



LOCAL ECONOMIC DEVELOPMENT

LED-Manual / Summary

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Foreword

We believe that strategic planning for LED is a pragmatic and powerful tool that can help significantly address local issues. By simply engaging in a strategic planning process for LED, positive results are inevitable. At a minimum, it offers a way for improving the necessary interaction among business, government, labour and the poor. Done well, it provides a way for clarifying competitive advantages, identifying cooperative opportunities, crafting innovative options, and generating strategies that better achieve local priorities.

Sources to this document are among others:

- UN-HABITAT; Strategic Planning for Local Economic Development
- ahead / Bernd Kadura; Innovation and Economic Development
- EcoPlan International, Inc.
- Delta Baerenz; Enterprise Development Toolbox

1. Overview

1.1. *What is Local Economic Development?*

Local economic development (LED) is a participatory process where local people from all sectors work together to stimulate local commercial activity, resulting in a resilient and sustainable economy. It is a tool to help create decent jobs and improve the quality of life for everyone, including the poor and marginalize.

Local economic development encourages the public, private and civil society sectors to establish partnerships and collaboratively find local solutions to common economic challenges. The LED process seeks to empower local participants in order to effectively utilize business enterprise, labour, capital and other local resources to achieve local priorities (e.g., promote quality jobs, reduce poverty, stabilize the local economy generate municipal taxes to provide better services). LED practitioners have many program and projects opportunities available to them, but to be successful there needs to be an understanding of the range of alternatives and tools, and a process to by which communities can create the best mix of actions to achieve local priorities.

Learning from the past

In the 1960s and 1970s, LED became popular as local governments realized capital was becoming more mobile and local economies were at risk of decline. Traditionally, LED focused on trying to attract investment and business activity through hard infrastructure investments (e.g., roads, telecommunications) or concessions such as tax breaks, cheap land, reduced service rates, and even direct financial rewards in return for business and industry locating in the local area. The idea of these early LED strategies was that public investment creates jobs and provides taxes. It was mainly a “top-down” public sector activity that worked with relatively few economic actors. The traditional strategies tended to be prescriptive, unresponsive to the local priorities (which were not clearly articulated) and, in some cases, adverse to the goals of the community. Later, in the 1980s and 1990s, although it was still public sector driven, the concept of LED expanded to include the retention and growth of existing businesses through business support services (e.g., business matching, financial and business planning). It focused attraction of investment in specific sectors and emphasised better spatial planning to bring people and jobs closer together, reducing travelling times and costs.

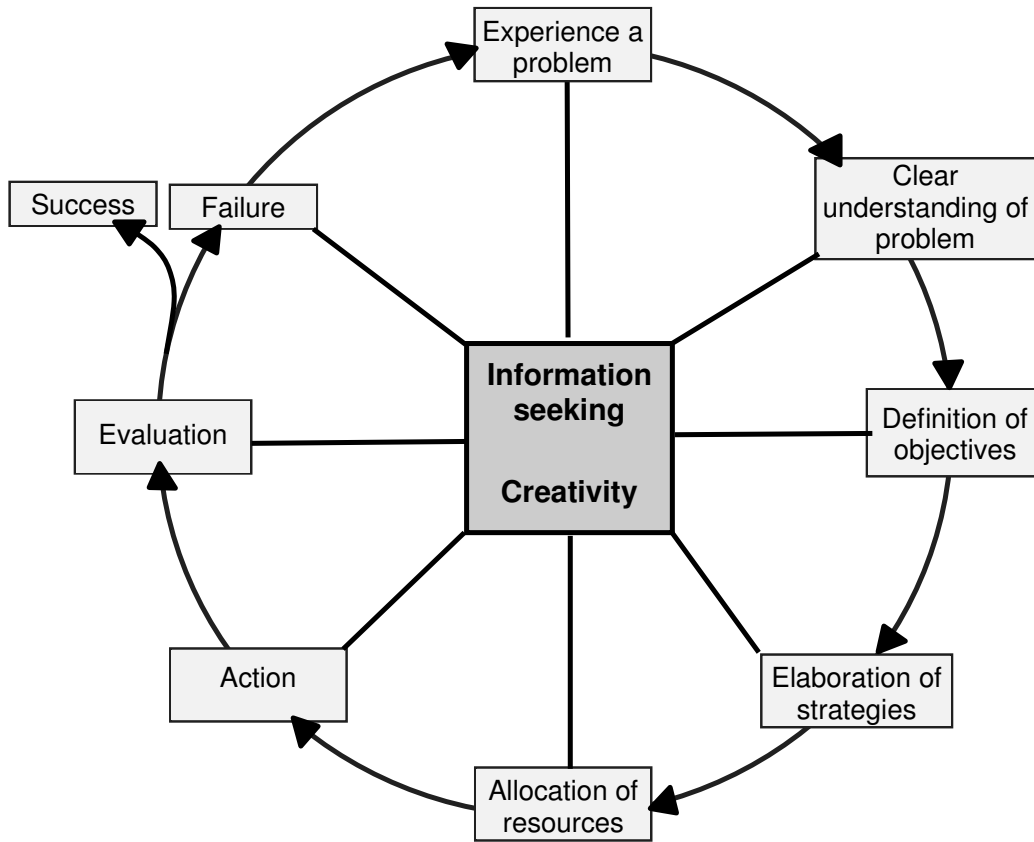
Change and innovative development also deals with mindsets of people involved, creating the environment to development:

	Liberalization Mindset	Modernization Mindset	Knowledge-based Economy Mindset
Is about:	Undoing things	Building things	Building winning opportunities
Creates:	Freedom Fluidity Even playing field	Modern institutions Rule of law Good basic business environment	Vision A winning mentality Clusters A vibrant home base for business
Main focus:	Stability, incentives	Productivity catch-up	Becoming globally competitive
Domain:	Economy	Economic, social	Societal
Government role:	Get out of the way Stop being an operator	Become a good regulator	Become a challenger Become an integrator
Anxiety:	Did you liberalize too fast?	Did you modernize too slowly?	Did others leave you in the dust?

What is Strategic Planning?

Strategic planning is a systematic decision-making process that focuses attention on important issues, and on how to resolve them.

It starts from a strategic Problem Solving Cycle that follows a specific sequence of analytical and planning steps:

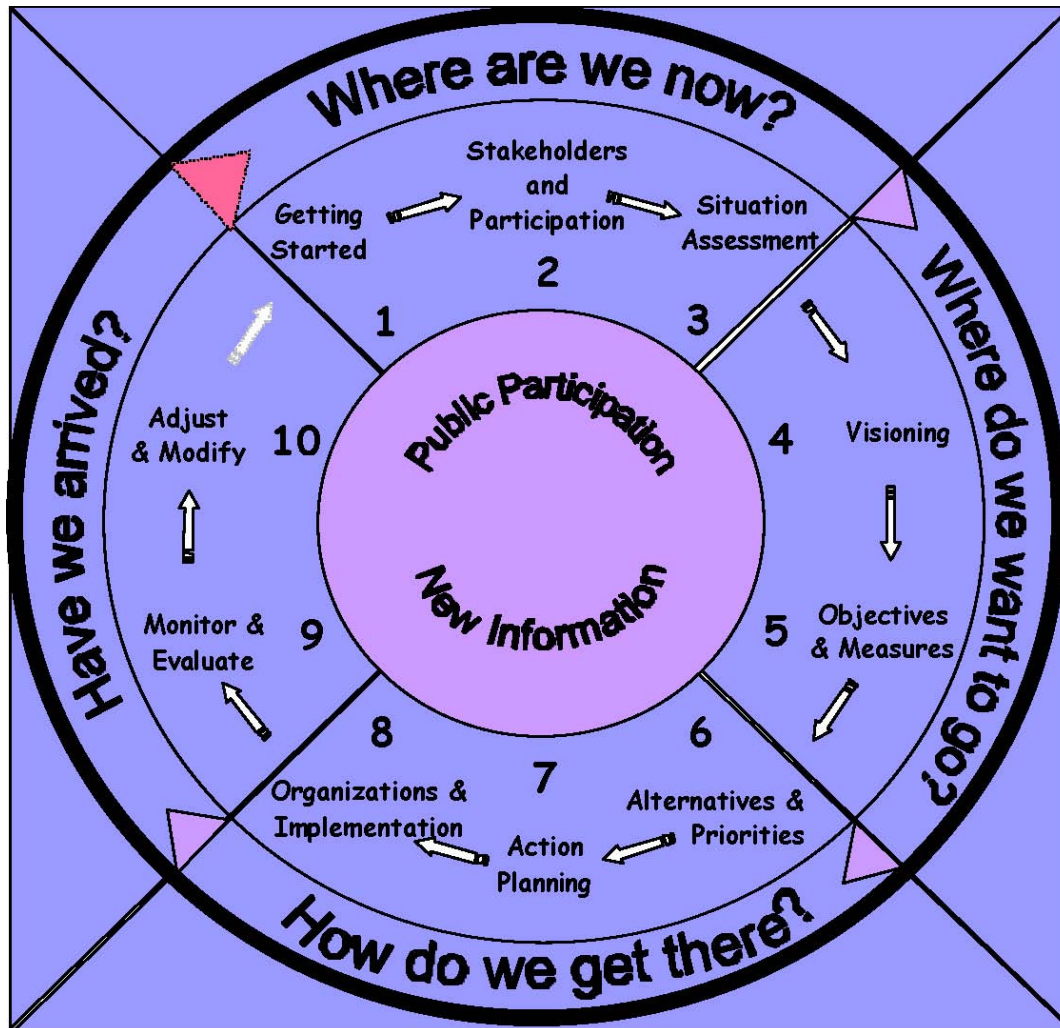


Strategic planning within LED provides a general framework for action: a way to determine priorities, make wise choices and allocate scarce resources (e.g., time, money, skills) to achieve agreed to objectives. This manual organizes the first of four strategic planning steps for local economic development:

1. **WHERE ARE WE NOW?**
2. **WHERE DO WE WANT TO GO?**
3. **HOW ARE WE GOING TO GET THERE?**
4. **HOW DO WE KNOW WHEN WE HAVE ARRIVED?**

Answering each of these questions involves a number of steps that takes you through the strategic planning process. This process is illustrated below as the **Ten Steps to Planning Excellence**. While this process appears as a series of distinct steps to be followed in succession, each question and step will likely be revisited as new information emerges, alternatives are refined, and new people, ideas, and perceptions are brought into the process.

Ten Steps to Planning Excellence



Where is the “Local” in LED?

Defining the ‘local’ area for local economic development planning is a pragmatic exercise that should be done at the beginning of the process, and should be based on common linkages and constraints. The local area can be defined by a combination of factors that typically include:

- economic (production patterns, processing chains, business services -i.e. banks),
- market (market areas, commercial linkages, urban-rural links),
- political (voting, administrative and decision-making jurisdictions),
- socio-cultural (shared value/belief systems, stakeholder relationships),
- communication and built environment (neighbourhoods, communication networks, building patterns, transportation), and
- bio-geographic (topography, watersheds).

1.2. ***Issues in Local Economic Development***

Good Governance and LED

Institutional capacity in management and administration, and the role of politics in development, is often captured under the heading of *governance*. Governance is not government. Governance is a concept that recognizes power both inside and outside the formal authority and institutions of government. Governance is defined as the ability to coordinate and promote policies, projects, and programs that credibly represent a broad range of interests (e.g., government, the private sector and civil society). Public involvement, institutional development, transparency of decision making procedures, interest representation, conflict resolution, limits of authority and leadership accountability are all issues of governance.⁶

Business Enabling Environment

The notion that the private economy should be left to regulate itself assumes that markets behave according to the economist's model of perfect competition. In reality, private markets are not perfect and do not automatically function for the good of all. However, intervention by government in the economy is not straightforward. Good practice in local economic development suggests that use of public resources and government intervention (e.g., public spending, access to services) should focus on improving the basic business environment and reach all levels of society (e.g., rather than supporting individual companies).

This means that capable institutions at the local level are essential for effective LED. Although democratic systems offer the best chance for successful LED, the power of self-government derived through democracy is no guarantee that successful LED will happen. Perhaps one of the most pressing challenges is in implementation and administration. Beyond simple lack of capacity, expense (time and money) and overregulation (complex regulations) are the devastating effects of cronyism, nepotism and corruption. Recent LED research suggests that strong and appropriate institutions are necessary, and governance should pursue four concepts in LED.

- First, there is a need for clear decision rules and procedures in government, such as effective business codes and land use zones that promote long-term plans rather than politically expedient short-term decisions. Lack of a clear and stable economic 'playing field' and lack of skilled managers can, at best, undermine efficiency, productivity and effective resource utilization. At worst, it can lead to corruption, draining the local government of funds for individual political ends, and lead to the use of local government positions for personal advantage.
- Second, the political environment must be safe. Poor economic policies and weak government systems can seriously impact efforts for local economic development by raising risks and increasing production costs. For example, risks and production costs are affected when investment opportunities and key government posts are given to unqualified friends and relatives of the political party in power; when bribes are extorted from businesses and entrepreneurs, holding them hostage to politicians; and when tax rates or regulations are uncertain and change with each new administration. The local government should establish a political environment in which investors and businesses – large or small, members or non-members of the local area – feel secure. Investment, and the jobs that accompany it, seek out risk-return ratios that are equal to or better than that in other places. For many investors, consistency, predictability and clarity of government policies and regulations are as important as a business environment with few restraints. Without a safe investment environment local human and financial capital

will migrate away from the local area and outside investment will be difficult to attract.

- Third, enabling environments should have a high ease of business entry and efficient regulation-enforcement. Research published in 2002 offers analysis on the regulation of entry for start-up firms in 85 countries. This research looked at the number of procedures an entrepreneur must go through to get a licence to operate, how long it takes and how much it costs. For example, in Mozambique it takes 19 procedures, 149 business days and costs US\$256. In Italy there are 16 procedures, it takes 62 business days and costs US\$3,946. By contrast, in Canada the two procedures take 2 days and cost US\$280. More recent work included analysis of other areas of business environment, such as contract enforcement and property rights.” For example to enforce a contract in Tunisia requires 7 days while in Guatemala this takes more than 4 years. In Ireland resolving bankruptcy takes six months, but in India it is more than 11 years. Not surprisingly, the researchers found that countries with heavy regulation and weak enforcement have higher rates of corruption, a larger informal economy, are less democratic and are more likely to be poor.

Competitive advantage and cooperation

The world is a competitive place. Therefore, understanding a local area’s competition and competitive advantage is important. Competitive advantage is the condition (a local areas strengths, weaknesses and external threats, opportunities) that enable a local area to operate in a relatively more efficient, or otherwise higher-quality, manner than the places it competes with --resulting in benefits accruing to that local area. Although competition promotes efficiency and innovation, excessive competition for investment may cause all parties to lose and may further disadvantage already marginalized groups, making a competitive analysis only part of the overall economic picture.

At the local level the current global trends suggest that long-term sustainability of local economies, and sometimes short-term economic survival, depends on cooperating in this competitive world. To avoid some of the damaging side affects of competition, local areas can work together through forums or by to developing regional strategies that strengthen local production of all local communities, helping to insulate them from unnecessary competition (e.g., where traders or firms can play localities off against each other).

The “Total Economy”

Understanding the “total economy” is an important step in developing a LED strategy. Typically, the economy is solely viewed through the lenses of the formal economy. This is because the formal economy is measurable (tax receipts, business permits, employment numbers and other official statistics), easier to monitor and often has more powerful stakeholders. However, the formal economy is only a part of a larger inter-linked “total economy” that includes the informal economy --those working in economically productive activities that are not formally measured (more detail on the informal economy in the following section). The lack of integration results in lost opportunity for development and for poverty reduction, as many of the poor operate in this sector. Market and non-market aspects then combine with varying degrees of legality to help draw the “total economy” picture.

The Many Forms of Capital in LED

One way to frame thinking about LED is to consider a functioning and healthy local economy as encompassing four kinds of capital: social/human capital, financial capital, manufactured/physical capital, and natural capita (see **Table 2**). Capital is a useful concept because it can be acquired, exchanged, invested and converted into other forms. This

dynamic way of thinking about LED keeps the focus on change, which is what strategy development is all about.

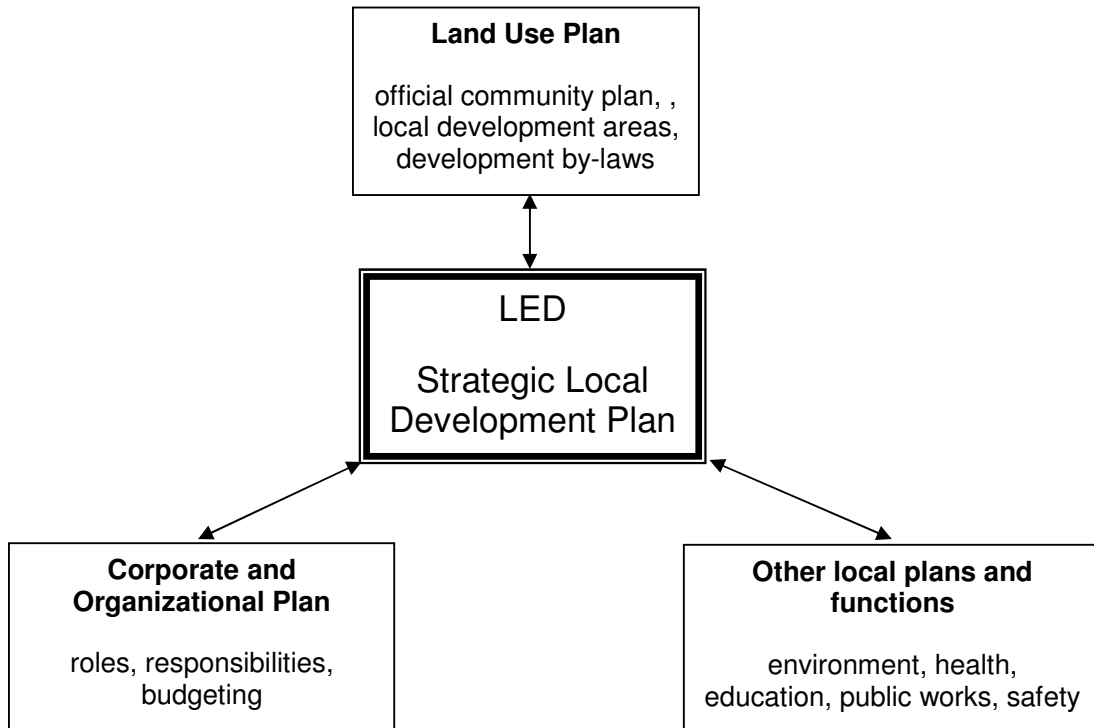
Table: Types of Capital--A framework for understanding a functioning economy

Human and Social Capital	Leadership, Partnerships and Organization	Building leadership skills in business, local government, and economic development. Improving the partnerships, social networks & norms, social trust and cultural integrity that facilitate coordination and cooperation for mutual benefit.
	Knowledge and Information	Providing linkages and access to business, economic, market, social and environmental information.
	Skills, Competency and Innovation	Strengthening entrepreneurship, education, and collaborative learning environments. Building skills within the local population and attracting skilled labour to the local area .
Financial Capital	Financial	Improving access to, and use of, financial capital: credit, cash, investments, monetary instruments to all sectors -- including informal and specific client groups (e.g., women).
Manufactured and Physical Capital	Technology, Tools, Machines, Factories	Making better use of technology in business processes.
	Built Environment and Infrastructure	Improving general built environment and infrastructure to support economic development.
Natural Capital	Resources	Clean water, arable land, forests, minerals, genetic diversity, energy resources and other natural resources.
	Living Systems	Ecosystems that are resilient, self-regenerating, and diverse provide resources and services to local populations.
	Ecosystem Services	Waste sinks, natural purification systems (e.g., air and water), water and flood protection through intact watersheds.

Integrating Local Economic Development

Working with the four types of capital requires integration. From a local government perspective, this is done through the back and forth between different plans, policies and regulations. Typically, citizens would like to see their government conduct a long-range ‘comprehensive’ plan that identifies core values and a vision of the future. This long-range plan provides a general framework for participatory and collaborative decision-making.

Figure: Integrating LED in the Local Government System



1.3. **Prerequisites for Planning a Successful LED Strategy**

Experience shows us that there are many important components in developing a LED strategy. Several prerequisites for planning a successful LED strategy are highlighted below.

A successful LED strategy will...

Procedural Issues	1. Have political will	Active leadership from local government is important --for legitimacy of the final strategy (e.g., through an accountable government body) and for substantive contributions (e.g., infrastructure, regulation).
	2. Get commitment	This is needed from all major stakeholders, as well as a mechanism for involving them early in LED decision making.
	3. Include the informal economy	This includes underrepresented groups, particularly the poor and women, and may require capacity building.
	4. Use strategic thinking	LED should not be driven by crisis, grant chasing, fads or attempts to 'pick the big winner'. These are the core of a LED process: between people (e.g., partnerships)
	5. Integrate, network and link	spatial linkages (e.g., urban-rural) and sectors (e.g., health, environment, law and justice, education).
	6. Incorporate accountability and transparency	All managers and partners must be able to see how decisions are made and be held accountable.
	7. Incorporate culture	Adapt tools, processes and results to local culture.
Substantive Issues	8. Demonstration projects and visible results	A LED process should have the means to move quickly from abstract ideas and principles to visible changes in people's lives. Demonstration projects help maintain momentum and interest in the process by showing visible results and action on the ground.
	9. Understand markets	Make this information available to everyone involved in local economic development.
	10. Evaluate the pros and cons	Think about alternatives (e.g., foreign direct investment) and identify ways to mitigate or avoid negative impacts.
	11. Balance strategies	Balance between improving local economic efficiencies (e.g., by clustering) and promoting economic resilience (e.g., by diversification).
	12. Include infrastructure	This may make the difference between a successful led programme and one that struggles.
	13. Think about quality	Success is more that just the total flow of economic growth (e.g., type of local jobs and working conditions, not simply the number of jobs).
	14. Invest in "soft" infrastructure	Human capital, such as training people, and social capital such as a progressive legal framework and regulatory systems that promote mutual trust, are central to LED success.
	15. Recognize natural capital	Although it may have little or no market value, natural capital is essential to successful LED (e.g., water purification provided by a healthy watershed).
	16. Leverage private investment for public good	Leverage investment to improve the quality of life and security for citizens – which also attracts and retains investment.

2. Module 1: Where are we now?

2.1. Step 1: Getting Started

“Planning to Plan:” Organizational and Leadership Capacity

The very first step in planning for the future is to decide whether or not a strategic approach to local economic development is going to be taken at all. Strategic planning moves beyond ad-hoc decision-making and allows a local area to both create and respond to economic challenges and opportunities.

2.1.1. Task 1: Get Organized and Get Commitment

- who is going to lead the effort, with which competences (decision, finance...?)
- who should be invited to help get the process going?

2.1.2. Task 2: Form a core planning team plus define the facilitator

Similar to project management, the box below shows the magnitudes of work for the facilitator / facilitating organisation

SCOPE OF FACILITATOR

1. TASKS

1.1. Planning & initiating

- 1.1.1. Tasks
- 1.1.2. Personnel / stake holders
- 1.1.3. Deadlines
- 1.1.4. Assets
- 1.1.5. Costs

1.2. Leading & Mowing

- 1.2.1. Respecting the plan
- 1.2.2. Running resources
- 1.2.3. Allocating the means

1.3. Collaboration

- 1.3.1. conceptual
- 1.3.2. generalist

1.4. Control

- 1.4.1. Measures: Surveillance and reports
- 1.4.2. Subjects: Implementation and results

2. OBJECTIVES

2.1. Result objectives

- 2.1.1. Project planning overview / Logical Framework

2.2. Implementation objectives

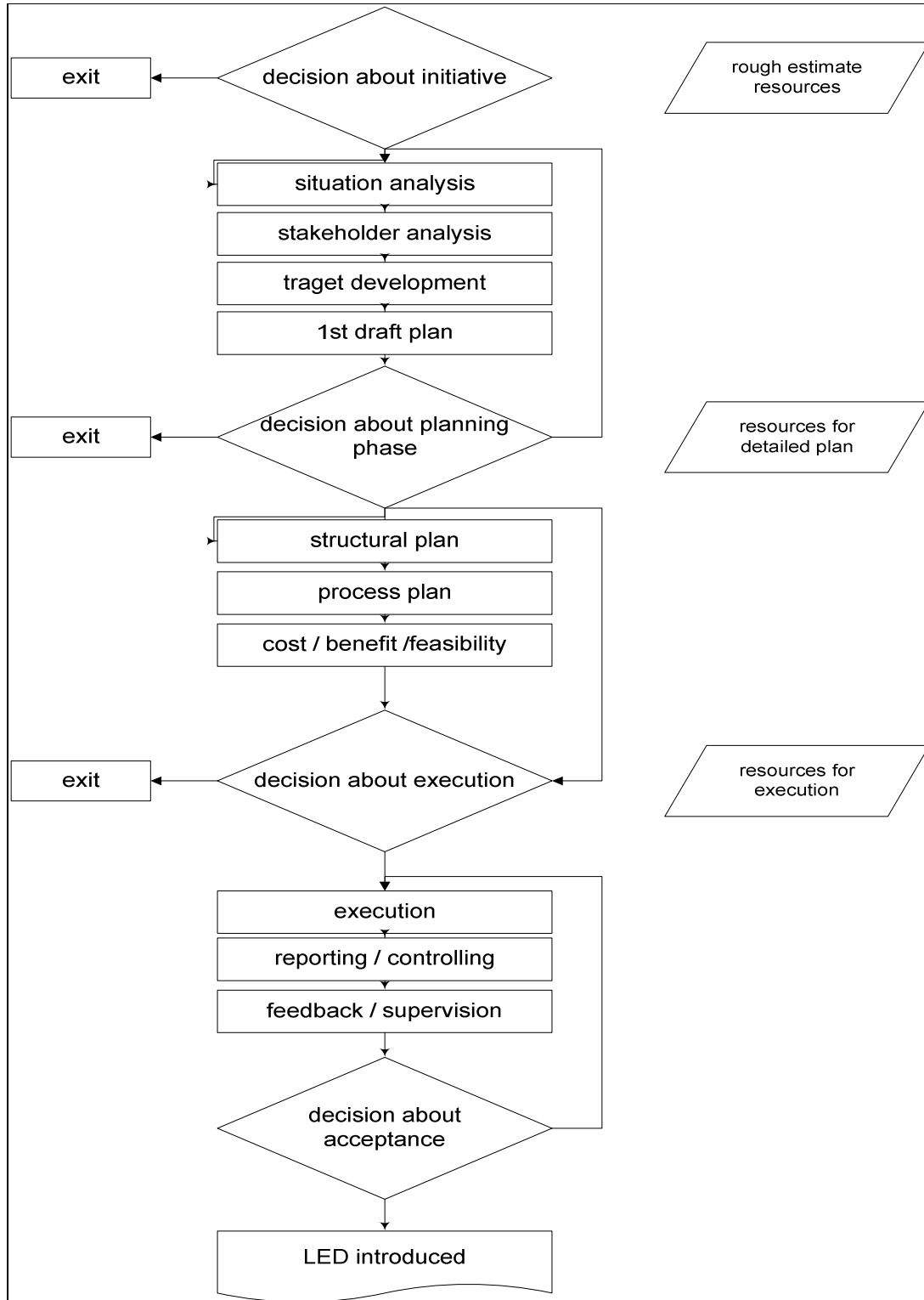
- 2.2.1. Milestones

- 3. AUTHORITIES**
 - 3.1. Invitation of stakeholders**
 - 3.2. Decision taking competence**
 - 3.2.1. Implementation – time schedule supervision
 - 3.2.2. Results – only the right to suggest
 - 3.3. Disposing competence**
 - 3.3.1. Project resources – partially
 - 3.3.2. Stakeholder contributions – no
- 4. RESPONSIBILITY**
 - 4.1. Result responsibility**
 - 4.1.1. absolute result - effectiveness
 - 4.1.2. relative result – efficiency
 - 4.2. Personnel responsibility**
 - 4.2.1. Motivation and Identification
 - 4.2.2. Creativity
 - 4.2.3. Conflict avoiding –fighting respectively
 - 4.2.4. Information
 - 4.3. Deadlines**
 - 4.3.1. too short
 - 4.3.2. too long
 - 4.4. Budget**
 - 4.4.1. Availability
 - 4.4.2. Economical thinking
 - 4.4.3. Efficiency
- 5. REQUIREMENTS**
 - 5.1. Personal**
 - 5.1.1. team spirit
 - 5.1.2. initiative taker
 - 5.1.3. ability to delegate
 - 5.1.4. creative, innovative
 - 5.1.5. accepted by stakeholders
 - 5.1.6. skilled negotiator
 - 5.1.7. quick decision taker
 - 5.1.8. strong personality
 - 5.2. Project qualification**
 - 5.2.1. Experience
 - 5.2.2. Measures
 - 5.3. Technical knowledge**
 - 5.3.1. Sector knowledge
 - 5.3.2. Solution knowledge
 - 5.4. Leading**
 - 5.4.1. Style
 - 5.4.2. Techniques

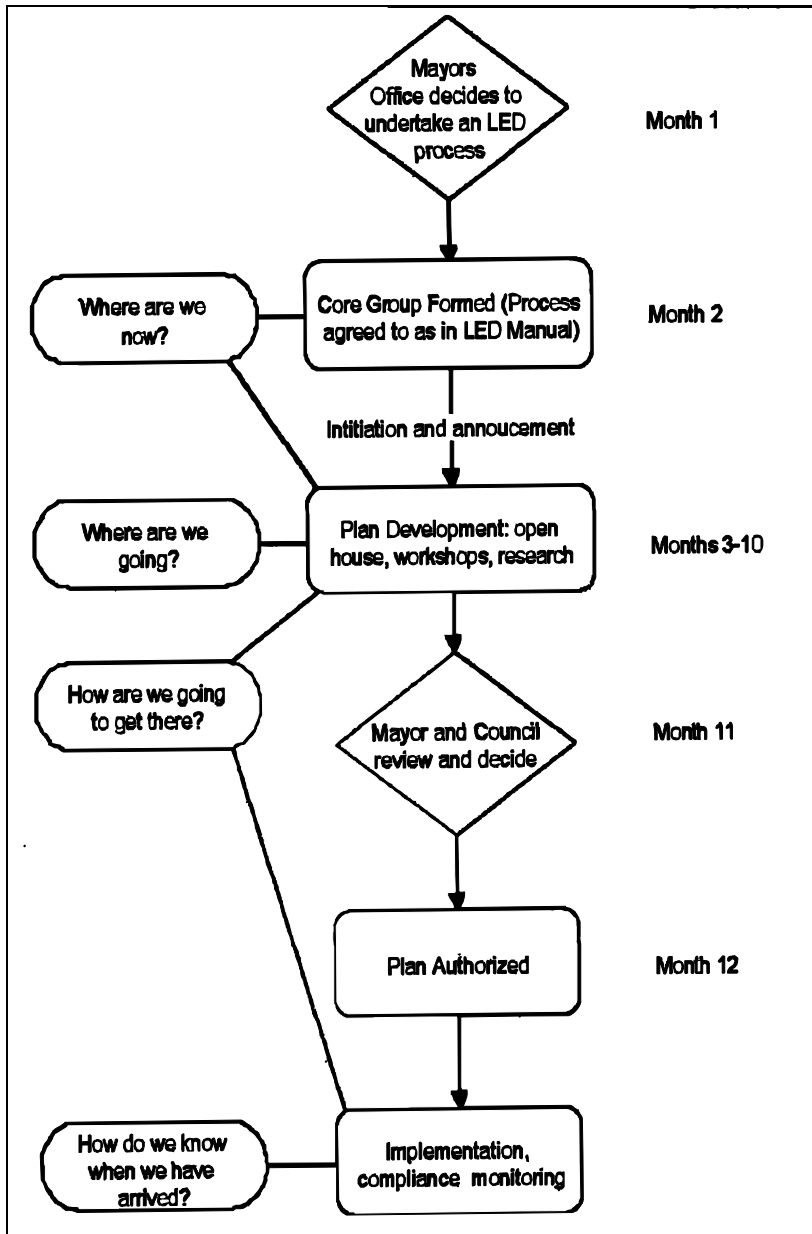
2.1.3. **Task 3: Determine organizational capacity and if outside help (experts) is needed**

2.1.4. Task 4: Plan the planning process.

General Flow Chart of LED Project



Example of One-Year LED Process



Following constraints have to be considered at least:

- What should be the general scope?
- What are the planning timeframes?
- What resources will be needed – staff time, money, effort, skills?

Where is funding for the process going to come from?

Step 1 Review Checklist	
Getting Started and Defining the Question	
Is there organization and leadership to support the process and prepare the plan?	
Is there commitment to complete and implement the plan?	
Has a core team been formed and/or the individual responsible been identified?	
Is outside expertise required? If so, has it been retained?	
Are resources secured – funding, time, human resources?	
Is the scope established?	
Have constraints, strengths, weaknesses, opportunities and threats to the planning process been identified and addressed?	
Has a culturally sensitive process been identified?	
Has a good problem question been formulated?	

2.2. **Step 2: Stakeholders and Participation**

2.2.1. **What is a Participatory Approach?**

A participatory approach involves the inclusion of different stakeholders so that their views, concerns and issues can be included in the planning process. Stakeholders are interested, affected, and influential individuals, organizations, governments or agencies with a stake in, or influence on, the planning outcome. Stakeholders may be determined by:

- their stake in the issues (e.g., the urban poor, policy proponents such as environmental NGOs);
- their formal position (e.g., government authority);
- their control over relevant resources (e.g., money, expertise), and;
- their power to promote, hinder or block implementation (e.g., activist groups, lobby groups, implementing agencies).

General benefits of participatory approaches:

- ❖ Better Planning: participation will result in better, more durable results. Consensus is needed but: *While consensus may be a desired outcome, making it a process requirement may limit progress.*
- ❖ Promoting Implementation: participation will create ownership over the planning effort.
- ❖ Thinking about Institutionalization: participation will increase long term success of LED.
- ❖ Stronger Communities: participation will empower the local area to take control of the future.

Ten Factors for Successful Participation

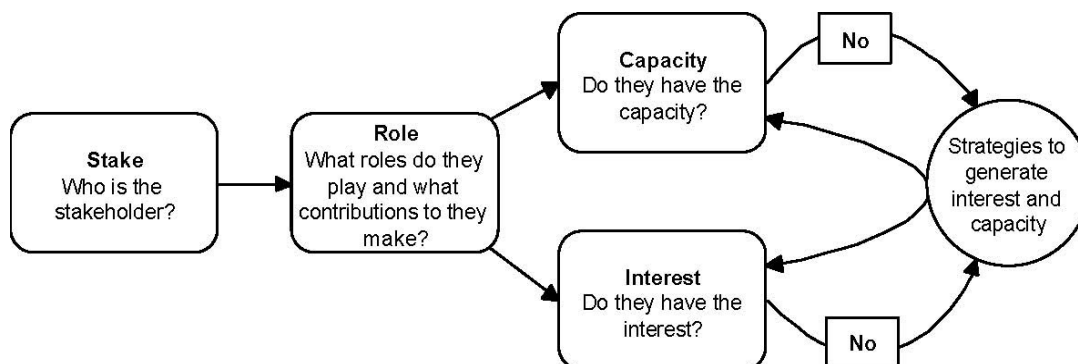
1 Good timing and clear need	Are the stakeholders ready to collaborate and is there a sense of urgency to work together?
2 Strong stakeholder groups	Are the stakeholder groups and steering committees being asked to participate credible, well organized and able to effectively represent their interests?
3 Broad based involvement	Are all the important sectors concerned with the issues represented (opposed to a few from predominately one sector)? Women and men? Formal and informal economy? Public and private sectors? Are traditionally marginalized groups given special consideration?
4 Credibility and openness of process	Do all stakeholders see the process as fair? Is it open and not just a “rubber-stamping” process? Are there agreed upon procedures and ground rules?
5 Commitment and/or involvement of high level, visible leaders	If the mayor, for example, cannot be involved, do they send a representative with decision-making authority and/or have a process in place so decisions can be fed back to the stakeholder group efficiently? Are the citizens or civic society organizations sending their best representative for participation in the program?
6 Support or consent of “established” authorities or powers	Have key institutions or power blocs – for example the city council, chamber of commerce, labour organizations, local NGOs, minority groups – agreed to support and abide by recommendations arrived at through the agreed upon process?
7 Overcoming mistrust and scepticism	Have efforts been made early on to deal with mistrust and scepticism issues and to overcome them?
8 Strong leadership of the process	Is the planning process being managed effectively? Indicators include: keeping the stakeholders at the table through periods of frustration; helping stakeholders negotiate difficult points; keeping feelings of inclusion and importance universal and constant; continued acceptance group norms and ground rules
9 Interim success	Small successes should be achieved throughout the process to provide encouragement --are these acknowledged, built on and celebrated?
10 A shift to a broader concern	Are the participants in the process focusing less on narrow parochial interests and more on broader interests of the local area as they mature in their efforts?

2.2.2. How to incorporate Participation in the Planning Process

2.2.2.1. Task 1: Identify stakeholders and form a stakeholder planning group

Public	Business and Labour	Local area and Non-Governmental
<ul style="list-style-type: none"> Local government (including technical departments) District, regional and national governments Sector boards and authorities (e.g. health, education, transportation) Zoning board Education institutions (technical schools, universities) Utilities International support (lending institutions, development agencies) 	<ul style="list-style-type: none"> Small and medium sized businesses Micro-scale businesses Large corporations Trade unions Labour unions Real estate developers Banks, credit unions and other financial groups Chamber of commerce News media Business support groups Professional associations Private utilities Private education Think tanks 	<ul style="list-style-type: none"> Local area leaders Informal economy groups Neighbourhood groups Local area service organizations Taxpayer associations Local educational institutions Local religious groups International development groups working locally Women in the workplace Minority, disabled and disadvantaged groups Environmental groups Cultural, historical and arts interests

Figure: Stakeholder identification, capacity and interest process



2.2.2.2. Task 2: Establish the size and structure of the stakeholder group

The size of the stakeholder committee may be affected by tradeoffs between effectiveness and representation. The optimum size of the stakeholder committee depends on a common sense assessment of how many people, and who, are needed to do its work. If a committee is too large, it is difficult to move forward and some may feel that their voice is lost in a large group. If it is too small, it may accomplish little, not be representative enough and fail to generate required enthusiasm and support. Conventional wisdom suggests that less than 20 is preferable, with 7 to 15 members being best for most committees.

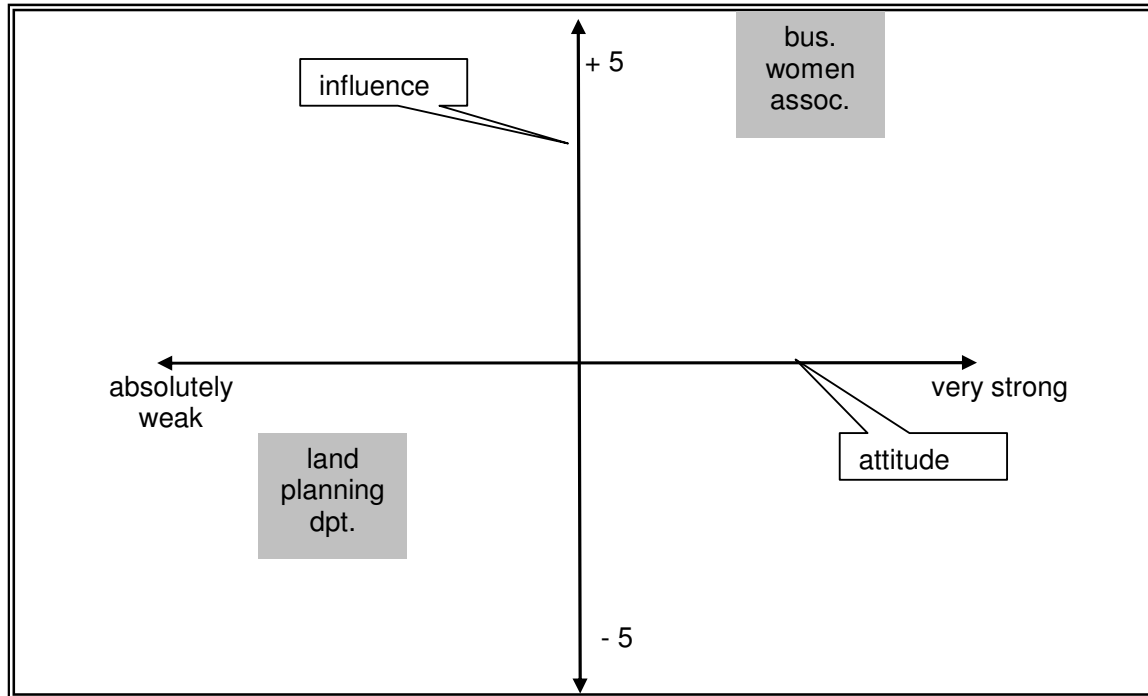
Structure also needs to be considered in the formation of a stakeholder committee. An alternative to a single stakeholder committee is a **Core Group –Stakeholder Group– Working Group** approach as shown in the above figure. In this option, a Core Group or a planning support team would work with a Stakeholder Group of key decision makers and elected representatives. They would in turn create working groups to execute specific tasks during different phases of the strategic planning process and bring back recommendations for discussion and approval by the Stakeholder Group. Working groups are made up of stakeholder representatives with interest or expertise in specific issues. These groups are often also asked to be responsible for inviting other stakeholders and the broader local area to participate through a variety of facilitated forums, such as neighbourhood meetings, public hearings, workshops, focus groups or interviews and surveys. The Stakeholder Group would then be responsible for getting approval from their constituents and ultimately from the elected government body (e.g., the municipal government).

In order to assess the expected influence of stakeholders it is recommended to apply the **powerfield analysis**. It is applied in two steps:

a. stakeholder analysis table

Stakeholder	expectations	attitude towards the LED project	influence on LED implementation
		from negative (-5) to positive (+5)	from very strong to absolutely weak
examples			
land planning department	+ better explanation of own tasks - loss of power	-3	weak
business women association	+ publicity + presentation of interests	+4	strong
and so on			

b. transformation of the stakeholder table into a powerfield analysis graph



2.2.2.3. Task 3: Establish the procedures and terms of reference of the stakeholder group

Process Design is a basic set of agreed upon rules is necessary for effective and efficient deliberations between participants in the stakeholder group.

Stakeholder Terms of Reference: activities to be jointly undertaken, roles of the participants throughout the process, standards for information gathering and sharing, decision making methods, resources to be provided by each partner, agreements on how the outcomes of the planning process will be integrated into the planning activities of the municipality. These terms of reference should be formally agreed to by the members of the Stakeholder Group, and periodically reviewed.

Stakeholder expectations: hopes and fears regarding the LED project; to be assessed with the intention to reduce resistance during planning and implementation, and to pinpoint benefits and goal setting

Step 2 Review Checklist	
Stakeholder Analysis	
do the people involved understand participatory approach?	
did stakeholder identification include marginalized people?	
was the stakeholder committee constituted with useful criteria, accepting controversial interests?	
is the size of the stakeholder committee ok?	
are the ToR defined and accepted?	
are resources and sources agreed and sufficient?	

2.3. **Step 3: Situation Analysis**

2.3.1. **Understanding the Situation Analysis**

What is a Situation Analysis for Economic Development?

It provides understanding of local businesses, what they produce, where they purchase their inputs, economic events and economic trends. A complete analysis will examine aspects of all four kinds of capital: human/social, financial, manufacturing/physical and natural.

Why conduct a Situation Analysis?

- to have a basic understanding of the local economy
- to differentiate facts from values (facts are what is known, given assumptions and uncertainty; values are what is important to individuals. Later, in **Step's** 5 and 6 values are explored by using facts as a basis - asking what is more important and why.)

2.3.2. **Steps in Situation Analysis**

2.3.2.1. **Task 1: Review Existing Research and Analysis**

2.3.2.2. Task 2: Create a Local Area Economic Profile

Using the four types of capital to help develop a LED Profile

Human and Social Capital		
Category	Aspect	Base-Data
Leadership, Partnerships and Organization	Capacity and Resources	<ul style="list-style-type: none"> ➤ Conducted as part of Step 1&2 – Getting started and stakeholders-participation.
Knowledge and Information	Business, Market and Economic	<ul style="list-style-type: none"> ➤ Historical review of the development of the city and local economy ➤ Inventory of businesses and business services by sector, type, size, number of employees, products/services, sales. ➤ Estimation of size, characteristics of informal, barter, non-legal sectors ➤ Listing of the largest employers. ➤ Identification of primary markets and linkages for existing producers. ➤ Identification of key economic leakages -when and why local money leaves the local economy (residents leaving area to purchase goods, businesses & plants purchasing materials outside area). ➤ Foreign investment and trade. ➤ Taxation Policy (e.g., property tax –rates, jurisdictions and boundaries, abatement policy, exemptions). ➤ Taxes (local, provincial sales, income or business taxes).
	Quality of Life	<ul style="list-style-type: none"> ➤ Living standards, cost of living ➤ Heritage, culture, recreation, social services and health facilities and resources. ➤ Unique local features/atmosphere/identity that influence quality of life, retain local population, attract new residents.
	Demographic	<ul style="list-style-type: none"> ➤ Poverty and income levels (e.g., poverty mapping by district or neighbourhood). ➤ Population & household size, growth rates. ➤ Population age & sex distribution and projections. ➤ Mobility: Out-and in-migration rates.
	Household and Family	<ul style="list-style-type: none"> ➤ Household income. ➤ Household size and family structure.
Skills, Competency and Innovation	Institutional	<ul style="list-style-type: none"> ➤ Educational institutions by size, programs, research capabilities. ➤ Government resources and services. ➤ Business facilities (management training, technical assistance programs, business development associations/centres, incubators, convention-trade show). ➤ Non-government institutions and service agencies.

	Experience	<ul style="list-style-type: none"> ➤ Successful and unsuccessful past local economic development initiatives (best practices, business closures, recent business start-ups). ➤ Level of entrepreneurial activity/small business development to assess local area capacity.
	Labour Force Statistics and Data	<ul style="list-style-type: none"> ➤ (Un)Employment rates and numbers by sex, age, occupation. ➤ Labour force participation by sex, age, occupation, industry. ➤ Labour stability, unionization, conditions. ➤ Labour force by skills classifications, education and training levels. ➤ Minimum wage and prevailing wage for various occupations.
	Gender	<ul style="list-style-type: none"> ➤ Women's issues related to the local economy, (e.g., valuation of non-paid work, access to high paying jobs, and triple work day). ➤ Job opportunities for women. ➤ Women's constraints to entering the job market, level of participation, economic expectations.

Financial Capital

Category	Aspect	Base-Data
Financial	Financial Services	<ul style="list-style-type: none"> ➤ Availability of financial services (e.g., accounting, financial analysis, tax information, land valuation, etc.).
	Access to financing (credit)	<ul style="list-style-type: none"> ➤ Availability of financing for business development and expansion (sources: government programs, banks, other lenders, venture capital, local area capital, micro credit programs, etc.).

Manufactured and Physical Capital

Category	Aspect	Base-Data
Technology, Machines, Tools, Factories	Physical Plant	<ul style="list-style-type: none"> ➤ Plant, factory and business technology assessment.
Built Environment and Infrastructure	Geographic, buildings and infrastructure	<ul style="list-style-type: none"> ➤ Geographic location in relation to markets, major urban centres, transportation linkages. ➤ Non residential building inventory (age, size, availability, lease rates, competitiveness). ➤ Residential building inventory, availability or vacancy rates, lease rates. ➤ Land inventory: availability, zoning/use, status. ➤ Quality and available capacity of: <ul style="list-style-type: none"> ○ Communications, telecommunications. ○ Utility (water, storm, sewer, gas) infrastructure. ○ Energy infrastructure (capacity, reliability, cost). ○ Waste management systems.

		<ul style="list-style-type: none"> ○ Transportation infrastructure (major roads, highways, rail access, ports, airports, bus/truck services, shipping services).
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Natural Capital		
Category	Aspect	Base-Data
Resources	Primary resources	➤ Minerals, forests, land, water, etc.
	Resource processing	➤ Type, quantity and markets.
Living systems	Quality of life	➤ Climate, topography
	Aesthetics	➤ Natural and scenic resources
Ecosystem Services	Economic support	➤ Flood control (e.g., vegetated hillsides), waste treatment and recycling, pollution absorption and purification, soil management

2.3.2.3. Task 3: Conduct assessments and analyses

There are many types of analysis that will help direct the LED Strategy including:

- Competition and collaboration analysis
- Economic leakage, markets and supply chain analysis
- Gender analysis
- SWOT analysis

Competition and collaboration analysis

As discussed, understanding the local area's *relative* competitive advantages and opportunities for collaboration requires looking at other municipalities or communities located nearby, within the same metropolitan area or region.

- Which other local areas have the most significant impact on your community?
- What other local areas or jurisdictions do you consider to be an economic competitor or collaborator? Why?
- How strong are the linkages with these areas (communication, transportation, markets)?
- What opportunities are there for improving these linkages?
- What are the areas of common economic interest?
- What opportunities exist to work together to promote common economic interests?
- What are your competitive advantages over these other local communities or jurisdictions?
- If you see your local area as competing with other local areas, can this relationship be turned into a collaborative one to be more competitive nationally and globally?

Economic leakage, markets and supply chain analysis (basic versus non-basic sectors)

A fundamental economic development concept is how **basic** and **non-basic** sectors influence income, job growth and economic loss (leakage) in the flow of a market system. Money is brought into the economy by **basic** sector economic activities. Basic sector activities are those commercial activities whose goods and services are consumed by non-residents of the local area.

Once this money is attracted to the local area, it is in the interest of the local area to keep it circulating locally. This is done by creating 'spin-off' economic activities in the **non-basic** sector whose goods and services are consumed by local residents. The more developed the non-basic sector, the greater the local economic benefits. Keeping money circulating locally through the development of the non-basic sector is known as the 'multiplier effect.' The lower the multiplier, the sooner money leaves the local area, resulting in fewer jobs and less income.

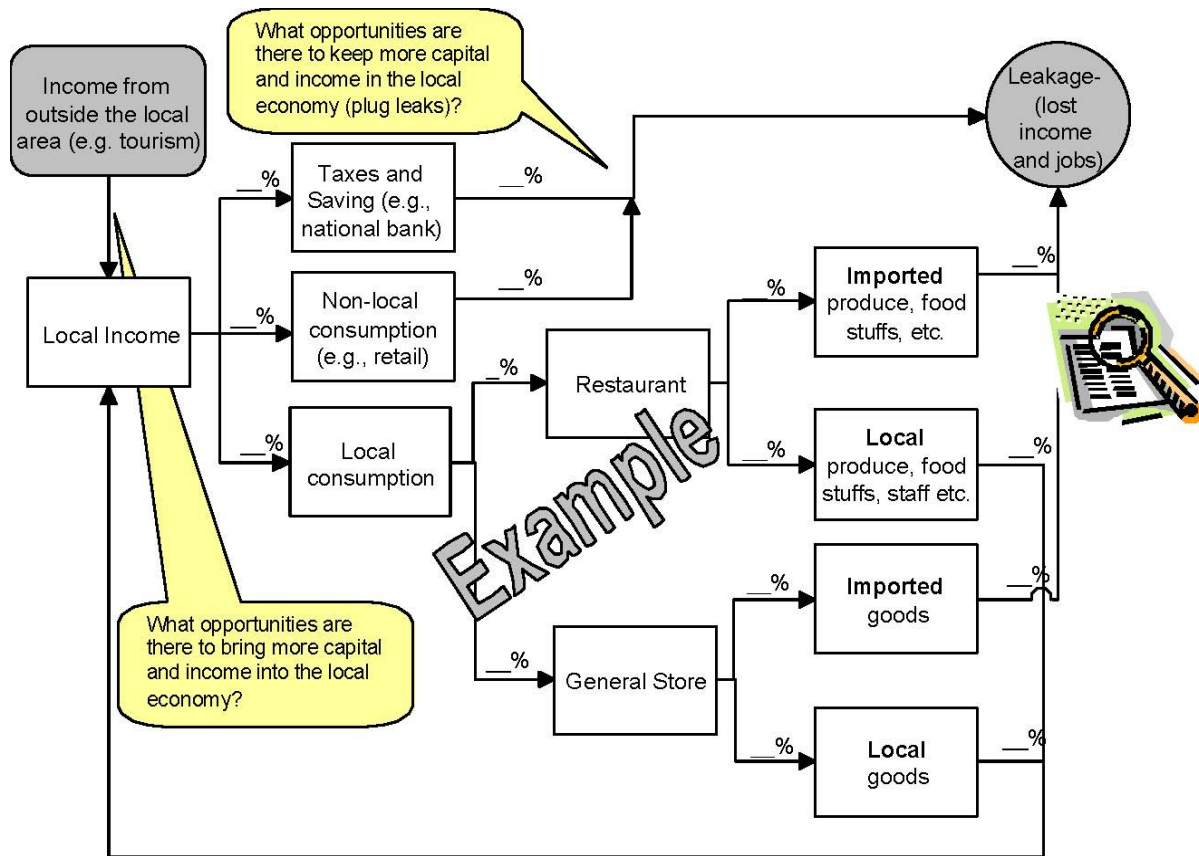
Therefore, a LED strategy should consider two kinds of economic opportunities:

- 1) Opportunities to attract money to the local economy (e.g., agriculture, manufacturing, tourism).
- 2) Opportunities to keep it circulating in the local economic system (new training programs for existing businesses, or local procurement/buy-local programs).

These opportunities are identified by examining the supply chain and through market and economic analysis. By thinking about the questions listed below, a local area can begin to identify where the best opportunities are to improve the local economy.²⁸

- What do local residents leave the local area to purchase? Why?
- Are there opportunities to provide local residents with a chance to spend more of their money locally? What needs to be done to do this?
- What do local businesses import from outside the local area? Why are these purchases not made in the local area (lack of capital: natural resources, skills, financing, other)? Are there opportunities to develop businesses from within the local area to provide local businesses with goods and services they now have to import? What needs to be done to do this?
- Could the local area attract businesses to the local area if they cannot develop them from within? How?
- Are there opportunities to set up a local bank or credit union that will make local investments?
- Can you think of any other ways to keep income inside the local area?
- After examining the primary markets and linkages for existing producers, what opportunities to expand existing markets for local producers exist?

Example: In-flow / Out-flow Diagram of Simple Economy



Gender Analysis

Focusing on women in LED is important as they are playing an increasing role in the market economy while facing many unique challenges.

- Have women been invited to participate in the LED process?
- How can women be encouraged to participate, despite their traditionally more domestic location and subordinate position?
- What are the capacity, interest and willingness of partner organizations to include women in LED?
- What is the organizational capacity of women to be included in LED?
- What are the most significant challenges facing women's economic opportunities (e.g., education or appropriate training, less access to and control over collateral and capital and financial markets, household and childcare responsibilities)?
- Have women been consulted on the problems and challenges the LED is going to confront? How will they be involved in development of the 'solution'?
- What discriminatory practices do women workers face (use established international and national labour and regulations codes such as health and safety, right to organize, freedom from sexual harassment)?

- Are there regulations and policies (e.g., taxation laws) that include discriminatory provisions against women?
- Are there prevailing attitudes and beliefs that may put up barriers to women's opportunities in the private sector? In the informal economy?
- Will women have equal (increased) access to and control over productive assets (especially land, capital and credit), processing and marketing?
- Will there be increased skills training and capacity development opportunities, as well as on-the-job training and management opportunities for women?

SWOT Analysis

To identify strengths and weaknesses

In each category which the data collection has been organized (e.g., natural, human/social, physical, financial), identify strengths and weaknesses *within* the local area related to economic development.

Strengths

- What are the local area's strongest resources (natural, social/cultural, human/social, financial)?
- With support, promotion, or investment, what resources could become strengths?
- What organizations, institutions, and individuals create civil society in the local area?

Weaknesses

- What are the barriers (liabilities) that can limit achievement of economic development (e.g., untrained staff, lack of infrastructure, over-dependence on local government, and insufficient local area empowerment)?
- What problems are faced by businesses in dealing with local government and other tiers of government?
- What are the needs and constraints that restrict the accomplishment of business and economic development initiatives (e.g. need for retraining, poor management experience)?
- Are there environmental factors (e.g. pollution) that are negatively impacting health, lowering quality of life, attractiveness of the area, and worker productivity?

To Identify Opportunities and Threats

Opportunities are the major forces outside the local area, now and expected in the future, that will influence actions in the local area. Threats refer to forces outside the local area that threaten the local area's resources, opportunities, or values. The purpose of this analysis is to identify the nature of change in order to consider ways to benefit from it while preventing, mitigating, or minimizing potential negative impacts. Opportunities and threats may derive from social, political or technological forces and may involve changing preferences in the marketplace. They might derive from changes in government regulations. These and other external issues need to be reviewed.

Opportunities

- What opportunities exist for maximizing, enhancing, or supporting existing strengths that have been identified?
- What improvements or support could be identified weaknesses benefit from?
- What opportunities external to the local area can be identified for each category?

Threats

- What threatens identified strengths?
- What threatens realization of identified opportunities?
- What weaknesses threaten to become worse - under what circumstances?

	Positive	Negative
Internal	<p>Strengths (to be enhanced)</p>	<p>Weaknesses (to be eliminated)</p>
External	<p>Opportunities (to be explored)</p>	<p>Threats (to be hedged or avoided)</p>

Step 3 Review Checklist	
Situation Analysis	
1) Gather, compile and analyse data for each resource category of the analysis	
a) human / social capital	
b) financial capital	
c) manufacturing / physical capital	
d) natural capital	
2) Examine the impact of external trends on these resources	
3) Review and identify gaps in information and make arrangements to gather more data if any categories require further updating/analysis	
4) Make arrangements to collect required information (data, survey, public process)	
5) Summarize information	
6) Compare with other similar communities	
7) Conduct a S.W.O.T. analysis – refer back to the four types of capital and external trends	
8) Identify key strategic issues for economic development	
9) Build consensus around key issues	

Instruments of Intervention for SME Development

