



**International Link and Services for  
Local Economic Development Agencies**

*for a fair, human, sustainable and inclusive development*

# **Territorial Economic Development and Human Development: the ILS LEDA Approach**

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**ILS LEDA Basic**

## **1. Territorial Economic Development: creating jobs, fighting against poverty and inequalities.**

ILS LEDA supports national and local efforts in adopting a territorial approach for achieving sustainable development, creating fair and durable job, fighting against poverty and inequalities, enhancing competitive systems of micro, small and medium enterprises.

Nevertheless, it is possible to create permanent jobs and alleviate poverty, either through public services, or private, public or mixed enterprises, no matter in what economic sector, provided they are sustainable enterprises.

Enterprises sustainability is the key factor for employment and income generation. It is important, therefore, to focus the attention on all those conditions, which allow or facilitate such sustainability, and creating or improving them.

Enterprises competitiveness is the *condicio sine qua non*, i.e. enterprises should be able to position their products or services within the market, get revenue for it, and have the capacity of maintaining the employment.

This implies the capacity of keeping and developing the knowledge related to the activity, including the fields of human resources, technology, market monitoring, innovation, etc.

If we consider a small plant for transforming fruit or milk, the sustainability depends also on other factors such as: continuity of inputs and their quality (raw material and other ones), contracts with providers, transportation system, and commercialization chain. As matter of fact a small enterprise cannot internalize all these activities, differently of a big business such as Nestlé or Del Monte.

Also, in the case of tourism, many activities are related each other: Hotels may sustain themselves if food providers, equipment maintenance, tourism services, transportation, etc. exist in the area and are of good quality.

Sustainability is therefore, a systemic concept that can be more effective if applied to a territorial dimension.

In fact the proximity of various factors in a delimited territory (knowledge, transactions, value chains, networks, reciprocal control) allow a virtuous circle and increase the economic initiatives chances of duration in the long term.

## **2. Competitiveness, human development, and fight against poverty**

The ILS LEDA approach focuses therefore on competitiveness and on the factors which generate and sustain it.

In the current globalization processes the development perspective risks to get lost in a purely quantitative and short term vision which only follow the interest of profit; in this way both the wellness of the future generations and the safeguard of our principal resources (nature and human race) will be jeopardized.

## **Will it be possible to combine competitiveness, sustainability, human development, and environmental safeguard?**

Since 1990 ILS LEDA has developed in many countries an original experience in the field of territorial economic development and human development, and from its lessons it can contribute to answer the question.

This experience is focused on the concept of **endogenous potential**.

The endogenous potential of a territory is the collection of different types of resources, which are exploitable with the aim of a competitive and sustainable development.

Any territory, including the very marginalized ones or deserts or savannas have at least one exploitable endogenous resource.

The other pillar of ILS LEDA experience is the hybrid concept of sustainable territorial competitiveness (or sus-competitiveness); this concept allows achieving at the same time competitiveness and the United Nations Millennium Development Goals, mainly in terms of fighting against poverty, enhancing social and gender equity, stimulating internationalization of the marginalized areas, and safeguarding the environment.

If this is the theoretical framework that has oriented the strategic action of United Nations human development programs, if the territory is the focal point, the centre of development and production of wealth and wellness, if the competitiveness of economic factors is not sufficient to explain development and capacity to produce wellness today and in the future, all that implies the need to introduce new paradigms shifting from the way of reading territorial resources and potentialities.

Therefore the only ways to enhance poor areas development is given by the systemic competitiveness of micro and small enterprises, the cooperation between them to compete, the so called co-competition where, the fact to belong to the same place facilitates enterprises mutual relations and the fact to share the same interest allows the survival of the territory for future generations. This means that future sustainability or competitiveness is the principal incentive to adopt the selection of short term competitive actions.

### *Competitive advantages and sustainable competitiveness*

A product or a territory can be competitive if they have comparative or competitive advantages in comparison with the others, which means, characteristics that make the product (or the territory) more attractive compared to others.

Comparative advantages regard “comparable” factors, such as the production costs (manpower, technology, financial costs which can be reduced by governmental incentives), the closeness to revenues or transport infrastructures. Every system (an enterprise, a territory) posses these factors; only some of these factors are better then others, but all of them can have the chance to be improved in an endless race.

The competitive advantages are those which are hardly imitable and which distinguish one system from another (only Rome has Coliseum, or Parma has Parmesan cheese, or Uruguay and Argentina have dulce de leche, etc.).

These advantages may allow a more solid competitiveness even if, afterwards, the problem is to maintain it.

If development is based on those sectors, products or services which can be perceived as “different” or which have differential factors, the perspective for economic and occupational growth is more thriving.

Nevertheless this is not sufficient. Having a competitive advantage does not necessarily mean to be able to compete, at the same time it is true that if there are not competitive advantages, then it

is not easy to compete. It should be said, therefore, that competitive advantages are a necessary condition but not sufficient for competition.

The main issue is how to enhance and to optimize competitive advantage. Again, the territory is helping us; it helps the grouping of enterprises in value chains that contributes to systemic competitiveness, thanks to proximity factors, to the externalities that allow growing performances, to the relations between actors which allow knowledge diffusion, mainly tacit knowledge (Polyanyi, 1997), and stimulate enterprises innovation and learning processes.

### Sustainable competitiveness

Thanks to its 20 year of experience, ILS LEDA approach has reached an integrated vision which envisages the promotion and support of territorial human economic development strategies through the articulation of territorial, national and international interventions.

Territorial human economic development (THED) can be defined as a way of development which efficiently combines the reach of a competitive advantage for local and typical products coming from every area of each country, together with structural eradication of poverty, social and gender equality, decent work creation, and environment safeguard; this goal can be achieved principally by strengthening those human and institutional capacities which seeks to adopt self-sufficient processes and policies.

A certain product can be competitive today, but how is it possible to guarantee its long-term competitiveness? At the same time, how is it possible to make this development equitable, human and respectable of environmental resources?

These goals depend on the capacity to maintain the product market share, the value of the competitive characteristics previously analyzed, as well as a governance capacity of the system able to equally maintain social and environmental objectives.

This is the reason why the word **sustainable competitiveness** is used.

Sustainable competitiveness depends on many factors: **economic factors**, such as business capacity, the strength of enterprises system, but also enterprises services to facilitate innovation, products commercialization etc.; **factors related to the environment**, which refer to the capacity of safeguarding healthiness (avoiding to destroy natural resources), and **factors related to the territory**, which refer to the capacity of developing relations between the same types of enterprises (proximity and agglomeration relations); **social factors**, in order to avoid conflicts which undermine economic success as well as the capacity to generate decent work and equal opportunities for everybody; **institutional factors**, that is the support which national and local governments can provide to the prioritized value chain, also in terms of its inclusion inside development policies and strategies. Will it be possible?

It is not an easy path; however, ILS LEDA experience has taught that the goal can be achieved if a strategy containing the aforementioned elements is adopted. This strategy should be articulated as follows:

- a) Supporting national policies to promote and sustain human territorial economic development processes and strategies.
- b) Forming specialized professional competences (territorial development agents, territorial animators, planning experts, innovation agents, value chains agents, territorial marketing experts, etc.).
- c) Creating Local Economic Development Agencies providing integrated services to support development strategies, in particular:
  - participatory diagnosis to detect territorial endogenous potential;

- promotion and organization of territorial value chains for strengthening endogenous potential;
- definition of strategic plans shared between local actors, in the framework of national policy;
- definition and implementation of mechanisms to facilitate access to credit, with particular reference to the most vulnerable and disadvantaged people;
- definition and implementation of social inclusion and fight against poverty mechanisms, integrated into the defined strategies;
- promotion of mechanisms to foster innovation;
- definition of the safeguard and valorization strategies of environmental resources;
- implementation of territorial marketing strategies;
- promotion and support to stable international partnerships.

### **3. Tools for valorizing endogenous development and fighting against poverty: Local Economic Development Agencies**

The main challenges of a not exclusive sustainable local economic development are the following:

- a) valorizing the endogenous potential;
- b) building territorial value chains based on endogenous potential;
- c) facilitating the access to the opportunities created by the aforementioned points (a,b);

These facts imply two inescapable conditions:

- 1) a territorial development strategy shared between all local actors;
- 2) a tool which is able to implement the strategy and its components.

When these conditions are not present, the economic spontaneity, in the best of cases, will orient opportunities distribution in an unequal way, where the strongest actors are benefited and the others will be rejected.

However, in the majority of cases, an area with scarce resources will not attract external investments and does not have capacities for development; its only opportunities will be used in a casual way and without possibilities of multiplying effects.

Nevertheless, the approach on the “local” does not mean that local actors can satisfy by themselves the abovementioned conditions. Alternative project financing mechanisms, fiscal, tariffs and commercial facilities, sources and modalities of formation and training, technological transfer possibilities, infrastructural plans, decentralization of economic and social decisions, have to be part of a national policy able to coordinate the needs of local development together with human, technical, financial, organizational resources available at national level.

On the other hand, a national policy willing to be effective in terms of visible results and benefits for the population, needs to be fomented by those demands coming from the periphery.

Peripheral demands, services supply and opportunities at central level, can find a meeting point in decentralization, which can represent an answer to those problems linked to development (F. Albuquerque, 1999; Krishna M. Akundi, 2002; European Commission, 2000; Banco Mundial, 2003).

Within the International scenario is it possible to find a successful model able to reach these objectives: the Local Economic Development Agencies (LEDAs) promoted by UNDP, ILO, UNOPS and Italian Cooperation. All around the world there are more than 60 LEDAs in 18 countries in Latin America, the Balkans, Africa and Asia.

These LEDAs make compatible territorial sustainable development with fight against poverty and social exclusion, providing the services needed for territorial competitiveness, through the creation of correspondent added value and value chains.

They are autonomous, mixed and no profit structures regulated by private law, where local protagonists in a shared way organize the local competences to get the best use from the scarce territorial resources and valorize them; they also make decisions on plans and initiatives about self-sustainable and fair economic development, ensuring at the same time those technical conditions to make them practicable with the aim of providing access opportunities to the productive circuit for all the population and particularly for the most excluded.

A LEDA represents in the end:

- ▢ a technical tool to make practicable and coordinate economic development projects and initiatives, coherently with the identified strategy, avoiding dispersions and conflicts between the various resources and institutions;
- ▢ a facilitator for the achievement, orientation and appropriate management of local development resources;
- ▢ a provider of integrated services which harmonize all their various components: technical assistance, training, credit, monitoring, marketing, etc., avoiding that each component would go on by itself;
- ▢ a privileged place where actors can make joint decisions on what and how to do;
- ▢ an incomparable reference for external institutions (national and international) willing to invest in the area, fitting proposals and priorities of the territory and offering technical capacity and coordination;
- ▢ the watcher of sustainable development which represent and summarize the diverse interest of various actors, local administration, entrepreneurs, trade unions, non governmental organizations.

Every LEDA develops its own model in terms of alliances, organization, services together with the specific needs and demands of each territory, and with its historical and socio-cultural evolution.

The common characteristics referred to property, organization, services supply, operational models and livelihood factors of a LEDA are described afterwards.

### *The LEDAs' owners*

All local actors interested in having an active role in local development participate as LEDA's members and owners: local administrators, decentralized institutions of ministries, business associations, universities, banks and financial institutions, educational and research centers, NGOs, private sector.

An Agency normally serves an over-municipal territory equivalent to an intermediate level of decentralization of the state. In fact, this territorial dimension needs to attend certain exigencies such as: stable public-private relations within a certain geographical area (equivalent to a decentralized administrative division of the state), the availability of a critical mass of resources for a competitive and sustainable development, and population's participation in decision making.

The majority of LEDAs associated with ILS LEDA cover a territory which corresponds to a Province or a Region (departments, provinces, districts, according to the country), where in fact all National Government decentralized departments of each country have a delegation or an office (agriculture, law, public services, finance, etc.). In those regions where, because of their wide extensions or their scarce communication infrastructures, the most remote areas cannot be covered effectively, the LEDA establishes decentralized offices in order to enable participation of the population and its direct support.

## *LEDA's sustainability*

All the LEDAs of ILS LEDA network are sustainable. This sustainability is ensured by different types of incomes, such as: association quotas, sale of services to territorial public and private bodies, management of quotas related with contracts established with partners or donors, payment for intermediation services, a Guarantee Fund interest rate lodged with a Bank.

The experience shows that, during the first LEDA's five-six years, incomes coming from the interests related with the credit fund represent 50-70% of LEDA's total profit, projects operational costs represent 20-40%, while the rest comes from services and quotas. Beyond this period and according with LEDA's learning curve, the income related with credit activities decreases progressively until a 30-40%, while the sale of services and the income coming from projects increase.

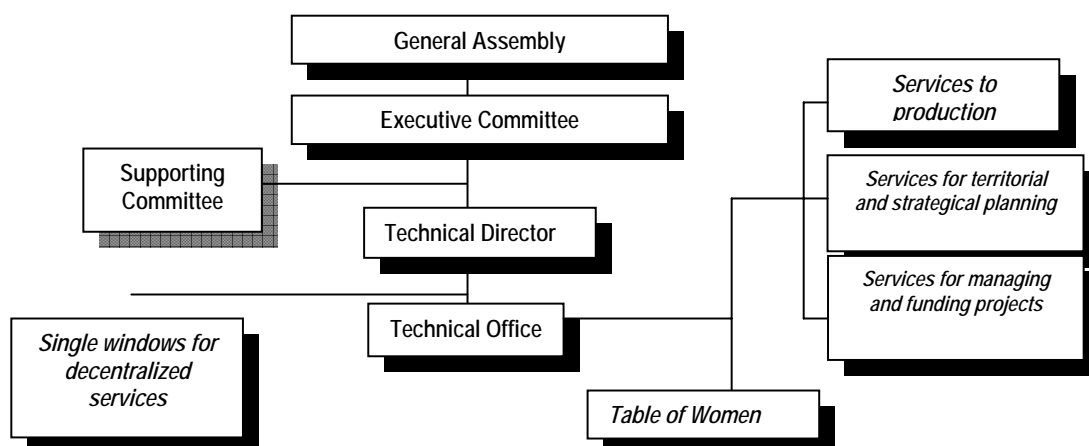
Of special importance is the availability of a fund to facilitate access to credit for small entrepreneurs, peasants, cooperatives, and, in general, all the people which cannot access to financial support through traditional ways. In fact, for this category of people, there are many kinds of restrictions: lack of guarantors, lack of bank references, difficulties to access to information related to credit programs and other opportunities, difficult bureaucratic procedures, bank's lack of trust in their clients redeeming the loan.

Therefore, it is important that LEDAs keep available a capital in order to form a credit fund and to support business activities. In general this capital is guaranteed by national or international institutions and programs. A "Guarantee Fund", created through agreements with a local bank, covers the bank against the risk of not receiving their loans, facilitates the use of these loans for the less advantaged people, and often allows the availability of a credit two or three times higher than the invested capital. According to these agreements, LEDAs carry out many tasks to minimize risks. They distribute information on how to incur loans at special conditions; select business ideas between the most feasible and coherent with territorial development strategies which follow the goal of a sustainable and equitable development; support candidates during the preparation of business plans and bureaucratic procedures for the bank; monitor during the loan request process; provide technical assistance even after loan disbursement; contribute to loan recoupment, thanks to people participation within the Agency. In 15 years, the 60 LEDAs members of the ILS LEDA network have recorded a credit return rate over then 90%.

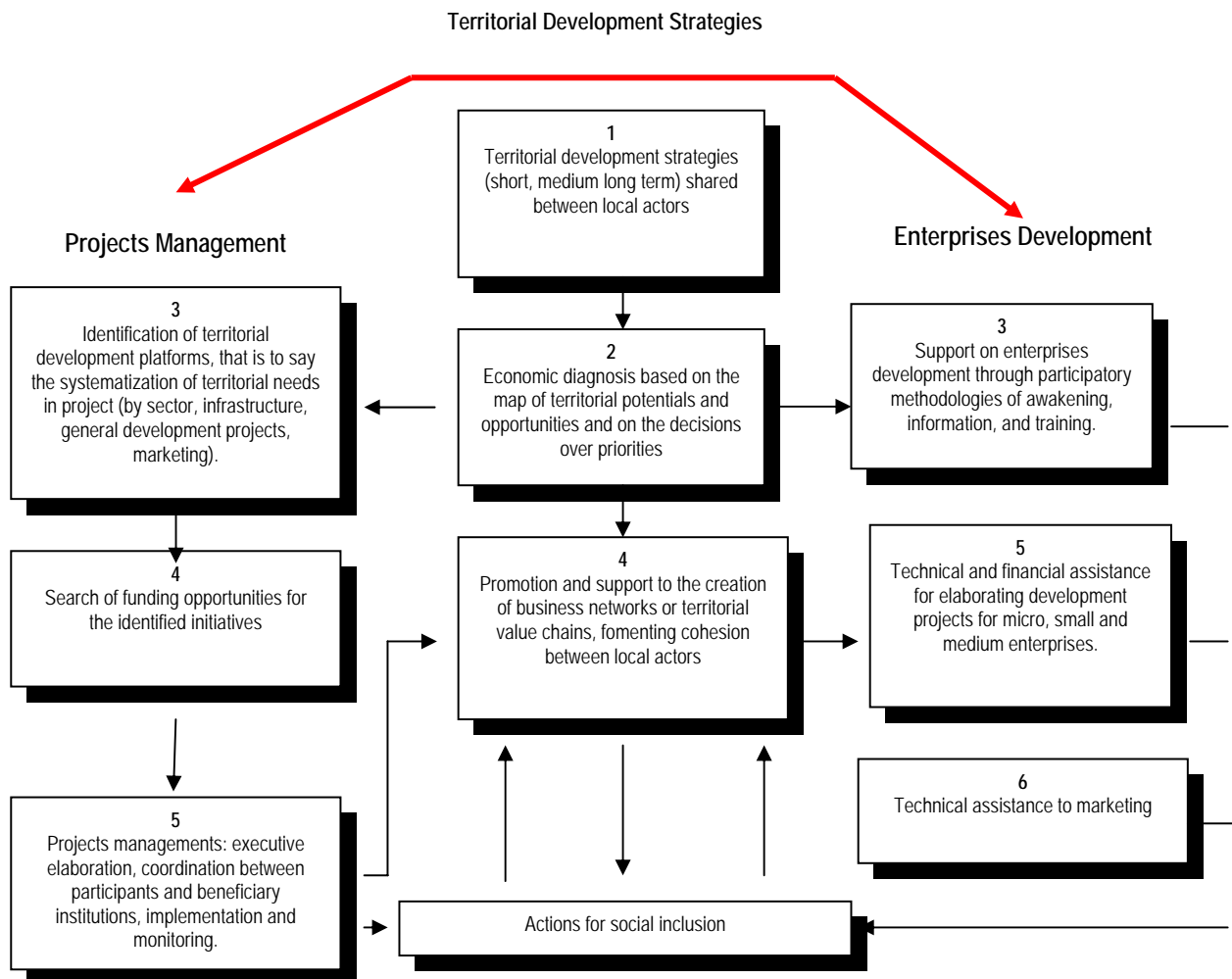
Every LEDA organizes the services requested by the population and the institutions of each territory. The most common services provided are the following.

### *The organizational and operative model*

A LEDA is generally composed by three principal bodies: an Assembly of partners, where every institution holds one voice and one vote, an executive committee and technical management.



An Agency operates following two general guidelines: developing local enterprises and implementing projects coherently with the territorial development strategies.



*The services provided by a LEDA*

In general LEDA's services can be represented as follows:

<p style="text-align: center;"><b>Territorial animation</b></p> <p>Territorial diagnosis Promotion of a favorable business environment Value chains promotion Support to disadvantaged people Support to businesses of women</p>	<p style="text-align: center;"><b>Support to enterprises</b></p> <p>Business plan Technical assistance Access to credit Innovation and technological transfer promotion</p>
<p style="text-align: center;"><b>Planning support</b></p> <p>Support to local administration Prioritization for strategic processes and financial management Creation of bank projects Informacion systems creation</p>	<p style="text-align: center;"><b>Territorial marketing</b></p> <p>Territorial marketing Territorial brands and symbol Cohesion promotion and internal support Internationalization Promotion of internacional alliances</p>



#### 4. How to establish a new LEDA

The strategies, objectives, specific organizational arrangements and services offered by a LEDA always depend on cultural, political, institutional, economic and social context of each territory. However, there are some important factors which cause LEDA's success and should be taken into account in every country.

##### *Promoting methodology*

A bottom-up approach can be used as follows:

- participation and active agreements of public and private local actors, including communities;
- a compromise on vision, strategies, objectives, tools for territorial development. The agreement between local actors has to be achieved in different forms and times;
- the elaboration of a LEDA's business plan which includes objectives, organization, services, and financial plans for long term sustainability.

##### *Minimal conditions for success*

Minimal conditions for LEDA's success are the following:

- a legal and administrative autonomy needed to reduce the risk of dependency on institutions and the most powerful organizations;
- public-private partnership, needed to guarantee a constant balance between economic growth and human development, equity and environmental protection;
- strategies focused on endogenous potential valorization with the aim of reducing the risk of exploitation by strong national and international powers;
- use of an integrated system of services;
- managers and experts with a professional quality; thanks to them, every other condition for success is guaranteed. This requires some strict selection mechanisms and a management of human resources.

##### *Financial conditions*

In order to promote a LEDA, an initial investment financing the following activities is needed:

- technical assistance for the initial process of promotion and installation;
- professional training for local actors;
- availability of a capital for fix investments: infrastructure, office equipments, means of transports, service contracts;
- availability of a capital for covering LEDA's operational charges during the starting up, until the achievement of financial autonomy;
- availability of a capital for establishing a Credit Fund (Guarantee Fund and other mechanisms to achieve credit return).

If, for example, a LEDA's annual Budget is 60,000 USD, a capital for a credit fund between 600,000 y 730,000 USD is needed to guarantee 60-75% of LEDA's sustainability<sup>1</sup> (considering and interest rate of 6%).

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<sup>1</sup> For a more detailed calculation view G. Canzanelli: "**Method for calculating the LEDA financial requirements and the Credit Fund needs**"