

Addressing poverty through local economic and enterprise development: A review of conceptual approaches and practice



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Introduction

Although Local Economic Development (LED) as a concept dates back to the 1960s and 1970s, it was not until the late 1990s that an emphasis upon enterprise development, improving infrastructure, building local partnerships and generally promoting an inclusive and dynamic framework became the dominant strategy (World Bank 2003). Many factors have generated the change of direction and perhaps not least the rise in income disparities and inequality between large cities and less urban areas. Urban bias critiques first formulated by Michael Lipton in the 1970s brought about a reassessment of the rural-urban dichotomy. The impact of the globalization process with the homogenisation and integration of economies also had an enormous effect on the way development has come to be understood.

Local economic development is about local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in the community. "Community" is here defined as a city, town, metropolitan area, or sub national region (World Bank, 2004).

This paper reviews some of the current literature on LED with particular attention paid to rural areas and small and intermediate urban centres (SIUCs). Section 1 looks at the dominant strategies over recent years and presents some of the problems associated with them. Section 2 deals with the issue of space and assesses the issue of defining boundaries and rural-urban distinctions. Some of the impacts of globalisation are addressed in section 3 and then in section 4 the Rural Economic Enterprise Development framework is presented. After case studies of South Africa, Bangladesh and the transition economies, the three final sections deal with issues of fostering entrepreneurship, uneven development and responsibility. Issues of linkages will be dealt with in every section in order to sufficiently demonstrate their importance and relevance to LED. Infrastructure will also be referred to in each section as this is inextricably linked to all aspects of LED. It should be noted, that this paper is a resource document for the DFID.

1 Local Economic Development: Recent approaches

To what the term 'local' should actually be applied remains elusive. For the World Bank it refers to "any urban area ranging from large cities to small towns and also implies the inclusion of rural areas linked to the town" (World Bank, 2003: 7). Given that the majority of people in the developing world live in rural areas, 'local' has also been deliberately refocused on predominantly rural areas in order to account for this demographic situation (Grimm, 1999). Whilst recognising the varied perspectives on what is local in LED, Wandschneider (2004) takes access to services and the institutional infrastructure required to deliver those services as a framework for analysis. The implications of these diverse interpretations of 'local' are firstly that traditional rural-urban divisions are challenged, and secondly that LED is to a greater extent direct and participatory in approach. This emphasis on the local has effectively become an alternative to national or international macro-level policies with the hope of avoiding some of the mistakes characteristic of past decades.

Since the 1960s, LED has passed through three broad stages or 'waves' of development. In each of these waves LED practitioners have developed a better understanding of successful and unsuccessful programs. LED policy and practice is currently in its 'third wave'. Although LED has moved through each of these waves, elements of each wave are still practiced today. The following Table 1 summarizes the three waves of LED:

Table 1 Three Waves of Local Economic Development

<i>Wave</i>	<i>Focus</i>	<i>Tools</i>
<i>First:</i> <i>1960s to early 1980s</i>	<p>During the first wave the focus was on the attraction of:</p> <ul style="list-style-type: none"> • mobile manufacturing investment, attracting outside investment, especially the attraction of foreign direct investment • hard infrastructure investments 	<p>To achieve this cities used:</p> <ul style="list-style-type: none"> • massive grants • subsidized loans usually aimed at inward investing manufacturers • tax breaks • subsidized hard infrastructure investment • expensive "low road" industrial recruitment techniques
<i>Second:</i> <i>1980s to mid 1990s</i>	<p>During the second wave the focus moved towards:</p> <ul style="list-style-type: none"> • the retention and growing of existing local businesses • still with an emphasis on inward investment attraction, but usually this was becoming more targeted to specific sectors or from certain geographic areas 	<p>To achieve this cities provided:</p> <ul style="list-style-type: none"> • direct payments to individual businesses • business incubators/workspace • advice and training for small- and medium -sized firms • technical support • business start-up support • some hard and soft infrastructure investment
<i>Third :</i> <i>Late 1990s onwards</i>	<p>The focus then shifted from individual direct firm financial transfers to making the entire business environment more conducive to business.</p> <p>During this third (and current) wave of LED, more focus is placed on:</p> <ul style="list-style-type: none"> • soft infrastructure investments • public/private partnerships • networking and the leveraging of private sector investments for the public good • highly targeted inward investment attraction to add to the competitive advantages of local areas 	<p>To achieve this cities are:</p> <ul style="list-style-type: none"> • developing a holistic strategy aimed at growing local firms • providing a competitive local investment climate • supporting and encouraging networking and collaboration • encouraging the development of business clusters • encouraging workforce development and education • closely targeting inward investment to support cluster growth • supporting quality of life improvements

Source: World Bank (2004). <http://www.worldbank.org/urban/led/>

Table 1 shows that there are consistent elements over time to the evolution of LED. Key amongst these elements is the role of local government, the private sector, the not-for-profit sectors and the local community in creating opportunities to work together to improve the local economy. LED also focuses on enhancing competitiveness, and thus increasing sustainable growth; and also on ensuring that the growth is inclusive. It also encompasses many local government and private sector functions including planning, infrastructure provision, real estate development and finance. The diverse approaches to LED within the development community cannot be overemphasised and Table 2 summarises the main approaches to LED in developing countries.

Table 2 LED approaches and strategies

<i>Approach</i>	<i>Main Features</i>
Central Places Theory	Aimed at widening service provision to certain centres but cutting costs
Integration Strategies	Attempts by the state to allow markets to work more effectively by financial analyses to increase information regarding low wage areas and access to markets
Growth Poles and Growth Centres	Attempts to stimulate broad based growth by identifying certain sectors and targeting usually small and intermediate urban centres (SIUC)
Spatially Oriented Regional Development	Stimulating growth by interlinking farm and non-farm enterprises, usually targeting basic needs and specific groups (e.g. women)
Locally Integrated Economic Circuits	Improving conditions for growth in rural areas through market access, resources, technology (green revolution), population structure, raising incomes, access to services

(Source: Grimm, 1999).

1.1 Limitations of current approaches

Common to all these approaches is a top-down, macro-level perspective, which experience has shown to be largely ineffective in causing growth (de Janvry & Sadoulet, 2003, Satterthwaite & Tacoli, 2003, Grimm, 1999, Pedersen 2003). The reasons for this are varied. Firstly, it is thought that the multitude of specific factors related to each target area was overlooked and investment in growth poles or centres did not stimulate the surrounding areas as had been expected; a knock-on effect was not achieved. Satterthwaite & Tacoli refer to cases in which policies aimed at SIUCs did not address issues of land tenure and security specific to a particular region. The result was that credit institutions aimed at agricultural development were exploited by rural elites and large farmers who used them to increase their land holdings. The failure of growth pole or growth centre policies was partly due to a lack of recognition concerning the spatial influences of macro policies. In specific, strengthening linkages was not a priority and small-medium and micro-enterprises (SMMEs) were not specifically targeted.

Inconsistencies between macro and micro level policies have also contributed to failures. Many micro policies have been aimed at SIUCs in order to stem migration to large urban centres while macro policies undermined these efforts. Regional governments were limited in their efforts to improve infrastructure necessary to support SIUC programmes. Direct effects of macro-economic agricultural policies whose benefits bypassed small farmers, small-scale production and trade have been instrumental in exacerbating rural poverty and constraining growth (Satterthwaite & Tacoli, 2003; Pedersen, 2003). These policies undermined the direct LED strategies, which were implemented at village or town level, thus demonstrating that a more *integral* framework was needed (de Janvry & Sadoulet, 2003).

The need for directing development programmes to rural areas has become widely accepted in recent literature (de Janvry & Sadoulet, 2003; World Bank, 2003; Grimm, 1999). This is due to an increasing awareness of the fact that disproportionate levels of poverty are to be found in rural areas and a high percentage of the population of most developing countries live in rural areas. Thus, in order to meet the Millennium Development Goals with regard to poverty levels it is essential for LED to target these areas. Urban bias critiques have also had an impact on a theoretical level (de Janvry & Sadoulet, 2003, Grimm, 1999). This is linked to migration policies in that stemming migration towards urban centres has been increasingly seen as a way to ease pressure on resources in cities whilst at the same time promoting expansion of SIUCs. However, policies aimed at slowing such migration have had mixed results since migration is not

exclusively economic and the reasons why people move and how far they move are complex (Satterthwaite, 2003).

2 Moving from Rural and Agricultural Development to LED

The causes of rural economic development are yet to be clearly identified. Gardner (2003) considers growth in the agricultural sector and then growth in real household income in order to isolate the main variables responsible for economic growth. However, Gardner's model generated largely inconclusive regression results¹. Perhaps the main problem was identifying the direction of causality once any of the regression results achieved a reasonable level of statistical significance (Gardner, 2003: 16). Nonetheless, Gardner (2003) challenges the World Bank assertion that where agricultural gross domestic product (GDP) and GDP per capita have a strong positive correlation as in East Asia, it is agricultural development that is responsible for stimulating the increase in incomes. However, Gardner points out that after 1980 in South Korea for example, agricultural GDP grew at a faster rate than before which implies that GDP led agricultural growth rather than vice versa. Data from 52 developing countries between 1980 and 2001 show the relationship between GDP per worker and national GDP was positive and significant yet there is no clear proof of the direction of causality (Gardner, 2003: 16).

In terms of growth in real household incomes, Gardner (2003) suggests that agricultural growth is not a critical feature but could be helpful for promoting growth. He stresses that particularly in the case of US data, it is the linkages of farm factor markets especially the labour market within the non-farm economy that is important. This is consistent with some recent empirical findings across the developing world (Reardon et. al., 1998; Haggblade et. al., 2002). For example, in the Philippines wage rates of agricultural workers were found to increase when there was an increase in demand for labour in the rural non-farm economy (Gardner, 2003). Therefore, real income growth in the non-farm sector was more significant in raising low farm incomes than other variables.

The main causes of agricultural value added and rural household income growth that Gardner identified were:

1. Macroeconomic and political stability;
2. Property rights and incentives;
3. Productivity enhancing new technology;
4. Access to competitive input and product markets;
5. Real income growth in the non-agricultural economy.

Gardner (2003) notes that in the case of the Green Revolution there is evidence of growth without significant changes in 1,2,4 and 5. However, the case study in Bangladesh detailed below shows how both green revolution and macroeconomic policies of privatisation and trade liberalisation contributed to entrepreneurs' success. On the other hand, Mellor and Gavian (1999), Gavian (2002), Mellor and Renade (2002) note that recent cross-national and inter-temporal studies have shown that in low and middle income countries job formation and poverty reduction are influenced directly as well as indirectly by agricultural growth. For example, Lin Lin et al (2001) performed a cross-section analysis using World Development Indicators data from the World Bank to demonstrate a strong statistical relationship between agricultural productivity and poverty reduction. They found that depending on the model and data set used, a 10%

¹ The addition of more variables tended to reduce the R-squared of any regression result, and problems of accurate data regarding those variables clouded the issue still further.

increase in crop yields leads to a reduction in the percentage of people living on less than \$1 per day of between 6 and 12 percent. Strong agricultural growth has been a feature of countries that have successfully reduced poverty such as India, Bangladesh, Indonesia and China². Agricultural growth also plays an important role in stimulating local economies. The rising incomes of small farmers and agro-processors are typically spent on locally provided goods and services, many of which are supplied by – or employ – poor people (for example local traders, brick-makers, carpenters etc) in villages and small towns. Estimates of the multiplier effect of increases in farm output on other sectors range from 1.3 to 1.9 (Irx, et. al., 2001). This in turn boosts the demand for agricultural produce and hence increases rural incomes – the so-called virtuous circle of rural-urban development (DFID, 2002). Among the most influential proponents of agricultural growth thesis, which empirically illustrates the above, is the Mellor (2000) model. Mellor's model is comprised of three sectors of the local economy in providing income opportunities for the rural poor:

- Agriculture particularly oriented at high value crops and livestock.
- The non-agricultural sector driven by agriculture (ADNA) through backward, forward, and final demand linkages.
- The autonomous non-agricultural sector, when industry and services locate in rural areas independently of the performance of agriculture.

Following the Mellor (2000) model, much emphasis is given to the importance of a dynamic, smallholder-based agriculture in driving the growth of ADNA. This is also the Adelman (1984) model of ADLI (Agriculture Demand-Led Industrialization) that stresses the final demand linkages originating in agricultural incomes and inducing industrialization through demand for non-tradables. The Mellor-Adelman causality running from agriculture to industry is a key link; however, in a country like Egypt where tourism is decentralized towards many rural sites, the reverse causality may also be important: the promotion of tourism and rural industries can create a local demand for high value crops and livestock products in agriculture. The key to successful development of the high value crops and livestock sectors is not only rising productivity but also mainly finding sources of effective demand. A successful regional economy, based in part on tourism and decentralized industries, can also be a source of effective demand for labour-intensive agriculture. In this case, the model would be I/SDLA (Industry/Services Demand-Led Agricultural Development). de Janvry and Sadoulet (2003) note that both ADLI and I/SDLA approaches are probably worth pursuing as part of a pro-poor local economic development strategy for rural areas in developing countries.

Experience of LED has brought about a recognition that traditional rural-urban distinctions are incapable of analysing how communities operate in reality. Practical experience has brought a realisation that the terms 'rural' and 'urban' constitute an insufficient analytical framework both empirically and conceptually (Dax, 1998; Satterthwaite & Tacoli, 2003). Also, it is argued that the urban component of the rural, particularly in the sense of SIUCs, has been neglected or ignored as a result of analytical frameworks that focus on rural-urban dichotomies, centre periphery models, rural-urban linkages as well as urban bias theories (Pedersen, 2003). A re-conceptualisation of the rural-urban dichotomy has been brought about by a variety of factors and the concept of space has become a major theme within the literature.

Firstly, within the context of globalization and the green revolution, delineating the rural sector as exclusively or even predominantly agricultural is no longer viable. This is partly due to the demise of traditional forms of agriculture and the rise of other sectors within rural areas. Recent studies have drawn attention to the importance of SIUCs in understanding regional development

² See *Human Development Report*, 1997. UNDP: New York.

particularly in rural areas (Wandschneider, 2004; Satterthwaite & Tacoli, 2003; Pedersen, 2003). SIUCs transcend the boundaries imposed by the traditional rural-urban dichotomy and therefore they play an essential role in LED. Promoting the 'symbiotic' development of small villages and SIUCs is for Wandschneider (2004) the key to LED strategies, which address poverty reduction. Focusing on SIUCs would strengthen linkages and improve living conditions for the poorest people whilst at the same time increasing efficiency and value added across sectors and households. In this regard the concept of 'local' is more relevant than the concepts of 'rural' and 'urban' in that the former incorporates both of the latter (Wandschneider, 2004).

Empirical evidence has shown repeatedly that market activity cuts across rural and urban divisions thus undermining the traditional dichotomy between them. This is a recurrent theme throughout the literature and it is the basis for theories of linkages, not just in terms of labour market linkages but also of supply chains, household structures, and consumption patterns (Satterthwaite & Tacoli, 2003; Wandschneider, 2004; Boraine, 2004). These linkages demonstrate interdependence rather than a one-way dependence within geographical areas. For this reason the development and maintenance of linkages is widely seen as an essential component of any LED strategy.

2.1 LED and small and intermediate urban centres

As rural towns and markets are important for local economic development, rural economic development programmes have to strengthen the development of urban centres which are attractive locations for viable rural non-farm economic activities as well as private and public service organisations (Wandschneider, 2004). ECOLOC show that West African cities were consuming over 80% of farm produce and thus having a significant economic impact on the rural economy (Bossard, 2001). However, the influence of cities on agriculture is not evenly spread across rural areas and has been recorded as favouring those areas near to urban markets (ibid). For example, Gordon (2003) shows that in Romania the number of firms per industry rose rapidly when the population exceeded 10,000, and that infrastructure networks (particularly gas and water supplies) are important for industrial diversity. Urban cities influence rural economic growth especially in crop and livestock production. However, the ability of farmers to respond to demand depends on marketing conditions, transport and communication networks, transaction costs and internal and external competition (Bossard, 2001; Gordon, 2003). LED reduces poverty through local empowerment, improving the quality of local services and, enabling access to productive assets with the main methodologies centred on the sustainable extraction of natural and cultural resources, adding value to local products and, the use of new technologies to improve rural competitiveness in the market (Davis, 2004a).

Small and intermediate towns have the potential for rural regional development, acting as market centres for agricultural produce, the distribution of goods and services to rural regions, livelihood diversification and non farm activities and, rural-urban migration (Satterthwaite and Tacoli, 2003). The most dynamic rural non-farm economies tend to be located in areas with good access to markets (peri-urban and rural towns); basic infrastructures; a vibrant agricultural sector and reasonably densely populated areas (Hagglblade, Hazell and Reardon, 2002). Rural towns grow by serving rural settlements in supplying inputs to farmers, and in processing and marketing farm outputs. In return the rural inhabitants spend their incomes on goods and services from rural towns.

3 Linking LED with national and global initiatives

The increasing integration of the world economy presents enormous challenges to local development initiatives. Increased competition with often very large multinational corporations (MNCs) is commonly associated with expanding markets. This puts SMEs in a more precarious position also for reasons of barriers to entry and generally accessing markets. Pursuing competitive comparative advantage is a more complex problem. For SMEs access to information about distant products and factor markets is likely to be limited. This is something for Business Development Support Services to provide. Developing clusters is seen as one way of promoting security for local enterprises but opinions vary regarding intervention in the sense of protecting or securing SME markets (de Janvry & Sadoulet, 2003; Davis 2004).

4 Rural Economic Enterprise Development (REED)

The inadequacies of the traditional rural-urban dichotomy and the need for an integrated spatial perspective in order to include an analysis of linkages has led to the development of the Rural Economic Enterprise Development framework (REED). This framework acknowledges the fact that linkages are not always conducive to economic growth and increased equality, whilst at the same time recognising the importance of a spatial awareness of networks, value-chains and the flow of inputs. REED classifies linkages into four main categories (Davis 2004):

- Policies and Institutional Framework
- Infrastructure, Services and Markets
- Entrepreneurial Competence
- Stakeholder involvement and linkages

Whilst it is accepted that these categories are not static, they provide a structure through which to locate policy entry points without neglecting the complexities of the relationships within a developing economy. This holistic approach, which incorporates the institutional framework, governance and stakeholders, market access as well as linkages, is an attempt to avoid narrowly focused, macro-dominated policies like those which have failed in the past and to move to a more empirically based, experience-led and participatory strategy. The case studies presented below of LED projects in South Africa and Bangladesh bring out the relevance of the REED framework and allow comparison of other LED approaches.

4.1 The LED experience in South Africa

South Africa has embarked on a comprehensive overhaul of local government to democratise municipalities, redress massive inequity of service provision and gear services towards overcoming poverty through growth and economic development. Apartheid created separate local government structures, both urban and rural, most of which were under-resourced and unable to service the needs of their communities. There are unequal rates bases, backlogs in service infrastructure in historically disadvantaged areas and spatial separations and service disparities between towns and townships. The resulting urban sprawl increases service provision costs.

The social situation of the historically disadvantaged population of South Africa living in rural areas is characterised by relatively low standards of living and high rates of unemployment and

poverty (Labour Force Survey of Statistics, 2003; Poverty and Inequality Report, 1998)³. The majority of people are resource poor and have insufficient incomes and often also limited access to basic services to satisfy their elementary needs. While the achievements made over the last ten years in addressing the social needs of the poor are quite impressive, concerns remain about the sustainability of these often strongly subsidised interventions (Bond, 2003; Rogerson, 2003). Another question in point concerns the extent to which extent these interventions have contributed towards long-term growth and improved income generation for disadvantaged households. Whilst the poverty situation in the old homeland areas resemble the rural situations of other Sub-Saharan countries, the one major difference is that the rural poor in the homelands have far better linkages with wage incomes earned elsewhere, as well as transfer payments in the form of pensions and other subsidies. The communities are in the first instance not small-scale producers, but rather receivers of transfer income and/or job seeker societies. Only 3% of the households living in the former homelands were estimated to derive their most important income from farming and only about 6% of rural households, which farmed, sold any fresh farm produce (Poverty and Inequality Report, 1998).

The enormous efforts by the democratic Government since 1994 to develop a new policy framework for steering and planning the transformation process as well as social and economic development resulted in at least 25 white and green papers and framework documents. These sectoral papers, policies and strategies - which are further detailed in development plans at provincial and local levels - provide guidance on the development priorities of the country. Central to the overall steering of the transformation process are the Reconstruction and Development Programme (RDP) of 1994 and the Growth, Employment and Redistribution (GEAR) macro-economic strategy of 1996, which form a twin strategy, aimed at poverty alleviation and development and economic growth respectively. Relevant for guiding community development in rural areas are the following strategic elements of RDP and GEAR (World Bank, 2004a):

- Strengthening the capacity of local Government to provide services in a viable and sustainable manner,
- Poverty alleviation by meeting the basic needs of the disadvantaged communities,
- Ensuring a more equitable role for women,
- Ensuring meaningful participation by residents and stakeholders,
- Growing local economies that are conducive to sustainable employment creation.

The GEAR strategy reiterates the need for a competitive fast-growing economy which creates sufficient jobs for all work seekers, a redistribution of income and opportunities in favour of the poor, a society in which sound health, education and other services are available to all, and an environment in which homes are secure and places of work are productive. Further important elements are: a strict fiscal policy and the provision of a stable policy environment for private investment, the promotion of export growth, the restructuring of state assets and the creation of

³ On the characterisation of poverty in South Africa the study notes: "Poverty is characterised by the inability of individuals, households or communities to command sufficient resources to satisfy a socially acceptable minimum standard of living. Poverty is perceived by poor South Africans themselves to include alienation from the community, food insecurity, crowded homes, usage of unsafe and inefficient forms of energy, lack of jobs that are adequately paid and/or secure, and fragmentation of the family. In contrast, wealth is perceived to be characterised by good housing, the use of gas or electricity, and ownership of a major durable good such as a television set or fridge... poverty typically comprises continuous ill health, arduous and often hazardous work for low income, no power to influence change, and high levels of anxiety and stress. The absence of power is virtually a defining characteristic of being poor, and is worsened for women by unequal gender relations. Poverty also involves constant emotional stress, and violence has a profound impact on the lives of the poor".

more flexible labour markets so that an impetus could be given to the private sector for the creation of jobs. Whilst the commitment to improving social services remain in place, there is a growing emphasis on creating the policy framework conditions to ensure economic growth that would not only sustain social service delivery, but would create opportunities in the economy for the poor to improve their own position through income generating activities (Rogerson, 2003).

Implementation capacities to turn agreed policy into practical programmes and projects designed to service the disadvantaged communities appear to be limited on both provincial and local Government levels. The pressure for implementing reform and support measures with visible practical results and tangible socio-economic benefits for the historically disadvantaged population is meanwhile considerably on the increase. Reflecting this situation, the Government has made the support to poverty alleviation - through social and economic development especially of rural areas - as well as accelerated growth and job creation key priority areas. In support of this policy the numerous LED programmes related to community development in rural areas are expected to continue and is reflected in the medium-term expenditure framework (see Box: 1).

Box: 1 National Government and LED Initiatives in South Africa

The concept of local economic development was new to the 1994 ANC-led South African government. However, following international trends, the National Government realized the importance of the devolution of economic functions to local government. Thus the Constitution of South Africa (Act 108 of 1996) stipulates that the promotion of social and economic development are specific objectives of local government (article 152.1 c). These 'developmental duties' of Municipalities 'structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community'. Municipalities now have a mandate to practice local economic development. The tools put in place thereafter to further this goal are the following:

- Three statutory requirements for strategic planning by each municipality. These statutory requirements are: 1) The Local Government Transition Act Second Amendment Act requires Municipalities to prepare Integrated Development Plans through which their priorities are defined. 2) The Development Facilitation Act requires Municipalities to prepare land development objectives, which would determine their spatial planning. 3) The Development Facilitation Act highlights linkages between economic development and town planning by arguing for 'pro-active' rather than 'reactive' planning and zoning. However, there is no specific requirement for the preparation of a LED Strategy.
- Financial and budgeting stipulations for Municipalities (contained in the Local Government Transition Second Amendment Act) strive to ensure that each municipality has good accounting and financial practices. Whilst this is a fundamental for economic development, there is currently no stipulation about the percentage of the budget that must be spent on economic development. Furthermore, as part of the taxation system, the country's municipalities do have access to a tax on businesses, (which is collected separately to the local property taxes). In theory these funds are supposed to be invested in economic development projects, but are often not.
- Until 2000 there were no national government funds for Local Economic Development. However, in January 2000, the Local Economic Development Fund was launched. It is part of the Government's Poverty Alleviation Project. Municipalities can tap into two funds as part of a 'Regenerating Local Economics Program'. The first, the Social Plan Fund is aimed specifically at job creation in local areas. The second, the Local Economic Development Fund also has job creation as a goal, but is also available for SMME support, and strategic planning.
- The South African National Government does not have a national spatial plan for its urban areas. However the Spatial Development Initiatives have dictated government infrastructure investment. More recently the Industrial Development Zone Program and Cluster Initiatives give direction to municipalities on further national government spatial investment in infrastructure, and on where they will support which clusters.

Source: World Bank (2004a).

In 2000, a LED fund was established by the Government of South Africa, to enhance municipal level efforts to promote job creation and SME development (World Bank, 2004a). The LED programme in South Africa has been administered by the Department of Provincial and Local

Government and its aim is to support projects at the municipal level dealing with the provision of business facilities, the support of agri-industry, the promotion of tourism and the development of human resources. However, after 275 projects were funded, the monitoring report identified major weaknesses in the policy and programme implementation (Atkinson & Ingle, 2003). These weaknesses were firstly regarding policy confusion. For example, it was unclear whether LED should be welfarist or entrepreneurial in approach, or whether it was exogenous or endogenous in scope. Perhaps more importantly the monitoring and evaluation process was seen to be ineffective not least because of its overly bureaucratic yet vague procedures. A lack of reliable data and effective communication between stakeholders was seen to be a problem. It was therefore recommended that LED should promote either the economic environment holistically or promote SMMEs. Participatory evaluation and monitoring at all levels was also recommended.

Case Study 1: Mahala Development Centre (MDC), South Africa

This small-business support centre focuses on improving income-generating activities that already occur at household level. In an area where unemployment is high and income levels are very low, the centre operates by shifting value-adding activities from urban centres to households in rural areas. Poultry raising, steel manufacture and cement-block making are some of the successful local economic activities that the centre has introduced thereby increasing the value added to the local community. The centre supplies materials, capital goods, information and services to micro enterprises, and has evolved from income generator to service provider.

Though open to anyone, 90% of its beneficiaries are women. The centre claims flexibility and informality are the key to its success. According to the centre's experience, understanding the role of households in consumption and production is essential to successful poverty reduction in LED.

“Like all LED initiatives, MDC faces a contradiction: does it seek to eradicate poverty or to foster economic empowerment of individuals? The two are not necessarily the same. A poverty eradication approach would seek to reach many households, particularly women, and to provide them with the means to generate *sustainable* income, and to reduce their vulnerability to the causes of poverty. An economic empowerment approach, on the other hand, might seek to encourage successful entrepreneurs who can provide employment to others. Yet, is this a suitable and sustainable solution to poverty, particularly in an economically marginalised area such as BBR? Focusing on enterprises and profits as opposed to *households and poverty* may lead to poor LED results.” (World Bank, 2004a).

This contradiction between empowerment and poverty eradication is not uncommon in LED strategies. Atkinson and Ingle (2003) have identified areas of policy confusion such as this in their assessment of the LED fund in South Africa. However, the Mahala Development Centre is an example of demand-led and grassroots-led LED. It is also an example of how collective action, in the form of trade unions, can effectively promote pro-poor LED (Wandschneider, 2004, Grimm 1999).

Case study 2: Injabulo Farmers, Mpumalanga Province, South Africa

In this area 78% of households are cultivating a small amount of land (2.27 Ha) of which most of the smaller farms are female-headed households. The land tenure system is one of a local arrangement with the chief known as 'permission to occupy'. A high proportion of households want to expand their land access in order to cultivate maize and vegetables. Only 42% of households have access to piped water and most cultivation is carried out by hand hoeing, with 16% of households owning tractors. The project involves vegetable production and the fund was used for skills training, to buy a tractor and other equipment needed.

The province has taken the following approaches to improve the delivery of services to the rural areas:

- Department of Land Affairs supported a business plan, which included a land restitution grant to buy the land used for the project;
- Establishment of provincial Integrated Sustainable Rural Development Program and provincial Inter-Departmental Task Team, which will influence planning and budgeting;
- Establishment of Integrated Development Plans – the single process that identifies basic needs and priorities of each ISRDP node in the province;
- Establishment of a Cross-Sectoral Rural Development Program including a capacity building component aimed at officials in the extension, home economics and environment services;
- Community Public Private Partnership Initiative contributed to the initial own contribution fund to release loan funding and also to facilitate business skills training, corporate governance training and infrastructure support. A consultant was hired to explain the benefits of the project to the community.

Lessons Learned

1. Commercial farm labourers were a huge resource of potential small-scale farmers.
2. Risk management strategies of small farmer must be taken into account when planning, particularly diversification of livelihoods.
3. Financial support is a prerequisite for farming enterprise.
4. Other business support services are vitally important.
5. Farming tends to be just one of the diverse survival strategies employed by the rural poor.

4.2 The LED experience in Bangladesh

Although Bangladesh has experienced a reasonable per capita economic growth of around 2.5 – 3% per year during the last ten years poverty is still prevailing. The rate of poverty reduction has been only around 1 percentage point per year, which means that around 50 million people are still below the absolute poverty line, out of which 25 million constitute the hard core (extreme) poor. Poverty reduction and employment creation are therefore the major development challenges. Agricultural activities remain the major source of income for the rural population, but it cannot by itself absorb all of the increasing rural labour force or generate enough income for them to come out of poverty⁴. Urban, and to some extent international, migration has created job opportunities for many, but the overall employment growth in the rural areas during the last ten years has been in the rural non-farm (off-farm) economy.

The major drivers for change in the rural economy of Bangladesh are the transformation within agriculture, the increased linkages between rural and urban areas (improved transportation, communications, electrification, growing market linkages and access (demand/supply), skills development, availability of financial services and remittances from urban and not least international emigrants. Bangladesh has seen a continuous transformation of agricultural production during the last twenty years. Major reasons have been the use of high yielding varieties (HYV) of rice and other cereals⁵, which includes the increased use of chemical fertilisers and pesticides, and a rapid increase in irrigation through both deep and shallow tube-wells. Most of the supply system is privatised⁶. The total effect is that new technology and market systems are spread across the country and double cropping (sometimes triple) has become typical in many areas of Bangladesh (DFID, 2002).

A potential source of productive employment and consequently poverty reduction is the growing rural non-farm economy (RNFE). The rural non-farm economy includes rural manufacturing, agribusiness, livestock, fisheries, cottage industries, trade and marketing services, rural construction, transport, infrastructure and various other services. In Bangladesh, RNFE constitutes around 36% of the total economy (GDP) and provided over 40% of rural employment. However, the non-farm economy is basically divided into a high productive dynamic sector catering for mainly the urban demand and a low productive, mainly traditional, sector performed by the poor segment of rural society. The latter is essential to many households' livelihoods and constitutes a safety net option for the poorest as an income option of last resort. The 'dynamic rural economy' is dominated by more specialised businesses, run by entrepreneurs with better skills. These businesses tend to be referred to as small and medium enterprises (SMEs) that are larger in scope and scale than traditional household (or micro) enterprises. More information is needed on how SMEs can be developed in rural areas of Bangladesh (DFID, 2002).

From an economic viewpoint, the rural economy has potential for substantial market improvements, be it the local labour market, the physical capital, land, agricultural production and distribution and marketing linkages. Markets are inefficient due to market failure, based on

⁴ The labour market grows by around 1-2 million people per annum due to population growth and demographic changes. The annual growth is more than the total number of employees within often cited "success story": the garment industry (estimated to employ around 1.4 million).

⁵ From international research centres and delivered by BADC (Bangladesh Agricultural Development Corporation) plus increasingly private sector.

⁶ Irrigated "boro" has become more important than traditional "amon" as the primary crop.

distortions, asymmetric information, and not least capture from vested interest groups. There are also, among other things, lack of investment in public goods (roads, power, education etc), especially in remote rural areas, high barriers of entry for the poor or vulnerable groups to various dynamic markets, high transaction costs for access to existing markets and a general asymmetry of market information. Furthermore, the rural economy suffers from a weak institutional structure for business development, for example business services (production & advisory services), financial services, and facilities for skills training for both enterprise and labour mobility. There is also a weak policy and institutional framework for rural development at the national level, with fragmentation of roles and responsibilities within the public administration which also limits possibilities for private sector initiatives (DFID, 2002). The overall anti-export and anti-agribusiness biases in the trade regime seriously hinder the development of greater processing industries in rural areas.

Dramatic changes in the structure of the rural economy due to market liberalisation and large scale privatisation have led to a rise in the numbers of small farms and an increase in rural non-farm activities in agricultural machinery and support services (Mandal, 2002). The rise of SMMEs with between 5 and 14 workers has been horizontally and vertically integrated taking advantage of cheap labour and raw materials as well as market opportunities. The constraints that have been identified are high interest rates and limited bank lending, lack of essential tools, inadequate training and lack of business development services. Interrupted power supplies and restrictive property rights also both play a role in limiting growth. Despite these constraints it is clear that increased rural non-farm sector activities have been pro-poor and have had a positive impact on poverty reduction.

From the case studies below in Bangladesh, the important role of linkages between farm and non-farm sectors is clear. In each case it was the mechanisation of agriculture that increased economic growth in both sectors. The importance of infrastructure, particularly roads and electricity, in maintaining farm and non-farm linkages cannot be overemphasised. Furthermore, with regard to fostering enterprise development these case studies show that individuals did not always receive any particular assistance in developing their entrepreneurial skills; it was usually individual initiative that led them to seek or create new livelihoods for themselves.

Case Study 3: Agri Machinery Manufacturing & Farm Mechanisation in Bangladesh (Mandal 2002)

Case 1: Rural Mechanic, Badruddin (44)

Before 1990 he was unemployed and crop farming his small plot of land. Since 1990 he has been doing engine repair work. Demand varies from season to season but he also reconditions old engines and in 2001 he sold 10 of these. They sell for 40-50% of the value of a new engine. He believes there is a need for more facilities for skill training, more sophisticated tools, easy access to bank loans and provision of rural electrification in order to improve repair services.

Case 2: Power Tiller Operator, Maizuddin (38)

Previously a rickshaw driver he now drives a power tiller for the majority of his work time. A member of 'Co-operatives for the Assetless' under a local NGO, he has taken several loans for buying a PT, making a house, renting in croplands and training to drive a PT. He ploughs for local farmers and sometimes in nearby villages also. He says that the introduction of mechanised cultivation in the area ensured wage employment for him throughout the year, increased his yearly income by 98% and expenditure by 90%, and capital assets by 263% and to some extent improved living standards.

Case 3: Mobile Rice Husking Machine Operator, Nurul Islam (25)

Occasionally worked with his father in family crop fields but decided to adapt his father's Shallow Tubewell Irrigation Engine for rice husking. He says the total paddy production has increased significantly in recent years, which has created a self-employment opportunity throughout the year.

The author of this case study has highlighted the main strategies for sectoral development with regard to agricultural machinery manufacturing (Mandal, 2002). They are summarised as follows:

- Mainstreaming the RNF sector by institutionalising development initiatives;
- Strengthening key drivers, i.e. exploiting urban and export markets, using rural remittances;
- Strengthening rural-urban linkages; stimulating urban consumer demand for RNF products, fostering rural-urban business linkages and expanding the rural-urban continuum;
- Removal of barriers to entry; improving infrastructure, rural electrification, business development services, improving law and order situations.

These recommendations are consistent with strategies of improved linkages, which acknowledge the close link between agriculture and the non-farm sector (Satterthwaite & Tacoli, 2003; Grimm, 1999). It is arguably through SIUCs that these linkages can best be strengthened (Wandschneider, 2004, Pedersen, 2003, Borraine, 2003).

Case Study 4: Micro & Small Enterprise in Bangladesh GTZ 'BDS for SME' (Lempelius 2002)

This project is aimed at two levels; microenterprise and partner organisation. Training is offered to literate and semi-literate individuals and qualifications to train others are offered as a capacity building measure. 500 training courses for entrepreneurs have been organised with over 10,000 participants, and 250 partner staff and freelancers have been trained in capacity building with 49 licensed trainers being qualified.

However, impacts at this stage on poverty alleviation have been marginal. Few businesses have actually been set up after training was completed and this has been mainly due to problems with loan access. There is a need for a more conducive macro and meso or institutional environment for clients. The following factors have been identified as unfavourable:

- Lack of credit/loans;
- Lack of business information;
- Lack of government targeting of this group;
- Non-transparent taxation and registration procedures;
- Lack of guidance regarding security and safety;
- Harassments from police and civil servants;
- Poor physical infrastructure.

4.3 The European Union (EU) approach to LED in transition economies

The role of LED is explicitly recognised in the EU Accession states through support for pre-accession measures for Agriculture and Rural Development (SAPARD⁷). SAPARD represents the first occasion when the EU is demonstrating its commitment to accession to many in the agricultural and rural communities of the Central and Eastern European countries (CEECs). The proposed EU priorities as set out in its draft SAPARD regulations are:

- to improve market efficiency;
- to adopt EU levels of quality and health standards in order to take part in the single market and to act on behalf of the EU at external borders; and
- to introduce measures to create new employment in rural areas.

Although *rural job creation* is well recognised as an important part of the solution of the farm income problem and also a rational response to the labour shedding consequences of farm and food processing modernisation, the current SAPARD measures do not explicitly highlight this as a priority, despite it being a necessary component of a coherent rural development strategy in the CEECs. Investments and improvements in market efficiency should have strong multiplier effects within a rural economy. However, the specific measures that might foster job creation and should be consistent with the relevant *acquis* might be constrained to agricultural situations, with incentives for SME start-ups neglected.

Clearly, EU SAPARD funding is *accession-driven* and has to be consistent with accession partnerships and the national programme for the adoption of the *acquis*. In the context of the Balkans SAPARD only applies to Bulgaria and Romania. Countries such as Croatia, Romania and Bulgaria that aspire to being included in the next wave of EU accession will not be insulated from pressures to restructure the farm sector, and the non-farm sector will likewise assume increasing significance to the viability of households and communities in rural areas. The input supply, output processing and distribution components of the RNFE are subject to pressures related to the changing farm sector, as well as to wider economic pressures and industrial trends. The rural non-farm economy should be actively encouraged and this is recognised within SAPARD. However, the measures are not sufficiently rural. This is another reason for partnership both nationally and across the EU. The local and RNFE is a source of employment and income especially for small farm families. In addition, as previously noted there are powerful income and employment multiplier effects within rural economies when agriculture grows.

The LEADER programme and similar schemes in different member states provide an indication of the kind of broad based LED friendly policies that could support the growth of the agricultural and non-agricultural sectors and reduce poverty in transition countries. With the possible exception of those policies to be discussed below, most current approaches to EU rural development insufficiently link aims and means, i.e. a lack of policy transparency; most programmes are dominated by the agricultural sector; stakeholders receive little attention and are probably not at the centre of EC rural policies and those procedures and policies which exist are very difficult and costly for transition countries to financially manage and implement.

⁷ A special fund of 520 million Euro per annum over the period 2000-2006 was agreed at the Berlin Council for special assistance between all the applicant countries for agricultural and rural development (SAPARD) first mentioned in the accession strategy paper of the Madrid Council of November 1995.

4.3.1 The LEADER Programme

Since its inception in 1991 the EC initiative *LEADER* is widely recognised as having been a successful and innovative pilot instrument to mobilize local actors in a bottom-up, territorial and integrated approach to pursue local development in rural areas. Currently, *LEADER+* is one of four EC initiative financed by EU structural funds and is designed to help rural actors consider the long-term potential of their local region. It has a strong focus on sustainable development, partnership and networks of exchange and experience.

LEADER is structured around three actions:

1. Action 1: Support for integrated territorial rural development strategies of a pilot nature including i.e. Local Action Groups (LAG).
2. Action 2: Support for cooperation between rural territories. Many of the LAG under action 1 will also be active under action 2 setting up cooperation projects.
3. Action 3 Support for (national) networking. In each member state a national network unit supports LAGs in implementing their strategies under actions 1 and 2.

In the programmes adopted under *LEADER+* the highest share of funds go to action 1 (86.7% of planned expenditure). In the transition countries, particularly the EC-applicant states from the CEECs, the *LEADER* programme and in some cases the Structural Fund programmes, have been important in offsetting the impact of declining primary sectors in rural areas and related employment through new growth areas such as tourism, new value-added niche product activities, health, social care, local culture and environment and information communication technology (ICT). Local factors have been crucial and include a sense of local identity, place based marketing, good governance, and revitalisation of local cultural and environmental assets, strong local entrepreneurship and timely external support. In the accession states a comparatively high proportion as compared to the EU-15 of rural people are still engaged in agriculture.

Eastern enlargement will probably mean reduced expenditure and population coverage under structural and cohesion policies in the existing member states after 2006, and many more areas will lose their priority status under Objectives 1 and 2. While this process of re-prioritisation towards the new member states (CEECs) may be limited by political process (resistance by regions and members who are net contributors (or net recipients) at present) as well as the capacity of the CEEC accession states to absorb funding under EU rules (4% of GDP). Thus more attention should be focused on current programmes for example SAPARD, Rural development Regulation etc., and its current limitations as a territorial development measure which supports RNFE development and diversification. In addition to the programmes discussed above, other EU measures have been developed during the transition period to aide rural non-farm development and accession.

4.3.2 EC-Phare programme

The *EC-Phare programme* funded projects across the region, which focused on the identification of priorities in modernization of agriculture and food processing sectors, and the formulation of strategies. It was usually initiated by transition country ministries of agriculture (and rural development) and implemented through the *EC-Phare programme*.

4.3.3 RAPID programme

The *RAPID programme* provided investment support for rural area development on a regional basis with the primary objective of reducing economic discrepancies between regions through the

support provided to rural infrastructure development, where socioeconomic conditions were worse compared to the national average in a number of CEEC accession states. For example, in Poland RAPID was implemented in 10 voivodships and coordinated by the Polish Agency for Rural Development (PARR). The RAPID programme has been judged a success and had significant “learning” and demonstration effects. Amongst other benefits, the project improved technical infrastructure, the environment and created rural jobs.

It is not yet clear how current national rural development measures in some transition countries (e.g. the Balkans) are to be synchronised with both the World Bank’s rural development strategy “Reaching the rural poor – an updated strategy for rural development” and the EU’s SAPARD programme. Co-financing will lever more funds than the rather limited external funds but it depends on the provision of these beyond the minimum rate of 30% stipulated in the SAPARD regulations. Until recently, Ministries of Agriculture and Rural Development in Bulgaria and Romania were responsible for most rural infrastructure and agricultural support schemes, which were mainly based around subsidised credit (see Davis and Bleahu, 2002; and Davis, Kopeva et. al., 2002). With the development of new rural development programmes such as Beautiful Bulgaria and the JOBS Programme (see Davis, Kopeva et. al., 2002), there has been a shift in resources and attitudes to rural non-farm employment and LED (see Box: 3).

4.3.4 LED experience in Bulgaria and Romania

In Bulgaria, the United Nations Development Programme (UNDP), in conjunction with other donor agencies, has instigated a number of projects under the banner of “Beautiful Bulgaria” (see Box: 2)⁸. Although having a predominantly urban focus, Beautiful Bulgaria and the JOBS programme – both successful and high-profile series of projects - provides a useful example of effective LED project planning and implementation in close collaboration with Bulgarian partners and implementing agencies, and with due note taken of local needs and conditions.

Box: 2 The Achievements of “Beautiful Bulgaria” Projects

The key achievements of the Beautiful Bulgaria projects include the following:

- a) Employment Generation. Beautiful Bulgaria II created more than 24,000 man-months of temporary jobs in eleven cities. Approximately 6,146 people were employed by the project, out of which more than 5080 unemployed. 22% from the unemployed were from ethnic minorities (Roma, Turkish etc.) and 15% were later offered long-term employment.
- b) Urban Refurbishment. The project funded sub-contracts for the refurbishment of facades, roads, pavement, parks, and playgrounds addressing the specific infrastructure problems of each city's urban environment. In total, works on 221 sites were refurbished by 128 construction companies.
- c) Vocational Training. The project trained 2,548 unemployed in 8 different vocational skills and 526 in Start Your Own Business courses, 149 managers or members of staff of contractors under it were qualified in Improve Your Construction business courses. 22% of the trainees were from minority groups.
- d) Capacity Building. The second phase of the project further strengthened the capacities of the Bulgarian central and local administrations to manage EU pre-accession funds.
- e) High Popularity. Beautiful Bulgaria II became one of the most popular projects in the country (see Davis, Kopeva et. al., 2002).

⁸ The project's strategy is to create temporary jobs in the construction sector for the refurbishment of tourism sites, attractions and facilities located in or around selected municipal centres. The ultimate objective of the project is to raise the attractiveness of Bulgaria's traditional and unconventional tourism products, thus supporting tourism activity and creating the conditions for sustainable employment also in the tourism sector. The project will refurbish around 300 sites in 21 municipalities (including municipal centres and surrounding sites) selected for their tourism potential (Davis, Kopeva et. al., 2002).

However, the problem with these programmes/ projects has been the degree to which they remain sustainable beyond the government and or donor support. The Beautiful Bulgaria project created jobs, but the bulk of these were only temporary and at the time of writing there is limited evidence of much technology transfer or training to the poorest project participants. Similarly, although the JOBS project (see Box: 3) is intended to create financially self –sustainable business centres, when Davis, Kopeva et. al., (2002) interviewed the project management team it was clear that this was not guaranteed and that limited effective project evaluation or impact assessment was taking place.

Box: 3“JOBS” Programme - Bulgaria

The *Job Opportunities Through Business Support Project (JOBS)* is executed by the Bulgarian Ministry of Labour and Social Policy with the support of the United Nations Development Programme (UNDP) since 2001.

The JOBS project aims to enhance the economic development of regions with high unemployment levels by creating a sustainable environment for job generation through support to micro- and small companies and agricultural producers. The purpose of this project is to present a model appropriate for re-creation and generating new jobs through the creation and promotion of micro- and small enterprises and to provide assistance for the introduction of this model as a national strategy.

The economic development of the rural regions will be accelerated through the creation of an environment where employment will be promoted by providing support for micro- and small enterprises. New business initiatives will be introduced and the creation of associations and corporations of producers and farmers will be supported as well as the business associations at a local level. The JOBS project demonstrates a replicable model for stimulation and creation of micro and small enterprises. The project is implemented in twenty-four communities throughout Bulgaria. It has created a sustainable network of twenty four business centres, including eleven business incubators and three business information centres, which provide services to businesses in order to help them grow.

JOBS strategy is to:

- Support micro and small enterprises and agricultural producers in rural areas
- Integrated approach to job creation and economic development
- Promote an entrepreneurial environment
- Enhance linkages between public, private and NGO sectors

JOBS beneficiaries are unemployed, existing micro and small enterprises, subsistence farmers with entrepreneurial potential, minorities, local stakeholders - public, private, NGOs. Under the programme, business centres, business incubators and business information centres have been established. The business centres and business incubators (BCs and BIs) are registered Bulgarian NGOs, which support private sector and economic development at a local level. The BCs and BIs provide information and consulting services, training, financial services and below market rate premises. Through the JOBS project, the BCs and BIs also provide their communities with access to financial mechanisms and information technology centres.

We would emphasise the need for high-level policy commitment to LED. Where local economic development initiatives and interventions may be fostered, actions (and investment to support them) by local administrative/ municipal bodies are probably most appropriate. Local municipal authorities are probably subject to less urban bias, are more knowledgeable about rural needs, and have the potential to operate more efficiently at the local level.

Both governments in Bulgaria and Romania have instituted a number of National Agricultural and Rural Development Plans (since 2000 as part of implementing SAPARD), regional development and unemployment reduction programmes (see Davis and Kopeva 2002).

Government initiatives at promoting LED and non-farm rural employment have been wide ranging, but sporadic. Davis and Bleahu (2002) in a review of government RNF employment initiatives found that the most important labour market instruments in Romania include social protection policy, minimum salaries, and national and regional programmes for reducing unemployment (independently, or in partnership with national or international bodies or with representatives of civil society). However, social protection policies were not focused on supporting the poorest people, but aimed at compensating losses suffered by employees, through the social insurance system. The Romanian government will certainly need to address this issue, if they are to adequately address rural unemployment and poverty. In addition, Romanian government policies to create new jobs in rural areas from the Unemployment Relief Fund have had a very low impact. In the rural environment, programmes for retraining and re-qualification have also had a low impact. The programmes have failed because they were not adequately targeted at the rural poor, were intermittently funded and in some counties poorly administered. Davis and Bleahu (2002) found there is broad scepticism in rural Romania about the ability to change given the environment in which they find themselves. A general conclusion to be drawn from this is of communities still in thrall of top-down solutions to their problems. This in turn has ramifications with regard to future rural development policies and LED programmes, and leads one in particular to stress the importance of achieving attitudinal change in rural communities. This ultimately has to come from within, brokered possibly through the development of “natural” local leaders.

5 Fostering local economic and enterprise development

The case studies from Bangladesh and South Africa give examples of how marginalised entrepreneurs were successful when institutional conditions were favourable and/or when infrastructure was sufficient. However, actually producing entrepreneurs or fostering entrepreneurial creativity has not been fully addressed. In other words, how do we create entrepreneurs? Institutionalising the process of enterprise development is a priority for most project strategies but how this is to be achieved has yet to be formalised.

Applied Research into Training and Education Systems (ARTES) in Italy has developed the Alliance community-learning model, which provides a basis for addressing this issue (Infelise, 2002). With the broad aim of developing business and employment in rural areas, the model captures the importance of networks and participation in enterprise development and building clusters. The model prioritises knowledge and the ‘management of the knowledge creation process’. The model has 2 phases: preparation and intervention. Phase one involves identifying members of a community who are potential entrepreneurs, whereas phase two involves starting a network of competitive businesses whilst valuing local cultural and environmental heritage. The needs analysis process is demand-led but also agent-led. Within this model economic, cultural and social sustainability is achieved by the mutual satisfaction of the stakeholders. The method created a team of 42 female would-be entrepreneurs in the space of one month in the region of Calabria, Italy. Four business networks were created: refreshments and accommodation; services; agricultural food products; textiles, clothing, ceramics and furniture crafts. The theoretical key to the success of the model is considered to be “Without a contextualised interpretative model of how knowledge is produced and incorporated it is not possible to manage a community regeneration programme aimed at introduction measurable change while preserving the true identity of the community” (Infelise, 2002: 10).

5.1 Uneven Development

Understanding the causes of regional differential performance is an important part of sustainable development (Ceccato & Persson, 2002). The Swedish case study identifies 10 factors to explain the differences and focuses on 2 regions. The factors are divided into two categories: tangible and less tangible:

<i>Less Tangible</i>	<i>Tangible</i>
Market performance	Natural resources
Institutions	Human resources
Networks	Infrastructure
Community	Investment
Quality of Life	Economic structures and organisation

The study concluded that rural areas with similar economic, social and environmental circumstances performed differently due to a combination of the above factors. Research showed that the history of economic transformation was a key factor in regional performance and so too were local attitudes pertaining to class, culture and self-image. Other important factors affecting economic performance were linkages to areas with the capacity to respond to regional development policy, accessibility to other areas and also demographic factors. The need for flexibility and local influence on the part of policy makers was emphasised. These findings are consistent with much of the evidence from theoretical analysis and case studies in developing countries such as South Africa and Bangladesh.

Access to land is a constant theme in the literature regarding rural livelihoods. It is important to note that land rights are not always exclusively a regional or national government phenomenon. A variety of land access and ownership arrangements are rooted in traditional community structures and changing these arrangements on a policy level is not always a viable option. However, they often affect or reflect wider dynamics of class and gender within communities and this means targeting marginalised groups is more challenging. As a result of this, there are well-documented examples of rural elites benefiting from programmes targeted at the rural poor (Satterthwaite & Tacoli, 2003).

5.2 Responsibility: Participation and Sustainable Development

Participation and sustainability are frequently used terms, yet their implications are seldom clear. Lintz (1998) argues that sustainability is only possible by combining four major perspectives: the scientific conceptual, the market-oriented instrumental, the political administrative and the society-oriented perspective. He maintains that public administration and enterprise will not voluntarily accept the ecological dimensions of development and so emphasises a need for an interdisciplinary approach, which would support all stakeholder groups. For Lintz (1998), emphasis on the spatial and the regional are instrumental to development that is sustainable.

The ECOLOC approach claims to be practical, realistic and sustainable (Bossard, 2001). By viewing the economy as “a collection of local economies developing around urban centres that extend their influence over mostly rural hinterlands,” this approach claims to be sustainable. A three-phase process is employed involving a study phase over 4-6 months, a policy dialogue and consultation phase and finally a revival of the local economy. This approach intends to ensure participation and sustainability through agreement and a shared vision of development. The approach also acknowledges that ‘local’ encompasses both urban and rural; it emphasises long

termism in order to maintain sustainability and addresses both means and ends strategies in order to maintain realistic and achievable targets. This approach maintains that failures of projects in local areas tend to be due to lack of 'ownership' on the part of local communities and a lack of dialogue between civil society groups and the state.

The GTZ, World Bank and other major donors have developed the concept of 'shared responsibility' (Elfring, et. al., 2004). It is an attempt to reconcile the clear need to improve access to credit institutions and stimulate private investment, with the need to retain strong accountability and effective auditing processes. In order to achieve this it draws together the local business community, civil society representatives and local or regional administration. These stakeholder groups have repeatedly been seen as lacking effective communication and pursuing very different agendas. In case study 3 there is a potential need for the shared responsibility approach.

5.3 LED, levels of strategy formulation & "cluster" based interventions

As previously noted, one of the primary aims of LED has been the strengthening of local economies in specific areas (usually urban or peri-urban) by enhancing competitiveness and thus increasing sustainable growth and ensuring that growth is inclusive. Recent LED thinking has emphasised trying to integrate demand, supply, policy and governance issues into a single analysis/framework that has practical application and can involve a range of stakeholders (Rauch, et. al., 2001). This is often expressed in ideas about supply or value chains, and in promoting industrial clusters (Rauch, et. al; 2001; Davis, 2004).

There are two elements here. One stresses the value of integrated analysis that cuts across issues of demand, supply, and policy; focuses on interactions and transactions; and seeks to improve competitiveness through negotiation on possible improvements and coordination. Included in such consultation would be representatives from the major stakeholders in the chain - including firms, government, consumer groups, and civil society organisations.⁹

The other stresses the potential of forming and fostering clusters (see Humphrey & Schmitz 1996, Rosenfeld 2002) of similar and associated businesses to create external economies, to coordinate and cooperate, while stimulating competition between firms that will deliver productivity and competitiveness. The attractions of clusters are twofold: clusters can be made up of small enterprises - being small does not debar firms from competing even on the world market; and, clusters can arise in regions that have not had previously industrial advantages.¹⁰ These are precisely the conditions that face rural areas in the developing world when beginning to industrialise. Just how widely applicable these ideas are, is a matter for debate. The examples given of successful clusters in the developing world are in places that are already urbanised with much physical infrastructure in place - for example the leather and shoes complex of the Vale do Sinos, RGS, Brazil. Moreover, observers point out that policy to support clusters only works once the cluster has come into being, and admit that they have no clear theory of how clusters emerge (Haggblade et al. 2002; Rosenfeld, 2002).

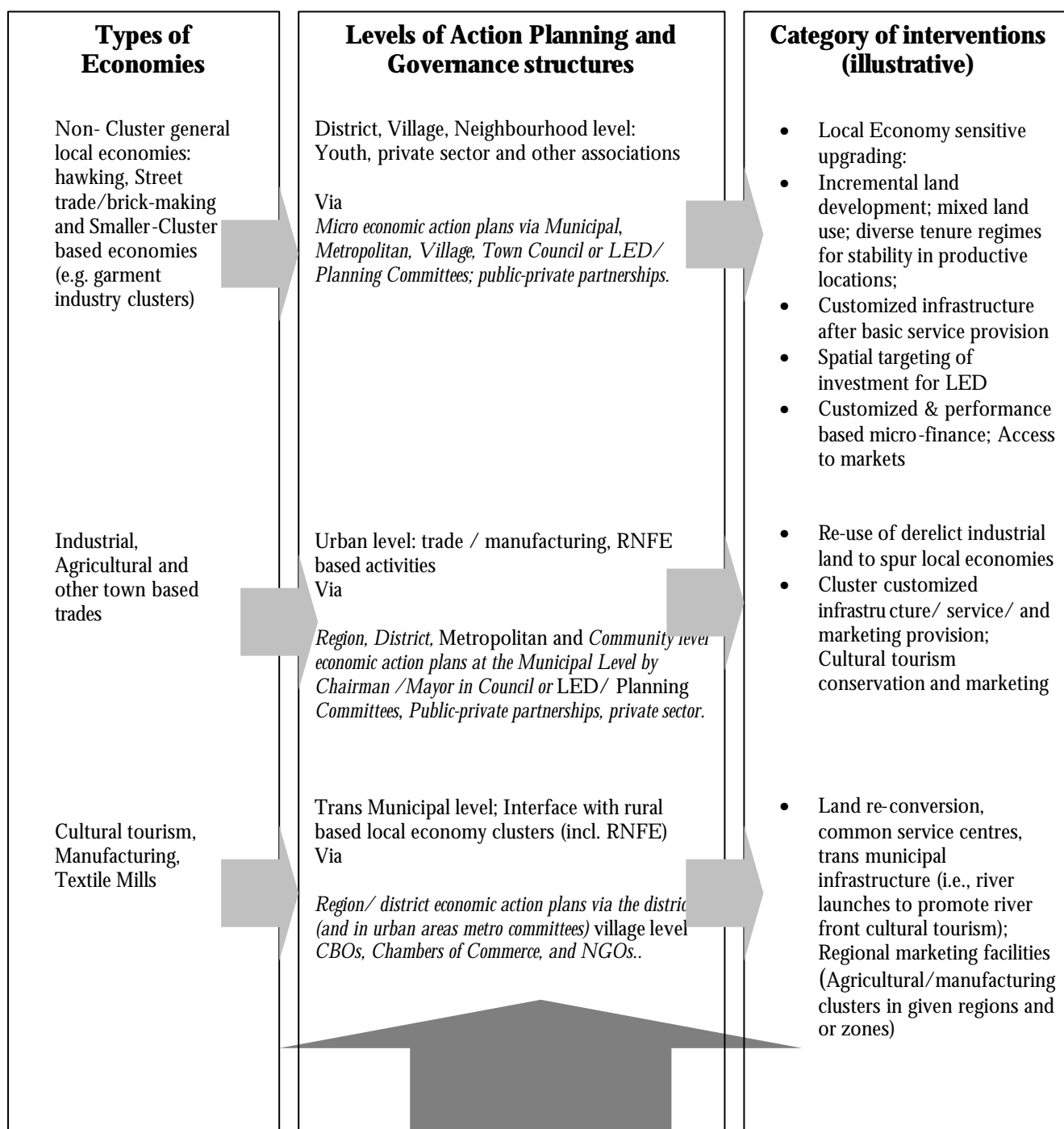
⁹ This proposal is outlined in Haggblade et al. 2002. In practical policy, it is a major recent proposal in Mexico, where the Agricultural Secretariat has announced that for each major agricultural and food sub-sector there should be a forum created at national, state and municipal levels to bring together actors in the chain for consultations and negotiations.

¹⁰ For example, in Europe, successful clustering has been observed in regions such as north-east and central Italy, south-west Germany, mid-Jutland in Denmark, and in Ireland - all regions that fifty years ago or even more recently were industrial backwaters. They were also predominantly rural regions with less urbanisation and less manufacturing than other parts of their countries.

While the focus on clusters is a positive development in much of the recent LED literature, a purely “industrial” focus would exclude the extensive livelihood linkages in the larger urban and rural economy (Davis, 2004a). This focus would also exclude the significant governance connections, and the impact of “non-scheme” based employment impacts (see Figure 1 below). From an urban perspective, categorizing local economies as an “informal sector” misses out on their positive economic and functional systemic aspects, particularly in terms of employment rural-urban linkages (Davis, 2004a). For example, recent research on rural-urban livelihoods and local economic development in Indian towns and cities illustrates some of the above:

- The significant role played by extensive and well established local economy clusters. In some smaller towns, these impact directly and indirectly local employment and also spur livelihood linkages in villages within a 20 km radius (Wandschneider, 2003). These clusters have close functional and economic links to settlements housing poor groups and thus have an important poverty impact (Dasgupta et.al., 2004; Wandschneider, 2003).
- Grassroots research has also shown that municipal government plays a key role in impacting these economies where entrepreneurs have direct elected representation to influence the provision of infrastructure, locally responsive land regularization (Dasgupta et. al., 2004). In some cases, there have been opportunities for local bodies to raise substantive revenues linked to responsive infrastructure upgrading and land regulation. Some of these efforts were in turn linked to a performance based management systems (Saxena, 2003).
- A major constraint has been State government lethargy to effect political decentralization and regressive urban planning regulatory frameworks, apart from other macro level issues (Dasgupta et. al., 2004).

Figure 1 Types of local economies, levels of strategy formulation, and possible types of Interventions



NGOs, CBOs, Private sector LED committees, Planning Commissions; Banks

Links to Government, municipal and district level Institutional Structures

6 Conclusions

Over the past four decades Local Economic Development has evolved into a comprehensive, integrated approach which is instrumental for meeting the Millennium Development Goals. Whilst many of its features have changed dramatically since its inception in the 1960s, its essential elements of enhancing competitiveness, and enhancing the roles of local governments, private and voluntary sectors simultaneously have remained the same. Learning from past mistakes has brought about a spatial and sectoral reassessment of the framework. Top down, macro led policies have been replaced with a more specific yet multifaceted approach that supports infrastructure on local national and global levels as well as supporting and strengthening weak markets directly at a local level.

In order to refocus the way development is analysed territorially, the term 'local' emphasises communities in small and intermediate urban centres (SIUCs), and transcends previously assumed rural-urban dichotomies. These SIUCs have become prominent within the literature as they capture those areas in which poverty is concentrated and also where viable markets are located. Recent emphasis on the non-farm sector is intimately linked with the focus on SIUCs in that reducing transaction costs and improving market access can be realistically achieved by focusing on NIUCs where much of the non-farm economy is concentrated.

The relationship between agricultural growth and income levels is much debated. Econometric regressions have proved inconclusive in establishing causality. However, there is some empirical evidence which supports a causal link between increased agricultural output and increased non farm sector incomes and vice versa. Both agriculture demand led and industry demand led development have been shown to offer positive outcomes for pro-poor policies depending on the local context.

Linkages are a major feature of the diverse LED strategies on policy making and theoretical levels. These linkages allow for a dynamic approach which incorporates a multitude of aspects; from improving market access and developing entrepreneurial capacity, to improving infrastructure and governance capabilities. Networks, clusters and value chains are common focus points for policy makers.

A fundamental tension has arisen between fostering empowerment of entrepreneurs within a community and eradicating poverty. The assessment of South Africa's LED strategy clearly highlighted this as a key policy problem. One of the case studies from South Africa details the success of a development centre which demonstrates pro poor empowerment and is grassroots led. One of the Bangladeshi case studies on the other hand, details the success of small-scale entrepreneurs in response to macro level policy changes. Thus, there is scope for success from both sides.

The Bangladeshi experience makes clear that technological improvements brought about by the green revolution can have multiplier effects particularly in the non-farm economy and at the poorest income levels. The South African experience highlights the importance of infrastructural strengthening and strategic support for businesses together with local government empowerment. The South African monitoring report also highlights the problems caused by misspecification of policy frameworks.

Within the context of the EU transition economies there is a degree of support for improving the non-farm sector and the lives of the rural poor, particularly the LEADER programme.

However, in both Romania and Bulgaria LED policy initiatives have lacked sufficient monitoring and long-term government commitment, as well as adequate targeting. There is a need to refocus the top down strategies and adapt a more appropriate one, which considers the local hierarchical structures.

Although fostering entrepreneurship is a key theme in LED there is little work on creating entrepreneurs. The Alliance community-learning model, based in Italy claims to address this issue. Market access can be improved, transaction costs can be reduced, technology improved but without increasing entrepreneurs LED is considerably restricted. Policies aimed at developing industrial clusters also face the same criticism; developing a cluster is not the same as creating one. Nevertheless clusters are seen as a way of combining market access improvements with governance and participation whilst at the same time increasing competition, external economies and linkages in general.

7 References

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