td>Use of external resources and expertise for training activities</td>
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<tr>
<td>Match of training activities with needs of private business and public administration</td>
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<tr>
<td>Current consideration of special target groups for training</td>
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<td>Other</td>
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</table>

### Tool 4.8.3 – Elements of a work plan related to training

<table>
<thead>
<tr>
<th>ELEMENTS OF A WORK PLAN RELATED TO TRAINING</th>
<th>S</th>
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<tbody>
<tr>
<td>Review which types of training are needed at the local level</td>
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<tr>
<td>Identify the main target groups</td>
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</tr>
<tr>
<td>- Unemployed adults and youths</td>
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</tr>
<tr>
<td>- New business managers</td>
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<tr>
<td>- Established business managers</td>
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<tr>
<td>- Master trainers</td>
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<tr>
<td>- Labour office staff</td>
<td></td>
<td></td>
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<tr>
<td>- LEDA staff and staff in existing business support centres and institutions</td>
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<tr>
<td>- Special target groups (women, children, disabled groups, returnees, immigrants and other)</td>
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<tr>
<td>Identify labour market needs and support the design of specific training courses</td>
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<tr>
<td>Support employment promotion through training courses</td>
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<tr>
<td>Support the implementation of training courses such as:</td>
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<tr>
<td>- Basic management skills for new businesses</td>
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<tr>
<td>- Business extension and follow-up training</td>
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<td>- Continuous education and training</td>
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<td>- Small production training</td>
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<tr>
<td>- Fee-for-service courses</td>
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<tr>
<td>- Specific tailor-made courses</td>
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<tr>
<td>- Vocational training and retraining</td>
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<tr>
<td>Other</td>
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</table>
Tool 4.8.4 – Start and Improve Your Business –
Practical management for small businesses

Start and Improve Your Business

The Start and Improve Your Business (SIYB) training programme is an ILO management-training programme for small businesses. It develops and strengthens basic management skills. The programme provides a comprehensive set of training materials for various target groups in the small business sector. It also provides a wide variety of supporting mechanisms and materials for trainers to conduct training and follow-up, and for institutions to monitor and evaluate their own programmes.

Many years of ILO experience in implementation and institutionalization of national Start and Improve Your Business programmes, primarily through ILO projects, have contributed to the high quality of the programme: in total, the programme has been introduced in over 80 countries worldwide.

Few small enterprise development programmes are simple and clear enough to be easily understood by people who have not been exposed to business training, and yet still communicate the basic management skills required by entrepreneurs to start and run small businesses successfully.

The SIYB programme attempts to fill that gap.

This brochure contains detailed information on:

– The ILO strategy for implementation and institutionalization of the programme;
– The contents and methodologies of training and supporting materials;
– The global coverage of the programme.

The ILO International Small Enterprise Programme

The Start and Improve Your Business programme packages and related services are part of the ILO International Small Enterprise Programme (ISEP). The ILO ISEP Programme strives to assist member countries in their efforts to meet the global employment challenge by creating sustainable quality jobs in the small-scale private enterprise sector.

At a time when the absorptive employment capacities of both the agricultural, public and large-scale enterprise sectors have reached their limit in many countries, it is clear that most future jobs will need to be created in the small-scale enterprise sector. The ILO’s Start and Improve Your Business programme is aimed at providing a comprehensive set of training packages and supporting tools that can be used by institutions with a commitment to supporting the small-scale enterprise sector.

The SIYB programme has been designed to provide a sustainable and cost-effective method to reach substantial numbers of small-scale entrepreneurs and provide them with practical management skills needed to enhance the competitiveness, profitability and growth of their enterprises.

ILO carries out ongoing applied research to continuously develop the programme to reflect the latest lessons learnt around the world and to ensure that these improvements are made available to the growing global network of participating institutions.

Target groups

The Start and Improve Your Business programme is a system of interrelated training packages and supporting materials for small-scale entrepreneurs in developing and transition countries. The programme provides institutions or individuals who are involved in start-up or management skills development for small businesses with a comprehensive set of materials, aimed at a variety of target groups, business extension and follow-up training, and programme monitoring and evaluation.

Materials currently available

The Start and Improve Your Business programme currently provides the following materials, which are presented below:

– ‘Start Your Business’ for those starting a business;
– ‘Improve Your Business Basics’ manuals for small-scale entrepreneurs with limited prior exposure to business training;
– ‘The Business Game’, which provides a practical and lively experience of managing a business in a game situation. It is used in training for both new and existing businesses;
– ‘Know About Business’, an extensive entrepreneurship awareness package for young trainees at vocational and technical training institutions.

Examples of adaptations:

Details on the training materials

A recent component of the programme is ‘Know About Business’ (KAB). KAB aims at creating awareness of entrepreneurship and self-employment as a career option, particularly for trainees in vocational and technical training institutions. It provides knowledge of the required attributes and challenges for starting and operating a successful business.

The ‘Start Your Business’ (SYB) package develops the skills necessary for starting a small business. SYB uses participatory training methods and brings together basic theory, relevant information and practical activities. The course is a cost-effective means to help potential entrepreneurs think systematically through the most important issues related to starting a business. One practical result of the training is a business plan for the potential business, in a form that can be presented to a credit institution.

‘Improve Your Business’ (IYB) is a separate but interlinked component that can supplement the SYB training. The ‘IYB Basics’ manuals cover the essentials of basic business management, e.g. marketing, costing, pricing, basic record keeping, buying and selling. The materials are highly flexible and adaptable to the specific training needs of the target group. The manuals use a learning methodology specifically meant for small business owners with relatively low formal education. Topics are presented using step-by-step explanations with a large number of illustrations to bring out real-life situations that the entrepreneurs can identify with.

Support tools

The Business Game is a recent member of the Start and Improve Your Business training family. It is used in both Start Your Business and Improve Your Business training. The Game is an excellent dynamic tool for creating a simulated environment where the trainees can experience the consequences of their business decisions.

Business Extension Services is a system for follow-up training and advice after the initial training for entrepreneurs. The system consists of interventions varying from refresher training to group-based and individual counselling.

The Monitoring and Evaluation System provides clear standard tools for the evaluation and monitoring of training programmes and follow-up services. In addition to allowing institutions to closely monitor their own performance, it is also a useful tool to assess the training needs of entrepreneurs, as well as to assess the need for follow-up activities.
The Promotional Kit provides various promotional tools, e.g. brochures, video materials, posters, sample press releases, etc., that can be utilized by partner institutions in their relations with potential clients and donors.

The SIYB Trainer’s Guide provides trainers with a comprehensive and easy to understand tool to organize and conduct SIYB training. The Guide includes a great number of practical tips for promoting, selecting, organizing and concluding SYB and IYB training. It also contains suggestions for follow-up activities by providing guidelines for assessing the need for follow-up, and organizing and conducting follow-up services. It also includes guidelines on how to use the Monitoring and Evaluation System (see above).

The SIYB Training of Trainers Kit is the tool for SIYB Master Trainers that has been certified by the ILO. The Kit comprises all the materials necessary to conduct Improve Your Business training of trainers.

Programme design

The national programmes design their own Start and Improve Your Business programmes by adapting the components already developed. This will enable the national programmes to have their own Start and Improve Your Business training programmes fitted to their specific needs.

National Advisory Board:

Experience has shown that institutionalization requires a network of interrelated institutions each assuming specific roles in the implementation of the programme. Below is a description of an example of an institutional framework for a national Start and Improve Your Business programme.

Junta Nacional de Consulta:
- Comprising experts from government, non-government organizations (NGOs) and the private sector;
- Leadership with regard to the policy and strategy for the national Start and Improve Your Business programme;
- Coordination of the development, translation or adaptation of the material, and adaptations for sub-sectors, etc.

Focal Point:
Co ordination and promotion of the Start and Improve Your Business programme;
- Training of Master Trainers;
- Training of Trainers;
- Linkages with the ILO;
- Promotion of networking between the user organizations.

User organizations:
- Organizations with experience in small enterprise training;
- Training of entrepreneurs and follow-up services, as part of their regular training programme;
- Monitoring the performance of trainers and entrepreneurs.

Adaptation/translation and copyright licensing

The ILO encourages the adaptation and/or translation of any of the materials of the Start and Improve Your Business programme to the specific conditions of a country. Such adaptations should be based on the international editions of SYB or IYB. The ‘Guide to the Production of SIYB Materials’ can be useful for the adaptation process. However, as ILO publications enjoy copyright, authorization to adapt or translate materials needs to be obtained from:

Publications Bureau, Rights and Permissions, ILO, 4 Route des Morillons, CH-1211 Geneva 22, Switzerland

ILO will technically screen the translation or adaptation prior to granting the right for publication. To benefit from the vast experience of the ILO’s use of the programme all over the world, a close cooperation with the ILO is recommended for the preparation and implementation of local SIYB activities.
Tool 4.8.5 – Implementation of the training component in the Razlog region, Bulgaria

**Projects:** Sustainable promotion of small and medium-sized enterprises through the creation of a business promotion and support centre in the Razlog region, Bulgaria.

**Introduction**

The present project is the outcome and a follow-up of the ILO/UNDP Local Economic Development (LED) Programme, which began its activities in Bulgaria in January 1995. In the early stages of the Programme, the aim was to follow up on the results of a seminar and a mission funded by the ILO in February and November 1993, which were aimed at strengthening small and medium-sized enterprises (SMES) in the tourism sector.

During the spring of 1995 the LED Programme established a Local Advisory Council (LAC) with representation of ten of the most relevant local socio-economic players from Bansko and Razlog. The LACs mandate was to develop guidelines and recommendations for local capacity building and development of the local economy in the project’s area, with special emphasis on tourism in particular and the service sector in general.

The present project following the methodology and achievements of the LED Programme aims at strengthening the local economy in the Mesta region via the promotion and support of SMEs through the establishment of a Business Promotion and Support Centre (BPSC). This centre will cover the original municipalities of the LED Programme, as well as new ones. It is expected that there will be replication of this model in other local areas in Bulgaria.

This collaboration in the field of LED is fully justified by the following:

- Within the framework of the increasing importance and recognition of the achievements of the local approach for the generation of sustainable human development strategies such as poverty alleviation, employment creation, income generation, integration of the most vulnerable groups into the labour market (i.e. women, young people), improvement of working and living standards (e.g. ILO Recommendation 169 concerning Employment Policy);
- The importance of inter-agency collaboration in the field of local economic development to ensure integrative programme packages and programme replicability (e.g. discussions of the Governing Council of the UNDP, February 1993);
- Declaration of the Social Summit “Requesting the Intentional Labour Office, which because of its mandate, tripartite structures and expertise has a special role to play in the fields of employment and social development, to contribute to the implementation of the Programme of Action” (Chapter V).

**1. Employment promotion through the NES**

With regard to local employment and economic development, the National Employment Service (NES) has set up and implemented several schemes as follows:

- Training and retraining;
- Youth measures (apprenticeship and subsidized employment);
- Subsidized credits to employers;
- Support to the unemployed to start a business;
- Employment subsidies.

The total effect of all employment promotion schemes in the project area has been limited, both in terms of the number of participants and expenditures. The basic problem was not a lack of resources but rather a blockade in the disbursement of funds, possibly resulting from the difficulties encountered by potential participants in formulating and defending requests and projects. In this respect, local and regional employment offices have a major role to play, providing they gain experience in self-governing, and adopting longer-term concepts.

In December 1995, the NES adopted a series of measures to create a new Credit Fund for Young Entrepreneurs (as mentioned above) who are interested and have shown experience in establishing their own business. The Leva 100 million Fund (approximately US$ 1.35 million) is mainly reserved for small loans up to a maximum of US$ 30,000. At this moment, the Fund is not operational but NES is very interested in establishing a link between this project and the Credit Fund.

There are, however, many concrete training needs related to local economic development in the region. The following is a summary of specific information provided by the Mayors of Gotze Delchev, Razlog, Belitza and Jakoruda, and representatives from the Bansko Tourist Chamber and Chamber of Commerce (Gotze Delchev).

The list was been made in June 1995, within the context of the ILO/UNDP LED Programme.
The training needs are to be considered at two levels in relation to objectives.

To strengthen the local institutional structure with a view to enable it to assist potential entrepreneurs or existing operators. Training is needed in the following fields:
- Feasibility studies and business plans;
- Marketing;
- Financial management;
- Strategic planning;
- Quality standards setting up and control; and
- Commercialization of products on external markets.

To update and upgrade the capabilities of the local entrepreneurs with a view to improving products, services, profitability and productivity in the field and their competitive position on the market.

Competencies are available within the country for language teaching and technical skills. In this respect, external inputs would have to focus on the provision of sector-specific programmes and materials.

2. The role of foreign investment in the project area

Since the end of 1989, several foreign companies have established themselves in the Pirin and Rila regions. This has not always had a positive effect on the local economy as these companies mainly looked after their own interests. They benefited from the lack of clear regulations, extracting (human) capital from the area instead of investing in it. In the near future, the local economy will certainly be affected by the opening of a new border with Greece in Gotze Delchev.

Between 1987 and 1990, the “Bansko Development Company” was established as a private British initiative to promote tourism in Bansko. This has resulted in a beautiful brochure on Bansko; however, there has not been any follow-up. Some of the bigger hotels in Bansko were ultimately bought by Greek businessmen. In Belitza, there is a British interest in the Semkovo ski resort. The Belitza municipality, on the other hand, is negotiating the possibility of opening a plant within its municipal boundaries with a Greek clothing factory. Jakoruda houses a Dutch shrimp company employing 650 women.

In Razlog, several Greek and Italian textile companies have been established. The municipality has also been selected by the European Union’s Local Employment Development Action (LEDA) Programme as one of its “pilot regions” in Bulgaria. Until now, this has not led to any concrete action. It has also established a twinning agreement with Kilkis (Greece) in the context of the European Union’s “Cross Border Programme”. The same Programme applies for Gotze Delchev. Due, perhaps, to its vicinity to Greece, Gotze Delchev has already been “in the picture” with regard to international firms (BASF KZO) and programmes for a long time. It is also part of the REMDEP Programme of the British Know-How Fund, which aims at developing a tourism strategy for Gotze Delchev, technically assisted by the Northern Ireland Tourist Board.

Apart from these international contacts the Pirin and Rila mountain regions as a whole are part of the Pirin and Rila Environmental Sustainable Tourism (PREST) Programme (British Know-How Fund). This is mainly aimed at environmental aspects of the tourism industry in the areas mentioned above.

3. Strategy

Strategy of regional development

Taking into consideration the full advantage of existing assets and the potential for economic development potential in the area, the promotion of SMEs constitutes a means of generating employment. This has to be done, however, in a balanced and comprehensive way, following the logic of the market and according to common guidelines and recommendations for local and regional development.

Small and medium-sized enterprises are characterized by their flexibility, which permits them to evolve even in small markets. Beginning with the regional market’s potential, by using their regional comparative advantage, the SMEs have the possibility to grow and expand their markets in the regions. Branches with high potential for development, such as wood processing, food processing, textile, repair and services, offer good possibilities for growth in the area. Tourism (in a broad sense) also offers a great opportunity by allowing the development of family-owned and managed enterprises that can provide income-generating work for many, including women and young people.

In order to attain the global sustainable development of the local economy, consensus and discussion are the main requirements among different local actors in the private and public sectors, between the members of these sectors and at the local and national level.

One of the achievements of the LED Programme in 1995 was the constitution of a discussion forum at the local level composed of ten representatives from public and private institutions. The aim of the forum was to discuss and analyse different alternatives for the development of the local economy. The forum developed guidelines for the development of the local economy through five different working groups (i.e. business promotion and...
development, development of tourism, infrastructure and communication, human resource development and environment), centered around so-called "strategic fields of action".

The provision of a supportive policy framework, the development of financial schemes to enable entrepreneurs to set up small enterprises and the provision of training to develop entrepreneurial and technical skills, are considered necessary conditions to develop the local community.

This outcome was formulated by the working group of the Local Advisory Council of the LED Programme, the Business Promotion and Development group, and will serve as a starting point for the project proposal.

**Business Promotion and Support Centre**

To contribute to addressing part of the grave unemployment problems in the project area and to rectifying the above-mentioned "shortcomings", the project aims to establish a Business Promotion and Support Centre (BPSC) in the River Mesta valley. This Centre will promote and support SMEs with a view to maximizing employment growth and improving the standards of competitiveness of the SMEs in the area. This will be undertaken through:

- Promoting an entrepreneurial culture where potential businessmen become aware of what it means to have their own business and learn about the responsibilities, risks and possibilities;
- Providing locally-based comprehensive support to potential or existing small and medium-sized enterprises;
- Introducing new management techniques, information and technologies;
- Facilitating guidance and assistance in formulating and selecting "bankable" projects, implementing new projects or rehabilitating existing ones, following up and counselling on the projects' operations with a view to consolidating their sustainability, and assisting in the promotion and marketing of the product on an international level;
- Mobilizing opportunities and resources, setting up temporary credit schemes as well as guidelines and procedures to facilitate access to credit and incentives for employment generation and training;
- Stimulating and supporting dialogue, at the local level, between the public and private sectors aimed at promoting private entrepreneurship in order to create a feeling of confidence between the local public organizations and the private sector;
- Contributing to and facilitating a more appropriate environment at the national level by stimulating the constitution of a legal framework and guidelines which will regulate, protect and represent the interests of SMEs;
- Providing a constant feedback to the government on the current problems and obstacles in the development of the private sector.

These activities will culminate in a plan or "guidelines for local economic development" for the project area. A consensus on these guidelines will benefit the region as a whole. With clearly defined priorities (and agreement with them), a good local institutional structure and level of services and access to information, the region will have a great deal of interest for foreign investors.

**Activities of the BPSC**

The basic orientation of the BPSC's activities will be towards the identification and implementation of profitable, efficient and organized entrepreneurial activities that contribute to a local productive and employment development. The BPSC will support those activities or projects that associate best with the economic potential in the area, utilizing endogenous resources and stimulating multiplier effects towards the local economy.

According to the strategy, the BPSC's tasks and functions will largely depend on a local diagnosis (planned to be carried out in the Spring of 1996). In general terms, however, they will concentrate on tasks as reflected in the outputs below, for example:

- Orientation and motivation to stimulate local economic initiatives;
- Assistance in the preparation of business plan studies for private enterprises;
- Support to and strengthening of existing enterprises;
- Stimulating product diversification;
- Providing training and technical assistance; and
- Maintaining relations with national and international institutions for technical and/or financial support.

These tasks will have to be performed within a by-all-parties-agreed logical framework for local economic development. The BPSC will operate as a catalyst in a discussion forum, or as a local planning mechanism, operating as a canal from the bottom up, in the interests of local entrepreneurs (maximizing the utilization of local resources and potentials and aiming to satisfy local economic needs, always on the basis of "consensus").

Another essential task for the BPSC is directly related to this aspect: the function of gathering, processing and making information available. To summarize, the BPSC will act as a focal point, as a liaison unit, for the economic development of the area.
The BPSC will only be capable of entering into a valuable partnership with national and international partners and will only contribute to addressing the increasing problems of unemployment, underemployment, poverty and the deterioration of living and working standards if it receives the appropriate technical and financial assistance to local capacity building. This means that assistance is required to upgrade and develop the institutional, human, managerial and financial capacities and skills at a local level, which will lead to an “empowerment” of the local societies as a whole.

Within Bulgaria, this development initiative can serve as a model for local economic development based on local initiatives capable of decision-making at the local level with the support of national bodies. The National Employment Service is already considering the possibility of replicating the local economic development experience started in Razlog and Bansko in 1995, and gained in 1996 in other local areas in Bulgaria.

**Organizational set-up of the BPSC**

The BPSC’s legal structure will be covered by the “Law on Children and Family” in Bulgaria as a non-profit institution with an NGO structure. The legal registration is in progress and is expected to be finalized by the end of February 1996.

The supreme body of the BPSC will consist of an Assembly, already composed of 15 members representing local companies, the municipality of Razlog, local branches of Bulgarian banks, the Labour Office and one of the trade unions. The Assembly will choose a Board of Directors (at the moment consisting of five persons) responsible for the supervision of the Centre.

The Centre itself will start work with a Manager and two technical staff (supported by a bilingual secretary who has to have a basic knowledge of bookkeeping). To start with, the project’s CTA will assume the role of manager. However, this will gradually be transferred to one of the technical staff, whose tasks in the first semester will mainly be concentrated on three items as follows:

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<tr>
<th>TECHNICAL INFORMATION</th>
<th>TRAINING</th>
<th>CONSULTANCY</th>
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<tr>
<td>Technology</td>
<td>Business creation</td>
<td>Consultancy</td>
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<tr>
<td>Products</td>
<td>Business improvement</td>
<td>Bank links</td>
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<td>Suppliers</td>
<td>Business plans</td>
<td>Regional promotion</td>
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<td>Computer courses</td>
<td>Internships</td>
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<td>Language courses</td>
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The Centre will receive technical backing from the ILO’s Enterprise Department at ILO headquarters and collaborate with the different local institutions in the region, for example, the American Peace Corps Business Centre in Blagoevgrad (the regional capital of South-West Bulgaria). A volunteer from the Peace Corps has recently been approved by the BPSC in Razlog, which means that a business volunteer will be assigned to the Centre for two years beginning in August 1996.

Apart from the technical and legal structure, the BPSC will be assisted by a Steering Committee consisting of a Local Advisory Council of the former LED Programme, along with members of the joining, municipalities and those from an association of local entrepreneurs. The consultative and advisory role of the Steering Committee will be defined at the start of the project.

**Financing of the BPSC**

A distinction has to be made between investment capital (the funds necessary to create the Centre) and running costs (making the Centre operational). For the first year investment capital and running costs for the Centre will be covered by project funds and include training and execution of surveys, studies, development of training material, etc. The creation of a Local Guarantee Fund to secure financing of entrepreneurial activities has to be considered and discussed with local financial institutions. Two local branches of Bulgarian banks are members of the BPSC: the First Private Bank and the Balkan Bank, both in Razlog (the first one is represented on the Board of Directors of the BPSC). The BPSC will, on the other hand, serve as a financial service institute, facilitating access to credit possibilities for reliable entrepreneurial initiatives.

The aim is to make the BPSC financially self-sustainable at the end of the first year, i.e. to enable it to cover its own fixed costs. This can most likely be achieved through:

- Charging entrepreneurs for the BPSC’s services;
- Charging for the operation of the Guarantee Fund;
- Mobilizing external resources; and
- Contributions from BPSC members.

**Links and twinning agreement with other organizations**

Given the importance of developing and strengthening the skills and structures (i.e. managerial, educational, financial, human, institutional) at the local level so as to ensure development of a human sustainable democracy, facilitate bilateral and multilateral of the BPSC and their replications, international expertise, establishment of east-west links among enterprises and local areas, exchange of experience and personnel, possible Netherlands partners can be:
– The Dutch Institute for Small and Medium Enterprises (Instituut voor Midden en Klein Bedrijf – MK), which has a wide experience in supporting SMEs as well as SME-support institutions in Central and Eastern Europe;
– The Dutch Economic Institute (Nederlands Ekonomies Instituut – NEI);
– The Chamber of Commerce in Amsterdam;
– The European Centre for Eco and Agro Tourism (ECEAT), for technical assistance in relation to agro-tourism.

Part of the project’s policy is also to support the strengthening of Bulgarian institutions and organizations operating in the field of SME promotion. This is why the project will try, whenever possible, to work through Bulgarian technical institutions and consultancy firms such as the Bulgarian counterparts of the above-mentioned Netherlands institutions.

4. Target group
The target group consists of representatives and decision-makers of local public bodies responsible for local economic and social development, potential new businessmen, entrepreneurs (men and women) and business associations.

5. Objectives
Immediate: A BPSC will be established to provide services for the private business community and establish links between the local administration and the private sector.
Development: The project will contribute to reaching the development objective as follows:
“The economic situation of the Mesta region has improved in terms of an increased number of sustainable small and medium-sized enterprises and the reduction of unemployment”.

6. Outputs:
Output 1: The Business Promotion and Support Centre is operational.
Output 2: Training programmes for those starting a business and entrepreneurs developed and adapted to the Bulgarian business environment.
Output 3: Training activities for those starting a business and entrepreneurs in project area undertaken.
Output 4: New enterprises created and promoted with assistance from the BPSC.
Output 5: Performance of existing enterprises has improved with the assistance of the consulting service.
Output 6: Access to credit facilities provided.
Output 7: Information service used by clients of the BPSC.
Output 8: Information on the economic potential of the region divulged.
  8.1 Collection of economic data of the region.
  8.2 Processing and printing of this information.
  8.3 Distribution of the material at the national and international levels.
  8.4 Investment opportunities identified.
Output 9: A forum for the development of private entrepreneurship is established.
Output 10: Contacts established between local organizations and institutions in the project area and similar organizations in Bulgaria and other European countries.
Output 11: Experience gained in the pilot phase of the project disseminated throughout country.
I. INTRODUCTION

Project background and justification
A large number of unemployed youths and adults in Bosnia and Herzegovina have been internally displaced or are returning refugees, demobilized soldiers, war disabled and war widows, and other women affected by the recent internal conflict. Government policy will focus on providing an enabling environment for economic reconstruction and development, and a large fraction of donors’ assistance should be devoted to generating and supporting large numbers of sustainable jobs in promising sectors of the economy.

The government recognizes the need for training programmes to meet existing and new employment opportunities. However, because of the severe shortages of government funds and financial assistance there are only a few training venues. This means that the capacity of existing training infrastructure will need to be developed and strengthened. There is an urgent need to reform and develop the delivery system of existing training centres to train and retrain unemployed youths and adults based on identified skill competencies and employment opportunities.

Occupations related to domestic building rehabilitation, building construction and related maintenance works are the areas in which unemployed returning refugees, displaced persons, demobilized soldiers and war disabled are able to find employment. Furthermore, different skill levels in these occupational areas are badly needed so that basic housing/accommodation can be provided in the shortest possible time.

Four main obstacles faced the development of building construction training in the Bihac region. Firstly, there were few fully-operational training venues available to provide skills development; the existing training programmes followed the traditional time-consuming type of training that is not based on skills competencies and employability nor on an adequate provision for on-the-job instruction and practical experience. Secondly, instructors in existing training centres had some work experience but no professional training to teach building construction skills, particularly for the commercial and industrial construction sub-sectors. Thirdly, there was a lack of capital to commence the reconstruction of the communities in which the project was to draw its trainees. BCTC is located in an area which was severely damaged during the recent internal conflict and the Cantonal Government had no access to funds to cover costs such as transportation, board and lodging for trainees, staff costs and training equipment and material, and other operational costs. Fourthly, although it was considered highly desirable to promote fee-for-service courses to industry, it was unrealistic to expect that funds could be generated from this source during the project’s lifetime, because of the unfavourable economic situation in the Bihac region and in the country as a whole.

The project was designed to support the Bihac Construction Training Centre (BCTC), which was rebuilt with funding from Switzerland. It was aimed at improving construction workers’ training and upgrading of instructors. It was agreed that training should be at semi-skilled and skilled worker level and targeted at unemployed youths and adults, particularly the vulnerable groups.

One of the primary immediate objectives of the project was to establish cost-effective employment-oriented training programmes for the BCTC that would be self-sustaining at the end of the project. The project approach was to avoid establishing a “traditional” vocational training centre, but to support the training programmes of BCTC by focusing on the improvement of the instructional staff, development of modular competency-based training courses and delivery of employable skills through institutional and on-the-job training to a wide range of target groups with skills allied to community/cantonal/regional/national reconstruction and development goals.

The most pressing issue to be dealt with was the development of a training delivery system which combined centre-based instruction and on-the-job training for unemployed youths and adults in skills at different levels for various jobs so that income-earning activities could be performed and building reconstruction work carried out in the quickest possible time.

The International Labour Organization has developed a methodology which is designed to promote competency-based employment-oriented modular curricula, which also includes the introduction and development of social skills. The methodology is known as MES, or Modules of Employable Skills. The project document foresaw that BCTC instructors were to receive training and practical experience in modular course development and implementation.
The full cooperation of local authorities to provide clear guidelines concerning the needs of the catchment area in which the project was to operate was recognized by all parties concerned at the time the project document was drafted, including the need to develop the linkage between the training institute and the labour market. However, the network of local employment offices was only recently established, and lacks qualified staff.

The project was originally to last for 12 months. It began in July 1997. Following the tripartite project review meeting in September 1998, it was agreed that the project was to be continued until 31 December 1998 using savings from the project budget. Additional financial assistance had been sought for the extension of the project. The UNDP suggested that proposals for further extension had to take into account the technical as well as institutional and financial aspects, which are important factors in maintaining the sustainability of BCTC.

Recognizing that the vocational training activities which were started under the current project represent one of the most effective undertakings needed for employment programmes and industrial infrastructure development, a project extension was formulated and recently approved with financial assistance from the Government of Luxembourg. This second project phase, BIH/99/MO1/LUX, is designed to further strengthen the capacity of BCTC, and its sustainability should be achieved by end of the year 2000. Its activities would focus on institutional capacity building at the local and regional level.

The project was coordinated through the Technical Cooperation Team in Employment and Training (COTEF) at ILO Headquarters in Geneva. An internationally recruited technical trainer was assigned twice to the project, with each assignment lasting one month. A Chief Technical Adviser was assigned to the project on a short-term basis. He visited the project five times, with each visit based on clearly defined work assignments and lasting not more than one week. Since there was no long-term residential expert in the project and all international staff were assigned on a fixed short-term basis, it was important that their assignments were based on clearly defined terms of reference.

Objectives of the project

Development objective

The project document specified the development objective in the following terms: “To contribute to the peaceful and economic recovery of the Federation of Bosnia and Herzegovina through the provision of employment and training to vulnerable groups in the country”.

Immediate objectives

Three immediate objectives were specified in the project document:

- The identification of the key courses to support the building construction training programme to be offered in the training centre;
- To provide access to skilled workers and short training courses for special target groups including, where possible, the disabled, war-affected widows, demobilized soldiers, returning refugees and the general unemployed population in accordance with catchment area requirements;
- To establish an efficient, effective and relevant training programme for the training centre that will be self-sustaining once the project terminates”.

II. OUTPUTS PRODUCED

The project document specified eight outputs, as reproduced below.

- Four existing courses for skilled workers to be reviewed, revised and implemented;
- Short courses to be prepared for special skill requirements;
- Additional selected skilled worker courses to be finalized for painting and glazing;
- A minimum of ten per cent (32) of all trainees to consist of persons physically disabled by war;
- A minimum of forty per cent (128) of all trainees to consist of returning refugees and/or demobilized soldiers;
- A minimum of ten per cent (32) of all trainees to consist of war widows and other women affected by war;
- A minimum of eight technical instructors to be given skills upgrading, pedagogical and in-service training;
- All regular and special group courses to be supervised and accredited.

Output 1

Four existing courses to be reviewed, revised and implemented

The first training programme consisting of four training modules (building carpentry, bricklaying, tiling, drain-laying/sewage) was adopted on the basis of the identified training needs and existing BCTC capacity (availability of classroom and workshop facilities, instructional staff). It was decided that 14 weeks would be the definite duration of future courses based on the four training modules; the first seven weeks would be devoted to theoretical instruction and the following seven...
weeks to on-the-job training. International project staff on curriculum development and training course organization and implementation provided technical advice and assistance. The ILO consultant on instructor training provided guidance on the development/strengthening of the four existing courses in modular form.

At the time the project terminated the four modified courses at BCTC were operating successfully, and the 250 graduates were reported to have found employment: 90 per cent found jobs in the Bihac areas and the remaining 10 per cent were offered employment in the other regions of Bosnia and Herzegovina and in Croatia and Slovenia.

**Output 2**
**Short courses to be prepared for specific skill requirements**

The project document specified that this output should be produced on the basis of contacts and discussions with local stakeholders and that the courses should be organized to meet local requirements. A Steering Committee composed of stakeholders was foreseen in the project with the objective, among others, to identify the demand for additional training programmes. The training course related to the self-employment/entrepreneurial training and small business development which was envisaged under the project did not materialize.

**Output 3**
**Additional selected skilled worker courses to be finalized for painting and glazing**

Training courses in painting and glazing were added to the existing courses at BCTC. The existing classrooms at the BCTC had to be modified and renovated so that space for theoretical lessons for the two courses could be organized. The courses, which were prepared in modules, were developed each with a duration of two weeks.

**Output 4**
**A minimum of ten per cent (32) of all trainees to consist of persons physically disabled by war**

The project staff made contact with the ‘Association of the physically disabled’. The following activities were carried out: assessment of the training facilities and adaptation of the workshop in order to facilitate the access of disabled trainees to BCTC; selection criteria were established to give priority to disabled persons who applied for participation in training programmes offered by BCTC; a set of priority entry requirements was developed to support the participation of disabled persons in training activities.

Neither the Central Government nor the Cantonal Government has taken measures to encourage the participation of disabled persons in training programmes such as those offered by BCTC.

**Output 5**
**A minimum of forty per cent (128) of all trainees to consist of returning refugees and/or demobilized soldiers**

The project was able to stimulate the participation of returning refugees and demobilized soldiers. ILO consultants carried out several activities to ensure that a large number of applicants for training were from these groups. These activities were: a) identification of returning refugees and demobilized soldiers through consultation with Cantonal Government bodies, NGOs and international organizations represented in the area; b) the project was active in using broadcasting media and publication of announcements in newspapers designed to inform the returning refugees and demobilized soldiers, the general public and local communities about the launching of BCTC training programmes; c) selection as a priority of trainees from these target groups; d) identification of individual training requirements; e) assistance and support to integrate the groups into the training programmes; and f) assistance in job-placement and follow-up activities.

**Output 6**
**A minimum of ten per cent (32) of all trainees to consist of war widows and other women affected by war**

NGOs representing war widows and war-affected women were contacted and informed about the training programme and opportunities for women to participate in training activities. Preliminary contacts have shown that there might be possibilities for women to attend training courses, particularly in glazing and painting, which were also designed to motivate women’s participation.

**Output 7**
**A minimum of eight (8) technical instructors to be given skills upgrading, pedagogical and in-service training**

The instructors attended a two-week technical skills upgrading course at a professional training centre in building construction at Sursee, Switzerland. A study tour-cum-fellowship programme in modular curriculum development was organized at the International Training Centre of the ILO in Turin, Italy, which was followed by a two-week study tour in Poland where the ILO has successfully implemented modular training programmes in the recent past. By the end of the project the Bosnian instructors were able to design, organize and carry out centre-based and on-the-job training in carpentry,
III. OBJECTIVES ACHIEVED

The first immediate objective specified in the project document was “The identification of the key courses to support the building construction training programme to be offered in the training centre”.

The Bihac Construction Training Centre is operational and provides a series of needs-based training courses in the building and construction sector. The limited technical skill of available instructors restricted the scope of occupations and the level of skills taught at the Centre. Contacts with local employers, government ministries and development agencies, including NGOs, were made to determine existing and potential employment opportunities as well as to identify potential trainees and facilities for on-the-job training.

The second immediate objective in the project document was “To provide access to skilled workers and short training courses for special target groups including, where possible, the disabled, war-affected widows, demobilized soldiers, returning refugees and the general unemployed population in accordance with catchment area requirements”.

The criteria established for the selection of trainees clearly show that the participation of the special target groups was encouraged. Local contacts were made by the project staff to identify potential trainees among the target groups. The project was successful in encouraging the participation in the training programme of demobilized soldiers, returning refugees and the general unemployed youth and adults in the Canton area. However, the planned training programmes for the physically war disabled, and war widows and other women affected by the war were not organized.

Output 8
All regular and special group courses to be supervised and accredited

A national system of certification for skilled workers has yet to be established in Bosnia and Herzegovina. In the absence of nationally approved curricula in building construction, the project staff and instructors have mostly developed the courses at the BCTC. The project staff developed accreditation criteria and procedures after the completion of the first training course. Subsequent training courses were closely supervised and revised as necessary to conform to skills standards. At the end of each training period, trainees were given certificates recognized by the Cantonal Government and National Employment Institute.

The third immediate objective was “To establish an efficient, effective and relevant training programme for the training centre that will be self-sustaining once the project terminates”.

During the lifetime of the project, emphasis was placed on staff development. Although good progress was made in introducing the concept of modular competency-based curriculum development, the Centre staff has yet to reach an adequate level of technical and professional knowledge and skills to meet basic as well as high-level training requirements in the building and construction trades. Since the project aims at building an institutional capacity within the BCTC to implement training programmes at increasing levels of efficiency and effectiveness, the staff requires further relevant training and work experience. However, economic conditions are such that training cost recovery measures and fees-for-service courses are unlikely to produce the resources needed to operate the BCTC expanded programme.

The development objective was given as follows in the project document: “To contribute to the peaceful and economic recovery of the Federation of Bosnia and Herzegovina through the provision of employment and training to vulnerable groups in the country”.

However, although the contribution made by the project is small in relation to the employment problems of Bosnia and Herzegovina, it is still highly significant that it has made a contribution to the development objective of increasing access to skills training and promoting employment opportunities for the vulnerable groups in the country. The goal of the project was to support the vocational training programme at BCTC by adopting an innovative approach to skills development and by addressing the special needs of various vulnerable groups.

IV. FINDINGS AND CONCLUSIONS

Capacity of the BCTC

The project’s aim was to develop the capacity of the BCTC to design and implement modular skill training programmes that are competency-based and employment-oriented in the building and construction sector. In order to achieve this objective, the seven selected and appointed instructors were given skills upgrading training and participated in fellowships and in-service programmes designed to increase the instructors’ knowledge and skills in designing and implementing competency-based modular vocational training courses. During the staff training, emphasis was given to planning and designing modular curricula and training materials based on the ILO-MES concept and methodology. Instructors were also provided with...
assistance and advice on instructional techniques and on
how to organize and conduct on-the-job training.

Training materials
The lack of suitable training materials was hampering
the quality of instruction during the initial phase of
the project. However, since ILO-MES training material
on staff development has been translated into Bosnian
and is available, instructors were able to develop
training materials and basic modular curricula, etc.
Inquiries were being made into the possibility of
linking this ongoing development activity with other
ILO projects in order to establish a framework
together with the Technical Cooperation in light of MES-based curricula
design, so that BCTC would have access to training
data developed elsewhere for adaptation by the
BCTC instructors.

Target groups
The training of vulnerable groups such as the war
disabled, and war widows and other women affected
by the war was to be given special consideration under
the project to enhance their access to training programmes
offered at the BCTC. Several activities to stimulate their
participation were carried out. The physically disabled
people were accepted in the training courses for the job
of ‘tiler’, but not in other courses, which are considered to
be physically demanding. As regards war widows and
other women, the national project management
considered that the socio-cultural environment was not
conducive to the participation of women in employment in
the building and construction sector.

Counterpart arrangement
A crucial problem encountered at the initial phase of
the project was the deficient counterpart arrangement to be
made by the national project authorities. During the first
six months of the project, the Training Director faced
difficulties in cooperating and acting as National Project
Director. The Project Office had to be restructured
whereby the Chief Instructor was given all project
management responsibilities and assisted in
administrative functions by the project
secretary/interpreter. The Training Director had remained
in the project on an advisory capacity, performing mainly
liaison, publicity and employment generation functions.

Government commitment
A number of requirements in the project document were
not implemented or supported fully by the Cantonal
Government for various reasons. In particular, no serious
effort was made to establish a local Steering Committee
that was to be composed of representatives from the
Government, employers’ and workers’ organizations.

Expert services
The project document seriously underestimated the
professional inputs required to efficiently and effectively
carry out project activities. The project Chief Technical
Adviser had five one-week assignments on the project; a
strategy based on the assumption that there would be a
full-time qualified National Project Director available. The
ILO Instructor Training Consultant carried out two
one-month assignments. An international UNV was
appointed to support and assist the National Project
Director, which helped to establish a more professional
project management and promotion of on-the-job training
projects.

Before the UNV’s assignment expired, a national UN
volunteer was recruited as an assistant to the project
management under a UNV scheme to assist returning
refugees. Subsequently, it became necessary for the
project coordination and technical supervision to be
assisted by ILO COTEF staff. Hence, considerable time and effort was spent by visiting
ILO technical staff and consultants in dealing with BCTC
technical and management issues, as well as
administrative matters such as completing arrangements for
the procurement of material, equipment and supplies,
ILO/UNDP administrative and financial procedures, etc.

Training methodology
All training courses were designed on the basis of an
employment-oriented demand-driven modular training
approach. This concept resulted in a very high placement
rate of trainees, which was close to 100 per cent, and is
an indication of a cost-effective training delivery system
established under the project. It was observed that the
types and skill levels of the training courses and the BCTC
mode of training delivery were meeting the needs and
circumstances of the trainees, employers and local
economy.

Sustainability
The third immediate objective, as stated in the project
document, assumed that activities would be undertaken to
make the BCTC self-sustaining at the end of the project.
But this was not achieved due to a number of reasons.
Development activities to meet at least three conditions
have to be fulfilled: a) institutional strengthening has to be
further developed; b) training has to be linked with the
employment market; and c) there has to be cooperation
between all social partners involved in economic
development in the region. In addition, if the present
financial situation of the Cantonal Government continues,
it will present a serious threat to the sustainability of the
BCTC programme unless external financial assistance is
secured.
Some NGOs and private building contractors have shown their willingness to cooperate in providing facilities for on-the-job-training, recruiting a workforce trained in the BCTC and giving financial contribution to the BCTC. Some steps have been taken to institutionalize linkages with the private sector with a view to introducing fees-for-services courses. Training cost recovery measures have also been initiated. In this respect, it was realized that the long-term sustainability of the BCTC would very much depend on its ability to organize production training through small on-the-job projects.

**Conclusion**

The project has been successful in demonstrating the need and scope of training programmes aimed at developing the employable skills of the workers for the building and construction sector. Targeted vulnerable groups in the Bihac region, such as demobilized soldiers, displaced persons, returning refugees and unemployed youths and adults, were placed in employment after training. This is considered a major achievement of the project. The results of the training delivery concept applied shows that there are opportunities, and the need to further develop modular competency-based training to meet the wider range of skilled workers currently required by the local economy and future training needs by employers.

### Tool 4.8.7 – Vocational training: Proposals for implementation

<table>
<thead>
<tr>
<th>OBJECTIVES</th>
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<tbody>
<tr>
<td>To link training as early as possible to emerging opportunities in the job market, such as local contracting for rehabilitation projects</td>
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<tr>
<td>To make a survey of all training providers, including enterprises, NGOs, private and public training providers and artisans</td>
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<tr>
<td>To assess different forms of training delivery systems, such as training with production, training through mobile units or traditional apprenticeship schemes</td>
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<tr>
<td>To design training courses that can be delivered locally</td>
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<tr>
<td>To encourage women to look beyond their traditionally female skills, and to enrol in training for marketable skills as well as for management positions</td>
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<tr>
<td>To sensitize planners and implementers to issues of equality, as well as to employing women as training policy-makers, training managers and trainers</td>
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<tr>
<td>To collect information on employment opportunities and trainee profiles, surveys of other sectors or organizations, key informants, evaluations and projects, as soon as possible</td>
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<tr>
<td>To design training enabling the trainees either to find or to create employment, and to develop an adequate curriculum that responds to the demand of the labour market and the needs of the trainees</td>
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<tr>
<td>To assess which life skills and key competencies are crucial for the trainees to obtain, retain or create livelihoods</td>
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<tr>
<td>To design “training for trainers” programmes that incorporate participatory teaching techniques and gender sensitization</td>
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<td>To set up ongoing monitoring and evaluation mechanisms such as tracer studies, which feed the results back into the planning process</td>
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<tr>
<td>To envisage linkages to pre- and post-training services such as counselling, access to toolkits, credit or business start-up facilities</td>
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### Tool 4.8.8 – International Training Centre of the ILO – LedLink Programme: Required skills, knowledge and attitudes of the participants in the local development process

<table>
<thead>
<tr>
<th>GROUP</th>
<th>SKILLS</th>
<th>KNOWLEDGE</th>
<th>ATTITUDES</th>
</tr>
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</table>
| External facilitators (e.g. EU, ILO, WB, NGOs) | ▶ Ability to design and implement participatory processes  
▶ Ability to assess local needs and requirements | ▶ Development theory  
▶ Knowledge of world economy  
▶ Best practices  
▶ Appropriate technology and current development in these fields  
▶ Local context (i.e. historical, cultural, social and economic background) | ▶ Development oriented  
▶ Self-critical  
▶ Gender sensitive |
| Local animators (chosen from among local stakeholders or local participants, e.g. local leaders) | ▶ Team work skills  
▶ Communication skills  
▶ Negotiation skills  
▶ Ability to set up effective communication infrastructure  
▶ Organization, management and coordination skills | ▶ Local context (i.e. historical, cultural, social and economic background)  
▶ Continuous information on other local areas  
▶ Informed knowledge on world economy | ▶ Self-critical  
▶ Will to participate  
▶ Willingness to share information  
▶ Will to cooperate  
▶ Community interest  
▶ Local and global awareness  
▶ Gender sensitive |
| Local stakeholders (e.g. employers’ and workers’ organizations, businesses, local government, NGOs) | ▶ Ability to establish and run partnerships  
▶ Ability to set up effective communication infrastructure  
▶ Listening skills  
▶ Animator skills  
▶ Team work skills | ▶ Comprehensive knowledge of local community  
▶ Knowledge of global economic context, world economy  
▶ Knowledge of available services (e.g. training, programmes, credits and grants)  
▶ Continuous information on developments in other local areas | ▶ Will to participate  
▶ Willingness to share information  
▶ Will to cooperate  
▶ Community interest  
▶ Local and global awareness  
▶ Gender sensitive |
| Local participants (the local population) | ▶ Basic education (e.g. literacy and numeracy)  
▶ Ability to access information (i.e. training, credit, services, etc.)  
▶ Personal and organization development skills  
▶ Technical skills (e.g. business skills, accountancy)  
▶ Vocational skills  
▶ Team work skills  
▶ Self evaluation skills | ▶ Local background, environment, traditions, culture, government  
▶ Knowledge of global economic context, world economy  
▶ Cases of success and failure in other local areas | ▶ Will to participate  
▶ Motivated  
▶ Belief in the future  
▶ Committed  
▶ Self-confident  
▶ Open to change  
▶ Willing to take risks  
▶ Willingness to share information  
▶ Proactive  
▶ Gender sensitive |
4.9 Sustainability of LED

4.9.1 What to consider?

There are many forms of sustainability that are integral to rehabilitation and development initiatives. The continuation of rehabilitation and development initiatives should be viable on the basis of local capacities and resources, without prompting the degradation of the natural resource base.

Sustainability also alludes to the permanence of benefits that development projects bring to the local population and institutions. In this context, the LEDA, with its promotion and realization of the concept of sustainable human development, could carry out an important strategic role in the protection of the environment.

The possibility for the LEDA to operate in a sustained, continuous way depends on a number of interacting factors. In general it is possible to distinguish between political, legal, technical, economic and financial sustainability.

Political and social sustainability

Political and social sustainability depend on the extent to which local actors have made the LEDA their own. The member organizations, such as the technical staff and the local population, have to feel that the LEDA is a tool for improving their quality of life and living conditions. For this kind of sustainability, the founding and operation of the LEDA must be based on wide participation of all public and private local actors.

External recognition of the LEDA is also important, in the sense that public authorities and international organizations must recognize its role as an implementor of and mediator between actions oriented towards socio-economic development. The LEDA should not be an alternative model to the economic policy of the government, but should be considered as a credible instrument for promoting common interests. In this regard the role of the LEDA is of key importance in promoting cohesion among its members, as well as in consensus and confidence building – particularly between the non-governmental and governmental institutions.

From this point of view, inclusion as the local instrument of national economic policy programmes is the most ambitious aim an agency can set for itself. The goal is for the LEDA to arrive at being a credible interlocutor for the State and the formal entrepreneurial sector, and this condition will allow for diversification of its financial sources, thus reducing its dependence on international cooperation.
See **TOOL 4.9.1** for an example of interventions aimed at achieving the sustainability of the Acleda Project, Cambodia.

See also **TOOL 4.9.2** to find out more about the lessons learned through the PRODERE Programme.

A suggested strategy for the LEDAs to enhance their social and political solidity at the national level is through the organization of nation-wide networks with the following objectives:

- To serve as a channel for funds, projects and resources;
- To share experiences with others;
- To develop joint initiatives for the benefit of their respective territories.

**Legal sustainability**

Legal recognition is equally essential. Having legal personality from the outset is a prerequisite for operating as an economic agent and undertaking obligations, with full powers to enter into contracts. This is all the more important in countries where the LEDA is a new concept and where the agency is launched in an area that is struggling to return to normal civilian life after a conflict.

**Technical sustainability**

A LEDA’s technical sustainability depends on its wealth of knowledge and its ability to expand its activities and provide its services autonomously. Obviously, autonomy is not complete self-sufficiency, i.e. possession of all possible skills, but chiefly the capacity to organize the resources needed, obtaining them from outside when necessary. This applies at the local, as well as at the national and international levels. The greater the agency’s ability to develop and maintain external relations, the more sustainable it is.

Technically, the LEDA must be able to provide advanced, specialized services. This means not only training and the building-up of internal know-how, but also the formation of a network of relations with institutions, professionals and universities, on which to draw as needed. An agency has a small nucleus of technicians who must be able to take care of strategic activities themselves – planning, local resource coordination, economic animation, financial assistance and business creation, organizing the response to emerging needs.

Other, more specialized temporary tasks can be delegated to external organizations and professionals under the agency’s leadership. Typical instances are market surveys, feasibility studies, legal consultation and the like, for specific projects.
The contribution of technical services, besides providing support to the development of production, represents an opportunity for economic consolidation. In order to achieve technical sustainability it is necessary to:

- Reinforce the technical capacity of LEDA;
- Diversify the range of services and refer to existing institutions for specialized services;
- Offer innovative services to entrepreneurs.

**Economic sustainability**

Once an agency succeeds in generating a regular income that covers its expenses, it has achieved the final, decisive element in its sustainability. This aspect is crucial from the planning phase onwards. A LEDA is in fact an enterprise, and it must know from the outset at which point it will reach economic viability and be fully self-sustaining. Viewing the LEDA as an enterprise implies that its main source of income must be the sale of its services, i.e. the provision of services for payment. A compulsory way of increasing the likelihood of economic viability is to diversify sources of income. The most common ways are:

- The management of financial capital;
- Sales of services to institutions and companies that can afford them;
- Subcontracting on projects or services;
- Equity investment;
- Credit funds;
- Intermediation;
- Contributions from member organizations;
- Financial income on funds invested (a LEDA could be a shareholder);
- Direct participation in venture capital.

**Financial sustainability**

Since a LEDA is an instrument whose purpose is to offer economic opportunities to different population groups, in particular the weak and marginalized, depending on their needs, financing becomes a strategic element for the promotion of sustainable development. The difficulties encountered in accessing formal financial circuits is one of the main reasons behind marginalization.

A financially self-sustainable institution is one that is able to cover all its operating costs and the imputed costs that are necessary to maintain the real value of its capital without subsidies. There are two hurdles to overcome in reaching financial self-sufficiency:
Operational (internal) self-sufficiency that requires the programme to cover all non-financial expenses (administrative costs, salaries, depreciation and loan losses) out of the programme fees and interest charges;

Full self-sufficiency that requires the programme revenues to cover both non-financial and financial costs on a commercial basis, so that subsidies are no longer required.

The financial mechanisms used by a LEDA are quite heterogeneous. However, it is possible to identify the following three principal methods for channelling resources:

- Direct channelling of resources;
- Channelling of resources through member intermediary financial institutions;
- Channelling of resources through non-member intermediary financial backers.

It is important to stress once more that a LEDA’s income or profits should be invested into projects for disadvantaged groups.

The most original feature of a LEDA is the financial management of the credit fund granted to them, generating interest income that covers their costs. This innovative approach is only possible if the national or international promoters of the LEDA endow it both with a fund for initial expenses and a fund for credit activity.

A LEDA can also conduct more sophisticated operations by providing seed capital. These funds are recovered when the enterprise reaches an appropriate stage of development.

See TOOL 4.9.3 for impact and operating indicators.
PROMOTING LOCAL ECONOMIC DEVELOPMENT IN A WAR-AFFECTED COUNTRY: THE ILO EXPERIENCE IN CAMBODIA

Introduction
The project aimed to contribute to the long-term socio-economic development of Cambodia and the raising of living standards among disadvantaged, war-affected population groups. Its strategy was the promotion of local economic development by providing financial and non-financial services to small-scale, private sector economic activities. The mechanisms used for service delivery were the Local Economic Development Agencies (LEDAs), which were eventually established in nine provinces. They assisted thousands of micro and small enterprises (SMEs) which, as indicated by impact assessments, had a significant effect on income and employment. The NGO in which the LEDAs joined together was the Association of Cambodian LEDAs (ACLEDA), which became the most important MSE development organization in the country.

2. Project strategy
The project’s overall strategy evolved on the basis of the project document, during the preparatory assistance phase and the first six months of project implementation that followed it. This was a gradual and informal process, in response to unfolding events, the synergy that developed between expatriate and Cambodian project staff, and increasing knowledge of the Cambodian situation.

The first cornerstone of this strategy was that an immediate impact in terms of SMEs assisted and the creation of employment and additional income had to be realized as soon as possible. Such assistance would, in the words of the project document, enable “disadvantaged population groups to make use of and create gainful economic opportunities, and make an active contribution to the economic development of Cambodia”.

It was expected that this would improve living conditions, and contribute to reintegration and reconciliation, and therefore eventually to the consolidation of peace. Moreover, it was politically important for the project’s supporters, the parties in the Supreme National Council in the first place, to be seen to “do something” urgently for those most affected by the war.

The main objective to be realized was an integrated small enterprise and informal sector programme aimed at socially disadvantaged groups, to be delivered through five LEDAs. Over a period of two years, the LEDAs were to assist 1,400 potential entrepreneurs under a small business component, and 12,000 self-employed persons (micro-businesses) under an “informal sector” component. The programme had to be set up from scratch, as no basis for it existed in the country, either in the Government or the NGO sector.
Although the achievement of an immediate impact was thus a priority, the project recognized that in terms of overall needs its initial impact would be small, while, given time, an SME programme would be able to assist large numbers of people. As funding for this project could be expected to be finite, it was therefore necessary to aim at the institutionalization of the programme. This was reflected in the project document, which included, as a second objective to be realized, “tested strategies for the longer-term sustainability of the network of LEDAs”, to be finalized towards the project’s end in a strategy document, which would be presented to donors and the Government.

However, the project felt that fostering institutionalization and sustainability from the very start would avoid the entrenchment of a “project mode of operations”, with a project culture and attitudes, which would result in dependence on expatriate experts and managers, and eventually act as a barrier to institutionalization. Too many projects have tried to transform themselves into institutions, and have found it to be a long and painstaking process which, more often than not, ends in failure. Operating the SME programme from the start as an institution instead of as a project therefore became the second cornerstone of the project strategy.

The third cornerstone was the project analysis of the concept of sustainability, which was defined as the ability to continue implementation and development of the SME programme after completion of the project. This recognized that an organization needs to be able to change and develop in order to be sustainable: a capacity for the static continuation of a programme would not be sufficient. It was also understood that finance is just one factor in the continuation of a programme. Four aspects of sustainability were recognized:

- Organizational sustainability, which refers to the legitimacy of an organization in its own eyes and in the eyes of its environment, and its linkages with other organizations;
- Managerial sustainability, which is achieved when the organization has the organizational structure and systems, as well as the managerial and administrative capacities to function and develop as an institution and realize its objectives;
- Technical sustainability: an organization should have the technical capacity to implement and further develop its programme;
- Financial sustainability: an organization should be able to obtain funding for the implementation and development of its programme, through self-financing and/or donors.

It was understood that, in order to achieve the sustainability of an MSE development programme, all four aspects would need to be addressed. Moreover, rather than emphasizing financial sustainability, the project’s approach was to give priority to interventions addressing the other three aspects that are understood to be essential to the achievement of financial sustainability.

A further key principle flows from this and the realization that sustainability lies as much in people as in structures and finance: the principle of participation by and responsibility of the Cambodian project staff. Instead of considering the Cambodians in this project, the large majority of whom had no experience with SMEs, since staff had to be trained who would then deliver services to the enterprises, it was recognized that they needed to be partners in the development and implementation of the programme from the very start.

This principle built on the strong motivation of the Cambodian staff, based on their sense of hope and optimism that Cambodia was entering a period of peace, democracy and development. There was an eagerness to make up for lost time by learning from the outside world as quickly as possible, and to take responsibility if it was offered genuinely. On the basis of the experience gained in the preparatory assistance phase, important benefits were expected in terms of a sense of ownership. It would contribute to sustainability and to higher productivity and quality, as Cambodian staff were in a much better position to know or establish what was appropriate to the country and target groups than the expatriates.

In order to achieve the required impact in terms of employment and income, the MSE programme had to be need-based. As the project would start without in-depth knowledge of the local economy, and did not foresee structured community participation in the development and implementation of the programme, it was the project’s strategy to gradually develop the MSE support package based on studies and experience gained by the project. This comprised studies of economic opportunities and factors limiting MSE development in each of the areas covered, as well as training needs’ assessments, and a process of continuous feedback. Programme elements had undergone a series of pilot tests, and were the subject of ongoing evaluation and redesign, in order to ensure that they were need-based to the greatest extent possible. In effect, this was a process similar to market research for product development in the commercial sector.

An important decision on the way the programme was developed and delivered was to consider the clients themselves responsible for the success of the services they were provided, rather than being passive recipients. It was expected that this would make the programme more effective and appropriate, and the result more sustainable. The programme would therefore have to be highly participatory, and be built around the decisions and activities of the clients.
3. Project implementation

Project implementation started in May 1992, with six months of preparatory assistance. This comprised the recruitment of Cambodian staff for the LEDAs in the border camps and within the country itself, and their training. It allowed the project to make substantial progress in the establishment of an MSE support programme while the final project document had not yet been approved, and some aspects of project design, including the target group and the size of economic activities served, were still under discussion.

Three aspects of the way the preparatory assistance was carried out are worth considering. First of all, it was managed by the ILO’s Regional Office in Bangkok and implemented with staff placed there, rather than by recruiting staff for this purpose. This made possible the rapid recruitment of staff in the Thai border camps, and an immediate start-up of activities in the country itself.

The second aspect is the relationship developed with CARE International Cambodia. CARE had a strong presence in the country and was one of the few organizations running a micro-credit programme. The ILO made use of this capacity by contracting CARE to set up a project office in Phnom Penh, and assist in the recruitment of LEDA staff. When this was successful, under subsequent contracts CARE played a major substantive and management role in the development and implementation of the training programme for LEDA staff, and the design of the informal sector component. Contracting an organization with an established capacity in the country rather than recruiting ILO staff enabled the project to maintain a tight schedule at a low cost.

Finally, it had been foreseen that LEDA staff would be trained through fellowships abroad. However, following their recruitment and a training needs assessment, which made it clear that few had higher education or business experience, it was decided that a tailor-made programme in Cambodia would be more effectively placed within the context in which the LEDA staff would have to work. A training programme on basic principles of small enterprise promotion was developed and implemented under ILO management, by a team of trainers from CARE and the Entrepreneurial Development Institute of India, supported by Cambodian co-trainers selected from among the future LEDA staff. This proved essential to keeping the programme relevant and on an appropriate level.

4. The LEDA programme

The programme developed with and implemented by the LEDAs consisted of a small business and an informal sector component. The objective of the former was to support starting or expanding small businesses, defined loosely but pragmatically as businesses which would require a loan from the LEDAs of more than US$ 200; and which were likely to provide full-time employment to the business owner, as well as providing work for one or more other people.

The programme elements were joint products of the international project and LEDA staff, and the result of a series of pilot tests and revisions. The programme included:

- A selection procedure, which focused on the applicant’s business idea, whether he or she had the required skills and resources, and whether he or she belonged to the target group. The core event was an interview. There were no written tests or assessments of entrepreneurial potential, which were considered inappropriate to the target group;
- A six-day basic business skills training programme, which revolved around the development, by the trainee, of a simple business plan, and included an informal market assessment. The training programme was simple, concrete, and participative;
- Application for credit on the basis of the business plan. Loans were approved by the Local Credit Committee (up to US$ 1,000) or by a Revolving Fund Management Committee at the national level, in Phnom Penh;
- Credit. Loans were in US dollars, required a 20 per cent equity contribution and were fully collateralized. Collateral included the capital goods purchased with the loan. In addition, there was a requirement for guarantors. The nominal interest rate was a flat 10 per cent per year. The maturity was a maximum of two years. The maximum loan was US$ 2,000;
- Follow-up business advisory services, which made use of checklists, as well as loan follow-up.

In addition, the LEDAs could refer clients to support services they did not provide, such as vocational training.

The informal sector component was based on research conducted by the LEDAs and the project, in collaboration with CARE, on the needs of micro-enterprises, and was developed jointly by the project and LEDA staff. It consisted of a solidarity group-lending programme aimed exclusively at women in micro-enterprise, defined as small economic activities which would require a loan of up to US$ 50, and which would generally provide part-time employment to one person only.

The main steps in the programme were:

- Selection of a neighbourhood or village in which there was a high concentration of target group members and potential for micro-enterprise;
- Group and individual meetings with key persons in the village and potential clients to explain the programme
and ensure that participants belonged to the target group;
- Formation of groups of five to ten members who guaranteed repayment of each other’s loans;
- A one-day training programme to help clients decide how to use their loan;
- Application for credit – loans were in Riel – carrying an interest of 2 per cent a week on a declining balance, and having a standard maturity of three months. The joint liability of group members was the only guarantee;
- Follow-up to provide basic business advice and address problems that might endanger repayment.

The principle of giving clients a high degree of responsibility for the success of the services was realized by making them responsible for the business ideas instead of offering such ideas to them, having them carry out market assessments themselves, and making them responsible for producing business plans. Training centered around individual group activity, with even the minimum number of brief “lecture” sessions being based on interaction between trainees and the trainer’s team. Loan repayments had to be made at the LEDAs where possible and, in the informal sector component, client groups were given important tasks in loan administration. Clients formed these groups, not the LEDA staff. Such measures proved effective in terms of learning, the appropriateness of decisions made by the clients, and time use of LEDA staff.

**Target groups**

Returned refugees, internally displaced persons, demobilized and disabled soldiers, and female heads of households were identified as the war-affected, disadvantaged groups the project needed to target. Clients were also expected to be low-income, and priority was accorded to women in general. In the small business component this was reflected in the selection procedure, which used a scoring system to ensure that clients would be in a target group. The informal sector component selected the localities in which it operated on the basis of information on the composition of the population, and potential clients were approached with the help of knowledgeable persons in the area. It targeted low-income women only.

Over time, it became less socially acceptable to offer groups of returned refugees or demobilized soldiers such a privileged access to programmes, and the conviction gained ground in the LEDAs that reintegration and local economic development were best served by a less “discriminatory” approach. It was also recognized that most of the population groups were in fact war-affected. Income and gender then evolved as the best general indicators of clients being in a disadvantaged position, while female heads of households continued to receive additional priority, due to their especially weak social and economic position and their childcare responsibilities.

Women’s participation in the small business component was less than expected during the first few months of programme implementation. A target of 50 per cent was therefore set, which forced the LEDAs to select more women. Gender awareness programmes were run for all staff.

**5. The process of institutionalization**

With the establishment of ACLEDA, the project’s strategy to institutionalize the MSE programme became focused on developing ACLEDA as an independent and sustainable NGO for the promotion of SMEs.

The development of a Strategic Plan for ACLEDA was a keystone in this programme. It aimed at generating a shared sense of mission among ACLEDA staff, as well as setting the general direction for the organization’s development. A methodology was designed by the project in collaboration with ACLEDA leadership, which allowed all the staff to participate and contribute to the development of the Strategic Plan, while team leaders and the Executive Committee were responsible for the actual drafting. Within a relatively short period of time, ACLEDA was transformed from an organization in name only into one to which its members felt a strong commitment, and which they believed had an important role to fulfil in rebuilding the country. The Strategic Plan was accepted by the General Assembly in March 1994.

A second key intervention was the agreement between the project and ACLEDA management on a schedule for the transfer of authority. This schedule identified the main decision-making authorities in the management of the programme, and set deadlines for the project authority to become a joint authority, and finally an ACLEDA authority. The schedule was signed by both parties as part of an official Memorandum of Understanding, and generally implemented as planned.

This approach allowed the transfer of authority to be an orderly and gradual process, linked to interventions aimed at building capacity. The interventions included:
- The elaboration of the organizational structure and terms of reference for the main bodies and posts;
- The establishment of a management information system, financial administration system and personnel management system, with the appropriate manuals;
- A continuous programme of management training at all levels in the organization: for the Board, the Executive Committee and team leaders;
Accordingly. The project set in motion by the ACLEDA leadership to redefine its role as a large-scale micro-finance institution was nearly always on a project-to-project rather than on a programme basis. The project documents described the mechanisms of coordination and stressed the need for integration. It was left to the three project managers, however, to work out what exactly needed to be integrated.

Each of the project managers took on the function of programme coordinator on a rotational basis, and weekly meetings were held to discuss issues of common concern. Coordination at this level was most effective in external relations, i.e. vis-à-vis UNDP, the ILO, donors and the Government, as common programme interests were clear. With regard to international coordination, since there were no common programme objectives or outputs, it was difficult to agree to joint activities where there were conflicting demands on time and resources. Although project work plans were exchanged, there was no joint programme planning and little discussion of substantial issues.

At the local level, programme coordination as such never took root. The LEDAs in particular were very protective of their independence, and often resisted what they felt was the imposition of the interests of the ILO project on their activities. Eventually, productive relations were developed both at the national level and in most provinces, when there was a clear common interest in collaboration. This was nearly always on a project-to-project rather than on a programme basis.

Sustainability

The project has implemented a range of interventions aimed at increasing the organizational, managerial, technical and financial sustainability of ACLEDA. Towards the middle of 1995, the project did a final assessment of progress made, which was included in the formulation of a follow-up project whose objective was to be the full sustainability of the organization. The context was a project set in motion by the ACLEDA leadership to redefine its role as a large-scale micro-finance institution for the poor.
This had significant implications for the analysis of ACLEDA’s sustainability. It was found that ACLEDA had realized a high degree of organizational sustainability. It had a vision of its role in the development of Cambodia and the improvement of the position of disadvantaged target groups which was accepted and supported by its members as well as its environment. ACLEDA had its own network of supporting relationships with national and local authorities, donors, and other NGOs. It was perceived as an organization separate and autonomous from the project.

However, it was recognized that for full organizational sustainability, further work needed to be done to develop ACLEDA’s vision of itself as a micro-finance institution for the poor, and to build commitment to this vision among its members. It was foreseen that this would require limited support from the project, particularly at the Board and Executive Committee level.

With regard to managerial sustainability, this had been achieved at the existing level of operations and in the realization of significant expansions, as demonstrated by ACLEDA’s autonomous management of its programme and the establishment of additional LEDAs. The organizational structure functioned well, and management information and financial, administrative and personnel systems were in place. Management skills were appropriate.

In the framework of specialization on financial services and scaling-up, it was considered that some rationalizations in the organizational structure and further decentralization would be required. ACLEDA also needed assistance to meet the legal requirements for micro-finance institutions, which were then under formulation and which could involve a change in ownership structure. Further computerization was necessary, and budgeting systems needed to be developed. Additional training at the policy-making level was considered important.

ACLEDA’s technical sustainability was found to be strong: a high degree of professionalism had been achieved in the LEDAs, and there was no involvement of the project at that level. ACLEDA’s team of technical specialists had a demonstrated capacity to develop and implement training programmes which was being used increasingly by other organizations. Again, however, it was felt that the specialization in financial services would require further project assistance, especially in the upgrading of the staff’s financial skills. It was also found that the rapid expansion through branch offices would require additional technical inputs from the project.

By the end of the SEISP project, it might therefore have been possible to consider ACLEDA a sustainable organization in terms of legitimacy and relations, management and technical capacity, but for the strategic choice made by the organization in 1995 to become a large-scale micro-finance institution for the poor. This choice was aimed primarily at reaching financial sustainability.

6. Lessons learned

The environment

The project has demonstrated that it is possible to develop and implement a successful SME programme in an unstable and difficult post-war situation, provided there is growth in economic opportunities for SMEs and they have the freedom to make use of them.

Beforehand, many potential or actual SME owners did not have the resources or skills to realize their business ideas. This meant that SME development services were in demand. Economic opportunities were being created in spite of instability, and the programme was able to assist disadvantaged groups in making use of them.

Other important factors were the project’s relationship with the Government, the UNDP and the ILO. The absence of close governmental involvement, due to its political preoccupations and the fluid institutional environment, allowed project management to take decisions with little bureaucratic interference.

Project design

The flexibility with which the project was implemented was also made possible by the project document. In general, but especially in situations of rapid social and economic transition, project documents should provide a high degree of flexibility for strategies and methodologies to be changed and developed during project implementation.

Project implementation

The project started with a period of preparatory assistance, when project formulation was still ongoing. This gave it a head start when the document was approved, and allowed it to initiate assistance to SMEs briefly afterwards. The project developed and implemented a strategy which addressed the issues of institutionalization and sustainability from the very inception of the SME programme. Sustainability was not seen as a secondary issue, but was placed right at the heart of the project’s strategy.

The SME programme thus never had the chance to function as a project, but operated from the start as an organization (albeit nascent, to be run by Cambodians, and not sustainable). Through ACLEDA’s realization of a high degree of autonomy and sustainability in a short period of time, the project has demonstrated the feasibility and appropriateness of this approach. This may be the most important lesson to be learnt from it.
The project has demonstrated that the objectives of immediate impact and sustainability can well be combined if they are considered as two mutually reinforcing aspects of project interventions.

The project’s approach towards institutionalization of the MSE programme has been comprehensive. Projects which aim at sustainability for the MSE programme should include organizational audits, followed by a comprehensive programme of capacity building and organizational development. Achieving sustainability clearly requires more than the standard interventions most projects provide for, i.e. technical training and schemes to generate income.

It was the project’s strategy to build organizational, managerial and technical sustainability first. Less priority was given to financial sustainability, and long-term dependence on donors was initially considered inevitable.

Most research done on MSE development programmes over the past ten years seems to suggest that financial and non-financial services should be dealt with by separate organizations. ACLEDA did find that the combination of financial and non-financial services was appropriate to the target group and objectives of the programme, as demonstrated by low business failure rates, high loan recovery rates and significant impact on incomes and employment.

On the basis of the project’s experience, it can be concluded that projects should not develop strategic plans for organizations, or be involved in determining their contents. This is the task of an organization, while a project may play a useful role in developing a methodology by which the strategic plan can be formulated, and guiding its use. Genuine involvement of all staff members of an organization in this process rather than just its management is a powerful tool for building an organizational culture, a feeling of ownership, and a commitment among staff to the organization’s goals, factors which are all essential for an organization’s sustainability.

Programme linkages

The project was implemented as part of a programme consisting of three projects. Implementation in the same geographical areas of the project on Labour-based Infrastructure Rehabilitation probably contributed to the creation of business opportunities. The LEDAs were able to support their clients in making use of these opportunities, and in this way these projects have reinforced each other’s impact on local economic development. The linkage with the Vocational Training for Employment Generation project allowed the LEDAs to support clients in the realization of business plans for which they did not have the vocational skills.

One lesson that may be learned from the project’s experience is that if the intention is to implement an integrated programme for local economic development, it should be designed as such, i.e. with programme objectives and outputs, and an integrated system of interventions, and it should be implemented under one manager, with joint work planning and joint monitoring and evaluation. Three projects do not make a programme, although three projects may be able to achieve more than a single programme each in its own field of competence.

Local Economic Development in Central America – PRODERE

In the context of the special Economic Cooperation Plan for Central America, the United Nations launched the Development Programme for Displaced Persons, Refugees and Returnees in Central America (PRODERE). The Government of Italy decided to fund PRODERE through UNDP, which charged UNOPS with the execution of PRODERE. UNOPS in turn subcontracted specific components of PRODERE to the ILO, UNHCR and WHO. The programme, approved in 1989, started operations in 1990. It was mainly active in El Salvador, Guatemala, and Nicaragua but also undertook some activities in Belize, Costa Rica and Honduras, countries which had offered asylum to those fleeing conflict.

PRODERE concentrated its activities in regions averaging 250,000 inhabitants. These were either areas hard hit by violent conflict or those hosting a great number of refugees. For the most part, the areas covered followed departmental borders and included municipalities, villages and hamlets.

Most people in the areas covered by PRODERE used to rely mainly on self-employment in small, family farms and to a lesser extent in non-agricultural micro-enterprises. Salaried employment in the private sector was practically non-existent. Social coherence was also affected, since almost every family counted one or more deceased, disappeared or refugee amongst its members. Widows, orphans and war victims of all ages were highly visible in many villages.
Strategy

PRODERE set itself the following objectives:
- Promoting human rights;
- Building a consensus around development issues;
- Facilitating the reintegration of returnees;
- Restoring basic services in such areas as health, education and housing;
- Reactivating the local economy.

In order to achieve these objectives, PRODERE developed a strategy rather different from traditional technical cooperation programmes. Instead of intervening at the central government level or targeting one or more specific groups, PRODERE adopted a local development strategy based on a decentralized, integrated and bottom-up approach to development in limited geographical areas. The decision to adopt this strategy was based on the consideration that the civil strife in Central America affected particularly those regions that were poorest as a result of their neglect by national governments in the pre-conflict period. In fact, this neglect was one of the main reasons for the outbreak of the conflict in the first place.

In addition it was felt that the transition towards a more democratic and participatory society should start at the community or municipality level, since it is at this level that government policies and interventions have an immediate impact on the daily life of citizens and that citizen participation in decision-making can be more easily achieved.

Local economic development

The post-conflict economy

The post-conflict economy in rural areas of Central America was mainly a subsistence economy. Most people in the affected areas relied heavily on self-employment in small, family farms, and to a lesser extent in informal non-agricultural micro-enterprises. Micro- and small enterprises faced the usual obstacles: lack of finance for investment, difficult market access, lack of information, lack of technical and basic management skills, resulting in low productivity and competitiveness and inhibiting their effective linking up with the modern sector. They had also been negatively affected by the conflict itself.

Returnees and ex-combatants faced tremendous difficulties to restart their productive activities as a result of the destruction of resources and infrastructure, the loss of perennial crops and the disappearance of village markets. In addition, the land property question had become more complicated because of numerous disputes over smallholdings between returning refugees and new settlers. This in turn resulted in subsistence agriculture less diverse than before the conflict, leaving the farmers even less room for manoeuvre than before. Displaced persons who settled in urban areas flooded the urban informal sector, thus reducing even further the already meagre income of existing informal sector operators.

The LED methodology

In this post-conflict context PRODERE introduced a local economic development (LED) strategy. It invited the ILO to implement this component of the programme in view of its experience and mandate in this area. LED aims at employment creation and income generation through an optimal use of human and other resources in a determined geographical area, the so-called “economic catchment area”. An important aspect of LED is that groups traditionally excluded from the economic development process have a chance to become active members and beneficiaries of the local economy.

A key principle of this approach is that the population itself, through their own institutions, undertakes the planning of resource utilization. This means an emphasis on strengthening existing capacities through institution building, consensus and coordination as well as on providing new services. Usually this is achieved through the creation of a Local Economic Development Agency (LEDA). The LED methodology thus involves: consensus building; strengthening local capacities; a bottom-up, participatory approach; a strive for synergy; acting as catalyst; linking the local economy to the national and global economies; and raising public awareness.

Local Economic Development Agencies

Objectives

Local Economic Development Agencies (LEDAs) aim at achieving a consensus among their members on the local economic development strategy most appropriate to the area. This consensus is usually arrived at following an analysis of the economic opportunities, constraints and potential of the area. LEDAs also provide technical and financial assistance to their members and others to help start, reactivate and strengthen enterprises, particularly those that have a potential for employment creation and are environmentally friendly. Since LEDAs facilitate a decision-making process based on the problems identified by the area’s population itself, they can become a key instrument for the economic development of the area. LEDAs can also play an important role in channelling and coordinating international technical cooperation, which often intervenes in an area in a rather uncoordinated and arbitrary fashion.
Although, in general, LEDAs focus their activities mainly on the economic development of an area, in the case of PRODERE, LEDAs were also key instruments in promoting consensus building, conciliation, democracy and popular participation.

**Organization**

The LEDAs supported by PRODERE were designed as membership organizations composed of representatives of the public sector (including local administration and decentralized national government agencies), as well as of the civil society (including peasant associations, cooperatives, private sector employers, workers’ organizations and other non-governmental organizations). In this context, the role of PRODERE was limited to promoting the constitution of the LEDAs and providing technical assistance. For the LEDAs to function properly, they had to be independent bodies with a proper legal structure. It was therefore important that the local actors assume responsibility for creating the LEDAs right from the very beginning. The LEDAs were therefore established only after an intensive, participatory process of promotion and preparation, involving ad hoc committees on which most of the institutions mentioned above were represented.

It is worth noting that a decision was made to create the Central American LEDA Network. This network has enabled the LEDAs to be represented at international meetings, exchange experiences, exploit trading opportunities, develop joint services, realize economies of scale, undertake joint training activities and mobilize external resources.

**Activities**

The first task of a LEDA is to assess the area’s potential in terms of the available natural, economic, human and financial resources and institutional presence. The outcome of this assessment then serves as basis for strategy planning and coordination of activities. All LEDA members should be involved in the assessment, for which normally the SWOT (Strengths, Weaknesses, Opportunities, Threats) method is used. This method is often also used to analyse the strengths and weaknesses of LEDA member organizations.

Following this assessment, an investment opportunity study for the promotion of micro- and small enterprises is usually carried out. PRODERE developed a special method for this, the so-called diagnóstico preliminar de oportunidades de inversión (preliminary investment opportunity analysis). This method is participatory and involves all sectors of the community concerned in the identification of economic needs and in the possibilities to satisfy them through entrepreneurial activities.

Both the SWOT analysis and the investment opportunity study are used to design an economic development plan. This is essential, since the strategic planning concept is essential to the LED methodology.

LEDAs aim to achieve synergies with other ongoing activities in order to make an effective use of the limited resources available. In practice, this means that LEDA staff often work together with the staff of government agencies and NGOs.

Essentially, LEDAs carry out two types of economic development activities. On the one hand, they provide direct support in areas of entrepreneurship promotion and business development services. On the other hand, they provide indirect support by promoting a more favourable climate for the creation and growth of small enterprises. Direct support is provided in such areas as information on technology and markets, basic business management and vocational training, counselling and financial assistance. LEDAs also help to identify business opportunities and assist in the preparation and formulation of business plans to facilitate the starting-up of small enterprises and cooperatives. They thus provide a comprehensive range of support services and help introduce new management techniques and new technologies. They also help mobilize resources and facilitate access to credit.

In terms of indirect support, LEDAs can play an important role in facilitating ongoing processes of local planning and decentralization, promoting sectoral public and private investment in the area through lobbying and marketing campaigns, and attracting international resources and investments.

**Credit**

The LEDA credit programmes promoted by PRODERE provided small farmers and entrepreneurs with an opportunity to access credit at market rates and establish a credit record that would eventually enable them to become regular customers of commercial financial institutions. From PRODERE, resources amounting to some $17.7 million were channelled through the LEDAs it helped to establish. LEDA staff were trained in screening loan applications by checking whether their peers considered them good credit risks.

The different credit programmes all shared a set of common goals. First of all, they sought to expand lending to help satisfy the unmet demand for credit in the areas covered by the LEDAs. Secondly, they strived to increase the effectiveness of the programmes by increasing their economic impact and reducing loan losses. Thirdly, they aimed at increasing the profitability of the borrowers, which should help to expand employment opportunities. Lastly, they aimed at providing a source of income for the LEDAs from the administration of their loan portfolio to
cover the cost of providing business development services to farmers and local businesses.

The credit activities undertaken by PRODERE produced a wide range of benefits. Not only were small farmers able to improve the diets of their families by increasing production, but also and more importantly, individual farmers and groups of farmers used the loans to introduce non-traditional crops and invest in processing technologies that helped to improve added value.

Lessons learned
From the outset, PRODERE aimed at ensuring the sustainability of the LEDAs it helped to establish. The experience of the programme has shown that to achieve sustainability, attention needs to be paid to social, political, technical and financial aspects.

Social sustainability
Public awareness raising was an essential activity. The regions where the LEDAs were launched were not only the least developed economically, but were also the most affected by violent conflict. As a result, PRODERE needed to gain acceptance and achieve a change of mentality before even being able to introduce the local economic development concept. The small farmers and entrepreneurs who were the direct beneficiaries of the programme, as well as local policy-makers, had to be made aware that in the post-conflict situation they themselves were responsible for getting the local economy on track. In this context it was necessary to build faith in their own capacities and to demonstrate that, by using their own local resources more effectively, they could attract external resources without waiting for support from the central government.

The programme also had to work on policy-makers at the central government level, especially since it was operating in politically conflicting areas. At the national level, decision-makers had to understand that the activities carried out at the local level were by no means subversive, but rather were in line with national policy and that some of the local level initiatives could become elements of national policies.

The key to ensuring the social acceptance and sustainability of the LEDAs was the identification of needs by the local population. Although a time-consuming process, it was essential to ensure local “ownership” of the LEDA and arrive at a consensus on priorities. Only in this way could the LEDA be perceived as a legitimate organization and receive the necessary support as witnessed by growth in membership, active participation by members in LEDA activities and the effective provision of services.

Technical sustainability
Technical sustainability refers to the capacity of the LEDA staff and member organizations to handle effectively most of the day-to-day services the LEDA provides. The key to technical sustainability of the LEDAs has been local capacity building. To this end most LEDAs set up technical committees to advise and guide LEDA staff. Training LEDA staff in technical areas, instead of relying on outside organizations for the provision of services, contributed significantly to the independence of the LEDAs. In addition, the fact that most services were provided by local staff was much appreciated by the members of the local community. Often, local staff is able to solve technical matters in a more appropriate (and understandable) way than external consultants, who do not necessarily speak the local language and may be unfamiliar with local customs.

Technical sustainability was also strengthened through a process of networking with similar institutions both inside and outside Latin America. For instance, it was only after a study tour to Europe in 1992 that the methodology and the principles of local economic development were fully accepted and became the basis for PRODERE’s later interventions. In this respect it is significant to note that even after the end of the programme, the network of LEDAs in Central America continued to function.

Financial sustainability
Financial sustainability was a fundamental objective of the programme, since it was the only way to ensure that the LEDAs would continue to function after the end of the programme. Given their membership structure, their participatory character and their comprehensive range of services, LEDAs are relatively expensive to operate. Even in industrialized countries similar agencies often receive considerable external subsidies, since it is not realistic to expect that LEDA members and clients can finance all operations. The PRODERE experience has shown that during a period of at least two to three years external support is necessary to guarantee a minimum of services and work towards full financial sustainability.

The main source of income for the LEDAs in the case of PRODERE was through their participation in credit activities, particularly guarantee funds. The administrative income derived from a LEDA’s involvement in credit operations is usually sufficient to finance a number of basic services. LEDAs can generate additional income by charging membership fees, becoming an executing agency for international and national technical cooperation projects, charging for services provided (including training) and mobilizing external resources.
The PRODERE approach to credit operations was based on the following principles:
- Services had to be available in close proximity to the clients;
- Character references played an important role in the appraisal of credit applications;
- Collateral requirements were kept flexible;
- Documentation and repayment mechanisms were kept as simple as possible;
- Credit applications were processed and approved locally.

Tool 4.9.3 – LEDA’s indicators of success – Impact and operating indicators: Effectiveness and efficiency

Purpose: From this document, a LEDA should be able to collect the most useful indicators:

i) To monitor and evaluate its effectiveness in the promotion and support of economic development in the implementation area (Has the LEDA achieved its objectives?);

ii) To monitor and evaluate its efficiency in using the resources available in relation to the results obtained.

The impact indicators listed below are not exhaustive.

EMPLOYMENT IMPACT

<table>
<thead>
<tr>
<th>Description</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>The results of the indicators depend on:</td>
<td></td>
</tr>
<tr>
<td>- The means available to the LEDA (credit funds and their size);</td>
<td>▶ Number of permanent jobs created</td>
</tr>
<tr>
<td>- The areas in which the LEDA operates (rural, urban, appropriateness of labour-intensive investment);</td>
<td>▶ Number of temporary jobs created</td>
</tr>
<tr>
<td>- The investment needed per job;</td>
<td></td>
</tr>
<tr>
<td>- Other</td>
<td></td>
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SOCIAL IMPACT

<table>
<thead>
<tr>
<th>Description</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>The extent to which disadvantaged groups have been integrated into the process of local economic development is difficult to measure quantitatively. Answers to the following questions give an idea of qualitative indicators:</td>
<td></td>
</tr>
<tr>
<td>- Has social tension in communities decreased?</td>
<td>▶ Number of LEDA members</td>
</tr>
<tr>
<td>- Is there more widespread confidence in governmental institutions and the LEDA?</td>
<td>▶ Number of members representing disadvantaged groups</td>
</tr>
<tr>
<td>- How strong is the internal cohesion between LEDA members?</td>
<td>▶ Number of jobs generated for/by disadvantaged groups</td>
</tr>
<tr>
<td></td>
<td>▶ Number of community service enterprises created</td>
</tr>
<tr>
<td></td>
<td>▶ Number of services generated through cooperation with other institutions</td>
</tr>
<tr>
<td></td>
<td>▶ Number of people involved in economic animation projects</td>
</tr>
<tr>
<td></td>
<td>▶ Number of people involved in training activities</td>
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<tr>
<td></td>
<td>▶ Number of technicians on contract or involved in the agency’s operational activities</td>
</tr>
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</table>
## TECHNOLOGICAL IMPACT

### Description

Results depend on:

- The extent to which the integrated economic development approach is shared by all LEDA members and, through them, by the population in the area;
- The capacity of the LEDA to develop networks of knowledge and technology transfer.

### Indicators

- Number of specialized institutions that are members of the LEDA
- Number of national specialist institutions contacted or involved in joint activities
- Number of international structures contacted or involved in joint activities
- Number of appropriate, innovative technologies acquired by local organizations
- Number of enterprises assisted with technological innovation
- Number of local institutions using agency-promoted technologies
- Number of training and informational initiatives for knowledge transfer
- Number of persons, businesses and institutions requesting the LEDA’s services
- Number of national or international institutions from abroad which contacted the LEDA for joint programmes

## ECONOMIC IMPACT

### Description

Since the LEDA’s objective is to promote an appropriate productive and infrastructural business environment according to the development objectives as well as priorities, and based on local resources, the LEDA has to answer the following qualitative questions in order to evaluate projects and business plans:

- What effect will it have on the local economic environment (based on local potential, (new) production and services chain of value)?
- What type of jobs and skills will it create?

### Indicators

- Number of new enterprises created
- The volume of credit disbursed from own funds
- The volume of credit disbursed from outside funds to which the LEDA provided assistance
- The rate of growth of the businesses assisted (in the long term):
  - How many businesses maintained, reduced or increased their employment level?
  - How many businesses failed?
- The number of existing businesses assisted
- Has a local development plan been formulated?
- The number of surveys and analyses of the local economy elaborated
- The number of feasibility studies
- The number of territorial or sectoral development projects funded/started/completed
- The number of joint ventures between firms realized
- The number of environmental protection projects
- The number of marketing agreements promoted for local firms
- The number of partnership agreements the agency has with local, national and international partners
Time, as well as many qualitative indicators, are also useful indicators that are difficult to measure. Experiences in other countries have demonstrated that decisive qualitative indicators are:

<table>
<thead>
<tr>
<th>TIME</th>
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<tbody>
<tr>
<td>Degree of social cohesion between the members (particularly the operational relationship between the executive bodies of the LEDA and the local government bodies represented in the LEDA)</td>
</tr>
<tr>
<td>Degree of operational autonomy (the less the LEDA is influenced by one or two members or by outside organizations, the more professional legitimacy it has among the local population and financial backers)</td>
</tr>
<tr>
<td>Human resources (the more skilled the staff, the better the effectiveness and efficiency of the Agency)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATION (efficiency indicators)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of fixed costs (operating overhead costs plus depreciation) to total expenses (including programme expenses). The lower the indicator, the greater the Agency’s efficiency</td>
</tr>
<tr>
<td>Income from financial sources</td>
</tr>
<tr>
<td>Income from sales of services</td>
</tr>
<tr>
<td>Income from contracts (can be outsourced to ad hoc technical personnel so that an Agency’s staff can continue focusing on ongoing task and activities such as coordination, the territory’s development priorities, …)</td>
</tr>
</tbody>
</table>

Indicators with regard to credit management:

- Loan repayment rate (a high repayment rate indicates the ability to generate economically sustainable projects)
- Average loan size and number of borrowers (too few borrowers heighten financial risk; too many increase administrative costs and often correspond to small loans for projects with little economic impact)
- The distribution of credit between short, medium and long-term projects (the balance between the three maturity segments – maturity of less than six months, maturity of six to 12 months, and maturity of more than 12 months – is essential)
SECTION V. REFERENCES

5.1 Glossary

Business development services (BDS): BDS refers to a set of ‘business services’ understood to include any services 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 tool and strategy, but it can also be useful in identifying local institutions and networks that can be strengthened, and in providing a baseline for measuring progress in market development.

Business incubators: These are an economic development tool primarily designed to help create and build up new businesses in a community. Business incubators are normally housed within a specific building or location. They help emerging businesses through support services such as 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 a managed workspace.

Clusters: An industry cluster is a grouping of related industries and institutions in an area or region. The industries are interlinked and connected in many different ways. Some industries in the cluster will act as suppliers to others; some will act as buyers from others; some will share labour or resources. The important thing about a cluster is that the industries share economic linkages. They both compete and cooperate and are, to some degree, dependent upon each other.

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

Export development services: Like entrepreneurial training, these services are part of the BDS family. Export assistance programmes can help businesses to diversify their customer base, expand operations and become more profitable. Export services include assessing company capacity for export markets, 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 a country as well as from abroad.

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

Hardware: This 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.

Highroad techniques: These stress the need to make more efficient use of resources, investment in processes, technological innovation and employee skills. It views labour as an important commodity and skills enhancement as a 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: This refers to a set of local assets that might generate economic development. Indigenous potential includes local software and hardware, such as human resources and knowledge, natural resources, infrastructure, local businesses, public organizations, etc.

Local Economic Development Agencies: These 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 the technical and financial resources required for these opportunities to materialize.

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

Small and medium-sized enterprises: There is no definitive delineation between a small and a medium-sized enterprise. As a general reference, ‘small’ is often from five to 20 employees, ‘medium-sized’ from 20 to 200. Businesses with fewer than five employees are usually called micro-enterprises.
**Software:** This relates to the less tangible aspects of LED such as education and training provision, quality of life infrastructure such as parks, leisure services, housing, business support, business networking and financing services, etc.

**Stakeholders:** These 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:** These are the products and processes that are essential to the provision of goods or services. For example, the elements of a supply chain for the provision of frozen fish would extend from catching the fish and handling, processing and freezing it, to packaging, storing and distribution. In this case, fish processing, packaging, storing and distribution will be adding value, and therefore will be placed at the higher end of the supply chain.
5.2 Bibliography

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**Territorial Diagnosis**


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