



## **Assessment of Local Economic Development (LED) Approach in Ethiopia**



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# List of Acronyms

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ADLI	Agricultural Development Led Industrialization
ACSI	Amhara Credit and Saving Institute
BoFED	Bureau of Finance and Economic Development
BDRC	Business Development Resource Centre
CA	City Administration
CAP	Competitiveness Action Plans
CBOs	Community Based Organizations
CED	Community Economic Development
COGTA	Department of Co-operative Governance and Traditional Affairs (formerly Department of Provincial and Local Government)
CSP	Cross-sector partnership
CSO	Civil Society Organization
DEDT	Department of Economic Development and Tourism
DTI	Department of Trade and Industry
DPLG	Department of Provincial and Local Government
EU	European Union
EWEA	Ethiopian Women Exporter's Association
GEAR	Growth, Employment and Redistribution Strategy
GTP	Growth and Transformation Plan
IIBCA	International Institute for Capacity Building in Africa
LCF	Local Competitiveness Fund
LCFI	Local Competitiveness Fund Implementation projects
LED	Local Economic Development
LEDF	Local Economic Development Fund
MFI	Micro Finance Institute
MSE	Micro-Small Enterprises
MoFED	Ministry of Finance and Economic Development
MOU	Memorandum of Understanding
NIM	National Implementation Modality
NBI	National Business Initiative
NCF	Networking and Co-operation Fund
NGOs	Non-governmental Organizations
OCSSCO	Oromiya Credit and Saving Share Company
OMFI	Omo Micro-Finance Institution
PASDEP	Plan for Accelerated and Sustainable Development to end Poverty
PPDF	Public-Private Dialogue Forum
PPP	Public-Private Partnership
PWD	People with disabilities
PLWHA	People Living With HIV/AIDS
RDP	Reconstruction and Development Program
REED	Rural economic and enterprise development
RLF	Revolving Loan Fund
SDPRP	Sustainable development and poverty reduction program
SNNP	Southern Nations, Nationalities and Peoples Region

TOT	Training of Trainers
TVET	Technical and Vocational Education and Training
UCLGA	United Cities and Local Government of Africa
UNDP	United Nations Development Program

# Executive Summary

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This is an assessment report of the LED program which has been implemented in Ethiopia in the seven localities of the four big regions. The seven localities are Assela, Nekemte, Awassa, Sodo, Bahridar, Mekele and Adigrat. The LED program is a pilot program initiated by UNDP/MoFED and implemented by local actors at regional and local level since 2009. The program is a multi-year program with an initial UNDP allocation of US \$10 million for the period 2009-2012.

The general objective of the report is to make an overall assessment of the LED approach with a focus on sustainability and scalability of the program and the way forward to influence upstream policy in implementing LED in Ethiopia. More specifically, the assessment reviews the current LED program, identifies lessons in the forms of strength and weaknesses, documents best practices, if any, and identifies ways forward.

The assessment has depended on extensive consultations with LED implementers and beneficiaries at city and regional levels. All seven localities were visited and extensive consultations were conducted in the form of key informant interviewees and focus group discussion. Moreover, strategic plans, policy documents and relevant secondary materials were also reviewed.

The report has seven sections:

- Section one is an introductory section which provided background information, articulated the objectives, the analytical frame and methodology of the study;
- Section two highlighted the LED concept and provided some international experience from Africa, Asia and Europe;
- Section three reviews LED relevant policies in Ethiopia to identify possible synergies between LED and the policies;
- Section four reviews the three components of the LED program namely the institutional arrangement, capacity building and enterprise development and identifies issues pertaining to each;
- Section five highlights the positive benefits of the LED practice qualitatively and makes an observation on some best practices of the program;
- Section six presents strategic areas that need to be deepened, replicated or initiated for greater impacts; and
- Section seven concludes

The following are the main findings of the study

## **i) Governance and Policy environment**

Ethiopia has embarked on federal and decentralized forms of government since 1990s. Woreda and urban governments figure prominently in the Ethiopian governance system. These local governments have authority and autonomy to undertake social and economic

development as underlined in the different regional constitutions. Ethiopia's decentralization has provided space and opportunities for local governments to determine their future and spearhead their development. In other words, the decentralized structure in Ethiopia has created an enabling environment to undertake LED in Ethiopia. In addition, the fact that cities have their own budget empowers them to implement local economic development from own sources.

The Growth and Transformation Plan (2010/11-2014/15) has an overall objective of attaining broad-based, fast and equitable economic growth over the plan period. These are envisaged to be achieved through strategic pillars. The plan focuses on growth sectors particularly agriculture, industry as it also focuses on social development, infrastructure and governance. GTP and LED are closely aligned. As GTP focuses on agriculture, LED can assist this initiative by creating enterprises that will be closely linked to agricultural marketing, processing and input provisions. The closest link between GTP and LED, however, comes directly through the micro and small enterprise and the urban development components of GTP. Moreover as LED aspires to create efficient and functioning local economies, it has a direct alignment with growth and transformation efforts. The urban policy, the MSE strategy and the regional development framework provide additional opportunities for the implementation of LED in Ethiopia.

## **ii) Institutional arrangements for LED**

The LED program has created a partnership arrangement in leading the program by bringing together different stakeholders in the form of steering and technical committees. The committees have responsibilities of coordinating the program, approving projects and disbursing funds. The program has been able to create political champions as the Mayor is the lead person at city levels. In addition, the program has been able to mobilize local resources in kind and in cash that contributed significantly to its sustainability. The lack of institutionalization, limited participation of the non-state actors, the network structure of the committees' operation and limited integration of LED with local planning and budgeting are, however, weaknesses that need to be addressed in the future.

## **iii) Capacity building**

Level one component of the project is entirely devoted to capacity building of the executives and beneficiaries. This component is critical since it creates an enabling environment for LED implementation by raising implementer's capacity and beneficiaries' skills and knowledge. In the first phase of the programme, during 2009, the capacity building was largely focused on foundational activities to create awareness and to integrate the programme within the regions and localities. This was represented by numerous training and workshop exercises including international field visits to South Africa.

Once micro-enterprise activities had moved into full implementation in 2010, the focus shifted to various direct interventions to capacitate beneficiaries through basic training in business management, financial management (bookkeeping) at a significant scale. During

2010 more than 3000 youth, women and members of vulnerable groups were trained in vocational and entrepreneurial skills in the 7 localities.

Despite the commendable capacity building efforts, however, LED leadership in the study localities is far from desirable. This signifies that there is a need for continuous capacity building. More over high turnover among executives, the supply-based nature of training and its limited duration reduce the effectiveness of the capacity building effort.

#### **iv) Enterprise Development**

Enterprise development is the basic entry point of the LED program in Ethiopia. The purpose is to create employment and establish MSEs particularly for the vulnerable: the women, the youth and the disabled. The enterprise development has been able to create employment for 10 110 beneficiaries of the targeted groups (unemployed women, men, youth and vulnerable groups) and established or expanded 7715 micro small enterprises with a total budget of Birr 89 831 664 (UNDP Birr 72 696 514 Local Budget 17 134 409) over the past two years. The local budgets were largely in-kind contributions in the form of land and premises. The initial focus of enterprise development was on new-start ups but later it included business expansion and retention. The enterprise development component has also introduced an innovative micro-finance strategy that created access to the poor in the form of a revolving fund. By focussing on the poor, the cooperatives and single MSEs, the approach seems to have weaknesses of targeting, marginalizing individual entrepreneurs, limited networking and poor market linkage.

#### **v) Positive benefits and best practices**

The program has generated some positive benefits and best practices in different localities. Though the positive benefits are difficult to quantify, the program has contributed greatly to local poverty reduction, provided goods and services to the community, introduced locally owned and managed development approach, encouraged developmental local government, contributed to improving local business environment and helped to mobilize resources. Some of the best practiced noted in different localities include resource mobilization from civil society, supporting businesses expansion and retention, forming partnership between new and existing firms, fostering market linkages, supporting technology transfers, undertaking city promotion activities, forming wider stakeholders forums and helping the emergence of entrepreneurial talent.

#### **vi) Strategies to sustain and scale up**

The LED program under level one and level two project components has ventured into several initiatives which have shown significant achievements but also some gaps and weaknesses. The main purpose of this report is to use these findings as opportunities to reflect on appropriate path that leads to a wider LED initiative in Ethiopia. The two issues of sustainability and scaling up are critical components of any program that is aimed at upgrading. Both require identification and isolation of strategic intervention that could be strengthened to sustain the program and those which are working well for possible

replication. In addition, it is in order to streamline and direct programs for wider impacts which help both the sustainability and scaling up effort. In this regard the assessment has found that the capacity building initiative, the effort to institute public-private dialogue forum, the effort to stimulate business enabling environment, the process of involving the private sector in LED activities, the implementation of revolving fund and the gender inclusiveness of the program need to be strengthened and deepened. It is very critical to get these initiatives working properly to ensure program sustainability. On the other hand, the study has found that the program was successful in getting a political champion, mobilizing local resources, forging partnership, instituting enterprise and locality development and micro finance strategy which can easily be replicated in other settings and towns.

A wider LED initiative in Ethiopia however, requires measures in three key critical areas. These are policy and institutional issues; enterprise development issues and local economy development issues. Under policy and institutional issues, it is recommended to have a national LED policy framework and LED institutionalization. Under enterprise development issues measures which ensure sustainability and growth of enterprises are outlined. These include market development approach, entrepreneurship development, encouraging enterprises that contribute to value addition, rural-urban linkage and technology transfer as well as green investment. The local economy development issue focuses on strengthening the competitiveness of the economy.

The report also recommends the importance of having a diversified source of finance for LED programs in Ethiopia. Government, public entities, loan and grants are different sources of finance relevant for Ethiopia. Finally, the importance of creating a strategic alliance with partners that undertake LED activities is also emphasized. This outlined areas of synergy between LED activities and different government, non-government and donor agencies.

## **vi) Conclusion**

The paper concluded that the pilot program has shown that LED is beneficial, appropriate and useful for Ethiopian cities. With proper policy, strategy and institution, LED could even result in much better outcome and effect. It is an indispensable instrument for city growth and poverty reduction and for the goals of Growth and Transformation Plan. There is thus a need to scale up LED to other localities, strengthen and sustain LED in the existing localities and forge a national umbrella that requires localities to embark on local economic development initiatives.



# 1 Chapter 1: Introduction

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## 1.1 Background

Increasingly economic development is becoming a localized phenomenon and with it there is a shift in the locus of responsibility for development planning from national to sub-national or local levels.

There are several reasons for the 'local level' to exert strong attraction for development and policy making. First, globalization has become a vital driver of changing planning approaches towards local and regional development. This is because local economies are affected by global changes such as market liberalization, global production system, and changing terms of trade. Globalization has exposed even the remote space to competition and has forced firms, localities and regions to react and adjust to new economic conditions. (Pike et al, 2006).

Second, decentralization has created an opportunity to devolve powers, authorities and resources to local governments. At the same time, decentralization has presented local authorities with challenges to find innovative ways to respond to poverty, encourage development, provide infrastructure and facilitate growth (Nel and Rogerson, 2005 cited in Ndabeni, 2006). Such challenges necessitate local authorities to develop locally responsive strategies to economic development issues.

Third, irrespective of decentralization policies, local actors become involved in economic promotion activities since problems of unemployment and poverty are most urgently faced at locality level (Meyer Stamer, 2003). They also become involved in promoting economic development to raise their legitimacy with the local electorate and possibly improve the income stream for local government (Cunningham and Meyer Stamer, 2005).

Fourth, national and provincial governments encourage local initiatives since they have neither the information nor the skills and funds to promote active economic development initiatives (ibid). Nel (2003) adds issues of imposed structural adjustment, debt crisis, currency devaluation and a series of economic and political shocks in the region to the list of causes for the emergence of LED particularly in the south.

LED is not intended to replace sectoral policies but instead to complement them while building endogenous capacity (Parrayu and Syebubakar, 2008). In situations where there is regional disparity in poverty and development, macroeconomic instruments alone do not provide the policy space for employment, income generation and poverty reduction (ibid). The LED approach thus plays a complementary role to the macroeconomic instruments in addressing these problems.

LED has been widely practiced in developed countries both by local government and the community (Nel, 2001). In these countries, it has emerged as a response to locality-specific development problems (Nel cited in Rodriquez-pose and Tijmstra, 2005). Its implementation

is limited in less developed countries, though its potential has been established (ibid). It is claimed that strategically planned LED provides a more flexible and effective approach to simultaneously enhance economic growth and reduce poverty in less developed countries (ibid). The activities of the United Cities and Local Government of Africa (UCLGA) have also signalled the rising importance of LED in sub-Saharan Africa (Rogerson, 2009). The UCLGA identified LED as one of the six priority areas for the period 2006-15<sup>3</sup>. Among the different African countries, South Africa has taken the lead where LED has advanced from isolated local development intervention mainly in cities to an obligatory mandate for all localities in terms of the national constitution (Nel and Rogerson, 2005).

Ethiopia has laid the foundation for poverty reduction and economic growth by pursuing broad-based and accelerated development policies. The formulation of comprehensive home-grown poverty reduction programs namely the SDPRP (2002/03- 2004/05) and PASDEP (2005/06-2009/10) and the achievements gained so far show that the country is progressing well in its poverty reduction and economic growth efforts. The second wave of decentralization which took place in the year 2001/02 has rendered local governments particularly *woredas* and municipalities to be centres of service delivery, socio-economic development and grass root participation. The Growth and Transformation Plan (GTP) (2011/12-2015/16), among others, aims at maintaining the growth rate of 11.0% registered in the PASDEP period and meeting the MDG goals.

Despite the encouraging growth and the poverty reduction trajectories of the country, the existence of limited local capacities to deliver economic and social services, the prevalence of high unemployment and inequality necessitate a local development approach. In addition, there is a need for a development approach that boosts economic growth and employment in the national context. The LED approach has a potential of fostering economic growth and reducing poverty which are the two most important development agendas of the country.

The Government of Ethiopia, with the support of UNDP, has been implementing a multi-year programme, entitled “Local Economic Development” (LED) in seven towns of the four big regions since May 2009. With an initial UNDP’s allocation of US \$10 million during 2009-2012, the Ministry of Finance and Economic Development (MoFED) and its Bureaus (BoFED) have been coordinating implementation of this innovative approach of LED in Asella and Nekemte (Oromia region), Bahar Dar (Amhara region), Awassa and Sodo (SNNP region), and Mekele and Adigrat (Tigray region). LED has been limited to these seven localities since the program is in its pilot phase.

LED is a learning process as there are no conventional formulae for success. It has to be adapted to specific conditions and requirements and there is also a need to create national consensus on the program. There is therefore a need for assessing activities on the ground in order to learn from mistakes and uphold positive outcomes. Information generated in an assessment activity would help refocus activities towards the desired goals and objectives. It is against this backdrop that this report offers an assessment of the current status and potential strategic directions for future programmatic development of LED in Ethiopia.

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<sup>3</sup> The United Cities and Local Governments of Africa is the united voice, and representative of local government in Africa, an association of local governments, individuals and entities interested in African local government (Rogerson, 2009)

## 1.2 Objectives of the Study

The general objective of the study is to make an overall assessment of the LED approach currently practiced in seven localities of Ethiopia with a focus on sustainability and scalability of the program and ways forward to influence upstream policy in implementing LED in Ethiopia.

The Specific objectives include:

1. Assist the LED stakeholders, including MoFED and UNDP, to determine the need for follow-up on the intervention, and inform strategic direction for the future course of the approach;
2. Review and diagnose the possible strategic alignment of the LED Program with the new five years Growth and Transformation Plan of the Government of Ethiopia with the intention of paving the way for LED to be an integral part of the same for the next five years;
3. Assess the value and opportunity for scaling up the LED good practices and lessons learned as well as the overall approach and intervention;
4. Look into possibility of improving partnership with the potential stakeholders, including the donor community;
5. Document and disseminate good practices, success stories and lessons learned that will contribute to UNDP and the partners' learning;

## 1.3 Analytical Framework

The scope of this study is limited to assessing the approach of LED as it is practiced in Ethiopia. It is not a mid-term or end of project evaluation where outcomes and outputs are to be judged against expected results. Instead we focus on process evaluation, identify issues and document strength and weaknesses.

There are several analytical frameworks that are useful in assessing Local Economic Development approaches and implementation. Some of these are:

- The Rural Economic and Enterprise Development (REED) framework of the Natural Resources Institute (NRI) which outlines ten cornerstones pertaining to enabling framework, structures and processes, private sector, infrastructure, markets, services, management capacity, local organization;
- The World Bank approach including issues of livability, bankability, governance and management and competitiveness;
- The compass of local competitiveness pertaining to economic and financial factors, internal processes, relationship with external stakeholders and the learning perspective

For this assessment, we propose to use a framework that is adapted from these different frameworks, but to focus on the aspects that are most aligned to those set out in the Terms of Reference (TOR) linked to the LED approach in Ethiopia. As such the following five factors constitute the focus of the framework for this assessment:

Factors	Description of Factors
<b>1. Assessing Economic and Financial Factors</b>	<ul style="list-style-type: none"> <li>• Growth, business growth, new start up businesses, new employment figures, increase in income, etc</li> <li>• Viability of projects</li> <li>• Access to finance and financing mechanisms</li> <li>• Access to markets</li> <li>• Financial capacity and resources of local authority</li> </ul>
<b>2. Assessing governance and management</b>	<ul style="list-style-type: none"> <li>• Roles and functions of actors in LED institutions (de facto and de jure)</li> <li>• Effectiveness of LED institutional structures (inclusiveness of actors, gender representation to consider needs of women, transparency in sharing information, accountability to the program)</li> <li>• Public private partnerships</li> <li>• Horizontal and vertical Coordination</li> <li>• Mechanisms, structures and processes that address local need</li> </ul>
<b>3. An enabling environment</b>	<ul style="list-style-type: none"> <li>• A policy framework that informs and supports LED</li> <li>• Business development and support services</li> <li>• Incentive for private sector development</li> <li>• Culture of entrepreneurialism</li> </ul>
<b>4. Relationships with external stakeholders</b>	<ul style="list-style-type: none"> <li>• Stakeholders outside LED, but impacting on LED, e.g. associations, funding agencies, donors, etc</li> </ul>
<b>5. Capacity building and Learning</b>	<ul style="list-style-type: none"> <li>• Understandings, expectations, roles of LED by municipal officials, mayors, BOFED, MOFED, donor agencies</li> <li>• Constant upgrading of understanding of economic data, reality, opportunities, etc in LED</li> <li>• Learning centres, training and study tours</li> <li>• Learning from failure and experience</li> </ul>

**Table 1: Framework for Assessing LED in Ethiopia: Source: Own adaptation**

## 1.4 Methodology

The major phases of the methodology used in achieving the objectives of the study were:

- Phase 1: Review of existing documentation of the LED programs and LED relevant policies and programs
- Phase 2: Field study and data collection

### 1.4.1 Data collected

The information collected included LED set up and its institutional structure, LED promotional activities, LED services in place, LED activities, beneficiary involvement and changes in livelihood, stakeholders' involvement, and LED-relevant policies and programs.

### 1.4.2 Data collection techniques

The following data collection techniques were used:

- Unstructured interview at local level: Unstructured interview was conducted at local level with the help of checklists. Local governments, focal persons, technical and steering committee members were interviewed regarding LED setup, its strength and weaknesses, services rendered, participation in LED promotion, success and failure stories, gaps and threats etc
- Focus groups: Focus group discussion was conducted with beneficiaries regarding their operation, access to and adequacy of services, improvements in their livelihood, beneficiary needs and capacity problems. Twenty one focus group discussions were arranged with beneficiaries with 3 focus groups per city.
- Unstructured interview with Federal stakeholders: Unstructured interview using checklists was conducted with donors, government agencies and private institutions at federal level regarding their mandates and their complementarities with LED activities and partnership formation
- Secondary information: This pertains to relevant policies and programs at national, regional and local level. In addition, specific documents on LED such as LED strategic plans and UNDP program documents were reviewed to learn the essence of LED in Ethiopia. Moreover quantitative data pertaining to the achievements and activities of LED at local level were collected from each locality.

### 1.4.3 Assessment and analysis of information (Phase 3)

#### 1.4.3.1 Data analysis

Data was analyzed qualitatively with the purpose of synthesizing stakeholders' and beneficiaries' perspectives and presenting evidence based judgements on key issues of the programme: institutional arrangements, enterprise development, capacity building, and funding arrangements.

### 1.5 Organization of the report

The body of this report is organized into seven sections. Following the introductory section, section two briefly presents the concept of local economic development with some international experience in the field. The experiences of three countries namely South Africa, Germany and Indonesia representing three continents Africa, Europe and Asia respectively are presented. Section three discusses the governance and policy environment for LED in Ethiopia. Section four is the assessment of the current LED program. This section looks at institutional arrangements, capacity building, enterprise development and employment as program components and highlights the strength and weaknesses of each. Section five highlights the best practices and positive gains of the LED program. Section six is a forward looking section and presents strategic areas that need to be deepened (consolidated), replicated and initiated or re-designed in order for LED to have a larger impact. Section seven concludes.

## 2 Chapter 2: The Concept of LED and selected international experiences in LED

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### 2.1 The concept of LED

A shift in development thinking has focused on bottom-up/endogenous development emphasizing local action as opposed to top-down approach. Under this circumstance, the region or locality emerges as the relevant economic space 'in and for which coordinated efforts to promote wealth creating economic activities can meaningfully be undertaken' (Cooke cited in Rogerson, 1995). Thus LED, as a bottom-up and endogenous development approach is used to shift responsibility for dealing with unemployment, poverty reduction and economic growth policies to local authority.

A common definition of LED is that it is a process in which partnership between local government, the private sector and the community is established to manage local and access external resources to stimulate the economy of a well defined territory (Meyer Stamer, 2003). Blakey (1994, xvi) defined LED as 'the process in which local governments or community-based organizations engage to stimulate or maintain business activity and /or employment. The principal goal of local economic development is to stimulate local employment opportunities in sectors that improve the community, using existing human, natural and institutional resources'.

The USAID defines LED as the process of strategic planning through partnership between local government, the business community and NGOs. According to the USAID, the objective is to stimulate investment that will promote sustained high growth in a local economy. The main focus of LED is on a region's potential. In this regard, stakeholders come together to identify the comparative advantages of localities, new or existing market for business opportunities as well as obstacles to business expansion and creation. According to Rodriguiz-pose and Tijnstra, (2006), LED refers to the development strategies that are territorially based, locally owned and managed and aimed primarily at increasing employment and economic growth. The following guiding principles capture the basic elements of LED (Table 2).

Guiding principle	Explanations
1. A strategically planned process	Based on understanding of local social and economic conditions and builds on competitive advantages and addressing threats and weaknesses
2. Based on a territorial approach	Ideally based on 'functional economic space at regional or city/region level, incorporating rural and urban space, less sectoral approaches
3. Locally owned, designed and delivered	Every strategy needs to be designed and delivered locally to address local priorities and unique competitive positions
4. Best achieved through partnership both for design and implementation	LED strategies are normally designed by partnership of public, private and community actors led by local governments
5. Reinforced by integrated government actions; vertical and horizontal tiers	All government tiers are necessary partners in LED; each tier should mutually influence and integrate both national and local priorities
6. Focussed on enabling a conducive local business environment for all actors	LED enables private sector growth, including through reducing transaction cost, unnecessary red-tape, and knowledge asymmetries
7. Involves integrated interventions across multiple sectors	Traditionally supply side approaches addressed specific sectors; LED addresses multiple sectors and enables synergies to be maximized
8. Involves calibrating interventions in hard, soft and institutional infrastructure	Investments in human capital, economic infrastructure, institutional support and inclusion programmes are all necessary component
9. Prioritized development and retention of local business and people	Earlier approaches to LED focused on investment attraction which was unsustainable. Focus now is on growing local businesses
10. Projects are delivered by all actors, public, private and NGOs	Every sector has specific competencies in delivering LED projects

**Table 2: Guiding Principles of LED (Source:Khanya-aicdd, 2007)**

### 2.1.1 Broad strategic approaches of LED

Though different countries practice LED, its focus differs from place to place. There are two broad strategic orientations to local economic development. These are the market-led approach based on business development and the bottom up or market-critical approach focussing on poverty reduction. Both approaches are equally valid and need to be pursued to meet the needs of a wide range of stakeholders. It is also important to note that locality development cuts across both strategic approaches of LED.

#### 2.1.1.1 The market-driven approach

The market-driven approach focuses on the pursuit of economic growth, investment attraction, and courting high profile business. It enables local economies to adjust more successfully to macro-economic reforms (Scott and Pawson, 1999). It addresses the goals



of individual self-reliance, entrepreneurship, expansion of the market, competitiveness, reduction of unemployment and sustainable growth (Rogerson, 2000). The various interventions in market-driven approach include 1) locational (general tax incentive, enterprise zones, industrial parks), 2) pro-globalization (sister cities programme, export promotion, foreign trade zones, attraction of international direct investment), 3) general entrepreneurial (venture capital provision, targeted tax incentive), 4) entrepreneurial mercantile (business incubators, equity participation, local development corporations, and 5) human capital (employment training, human capital initiatives) (Clarke and Gaile cited in Rogerson, 2000). Beside the above and other growth oriented interventions, value chain development, cluster development, and fostering inter-firm learning and innovations are seen as critical success factors in improving the competitiveness and productivity of a locality.

#### 2.1.1.2 Pro-poor LED

LED in the South is gaining popularity as pro-poor growth model. There are different dimensions in pro-poor LED. The first relates to the role and functions of municipality or the meso-level intervention in poverty reduction. It is understood that municipalities are well placed to undertake local planning in the area of poverty alleviation in association with the private sector, NGOs and CBOs (Pieterse, 2000). The poverty reduction roles of municipalities involve facilitation, coordination, planning and programming, implementation and monitoring of different infrastructure. These include municipal services such as land management, housing and housing finance, municipal infrastructure, micro enterprises and finance, urban agriculture, access to community credit, access to justice and concerns of vulnerable groups (Wegelin 1999). Typical areas of municipal intervention are regulatory frameworks, municipal access to services, and employment creation (Rogerson, 2002).

The other dimension of pro-poor LED is based on community-based economic development. The essence of community economic development (CED) is to facilitate household diversification of economic activity as the principal way to improve livelihood and reduce poverty and vulnerability. Helmsing (2005) has noted that community economic development has 5 broad aims: i) to stimulate a sense of community; ii) to promote self-help and empowerment; iii) to contribute to the generation of (self-)employment; iv) to improve living and working conditions in settlements; and v) to create public and community services. Helmsing (2005) notes that most CED activities in Africa have related to the following components; creating local safety nets, housing improvement and settlement upgrading, basic service delivery; micro-enterprise programmes. CED enterprises are based on a consideration of the relationship between economic factors and other community elements such as housing, education, the natural environment, health and the arts. CED has emerged as an alternative to conventional approaches to economic development. It has evolved as a participatory, holistic process that leads to positive changes in communities by creating employment, reducing poverty, contributing to the health of the natural environment, stabilizing local economies and increasing community control.

The distinction between community and enterprise development is often blurred in low income communities or middle income countries. A false dichotomy between community and enterprise development has often been made in development policy circles. In most African countries, the vast majority of the poor engage in activities that mix self employment,

employment for businesses and social activities. These form part of the livelihood strategies of the poor

### 2.1.1.3 Locality development/enabling environment

One of the activities of LED that is relevant both for market-driven and pro-poor LED are locality development or the creation of enabling environment. In the LED context, locality development refers to the improvement of those factors, in most cases “public goods”, that determine the attractiveness of a locality for business expansion and investment. At its most fundamental or “tangible” level are issues relating to economic infrastructure such as transport infrastructure, communications infrastructure, availability of land, predictable energy and cost of real estate. But there is also what is referred to as the intangible factors relevant for companies, which are “soft” factors and also determine the “enabling business environment”. These include: competence, efficiency and business-mindedness of public administration, economic climate of town and region, image of town and region, proximity of related and supporting industries, universities, research and development infrastructure, competence of business associations etc.

## 2.2 International experience in LED

### 2.2.1 LED Experience in South Africa

#### 2.2.1.1 Brief History of LED in South Africa

Given the very statist, centrally controlled and planned environment of apartheid rule, there was little space for LED or any local initiative in the apartheid era up until the early 1990's. However during the dying days of the apartheid era (1990 onwards) and through the transition phase to a democratic South Africa, LED began to enter the public discourse through both the organized business formations such as the Urban Foundation and the National Business Initiative(NBI), as well as in the National Civic Organizations, who all published LED strategy documents with strongly different emphases – the former advocating LED along the lines of western LED experience and the latter emphasizing community dimensions.<sup>4</sup>

Both the process of finalizing a new constitution and the new ANC led South African government's policy and legislative framework had important implications for the trajectory of Local economic development (LED) in the first 17 years of South Africa's new democracy (1994 – 2011). The key laws and policies that framed local economic development include:

- The South African Constitution (RSA, 1996) whose Section 152 outlines one of the objective or mandates of local government as being to promote “social and economic development”
- The Transitional Local Government Act and the White Paper on Local Government of (1998) which redefined the role of local government towards “developmental Local government”.

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<sup>4</sup> E Nel 2002

- The Municipal Systems Act (no.32 of 2000) which prescribes the requirement for each municipality to produce an Integrated Development Plan (IDP) of which an LED plan is an integral element.

#### 2.2.1.2. Conflicting paradigms and emphasis: Growth and Poverty alleviation

The key national policy framework which drove development in the first few years of South African democracy was the Reconstruction and Development Programme (RDP) with a strong focus on the delivery of basic needs and social goods including water, roads, housing, electricity and other basic infrastructure. But by 1996 there was growing concern amongst policy makers about the sustainability of the policy where an extensive social development programme occurred alongside rising unemployment and growing poverty, and where social investment had yet to be linked to employment and growth.<sup>5</sup>

A key national economic shift was the replacement of the Reconstruction and Development Programme (RDP) with the adoption of the Growth, Employment and Redistribution Strategy (GEAR) in 1996. The new focus was on securing “sustained growth”, and a competitive outward oriented economy<sup>6</sup> with a high growth target of 6% based on a stable macro – economic environment.

The policy shift was reflected in a contested national discourse as a shift from ‘pro-poor towards more business friendly pro-growth and competitive economic policies despite attempts by the ANC government to reflect it as one of policy refinement and continuity rather than a shift or divergence. This paradigmatic tension over growth and poverty alleviation was to be reflected in divergent, often conflicting approaches to LED over the next 15 years.

On the one hand the Department of Provincial and Local Government (DPLG) with a national mandate over local government placed specific focus of LED on poverty alleviation within poor communities. In a policy paper entitled “Refocusing Development on the Poor (June 2001), it advocated for a people-centred approach focused on poor areas.<sup>7</sup> On the other hand, the Department of Trade and Industry (DTI) placed stress on the need for market oriented LED with the context of international competitiveness.

#### 2.2.1.3 The DPLG Local Economic Development Fund Experience

Importantly the DPLG was in 1999 to launch a funding instrument called the LED Fund (LEDF) to underpin its people centred LED approach. The Fund provided support to municipalities of up to R1, 5 million (about EB 3, 6 million) for projects that would lead to poverty alleviation and job creation within their localities. Projects included the provision of business facilities, promotion of agri-industry, tourism initiatives, and human resource development programmes.<sup>8</sup>

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<sup>5</sup> EU: Feasibility Study for a Programme of Support for LED In KZN

<sup>6</sup> Ministry of Finance: GEAR (1996)

<sup>7</sup> C Patterson: GTZ Country Report : LED in South Africa (March 2008) citing Hindson D and Vincente C (Whither LED?) (2003)

<sup>8</sup> C Patterson: GTZ Country Report : LED in South Africa (March 2008)

In 2003, the programme was subject to a detailed evaluation. The findings are set out in some detail below as they resonate strongly with some of the issues emerging from the current LED programme experience in Ethiopia.<sup>9</sup>

In terms of the enterprise dimensions they were as follows: the limited ability of the programme to promote competitive enterprises, job creation and financial independence among its beneficiaries, lack of any linkages to the broader economic environment or any strategy to promote profitability, there was no support to existing entrepreneurs, in spite of clear evidence that where funds were released in support of existing activities they had a greater impact, there were very few examples of LEDF projects being able to leverage private sector involvement.

At the locality or municipal institutional development capacity building level, the review indicated that there was a dearth of development skills; failure to form partnerships with business, and that very few municipalities had established the requisite development units to administer LED responsibilities. Most critically, provincial and national governments did not contribute to the development of LED as a leading edge principle within municipalities.

#### 2.2.1.4 The uneven shift from LED as poverty alleviation to growth through enterprise and competitiveness (2004-2010); the role of the state and the market

In a context of growing inequality and unemployment, President Thabo Mbeki introduced his “two economies thesis” in an ANC newsletter in August 2003. He spoke of South African society comprising ‘two economies’ – a well-developed, ‘first world’, formal economy on the one hand, and an informal, ‘third world’ economy, located in the rural and urban areas where the majority of poor people lived, on the other. In Mbeki’s view the two economies are ‘structurally disconnected’ and must be integrated through ‘sustained government intervention’.<sup>10</sup>

For the period 2003 – 2010, much of economic policy in South Africa was characterized by the inherent tension between market based policies to promote growth and employment in the “first” economy and state interventions to promote the integration of the second economy. LED policy and practice was also to be characterized by this tension, and a protracted and contested process of LED policy formulation was to take place between 2004 and 2006, resulting in the National Framework for Local Economic Development (LED) in South Africa: 2006 – 2011 following a number of iterations.<sup>11</sup>

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<sup>9</sup> McIntosh, Xaba and Associates “Evaluation of the Consolidated Municipal Infrastructure Programme and the Local Economic Development Fund (DPLG) (June 2003)

<sup>10</sup> T Mbeki: ANC Weekly Newsletter (23 August 2003)

<sup>11</sup> DPLG: *Stimulating and Developing Sustainable Local Economies: National Framework for Local Economic Development (LED) in South Africa: 2006 – 2011 (August 2006)*

### 2.2.1.5 National LED Framework 2006

The key policy problems that the Framework was intended to address were set out in a problem statement for the National Local Economic Development Policy Initiative<sup>12</sup>. The problem statement identified 9 key areas that needed to be addressed. These were:

- Structural economic conditions – economic dualism and marginalization as a result of the continuing effects of apartheid and the current impacts of globalisation
- LED policy paradigm - conflicts between LED as poverty alleviation and promoting growth and competitiveness.
- Institutional - limited capacities of local government to deal with LED, the lack of co-ordination of LED initiatives, lack of LED linkages to regional and national initiatives, poorly defined role of local government resulting in the sidelining other actors particularly non-state LED actors, specifically business
- Financing and funding - the focus on physical infrastructure development at the neglect of human and institutional capacity building due to political and donor priorities; funding of isolated and fragmented interventions
- Capacity Building: low levels of skills and capacities within poor black communities; absence of systematic competitiveness requiring continuous improvement in the quality of the workforce of localities
- Implementation: The lack of programmatic approaches that lead to a set of linked, mutually re-enforcing initiatives
- Information needs: Lack of understanding of the local economy, particularly the identification of levers of growth and the stakeholders capable of operating those levers;
- Monitoring and evaluation:

The National LED Framework (August 2006) was to focus on four areas:

- Improving good governance, service delivery, public and market confidence in municipalities,
- Spatial development planning and exploiting the comparative advantage and Competitiveness of Districts and Metros,
- Enterprise support and business infrastructure development, and
- Introducing sustainable community investment programs

As noted by a number of commentators, these four areas constituted a mix of the more competitiveness or market development oriented paradigm (the first three) and the people centred paradigm traditionally associated with DPLG.<sup>13</sup> The LED framework emphasised:

- The developmental role of government in shaping economic development.
- The need for inward investment from the state and private sector based on the identification and exploitation of the potential and competitive advantages of local areas.

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<sup>12</sup> DPLG: Problem statement for the National Local Economic Development Policy Initiative (Undated)

<sup>13</sup> C Patterson: GTZ Country Report : LED in South Africa (March 2008)

- The crucial role that private companies, including social enterprises and cooperatives had in LED in partnership with public and community role players.
- The need for local initiative and responsibility, energy, creativity, and assertive leadership to unlock the latent potential of local economies.

The framework specifically called for “a shift towards a more strategic approach to LED” and for municipalities to move away from managing “a litany of non-viable projects or “start-ups”, and to improve the coordination of economic development planning and implementation across government and between government and non-governmental actors<sup>14</sup>.

#### 2.2.1.6 The Impact of the LED Framework and review of LED experience 2006 – 2010

The impact of the LED framework and subsequent LED practice in South Africa between 2006 and 2010 has been summarized in a Review of the National Framework for Local Economic Development in South Africa (2006 – 2011) which was prepared for an EU /COGTA National Review of Strategic Projects in December 2010.<sup>15</sup> On the issue of relevance the review noted that:

- The National LED Framework is not used at local level by LED related stakeholders
- LED commitment had decreased over the years among key policy makers
- There has been insufficient policy management at central level

On each of the key performance areas the assessment was to note the following around the 3 of the 4 strategies:

- Strategy1: Improve Good Governance, Service Delivery, Public and Market Confidence in Municipalities: The 2006 National Framework made clear that “improving confidence in municipalities was a critical first step in attracting investment and building local areas. This result has been poorly evidenced in the critical reflection on local government reflected in the COGTA State of Local Government Report<sup>16</sup> and the need for a National Local Government Turn Around Strategy which was launched in May 2010<sup>17</sup>, in response to a situation where “on the whole local government is struggling to fulfil this developmental mandate, and many municipalities are failing altogether”
- Strategy 2: Identify and Exploit Competitive Advantage of Local Economies  
On this strategy the report indicated that “the capacity for economic analysis and identification of competitive advantage was clearly absent in many localities, especially in peripheral regions”. The report noted that the lack of reliable economic data to track local economic trends and of defining competitive advantage was a key problem in most localities

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<sup>14</sup> DPLG: Stimulating and Developing Sustainable Local Economies: *National Framework for Local Economic Development (LED) in South Africa: 2006 – 2011 (August 2006)*

<sup>15</sup> C Rodgerson and D Macelli: Review of the National Framework for Local Economic Development in South Africa (2006-2011) DCOGT/EU. Presentation to LED Stakeholders 8<sup>th</sup> December 2010.

<sup>16</sup> COGTA State of Local Government in South Africa Report (November 2009)

<sup>17</sup> COGTA Local Government Turn Around Strategy (March 2010)

- Strategy 3: Intensification of Enterprise Support in Local Areas: On the third core strategy, the report noted that this related to business development services, and the extension of business infrastructure development in local areas. The report noted that during the period 2006-2010 a network of government as well as private sector support schemes have, but that a World Bank 2010 survey of uptake of enterprise support disclosed that fewer than 10 percent of the sample had received any assistance from key national government enterprise support programmes.

The report then went onto identifying 15 key challenges that would need to be addressed with respect to LED policy and practice in South Africa going forward into the next 5 years (2011- 2015). These included: The imperative for national government to provide greater clarity as to the meaning of LED, especially to guide small town and poorer municipalities; The need for greater integration and closer cooperation between both LED stakeholders (public and private sector) and sector departments involved in implementing LED; The appropriate scaling of LED; acknowledging difference and the need for a differentiated approach for localities, re-invigorating the role of Provinces in LED; closing the gap in LED practice between that in large cities on the one hand and in small towns and poorer municipalities on the other hand; the need to disseminate good practice in LED; the need to involve the private sector, the imperative to maximizing the potential for LED partnerships between private and public sector and building trust and improving the business enabling environment, the vital importance of building LED Networks and knowledge platforms as a means to enhance high level systemic learning; the capacity challenge of training staff and of careers in LED; addressing the financing challenges of LED, especially for less well-resourced municipalities outside of the major cities; improving economic data for understanding local economies, identifying competitiveness and for enhanced LED planning; and, appropriately addressing the needs of the second economy.

#### 2.2.1.7 The EU Provincial LED Support Programmes in 3 provinces

During the period 2004 - 2010, the European Union (EU) undertook a significant bi-lateral programme in LED support in three provinces, namely KwaZulu Natal, the Eastern Cape and Limpopo Province. The experience of these programmes may provide significant lessons for any proposed regionally based LED programmes in Ethiopia which require a scaling up of LED activities across as broad range of localities. Although each of the provincial (state) programmes had certain variations, they all followed a similar model.

This report will focus on one of the programmes, the Gijima KZN Programme, which was a medium term (6 -8 year) programme designed to support the provincial Department of Economic Development and Tourism (DEDT) in the province of KwaZulu Natal and a broad range of stakeholders to more effectively implement LED to achieve equitable economic growth in the province. All the details of the programme are available on the website <http://www.gijimakzn.org.za>. The programme took place between 2004 and 2011 and comprised 4 key result areas underpinned by a budget of EU 37 million (USD 50 million). The result areas were:

- Result Area 1: Stakeholders combine in partnership to develop and implement sustainable employment generating investment and enterprise growth plans with poor outcomes.

- Result Area 2: Grants enable public sector stakeholders engaged in LED related processes to create and operate an enabling environment for LED and pro poor development.
- Result Area 3: Sustainable mechanisms for learning, knowledge exchange, information dissemination, training and replication have been established and are working.
- Result Area 4: Effective LED management functions established and operational at provincial and area level.

The programme established a number of instruments to support each of the result areas, the most important of which were:

- The Local Competitiveness Fund (LCF)
- The Business Enabling Fund (BEF)

The primary objective of the Local Competitiveness Fund (LCF) was to encourage partnerships which facilitate private sector investment in sustainable local economic development projects with pro-poor outcomes. The LCF provided partnership groups with support to establish a platform for increased competitiveness, structural economic change and providing particular support to sectors that have a high potential to boost socio-economic objectives.

The fund supported two key activities, Local Competitiveness Actions Plans (CAPs) and Local Competitiveness Implementation projects (LCFI) (Box 1). The former involved costs associated with preparing a partnership based competitiveness plan, and the latter involved financial support towards the “public goods” costs of implementing a Competitiveness Action plan. The eligibility requirement was that it was a partnership group of which one partner has to be a registered enterprise. The level of funding available never exceeded 70% of the project cost. The fund operated on a highly transparent and competitive basis, with specific public calls for applications.

**Box 1: Implementation of the competitiveness action plans and local competitiveness fund**

Between 2005 and 2011, 71 Competitiveness Action Plans (CAP) and 28 Local Competitiveness Fund Implementation Projects (LCFI) to the value of R74, 481 (USD 10,64 million) were implemented. By 2010 the programme had established 257 networks and partnerships, had leveraged USD 23 million in private investments, and had created or preserved 4,396 jobs, exceeding the original target of 3000 sustainable jobs by 1,396, or 47%. The success of the fund has led to the institutionalization of the programme within the Department of Economic Development and Tourism (DEDT) in the form of the Local Competitiveness Fund 2 (LCFII) funded from the provincial government budget for the period 2011 - 2014.

The objective of the Business Enabling Fund (BEF) of the Gijima KZN LED Support Programme was to assist provincial and local government to create an enabling environment for local economic development by: strengthening the enabling role of provincial and local government with respect to local economic development, improving the performance of strategic planning and economic governance, improving coordination with the private sector and NGOs, Community Based Organizations, Business Chambers, organized labour and other groups.



Only municipalities and provincial governments were eligible for the grant. As in the LCF the fund provided only 70% of the project finance, with 30% to come from the provincial or local government's own budget. From 258 applications by municipalities and provincial government departments across 4 calls, 78 BEF projects were granted to the value of USD 3, 09 million. The general consensus is that the BEF was not as successful as the LCF, due largely to the tremendous capacity constraints existing in municipalities

### 2.2.2 LED experience in Indonesia<sup>18</sup>

The financial crisis of 1997 hit Indonesian cities hard making them suffer from declining growth rates and increasing unemployment. This underpinned that Indonesian cities require LED. The LED program was supported with institutional incentives and economic laws.

Under institutional incentives Indonesia went through a decentralization program and put in place a number of reforms. The country devolved a number of authorities to districts, enabling governments at regional level to retain most of the economic revenue and also receive grants through intergovernmental transfers. Under the decentralization program industry and trade were among the 11 functions transferred to local governments. Law 25/2000 on the national development program also gave direction to economic development. Accordingly the guideline highlighted the need:

- To increase private sector investment in contributing to urban development process
- To increase small and medium size enterprise
- To increase the network system, and infrastructural services and connecting facilities between connection and distribution points

Most Indonesian cities have the institutional and budgetary space to exercise local economic development. In terms of projects and programs, most Indonesian LED is characterized as internal and external facilitation as opposed to internal pro active and external pro active.

The most common internal facilitation is developing a program of 'one roof permit' which allows for easier access to business licences. Provinces such as Bandung, Palembang, Kendari and Balikpapan have implemented the one roof permit system though the actual practice varies from place to place. The external passive approaches focus on MSEs, the provision of micro-credit and training. Provision of micro credit occurred in Bandung, Palembang, Blitar and Kendari with Blitar depositing a sum of 3 billion Rp in three local banks for lending to MSEs. In Bandung the local chamber of commerce gives training for MSEs. More active approaches such as investor promotion, entrepreneurial development are lacking. In addition to the above elements of LED, Indonesia has implemented innovative projects which have a far reaching impact on LED in the country. The partnership for Local Economic Development Project is one such project.

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<sup>18</sup> The section on LED in Indonesia heavily relies on World Bank (2003) entitled cities in transition: urban sector review.

### 2.2.2.1 The partnership for Local Economic Development project in Indonesia (Kemitraan Pembangunan Ekonomi Loka-KPEL)<sup>19</sup>

The project was developed jointly by UNDP and UN Habitat together with the National Development Planning Agency. The main objective was to respond to poverty resulting from the financial crisis of 1997. The project was primarily designed to support economic recovery, link poorer areas to the mainstream economy and promote responsive policies and action at the local level to boost local economies. The project was implemented from 1998 to 2004. The project had a pilot phase (1998-2000) and a replication phase.

The full implementation of the project started in 2000 and expanded with the merger of two other projects namely the local economic development project and rural community economic development. The project implementation and expansion was done through consultation process with local government, civil society, and businesses. The project was implemented in 15 provinces targeting over 50 districts

The project had three main implementation stages. The first stage was intensive consultation with local stakeholders and research to identify business or sub-sector clusters the project was intending to develop. The second stage focused on a diagnosis of the problem and conceptualization of intervention agreed by all. The third stage was establishing and strengthening institutional framework to implement as well as create opportunities in the selected sub-sectors. The project provided technical inputs and financial resources to initiate the process though the financial contribution declined in time with the transfer of responsibility to local government.

After establishing partnership and institutions, technical advisors guided producers to develop market networks, build organizational linkages, improve products, explore diversification and create value along the value chain.

The project was able to produce more than 60 partnerships which were officially formalized and received financial support from government budgets. The project contributed greatly to stimulating local economic activities in target communities and empowered local producers such as farmers in their standing as business partners, improved their access to market and raised their incomes. Producers were able to work as clusters. This helped them to raise their bargaining power and achieve economies of scale. They were also able to improve the quality of their products and learn innovative marketing techniques.

Some of the institutions established include a national project office at national level, project support units at province level to implement and manage project activities. At each level, KPEL partnership was established to provide strategic direction and forums for identifying and solving local economic problems. Business groups or clusters were direct clients of the project in addition to the capacity development work at each level to strengthen each institution and improve policy framework for local economic development and poverty reduction

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<sup>19</sup> The section on LED partnership program heavily draws from Parray, O and Syebubaker, A (2008)

### 2.2.3 LED experience in Germany

LED in Germany was traditionally focused on three issues, viz, zoning and development of industrial estates, attraction of external investors and reducing frictions and communication problems between the public and private sector. In recent years, local governments have become more proactive, using instruments such as entrepreneurship promotion, business and technology incubators and cluster promotion to drive and promote local economic development. Several localities are approaching economic development in more strategic manners, trying to shape a specific locality profile in order to create a local competitive advantage (European Commission 1998, OECD 1999, OECD 2000, Meyer-Stamer 2003).

In Germany, local self-government originates mainly from economic roots. It was inspired by the local government reforms of the Freiherr von Stein at the beginning of the 19th century in Prussia. As a result promotion of local economic development (kommunale Wirtschaftsförderung) is seen as the “archetype” of local self-rule in Germany. In order to provide a working definition derived from its roots, contemporary local economic promotion could be defined as part of the basic tasks of local authorities (gemeinden and landkreise) to create and/or improve the locational advantages and investment climate for trade and industry by means of promoting, maintaining, advising and thereby securing or improving the economic base and social welfare of the population in a given local authority area (Loetzer Klaus, undated).

Germany thus has a long experience with local and regional approaches to stimulate economic development and employment. The state of North Rhine – Westphalia (NRW), the largest "Land" / (province) in Germany, has been a pioneer in this field. As its prosperity depended to an important extent on industries that started to decline as early as the 1960s, the state government, as well as local authorities, have been pursuing activities to stem and to manage decline, to attract investment and to promote the emergence of new industries for more than three decades. Local and regional economic development and employment promotion activities include the following amongst others:

- Cluster and value chain initiatives - Such initiatives have been conducted with the textiles industry, the automotive industry, the health sector, and other sectors for several years
- Technology incubators - There are more than 60 technology incubators in NRW, from small to very large, with very diverse performance records
- Cross-cutting initiatives - The state government is promoting activities like industrial environmental protection and energy efficiency
- Investment promotion - There are innovative approaches like Chemsite, a public private initiative to attract specialised chemical producers to settle in existing chemical plants

- Demand driven skills development - Since unemployment has been a serious problem for a long time, and skills mismatch is one of the key reasons, policy makers have been experimenting with a variety of approaches, many of which have been at the core of recent national-level policy reforms
- Business Start-up promotion - Since some regions in NRW used to have very low start up ratios, the state government has launched a variety of start-up promotion activities.
- Turning industrial heritage into an asset - The industrial heritage, until the 1990s perceived as a burden, has been turned into an economic asset and a tourism attraction, most notably with the Zollverein Colliery received the title of a World Cultural Heritage Site
- Business friendly public administration - The state government has launched an initiative to make public administration more business-friendly, and in particular more SME-friendly. It involves state, regional and local-level activities
- Private sector driven development - Business chambers play a very important role in local economic development, as do public banks (Sparkassen and Volksbanken)
- Innovative approaches to overcome fragmentation - The state government has launched initiatives like the GO Start-up Promotion initiative and the MOVE SME Promotion initiative to stimulate networking (Meyer-Stamer 2008)

Two of the most critical elements in Local Economic Development are the support for enterprise development as well as ensuring competitive local advantage in order to drive economic development at a local level. Specific reference can be made to case studies within the NRW region that have undertaken concrete steps to support these two elements. Meyer Stamer (2008) outlines how specific localities within the NRW province have undertaken these as part of LED interventions (See Box 2).

## **Box 2: LED in Marl City**

*“Marl is a city of 90,000 inhabitants that is located at the northern fringe of the Ruhr area (NRW province) in Germany. The local economy is shaped by two operations: A coal mine with 3,900 employees and a major chemical complex where 10,500 persons work.*

*The future of the coal mine depends on higher level policy decisions, but it was certain that the mine would close after 2010. This left the chemical complex as the one manufacturing operation that is critical for the economic future of the city. “Chemische Werke Hüls” (Chemical Works in the Hüls location), specialized in a variety of chemical commodities, but over time, the focus of production shifted to special and niche products and with this process some parts of the chemical complex fell idle, and parts of the workforce were retrenched.*

*In order to create new employment opportunities locally, an initiative called “ChemSite” was launched in 1997. ChemSite was run as a **public-private partnership** that involves a private company, provincial government and several municipalities. The main thrust was to attract external investors to available stands in chemical production sites.*

*Chemsite together with the Municipality of Marl and the NRW province undertook several initiatives to strengthen business and thus promote employment creation in the locality*

### **Investment promotion**

*ChemSite offered stands on chemical production sites to external investors, building on five types of locational advantages:*

- *Convenient location in the centre of Europe.*
- *Skilled and experienced workers are easily available.*
- *Chemische Werke Hüls set up a **separate company**, Infracor, as a service provider that managed the entire chemical site.*
- *Moreover, Infracor offered investors something that might be described as “plug and play”. All sorts of chemical products were being produced or processed on the site, so that ideally a new company only has to connect its facility to the existing local pipeline network and can get into production swiftly.*
- *Since the entire site was licensed as a chemical production site, the comprehensive permit and licensing processes, including environmental impact assessments that usually come with the set-up of a chemical production facility could to a significant extent be bypassed.*

## **Box 2 LED in Marl cont...**

### **Promoting entrepreneurship and start-ups**

*The anchor-point of start-up promotion in Marl is a technology incubator called "TechnoMarl" that had already been started in 1990, when provincial funds were easily available for the construction of technology incubators. With the launch of ChemSite, TechnoMarl got an additional boost and started to expand, this time based on its own funds since provincial funds were no longer available.*

*In the first expansion phase, TechnoMarl had a **clear strategic vision**. It aimed at receiving spin-off companies from Chemische Werke Hüls. At the corporate laboratories, specialists were developing **new products**, some of which were used by the corporation, while others were not. The concept thus was to encourage individuals who had developed such products to start their own small business.*

*Unfortunately, this idea did not work out, mostly because development engineers were interested in developing new products in their corporate lab, and not in starting and managing their own company.*

*TechnoMarl thus changed its focus at start-ups that had a focus at the chemical sector, i.e. which offered a variety of services to companies in the chemical industry. Proximity of TechnoMarl to Chemische Werke Hüls and other petrochemical and carbon-based chemical companies in the region was an important attractor in this regard, as was the fact that the managing director of TechnoMarl is the retired former managing director of Chemische Werke Hüls who can offer good business contacts to his former company.*

*As a result, TechnoMarl has gone through various expansion projects and has ultimately grown to a total space of 6,000 square meters, i.e. ten times its original size. Several companies that started their operations in the incubator have moved into the neighbouring industrial estate. The survival ratio of the companies that were started in TechnoMarl is 95%.*

### **Strengthening existing local business**

*The municipality of Marl **joined forces** with the neighbouring municipality of Dorsten in developing a new industrial estate with 70 hectares of stands that are immediately available to investors. This is the first case in the province of two neighbouring municipalities actually collaborating in the creation of an industrial estate. The estate is owned by a **private company**, which playing a crucial role in developing **value-added services** for investors in the estate.*

*Municipalities set up a **system to speed up registration and permit processes**. Local economic development **agencies** also played a crucial role in managing and facilitating the interaction between a private company and various government authorities, thus making the process more transparent, predictable, and efficient."*

In terms of ensuring a competitive local advantage it is useful to distinguish between the following:

- tangible location factors, which are mostly quantifiable, include the geographic location with respect to markets, availability, cost and quality of labour, availability and cost of real estate, availability, cost and quality of infrastructure, cost of energy and environmental compliance, and similar factors;
- intangible factors that are relevant for individuals and mostly relate to quality of life;
- intangible factors that are relevant for companies, such as the availability of related and supporting industries and services, the business climate and vibrancy of a location, the innovative milieu, the existence of supporting institutions, and the efficiency and business-mindedness of local government.

The Rhine County Neuss, located near Düsseldorf, the capital of the state of North Rhine-Westphalia (NRW) is one of its most dynamic business locations. Düsseldorf and its surrounding municipalities have established themselves as a major destination for corporate headquarters and for foreign investors, in particular from East Asia. The Rhine County includes eight local municipalities (Meerbusch, Kaarst, Dormagen, Jüchen, Neuss, Rommerskirchen, Grevenbroich, Korschenbroich). The total population of the county is 445 000 and local economic activities are pursued by some of the local municipalities. The County has an LED Agency that aims at marketing the county as a whole and that try to leverage the activities of the local municipalities. The activities of the Rhine County LED Agency address all three types of locational factors: tangible, intangible relevant for individuals and intangible relevant for companies.

The “Move’ initiative in the Rhine country is an initiative to make local administration more business-friendly. It was launched in 2001 and it aimed at making local administrations across the province more business-friendly, and in particular more SME-friendly. The red tape initiative in the county involved quick-win activities; medium-term projects and long-term structural change (see Box 3).

The examples in Germany indicate the level of innovation and dynamism driven and supported by both government and business. They are aimed at ensuring that German localities are consistently assessing and benchmarking themselves to similar localities and can contribute not only to local economic development and growth but are also aligned to provincial and national imperatives for growth and development.

### **Box 3: The “MOVE” initiative in the Rhine County**

#### **Quick-win activities**

*In order to build momentum for the whole process, the LED Agency decided to run a number of quick-win activities. Examples of this include the following:*

- *A Client Information System was set up, i.e. a software to assist the staff with contact-management (administrate contact partners, creating serial letters etc.), surveys (enforcing, documentation and evaluation), documentation and analyzing of developments, and providing help in analyzing their own actions.*
- *Faster Payment of Accounts: A number of administrative units committed to pay invoices by the due date. They supported this with the creation of a flyer which informs the private supplier / provider about the correct issuing of an invoice.*

#### **Medium-Term Projects**

*Examples of medium-term projects launched are:*

- *House of Business: This was meant as a location for businesses as well as LED units, business associations etc., including a First Stop Shop. Five years after the start of the process, this project is still pending.*
- *Quality Management System in Veterinarian Offices: This is a collaborative project of the Countys of Herford, Recklinghausen and Neuss as well as the city of Solingen. It involves the introduction of a QM system on the base of DIN ISO 9001/2000. It aims at assuring quality through quality management systems and certifications, thus making the Veterinarian Office a more respected partner of businesses.*

#### **Long-term structural change: “contact”**

*“Contact” is a reference project for special services for small and medium enterprises. Several business processes were selected to be restructured. This included building regulations, advisory services for the employment of severely handicapped persons, employment support / job-centre, registration of a business, placing of public tenders, permissions for precipitation water disposal, permissions for passenger transport, permissions for heavy loads, management of commercial properties and sites, and permissions for occupation of public pavements and streets.*



### 3. Chapter 3: Governance and policy environment for LED in Ethiopia

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The national environment has important role to play in promoting economic growth and employment in localities. In fact the quality of governance and the economic situation in a country will have important impacts on how LED approach can be used and implemented. . In terms of governance, the institutions which define authorities affect both private sector and citizens and similarly economic environment influences the opportunities and incentives to pursue productive and sustainable strategies. The objective of this section is to review the major policy areas that are relevant for LED implementation and practice in Ethiopia.

#### 3.1 Governance system: National decentralization reform and municipal decentralization

Contemporary Ethiopia embarked on a federal and decentralized form of government since 1990s. This has taken place in two waves: the 1990s decentralization from the centre to the regional states and the early 2000s *woreda* decentralization that devolved power to the district level. The regional decentralization of the 1990s featured stability and ethnic federalism as the central issues, while the *woreda* decentralization was directed more at the goals of development and democracy (Dickovick and Tegegne, 2010).

The Ethiopian federal system has created nine regional governments: Afar, Amhara, Benishangul-Gumuz, Gambela, Harari, Oromia, Somali, the Southern Nations, Nationalities, and Peoples Region (SNNPR), and Tigray and two city administrations: Addis Ababa and Direedawa. The nine regional units are federating entities with their own constitutions while the city administrations are accountable to the federal cabinet, largely for demographic reasons (most notably including their large population sizes, but also because the cities are quite diverse in terms of nationalities/ethnicities).

The regional governments have robust authority that involve enacting state constitutions, establishing state administration, formulating and executing economic, social and development policies, administering land and natural resources, levying and collecting taxes and duties, enacting and enforcing a state civil service and establishing and administering the state police force. Regional governments also have significant fiscal authority, both in expenditure responsibility and revenue collection powers.

The *woreda* governments have power and authority that emanate from each of the respective Regional Constitutions; provisions vary modestly across regional states, but in each the *woredas* are the key autonomous self-governing units to which power and resources are devolved. A *woreda* is empowered to prepare and decide on economic and social service plans for its territorial area. *Woredas*' fiscal authority is defined by regional governments. *Woredas* are assigned certain tax bases though many of them suffer from vertical imbalance forcing them to rely on regional government to cover the bulk of their expenditure requirements. *Woredas* have a wide range of expenditure responsibilities

including local police, local roads, utilities, water and sewerage, street lighting, and sanitation (Tegegne and Kasasahun 2007).

Concurrent with woreda decentralization, many regional governments resorted to reforming their municipalities by enacting municipal legislations that define the legislative system that clarify the position of municipalities within the decentralized governance (Tegegne and Kassahun, 2007). Proclamations that defined the governance structure and the various roles and responsibilities of municipalities were issued. In most municipalities, the governance structure consists of the council-mayor system with the city council, the speaker of the council, the mayor and the mayor's committee and the manager of the municipal services.

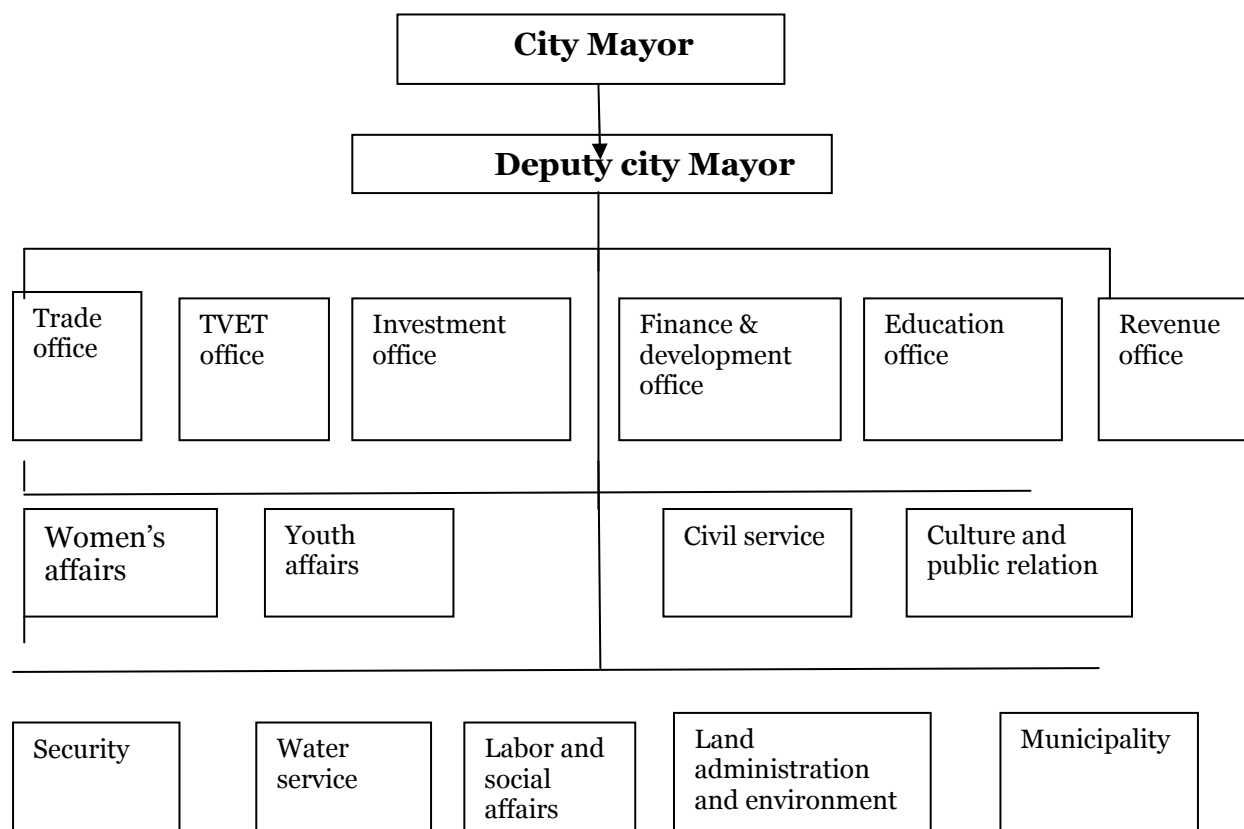
The council-mayor system provides executive leadership in the mayor who is often elected and serves often as a chair and political heavy weight (Minas 2003). The mayor has both governance and management responsibilities with the city manager performing professional managerial service. The city, among others, has the capacity to issue laws and regulations, establish the executive organs, establish judicial and policy organs (Tegegne and Kassahun, 2007). Urban administrations have two types of functions: state and municipal. State functions include education, health, trade and industry etc while municipal functions include solid waste collection, sewerage, street lighting, etc. These different functions are executed by different offices organized under the office of the mayor. Though the structure of urban administration varies from place to place, the structure provided for Nekemte town (Fig 1) indicates the major offices under city administration.

In terms of finance, municipalities depend on two sources to execute their expenditure responsibilities: regional transfer and own revenue. Regional transfers are used to run state functions while own revenue collections (revenue from land leases, housing rental incomes, tax for services provided by the municipality, service usage charge, small local penalties, issuing licenses) is used to run municipal functions. Quite often cities have low revenue due to outdated tariffs and rates. A study in four municipalities (Awassa, Dilla, Sodo and Arba Minch), showed that the tax collection rate in the region is between 70-80% on average (MWUD, 2006). Key informant discussion in Nekemte showed that the city collection rate is less than 50%. Similarly in Mekele, the collection rate is estimated to lie between 50-60%.

### *Opportunity for LED*

The foregoing discussion shows that Ethiopia has installed a decentralized system which recognized regions, woredas and municipalities. These local governments have authority and autonomy to undertake social and economic development. This is ascertained by constitutional provisions. Ethiopia's decentralizations thus have created opportunities for local governments to determine their future. In other words the decentralized structure provides an enabling environment to undertake LED in Ethiopia. In addition, the fact that cities have their own budget provides space to implement local economic development from own sources.

**Figure 1: The administrative structure of Nekemte town**



Source: Own illustration

## 3.2 Growth strategies, development plans and sectoral policies

### 3.2.1 Agricultural Development Led Industrialization (ADLI)

Agricultural development Led industrialization (ADLI) is the government chosen growth strategy. ADLI is chosen because of the assumption that improving the performance of smallholder agriculture could lead to increased farmers' income, reduce poverty, enhance production of industrial raw materials, and increase the volume of marketable surplus (Dessalegn, 2008). EPRDF's Rural Development Policies and Strategies (FDRE 2002) emphasize that the country's overall development is to be centered on the rural areas where smallholder agriculture is predominant. Rural centered development is emphasized because the overwhelming majority of the country's population live in rural areas and the country's endowment and comparative advantages relate to the abundant resources like land and labor. The rural development strategy indicates that the 'strategies that promote the use of the country's labor and land resources while relying less on capital should embrace rural development and agricultural production' (ibid). The focus of the strategy is thus on smallholder farmers with greater weight given to crop production (Dessalegn 2008). Though the policy is not confined to agricultural development alone, it heavily emphasizes that agricultural development should be the cornerstone of rural development. According to Dessalegn (2008), currently there is a change and new direction in terms of agricultural development as elaborated in the PASDEP document. The same idea is

pronounced in a recent study (WFP/FAO 2010) that indicated that although the overall agricultural policy still depends on ADLI; there is a shift in the direction of the agricultural development emphasizing a more market-oriented strategy. The market oriented strategy will be attained through i) construction of roads connecting farms to market centres; ii) development of agricultural credit market; iii) the improvement of specialized extension services, and iv) the promotion of specialized export crops (spices, cut flowers, fruits and vegetables). The Growth and Transformation Plan (2010/11-2014/15) points out that agricultural strategy will be further enhanced by the Agricultural Growth Program. The strategy includes a shift to production of high value crops with a focus on high productivity areas, intensified commercialization, and support for large scale commercial agriculture. The scaling up of the best practices of the model farmers is the key to increase production and productivity.

In addition to ADLI as the overall growth strategy, the Ethiopian government has issued serious of five year plans and sectoral policies which have implications for local economic development. In particular these are the GTP, the regional development framework, the industrial sector and MSE strategy, the urban policy, micro finance strategy and the investment policy.

### 3.2.2 The Growth and Transformation Plan (GTP)

The GTP (2010/11-2014/15) builds on the achievement and challenges of PASDEP (2005/06-2010/11) which in turn has succeeded the SDPRP (2000-2003). GTP has an overall objective of attaining broad-based, fast and equitable economic growth over the plan period. The strategic pillars of the plan include:

- Sustaining rapid and equitable economic growth
- Maintaining agriculture as major source of growth;
- Creating conditions for industry to play key role in the economy;
- Enhancing expansion and quality of infrastructural development;
- Enhancing expansion and quality of social development;
- Building capacity and deepen good governance, and
- Promote gender and youth empowerment and equity.

The plan emphasizes growth factors such as agriculture, industry, infrastructure, social development and good governance. Agriculture and industry are the main sectors identified as drivers of growth. In terms of agriculture, the key entry points will be small holder agricultural development, pastoral development, and private sector agricultural development. Smallholder agricultural development will focus on scaling up of best practices, expanding irrigation and natural resource conservation and production of high value crops.

The pastoral sub-sector development will focus on water development, infrastructure, livestock development (breeds, marketing etc). The micro and small enterprises and the medium and large scale industries sub-sectors are the focus of the industrial strategy. As a strategic focus of the industrial development, the micro and small scale enterprises will be promoted to create competitive private sector, generate employment in urban areas, reduce poverty, foster rural-urban and urban-urban linkages and sustain agricultural growth. The medium and large industries strategy focuses on selected sectors (textile and garment, leather and leather products, sugar and related industries, cement, metal and engineering,

chemical, pharmaceutical, agro-processing). The industrial strategy also envisages the establishment of industrial zones and improving the capacity of both public enterprises and privatization.

### *GTP and LED*

GTP is growth oriented program that aims at attaining MDG goals by 2015 and reducing poverty. The Local Economic Development Program has the objectives of stimulating local economies and reducing poverty. It seeks to create effective and functioning local economies and raising their resilience, attractiveness and competitiveness. The following indicates the synergy and inter-linkages between the different components of GTP and LED. In particular it deals with agriculture, micro and small enterprises, industrial zone and urban development and construction.

### *Agriculture*

The activities of LED are aligned with agricultural development of GTP since LED will be effective if it is based on major source of growth of the economy which is agriculture. GTPs plan to expand agricultural production through irrigation development can be complemented with the LED programs as the latter can organize enterprises which can supply pumps, pipes and other irrigation equipments. GTP envisages massive expansion of agricultural production with emphasis on high value crops and high productivity areas. This will create opportunity for LED activity since increase in production requires marketing and agro-processing activities mainly to be done in towns and cities. In fact localities in high productive areas as in growth corridors will benefit from massive boost in agricultural production which will allow enterprises to be engaged in the value chains of different products.

### *Micro and small industries*

In the industrial sector, GTP has laid down two strategic directions: the expansion and development of micro and small industries and the development of medium and large industries. The MSE component of the GTP and that of LED are very identical and similar (see Box 4 for GTP targets for MSE).

- Under LED program, the objective of the MSE intervention is to generate employment, reduce poverty, encourage private sector development, foster rural urban linkages. These same objectives are indicated in the GTP.
- Both GTP and LED emphasize creating new start-ups and supporting the existing enterprises.
- Training and capacity building are the major intervention area of LED to empower beneficiaries and develop entrepreneurship among operators. Similarly LED has provided micro credits in the form of revolving fund to overcome the main bottleneck of small enterprises. These different supports are envisaged to be implemented in the GTP
- The GTP and LED both emphasize engaging women and youth in MSE self employment to reduce poverty and vulnerability.

**Box 4: GTP targets for micro and small scale enterprises**

1. Provide comprehensive support to micro and small scale enterprises so that they create employment opportunity for about 3 million people. Achievement of this target will enhance citizens income, contribute to a rise in domestic saving, and enhance the benefits of women and youth from the sector so as to reduce unemployment and poverty
2. Provide Training of Trainers for 10,000 professionals in the sub-sector;
3. Provide capacity building and basic skills training for about 3 million operators in the areas of entrepreneurship, technical and vocational skills;
4. Prepare and develop 15,000 ha of land for working premises and construct shades and buildings for MSEs.
5. Provide micro credit and marketing information and work with producers to identify bottlenecks and provide support where solutions are identified.

The above are clear indications that the MSE component of LED is the basic instrument of achieving GTP's goal in general and its MSE component in particular in different localities. GTP also provides a strategic direction for LED. It has emphasized that support to MSEs will vary depending on stages of development of MSEs. Those at the initial stage will receive packages different from those at growth stage and maturity stage. The latter two will also receive differentiated packages. It also emphasized that the strategy will encourage enterprises that display entrepreneurship and those that are competitive in the market. These directions provide opportunity for the LED program to refocus its enterprise development strategy based on competitiveness and entrepreneurship.

*Urban development*

The urban development component of the GTP has the objective of reducing poverty and unemployment in urban centers and enhancing the roles of cities in accelerating economic development. Urban Infrastructural provision (cobble stone roads, drainage, solid waste landfills, abattoirs etc), housing development, urban business development and strengthening cities capacity to self-govern are strategic interventions necessary to create conditions for economic development. The same strategies will also create employment and reduce poverty. The LED program focuses on the urban sector for purposes of both creating competitive economy and reducing poverty. In line with this, the LED initiatives embrace those from GTP including urban business development, infrastructural development (cobble stone, drainage etc) and improving the planning and policy capacity of the city government. LED therefore is an instrument to strengthen urban economies and to enhance the contribution of urban centers to economic growth and poverty reduction.

*Environment and climate change*

Environment and climate change is identified as one of the cross cutting issues in GTP. The plan envisages to build a 'green' and climate change resistant economy through both adaptation and mitigation measures. The effects of climate change in Ethiopia are clearly evident in terms of sporadic distribution of rainfall, excessive run off, changing ground water reserves, biodiversity degradation etc. Some agro-climate zones and sectors are more

vulnerable to climate changes. Cities figure prominently in the climate change debate because of the huge population they house and their role in economic development. In terms of adaptation, infrastructure provision should be adapted to climate change. In terms of mitigation, the GTP indicates that economic development which mitigates climate change is very important. The use of renewable energy sources and similar activities will attract international funding for climate change mitigation. In this regard, LED should focus on promoting green economy and at the same time create employment.

### 3.2.3 The Regional Development Framework

The regional development framework is necessitated because of the presence of regional disparities and the role of regional development policy to control the same. The framework, prepared by MoFED, has the objectives of defining regional development priorities, deciding about the allocation of fund on the federal level and orienting public and private investment. The policy is geared towards achieving sustainable regional development, poverty reduction, diminishing regional imbalances and strengthening rural urban linkages. In more specific terms regional development will be oriented towards strengthening national territorial cohesion, minimizing conflicts through regional and inter-regional consultation, providing equal opportunities to all, producing a better spatial organization and promoting long and midterm development. It also works towards a development strategy that brings together the different dimensions and actors of development including the private sector.

#### *LED and regional development framework*

The regional development framework recognizes the importance of regional (sub-national) dimension of development and works towards promoting the same by coordinating resources and actors. LED shares the same ideals of promoting sub-national development with the aim of creating opportunities to local economic growth. As regional development policy is territory based, inclusive and integrative, it provides a framework for LED to operate in different regions. LED in its implementation in different localities can evolve within the regional development framework. The goals of regional development framework such as rural-urban integration, mobilizing the private sector, utilizing endogenous resource potentials and reducing poverty are effectively implemented at local level through Local Economic Development. Thus the regional development policy framework serves as an umbrella and reference points for local authorities to implement LED and realize its objectives at local level.

### 3.2.4 Urban policy

Urban policy in Ethiopia was issued in 2005. This shows that urban development received recent attention compared to the long standing rural orientation of the government policy. The policy acknowledges that urban development is multi-sectoral, depends on rural development, is led by good governance and cannot be designed out of global competition and competitiveness.

The strategic objective of the policy is to make towns and cities centers of development that foster both rural development and overall national economic growth. It also emphasizes the

need to invest power on urban dwellers and make them attain a state of welfare similar to those of middle income country.

The policy focuses on micro and small enterprise promotion, housing development, land and infrastructure, social services, urban plans and environment and urban good governance. In terms of micro and small enterprises, the policy outlines several support packages (market linkage, market place, skills training, finance, working premise, infrastructure, incubation centers). MSEs are emphasized because they ensure rapid, sustainable and inclusive urban growth.

The micro- and small enterprise development program under the urban development package (2006) had the following objectives.

- To reduce urban poverty and unemployment by supporting micro- and small scale enterprises;
- To achieve fast growth through the creation of linkages between micro- and small enterprises with medium and large enterprises;
- To facilitate the growth and expansion of micro- and small enterprises and create a foundation for industrial development; and
- To promote the economic linkages between rural and urban areas.

The programme planned to create employment opportunities for 1.5 million residents in 825 towns over the period 2006/07-09/10, 50% of whom would be women involving an investment of Birr 6.2 billion and the provision of 4900 hectares of land for MSE development.<sup>20</sup> The 1.5 million beneficiaries targeted would be existing MSE operators/entrepreneurs, MSE operators/entrepreneurs involved in the integrated housing development program, new technical vocational and educational training program graduates and the unemployed youth. The key instruments and activities of the programme included; establishment of one-stop service centres, MSE extension workers, provision of premise and loan, business development services, promoting market opportunities and market linkages and equipping enterprises with modern equipment and machineries

The housing component is based both on low cost house production and real estate development. This will not only increase the housing stock and enable more people to be housed but it will also generate employment. In the same way the infrastructure component will not only upgrade the city and create conducive environment but it will also generate employment. The three sectors of urban development thus focus on employment creation in the cities and towns besides addressing sector specific issues.

### *LED and urban policy*

Urban policy is intimately related to urban LED. In particular the attention given to employment generation through explicit employment generation projects or otherwise essentially coincides with the objective of LED. The urban policy provides context for urban LED since it aspires to make towns and cities centres of rural and national development. At the same time the urban poverty reduction component of the urban policy also provides a context within which Local Economic Development can operate within cities and towns.

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<sup>20</sup> *ibid*



### 3.2.5 Micro and Small Enterprise Development strategy

The first attempt to establish a comprehensive strategy and institutional framework for Micro and Small Enterprises was with the formulation of the Micro and Small Enterprises Development Strategy of November 1997.<sup>21</sup> The strategy was preceded by a sample survey conducted by the Central Statistical Agency (CSA) conducted in 48 major towns, which enumerated 584,913 and 2,731 informal sector activity operators and small scale manufacturing industries respectively that absorbed 739,898 people. Re-affirming the important role played by SMEs' in the Ethiopian economy, the strategy noted at that time that the number of people working in MSEs and small scale manufacturing was more than 8 times that of the medium and large scale manufacturing industries, and that the sector accounted for 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the same year.<sup>22</sup>

The strategy set out a comprehensive framework to create an enabling environment for MSE development including defining the objectives, the key elements of MSE support framework, the institutional arrangement, action programme and budget.

Key principles were:

- MSEs operate under Agriculture Development Led Industrial (ADLI) strategy and market economy principles
- Government committed to develop MSEs' via support services
- Support given on cost sharing basis (short-run) and on fee basis (long -run)
- Emphasis given to advancement of women
- The vital role of training and skill upgrading for staff of MSE support institutions
- Private sector expected to play important role in the supply of commercialized services for MSEs
- Regional states recognize the diversity of legal and organizational forms

Key elements of the support framework related to:

- creating & implementing an enabling legal framework including various legislation and proclamation,
- streamlining regulatory conditions around business registration and licensing, finance and loan applications
- other specific support areas/programs relating to training, technology, finance etc

The strategy set in motion a significant process of formalization and institutional development for MSEs and MSE support institutions including the establishment of Federal and Regional MSE Agencies, financial institutions and loan schemes.

But notwithstanding the progress, there remained growing concern 7 – 10 years after the implementation of the strategy, reflected in several analyses that the MSE process was not working as well as it should be. It was revealed that there was still insufficient meaningful government support in terms of recognition and access to finance and skills required for operating small businesses and enterprises profitably and efficiently and that further institutional and resource interventions were necessary if the sector was to contribute to the

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<sup>21</sup> Ministry of Trade and Industry Micro and Small Enterprises Development Strategy( November 1997)

<sup>22</sup> *ibid*

country's programme of sustainable development and poverty reduction (Tegegne and Mehret, 2010).

*The road ahead: 2011 – 2016: MSE Strategy (2011)*

In March 2011, a task force headed by the Ministry of Urban Development and Construction (MoUDC) and the Federal Micro and Small Enterprises Development Agency (FeMSEDA), published a new strategy for the development of MSEs. The strategy identified and analyzed 7 key MSE development constraints namely: financial, training/consultancy, market, and infrastructure, and technology transfer, institutional and cross-cutting issues.<sup>23</sup>

Within each constraint the most debilitating factors were addressed such as the limited capacity of Micro Funding Institutions (MFIs) and weak marketing capabilities of MSEs.<sup>24</sup> The overall vision of the strategy is to create a “competitive” MSE sector that lays the groundwork for industrial development. To realize this vision, three objectives have been identified, which are:

- to increase the employment and wealth creation capability of MSEs,
- to enable the MSE sector to become more competitive and link with agricultural development and
- to ensure MSE development by creating a large entrepreneurial base in towns and cities throughout the country.

The major output of the new MSE Development Strategy is the creation of support packages that relate to the areas identified as constraints to the sector. The target areas for the new strategy are manufacturing sector (textile, leather and leather products, food processing and beverage, metal works and engineering, wood work including, agro-processing), construction, trade, services and urban agriculture.

The strategy has defined three stages of development (i) Start-up, (ii) growth and (iii) maturity and has developed a specific set of interventions and support packages for each stage. The key principles are to:

- Sustain growth path through accumulating capital in a short period of time;
- Create a fertile breeding ground for “developmental investors”
- Strengthening the limited capital and technology of MSEs;
- Create “developmental investors” and “developmental politics” in cities;
- Make industry and city development areas as a direction of government priority;
- Develop the capacity of youth skills and their job creation ability,
- Improve the saving culture of university and TVET graduates and assign them in the sector;
- Ensure “industrial extension services” in TVETs will provide sustainable human capacity and technology development, based on the specific industry development strategy direction.

On human capacity development and technology change, the strategy notes the key role of TVETs and their role as centres of technology transformation. A new iteration from the 1997

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<sup>23</sup> <http://www.ecbp.biz/actions/recent-actions/mse-development-strategy-sets-course-for-sector.html>English

<sup>24</sup> Ibid

is the role of TVETs “to identify and produce import substitute items as a sample and transfer technologies to MSE”<sup>25</sup>

With respect to financial services and provision, the strategy notes that “all stakeholders, engaged in MSE, will be encouraged to accumulate their own initial capital”. To minimize the cost of capital investment, the strategy requires regions and city administrations to build working place, market place and organize working centers. In a new development “education institutes and students with a project ideas and technologies will be supported to have initial capital”

To resolve the issue of working place constraints, technology transfer, capital shortage and market challenges, the strategy proposes the use of a “cluster development direction with special arrangements of land, credit and market to be made to enhance graduation from small to medium level enterprise”.<sup>26</sup> The new strategy proposes the establishment of “sub-contracting market networks” as well as special support to enterprises engaged in export market. Other market development tools would be strengthening sub-contract, outsourcing, franchising and out-grower marketing system.

Other proposals relate to the establishment of one stop services, industry extension services and building the capacity of support providing institutions. At the institutional level the strategy proposed to re-organize FeMSEDA, and strengthen implementing institutions at regional level. In terms of industry extension services, the aims for these services are to provide support on entrepreneurship, trade, technology growth and development, technology transformation and to use tools such as KAIZEN to improve manufacturing efficiencies

### 3.2.6 Micro –Credit: Trends, challenges and Opportunities

The Micro-Finance sector in Ethiopia has seen spectacular growth after the issuance of proclamation 40/96, which authorised the National Bank of Ethiopia to register, licence, regulate and supervise MFIs. In the year 2000, there were 3 MFIs in the country with 176,629 active borrowers and a loan book of Birr 3,086,616. Currently, there are 29 licensed MFIs reaching about 2.2 million active borrowers with a loan book of Birr 4.6 billion. Four MFIs” account for 92.33% of Ethiopia’s national micro-credit loan book and 87.43% of active borrowers.<sup>27</sup>

Despite this significant gain, the general penetration is still very low estimated at 20-25% of current demand with most of the underserved areas being largely in the rural areas. The local micro credit support sector is also quite small and not well structured to sustain the balance between supply and demand.

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25 Summary of the New MSE Development Strategy of Ethiopia, March 24, 2011, JICA Ethiopia Office

<sup>27</sup> *A Review of Ethiopian Micro Finance Institutions and their Role in Poverty Reduction: A Case Study on Amhara Credit and Saving Institution (ACSI)* YM.Venkata Ramanaiah \*C.Mangala Gowri (2011)

Most MFIs are doing remarkably well in terms of financial performance given their relatively short track record. The largest have passed the threshold of financial self-sufficiency and the vast majority has moved beyond the operational self-sufficiency mark.<sup>28</sup>

According to MicroNed (2008) the biggest challenges of the Ethiopian MFI sector at the moment are a lack of adequate whole sale funding possibilities (including guarantee facility), weak governance and management capacities to further develop MFIs into more mature institutions with diversified products and the overall availability of local BDS services for clients. MIS systems, social performance management, gender mainstreaming and product innovation are still underdeveloped. Very few MFIs have access to commercial lending sources. This coupled to the tremendous growth in loan portfolios compared to the marginal corresponding growth in savings, the biggest challenge experienced by the Ethiopian MFI sector at the moment is lack of loan funding. There is a high level of homogeneity between the financial products particularly savings and loans, there is need for adaptation of various products to suit different categories of clients.

Savings and credit organizations form a second type of organizations providing financial services to poor people also in rural areas in Ethiopia. Unlike other formal financial institutions (banks and micro finance institutions), saving and credit cooperatives are owned, controlled and capitalized by their members. This implies that the savings and credit cooperatives are not subjected to supervision and regulation of the National Bank of Ethiopia. The ministry of co-operatives is responsible for the coordination of their activities. One of the weaknesses reflected in the co-operative sector is poor administrative and financial management.

#### *Opportunities for LED in Micro Enterprise and Micro Credit*

The MSE policy provides a setting for LED MSE and employment creation components. It provides both institutional structure and incentives systems in the operation and implementation of MSE programs. MSEs are therefore accepted development tool in Ethiopia to which LED can make its contribution. It is therefore important that the UNDP LED programme goes beyond simply supplementing or augmenting the existing MSE and Micro-Credit delivery framework, or worse, becoming yet another well intentioned MSE and MFI project/programme intervention that undermines existing attempts to impose market discipline on the MSE sector by providing beneficial services and loan terms that merely serve to displace existing programmes. The key opportunities for LED lie in connecting MSE practice to improved market access, innovation and entrepreneurship

The new MSE strategy specifically the need for partnerships through the establishment of “sub-contracting market networks” as well as contract, outsourcing, franchising and out-grower marketing system provides guidance for LED MSE development. The opportunity for the UNDP would be to assist pioneer such partnerships through the development of a particular set of catalyzing instruments that could be tested for institutionalization within the MSE delivery framework in the longer term. In doing so it should work closely with existing MSE support institutions, Micro Finance Institutions to partner in the development of these innovative measures.

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<sup>28</sup> MicroNed (2008)

### 3.3 Summary of the policy framework

The foregoing review of the policy environment in Ethiopia shows that the national environment is opportune for Local Economic Development strategy in Ethiopia. The governance and administrative structure in Ethiopia has given space for local authorities to exercise development functions within their own jurisdiction and locality. Local authorities are empowered to innovate on policies and strategies that will help them reduce poverty and generate employment. The LED approach, as it is universally proved to be an effective local approach, fits well with the mandates and responsibilities of local authorities.

The economic policy frameworks of the country provides incentives for LED and make LED to be an indispensable tool to achieve the growth and poverty reduction objectives. In this regard the emphasis of the GTP on accelerated and broad based growth is not only in line with the objectives of LED, but makes LED to be an essential instrument to realize the goals of GTP at local level. GTP needs to be realized at different level and the local level where growth and poverty reduction matters takes a central position. Through effective and proper implementation of Local Economic Development, localities can attain fast local growth that is broad based and inclusive.

The urban and MSE policies through their emphasis on creating MSEs to generate urban employment are advocating local economic development. The strategies outlined provides bases for Local Economic Development. At the same time activities under Local Economic Development realize the goals of urban policy and MSE development in Ethiopia

## 4. Chapter 4. Review of LED programme in seven towns of the four Big Regions (May 2009 – December 2010): Strengths and weaknesses

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### 4.1 An overview of the current LED: program focus and strategy

The UNDP/MOFED LED program was initiated as a pilot program in 2009. The program has passed through various processes in its planning and implementation stages. The planning phase of the LED program has culminated in the production of strategic and implementation plans for all localities. The strategic plans are prepared in a participatory manner with the assistance of consultants who interacted with local stakeholders. The strategy and implementation plan preparation has also involved an assessment study of each locality which identified local potentials by creating an inventory of existing and potential economic development resources available in each locality. The assessment also identified critical gaps and strategic issues in each locality (see Table 3). The common gaps and issues identified were high unemployment and poverty, weak implementation of LED manifested in lack of capacity, finance, vision and strategies. The strategy plan for each locality was drawn for a five year period (2010-2014). On the basis of strategizing workshop held in each area, each city identified the vision, mission and values of each locality in pursuing LED (Table 4). Most cities have a vision of seeing their town as developed and dynamic city where good governance is implemented and practiced.

In addition, overall goals and strategic and specific objectives for each locality were also identified. The overall goals in all localities are related to poverty reduction and creation of employment. The strategic objectives revolve around improving the livelihood of unemployed vulnerable group especially women, improving business environment, enhancing the revenue of the city and capacity building for LED actors.

The LED programmatic areas specified were enterprise development; community based economic development and capacity building. The implementation of the LED program is led by broad implementation plans and individual project action plans. The implementation plans put together an institutional coordination strategy that involves three entities. These are the regional and city level technical and steering committees, the LED technical assistance unit which are housed in BOFED/ DOFED and serve as secretariat for the technical/steering committees, and the beneficiary groups to be coordinated by MSE agency (Bahardar implementation strategy). Non-state actors are expected to become members of the technical/steering committee owing to their potential and role in contributing to LED and the partnership philosophy of LED as well.

The implementation plan sees the committees in the future being replaced by more formal structures. The implementation plan also identifies a number of intervention projects which are classified as level one and level two projects. Level one projects are those projects or

interventions which involve locality level capacity building and level two projects are micro-projects that are geared towards improving the income and employability of unemployed youth, women and other vulnerable groups including PWDs and PLWHA. The number of level one and level two projects vary by locality. For example in Bahirdar, for the year 2010-2015, 25 projects are envisaged and of these, 10 were level one projects while 15 were level two projects. The implementation plan indicates that mobilizing community for LED, an investment friendly environment, promoting private sector development and strategic planning are required as support mechanisms.

The implementation plans envisage LED funding strategy to include various sources. UNDP fund will serve the two level projects with grant provision for the first level capacity building intervention and loanable revolving fund for the level 2 micro projects. While the former follows conventional public finance procedures, the latter is expected to be managed through MFIs. In addition, suggestions are made to leverage private sector resources, securing inputs in kind or in cash from communities, inputs from non-government organizations, inputs from international organizations, harnessing unused or poorly used assets, good will, trust, commitment and imagination

**Table 3: Critical gaps (strategic issues) of localities**

City	Critical gaps (issues) in the localities
Bahirdar	Widespread unemployment and vulnerability of youths; Weak coordination of LED initiatives/LED Governance; Limited capacity/institutions to harness LED potential; Limited revenue to finance LED initiatives and allocating land for enterprise development
Assela	High unemployment and poverty (youth, women, HIV / aids, disabilities, elders); lack of attractive market net works and low quality services provisions ; limited capacity building efforts for all LED actors ; limited inward investment and enabling business environment ; negligible public-private partnership and resources mobilization system; lack of implementation capacity; lack of infrastructure development; weak revenue collection system ;limited resources mobilization system; poor waste disposal and management system; spread of HIV/AIDS
Nekemte	Existence of high unemployment and poverty (youth, women, HIV/ AIDS, disabilities, elders); lack of entrepreneurship and enabling business environment; limited inward investment; limited enterprise, community and locality development systems; weak partnership of LED actors between local government and non-state actors especially with private sector and CSOs/NGOs; limited capacity building efforts for all LED actors; negligible public-private partnership and ;failure to mobilize the community to mobilize resources mobilization resources for LED; capacity limitation in internalizing the concept of LED and its implementation; scarce market net works and low of quality service provisions ; lack of waste disposal and management system in the town
Hawassa	Poor LED governance; Problems of employment and income generation; Absence of pro-poor financing; lack of capacity and weak revenue generation

City	Critical gaps (issues) in the localities
Sodo	Poor LED governance; Problems of employment and income generation; Absence of pro-poor financing; lack of capacity and weak revenue generation
Mekelle	Poverty; rampant unemployment; mismatch between revenue and expenditure; lack of LED unit; lack of strategies for resource mobilization and pro-poor financing; weak business development services; limited effort to promote value chain; limited effort for labor force development
Adigrat	Poverty; mismatch between revenue and expenditure; lack of LED unit; lack of strategies for resource mobilization and pro-poor financing; weak business development services; limited effort to promote value chain; limited effort for labor force development; lack of business climate survey; limited enterprise development initiatives; wide spread unemployment and vulnerability of youth; Weak Coordination of LED initiatives and LED Governance

Source: Strategy plans of different cities

**Table 4: Vision and mission of LED program cities**

City	Vision	Mission
Bahir dar	To see a developed Bahir Dar city with good governance while making it very suitable and comfortable for its citizens”	To guarantee the development of the city with good governance while the social, economic and political activities are undertaken for the benefits of the residents.
Assela	The people of Assela envision to live in an economically prosperous Assela which has dynamic, business-oriented LED, good governance systems and can provide a variety of entrepreneurial and employment options to all citizens so that there will be no unemployment and poverty.	The local economic strategy of Assela is designed to contribute to the poverty reduction and sustainable development endeavors of the town through generating revenue and employment and ensuring inclusiveness of the vulnerable group.
Nekemte	All citizens of Nekemte are inspired to live in modern Nekemte in which all citizens are prosperous, economically empowered and unemployment and poverty are totally eradicated from Nekemte through entrepreneurial business development and LED good governance.	To contribute to the poverty reduction and sustainable development endeavours of the town through generating revenue and employment and ensuring inclusiveness of the vulnerable group.
Hawassa	By 2014, Hawassa city would become one of the most business and investment – friendly city in the country	Hawassa city administration is dedicated to continue build business enabling environment through the provision of quality municipality services and creating strong public-private partnership. The city administration will ensure all the city revenues are collected, investments are sustainably promoted, enterprise developments are enhanced, thereby income and employment opportunities increased considerably for its citizens. In doing so, the city commits itself for an accelerated local economic development of the city.

City	Vision	Mission
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Sodo	By 2014, Wolaita Soddo would be a favorable city for business and investment and LED initiatives would be fully owned by its citizens through strong public-private partnership and entrepreneurship.	Wolaita Soddo town will have a robust and inclusive local economy through exploiting and utilizing its natural and manmade resources for reducing unemployment and, increasing household income, attracting investment, increasing its revenue generation and providing efficient and effective municipality service delivery.
Mekele	By 2020, Mekelle envisions being a favorable city for trade, investment and tourism; at the same time to see its citizens free from social and economic problems; where empowerment of women is ensured; good governance is enhanced and no segments of the community exposed to vulnerability.	Mekelle city will have a robust and inclusive local economy through exploiting local opportunities, real potential and competitive advantages, enhanced capacity building and committed leadership, addressing local needs and contributing to the regional and national development objectives.
Adigrat	To see a developed Adigrat city that is favorable to its citizens to live and work and where an attractive business enabling environment is created.	Adigrat town will have a robust and inclusive local economy through exploiting local opportunities, real potential and competitive advantages, enhanced capacity building and committed leadership, addressing local needs and contributing to the regional and national development objectives.

Source: Strategy plans of different cities

The foregoing indicates that LED program in Ethiopia is a strategically planned activity. This is in line with international practices on doing and planning LED both in developed and developing countries. Many international agencies such as the World Bank, the UN-Habitat, and the ILO advocate LED as a planned activity that involves assessment of local potential and identification of local issues and strategies.

On the other hand, the planning-and strategy- driven approach is criticized by some authors. Meyer Stamer (2003) indicates that the planning approach requires substantial resources in terms of manpower, skill and finance. This tasks local government and in many cases necessitates external experts including consultants since local government may not have the requisite skill to diagnose and strategize local development plans. He also mentions that new beginners for LED activity find it difficult to imagine the future of their economies and put together a strategy that guides the local economy. Notwithstanding the criticism however, strategic planning has the advantage of seeing LED not as a quick fix ad-hoc activity but as an activity that contributes to the long term strategic development of localities. Therefore it seems appropriate to lead LED strategically based on assessment of local potentials and problems.

The consultations and workshops held in plan preparation stages also show that the LED plans were participatory and this helps local people to own the process and ensure easy buy-ins into the philosophy and operation of LED. In fact this is one of the strong points of LED implementation in Ethiopia (see below).

The objectives and strategies of the LED program in Ethiopia indicate that LED is envisaged as a pro-poor intervention that is mainly focused on reducing poverty and creating

employment. Such orientation is understandable given the critical gaps or strategic issues of many localities that revolved around poverty, unemployment and vulnerability. This pro-poor LED is implemented through program formulation components or elements. The main ones are institutional arrangements, capacity building, enterprise development and finance and grant management system. The following sections attempt to assess the strength and weaknesses of each element and isolate key critical issues that could be considered for further improvement and development of the different elements of the LED program in Ethiopia.

## 4.2 Institutional arrangements

### 4.2.1 The institutional landscape surrounding LED

This section maps the institutional and organizational landscape surrounding LED and the main actors in driving the policy and decision making process. This is a descriptive section while an assessment of the quality of the institutional set-up is given in the next section under strength and weaknesses.

The LED program in all localities is coordinated and led by regional-level and local-level inter-sectoral committees. The regional-level committees are composed of regional sector heads particularly the women's affair, youth and sports affair, social and labor affairs, micro and small enterprise office, finance and economic development. In addition, local LED experts and Mayors are also members of the regional steering committee. In many regions, the deputy bureau head of the Finance and Economic Development chairs the regional steering committees. The day to day coordination of the program at the regional level is carried by a focal person from BoFED who is also coordinating other UN activities in the region.

An exact replica of the regional steering committee is established at city level. This committee is supported by technical committee. Members of the steering committee are heads of the various sectors (women's affairs, youth affairs, labor and social affairs, finance and economic development, micro and small scale enterprise, trade and industry, micro finance, TVET) while members of the technical committee are experts drawn from the sectors represented in the steering committee. The functional set-ups of the two committees differ from locality to locality. For example, in Assela the two committees meet jointly while in Bahridar the two committees meet separately. In the former case, the justification is to ensure the technical committee provides on the spot explanation of technical matters to the steering committee. The local steering committee, in addition to government sector heads, also includes representative from the Chamber of commerce to represent the private sector and the youth and women association to represent CSOs. The membership of the Chamber, however, is not uniform across localities. The representation seems to be stronger in Tigray region and Bahirdar while membership is not evident in other regions. In fact in Assela, Nekemte and Awassa there is less or no involvement of the private sector in the steering committees.

The steering committee, as an over arching committee, approves the plans and budgets of LED for different years. It also approves the recruitment process of beneficiaries, business plans and loan sizes of beneficiaries. In some localities for example in Assela, it is indicated

that the steering committee members go to kebeles<sup>29</sup> to follow up on the progress of the beneficiaries. The steering committees are chaired by the mayor while the technical committee is chaired by deputy mayor. In Bahir dar, the steering committee is supposed to meet quarterly though informants mentioned that the committee can also meet frequently as deemed necessary. The technical committee meets twice a month in many localities. There is no uniformity of structure below the city level steering and technical committees.

In Awassa, there is a sub-city level steering committee constituting major offices such as trade and industry, youth affairs, women affairs, micro finance institution while in other regions, a kind of task forces are established to undertake the recruitment process. In Bahirdar, a task force composed of the LED agent, MSE agent and local officer is established. In Assela there is a wider representation involving kebele administration, women's association, youth association, representative from idir members, prominent person in the locality, religious representatives, NGO representatives, representatives of women's affairs, social affairs and youth and sport.

Besides the committees at city levels, there is one LED expert in each city<sup>30</sup>. The LED expert is responsible for managing the day to day activities of the program including recruitment, fund dispersal, follow ups, training etc. In fact the strength and capacity of the LED expert seems to determine the intensities of the activities in the localities.

#### 4.2.2 Institutional arrangement of LED: Strength and Weaknesses

The aim is to pinpoint some key positive and negative aspects in order to contribute to the further improvement of the institutional arrangement of LED. The following aspects are highlighted.

##### *Political Champions*

The implementation of LED requires considerable political commitment and political will. Political will that can be provided by political champions will ensure integration, coordination and commitment on the part of members. It appears that the LED program has received the highest political commitment at the local level as it is chaired by the city mayor and deputy mayor. In the case of Bahirdar, the deputy mayor chairs the technical committee. The fact that these individuals are at the centre of LED is helpful to mobilize political support to overcome hurdles and obtain city level commitment of resources for LED program. The importance of high level political commitment for this program could be seen by decisions taken to allocate some resources both in kind and in cash in some localities.

For example in Assela, it is estimated that the city government has contributed in kind resources worth 1.2 million birr in the form of premises for the Business Development Resource Centre (BDRC), land and shelter for micro projects etc. Similarly in Bahirdar, the

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<sup>29</sup> Kebeles are the lowest administrative unit in the town where the actual LED beneficiaries are found. Many cities in Ethiopia have city administration, sub-city administration and kebele administration.

<sup>30</sup> Bahirdar has two LED experts. They also have recruited four LED agents who work with beneficiaries at grass root level.

youth centre is partly given to the establishment of the BDRC. In Adigrat and Mekele city governments have allocated appropriate premises for BDRC.

While having an individual who can champion the goal of LED in the locality is critical, there is no way to ascertain whether LED will receive the same individual attention from prospective Mayors as their priority may change. In many localities there is a high turnover of mayors. For example in Awassa the current mayor is the third since the launching of the LED program. In Bahir dar and Assela there were also changes of mayor since LED has been launched.

### *Network structure and members' duties and responsibilities*

The present steering and technical committees are loose structures that bring together members in a loosely organized structure. The steering and technical committee members lead different sectors in their locality. As a result, they shoulder other responsibilities which seem to be their priority area of concern. It is difficult to ensure commitment in a loosely structured committee such as the present set up of the steering committees. This has been reiterated in some localities by the members of the steering committee. For example, consultation in Awassa revealed that members find it difficult to properly follow up supervision of micro projects in a consistent manner. There is also a suggestion in Adigrat that due to huge responsibilities, members of the steering committee may tend to focus on their prior responsibilities. They also find it difficult to own the tasks of LED and lead it as part of their activities. There are, however, some lessons in some regions which show that committee arrangements can work to coordinate activities. For example, the MSE council in Tigray which has similar set up could be used as an example in this regard. Despite this, however, the network structure needs to be strengthened in order to ensure adequate guidance and commitment on the part of the members. There has to be an incentive mechanism that ensures full commitment of the steering committee members for LED implementation and development.

It is also essential that steering committee members have duties and responsibilities based on their core competency as it relates to LED. This will make not only each member accountable to their duties but also addresses the activities of LED in a more effective and efficient manner. For example, the private sector can be entrusted with market linkage aspects of LED (see below). Similarly, other stakeholders can also be assigned some duties and responsibilities that relate to their comparative advantage. It does not seem that this is the case at the moment and this will result in lack of professionalism and inability of the steering committee to execute some activities effectively.

### *LED coordination*

The day to day coordination of the LED activities is currently led by LED experts who in many cases are junior LED employees with no political clout. These individuals, though housed in DoFED at local level and running the LED project, are not part of the DoFED structure. There is no dedicated LED unit within the government structure to make LED part of the government system. The day to day coordination of LED is thus run in un-institutionalized manner forcing LED to be seen as a project activity compromising its

sustainability in the government system. In reality, it is important to have LED as part of the government system and led by persons with political clout to implement and require collective decisions. As the Mayor is a political appointee shouldering numerous commitments, he (she) cannot lead the day to day activities. The responsible LED coordinator should be delegated by the mayor so that he (she) enjoys the attention of the mayor. Despite the presence of such person, however, there is a need to continue with the mayor being the ultimate owner of the program or the ultimate political champion.

#### *Participation of the non-state actors*

LED involves partnership formation among relevant actors for managing local resources for purposes of stimulating the local economy and creating jobs. The main actors in local economic development are the government, the civil society and the private sector. Adequate representation of these actors ensures sustainability in local economic development as each actor pools own resource, skills and knowledge.

The steering and technical committees in many localities are dominated by government representatives leading to limited involvement of non-state actors. Concerning the participation of the private sector, it is observed that in Bahirdar, Mekele and Adigrat the private sector is represented but is represented only by the head of the Chamber. In Assela, Nekemte, Awassa and Sodo, the private sector is not part of the steering/technical committee at present though in some towns the chamber participated initially but withdrew subsequently. In all these towns, there is an accusation that the government is not ready and willing to include the private sector in the steering committee. In Assela, in particular the private sector mentioned that except one or two meetings, they were not invited to attend steering committee meetings and as a result they were forced to resign from committee membership. In return, government representatives in Assela town accuse the private sector as being not developmental in their outlook and not ready to address the needs of the vulnerable and the poor. In Sodo town, there is a strong awareness that the private sector is the missing link. In fact, there is a plan to include the private sector and build their capacity through educational trip to other towns which have relatively better involvement of the private sector. The social mobilization program of Sodo town given in box 5 below is informative as it illustrates actions to include the private sector.

**Box 5: Social mobilization in Sodo**

The social mobilization project in Sodo town is an attempt to create partnership among government, civil society and private sector in LED. The project is initiated in order to overcome the limited involvement of the private sector in LED activities. The town is planning to hold a government-private sector-civil society dialogue and consultation forum. There will be two forums in the year 2011. In addition, the LED program is also organizing an experience sharing trip for 30 individuals from the business community, CSOs and government. The trip will be made to those localities where there are evidences of high level private sector involvement in LED and/or other development programs. Subsequent to the trip, there will be a workshop organized in Sodo town to transmit the experience gained in the trip to members of the community and the private sector.

**Source: interview with the LED expert in Sodo town**

In terms of including the private sector there is a need to create the 'soft factors' –trust and social capital- that are considered essential for effective cooperation between state and non-state actors (Ruecker and Trah cited in Rogerson, 2010). It might also be useful to learn from the experiences of the town where the private sector is working in cooperation with the government. For example the private sector in Assela, is engaged in other sectors namely hospital management, urban development and OLMA. In these sectors the private sector is participating as board member and coordinating committee. These experiences could be used to inform the involvement of the private sector in LED activities. The private sector can play significant role in LED. Actors from private sector in different towns indicated that

- The private sector can understand and advice on problems of and prospects for businesses;
- The private sector can mobilize resources;
- The private sector can organize different events such as trade fairs etc which are important means of business promotion and
- The private sector can engage in business training

In all the study towns, though the current partnership between the private and the public sector is much to be desired, there is recognition of the importance of working together by all parties. This could be taken as positive element that could be built upon. Similarly the civil society is not adequately represented in the steering/technical committees in all localities adding to a loss of additional partners. The only civil society members in all steering committees are the youth and women associations. There is however a need to include other key civil society and relevant stakeholders in the locality. The drawing of relevant stakeholder is critical in the promotion of the LED programs. Each locality needs to identify relevant stakeholders whose portfolio corresponds with LED and they should be made part of the LED initiatives. This helps to mobilize local resources (financial and non-financial) in a more effective manner. Unfortunately as the steering committee is invariably composed of government institutions, there is little room for the most important actors in each locality. For example one clear indications of the lack of involvement of major stakeholders in localities is the absence of educational institutions particularly universities and colleges present in various localities. Similarly lead sectors and NGOs are not part of the LED initiatives. It is necessary to make a review of the relevant stakeholders and their initiatives in different localities to leverage them for LED programs and policies. Most of these stakeholders are

engaged in similar initiatives in the locality. This helps not only to complement LED initiative but also to learn from the experience of others in solving local problems. For example, SNV, a Netherlands NGO, operates in both Bahirdar and Awassa implementing LED activities under its production, employment and income program and venture in the development of value chains for selected commodities. In the same way VOCA operates in Awassa and is engaged in forage production, feed processing and management of dairy animals. There is a clear link between the urban agriculture component of LED and feed processing. Similarly, there are clear links between the value chain development and LED initiatives. Other links could also be forged in order to ensure complementarities between different LED activities. Table 5 for instance indicates potential stakeholders found in some localities but which are not part of the LED intervention at the moment. At this juncture it might be in order to add that the actual engagement of relevant stakeholders requires some mechanism. This mechanism may be establishing an advisory committee or an associate committee or sub-committees entrusted on some particular activity.

**Table 5: LED relevant stakeholders in some localities**

Locality	LED relevant stakeholders
Bahirdar	Bahirdar University NGO Forum
Awassa	Awassa University International NGOs (SNV, VOCA)
Assela	Adama university college, Private colleges, local and international NGOs
Sodo	Konto Technical and vocational school; Wolaita Sodo University; Sodo agricultural college; Mariam women vocational training institute; Concern Ethiopia; Wolaita kale Hiwot Development program; Catholic development program
Nekemte	Wellega university; private colleges; Oromo development association; GTZ, Ethiopian Mekanyesus church; Employers federation; TVET colleges; Nekemte teachers college
Mekele	International NGOs working in the town (USAID, Save the children, Pathfinder); Local NGOs (OSSA, REST, Catholic); CBOs (Mam for Mam), Higher institution (Mekele University, Management institute of technology (MIT), and private college)

#### *Vertical relations between kebele, city and regional levels*

The city level steering committee occupies mid way position between the kebele level and the regional level. All these three levels and their intense interactions are essential for proper functioning of the LED program. The regional level steering committee is supposed to provide guidance, coordination, monitoring and evaluation in addition to operational activities of budget disbursement and project approvals while the local level structure is an instrument to articulate and channel local needs to the city level steering committee for decision making.

The vertical relations between these levels, however, are weak or are not structured. The region-city relation has been defined as very loose by many key informants at city level. Not only does the regional level steering committee meets rarely, but its capacity to provide guidance, coordination and monitoring is also highly constrained. There is a need to

strengthen the regional committee and ensure that it provides guidance, coordination, monitoring and follow up to the city level LED structures.

Regarding the kebele-city relation, the task forces at kebele level perform the recruitment process on the basis of criteria and submit the results to the steering committee. There is no involvement of the task force in deciding on different LED functions in their kebeles. They are therefore an implementing arm of the city level steering committee. Mechanism to ensure transparency on kebele level activities is also non-existent or absent.

### *Integration of LED program into local planning and budgeting*

Every locality has its own plan and budget for any one fiscal year. In fact many localities have five year plans and are currently preparing themselves to chart the five year Growth and Transformation Plan. The LED fund is separate from government account and is kept separately. The idea is to channel this fund to the micro-finance institution. It is however necessary to integrate the physical targets of activities to be supported by LED to that of city level activities as envisaged in the different annual plans. The LED program has its own mid-term strategic plan and annual plans are also prepared on the basis of the strategic plan.

The integration between local planning and LED planning, however, is not quite evident. The only exception where some integration is observed is in Awassa town where the road construction plan includes the length of kilometres to be constructed using the LED fund. If, LED is not part of city wide planning and budgeting, it is very difficult to see the symbiosis between the LED activities and the overall development activities of the city. This also opens a room for LED to remain as a project activity that is to be implemented separately with little synergy between the overall city functions and the LED activities.

## 4.3 Capacity Building

### 4.3.1 Introduction

When assessing the programme's LED capacity building efforts, it is important to define what we mean by capacity building. From an African perspective, UNESCO's International Institute for Capacity Building in Africa (IIBCA) places capacity within a systems process that defines the three levels namely, individual, organisational and environment.<sup>31</sup>

- Individual Capacity is the potential and competency, or lack thereof, found within a person, normally reflected through his or her specific technical and generic skills, knowledge, attitudes and behaviour, accumulated through forms of education, training, experience, networks and values.
- Institutional Capacity is the potential and competency, or lack thereof, found within organisations. It includes:
  - Human resources (collective individual capacities).
  - Strategic leadership, organisational purpose, orientation, institutional memory.
  - Internal confidence, partnerships, inter-governmental relations, powers.
  - Functions, resources and support systems, infrastructure and financial abilities.

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<sup>31</sup> IIBCA 2006



- Structures, processes, culture and by-laws.
- Environmental Capacity is elements that lie directly outside the specific influence of organisations, e.g. municipalities, civil society organizations (CSOs) etc. This would relate to the nature and context of the specific locality such as: Demographic composition, social capital within communities, the ecological, geographical, and the natural, mineral and environmental resources available.

The overall thrust of both the IICBI is that capacity building interventions need to take place across all three levels (individual, institutional, broader environmental) in a systematic and reinforcing manner. This is set out in the diagram below (Figure 2).

**Figure 2 Framework for Capacity building**



#### 4.3.2 Brief overview of Capacity Building interventions to date

The capacity building elements are an integral component of the Level 1 intervention. In the first phase of the programme, during 2009 the capacity building was largely focused on foundational activities to create awareness and to integrate and institutionalize the programme within the regions and localities. This included aspects relating to defining programme objectives, and orienting the project managers, members of steering committees and various implementing partners in the implementation management framework and the modalities for fund flows and programme accountability procedures.

In this context, the actual practice of project and programme management were developed “by doing” especially those relating to the project and programming processes of planning, implementation, and monitoring and evaluation. It also included formal capacity building interventions targeted at senior LED role players, which took place in Kenya as well as at Debrezeit in the latter part of 2009. The Debrezeit “Introduction to LED and the Management of Resources for LED” included both regional and locality based Steering Committee members including those from CSOs and Chambers of Commerce. A study tour to South Africa to view the role of public-private partnerships in LED involving senior politicians and locality managers took place in October 2009.

Once micro-enterprise activities had moved into full implementation in 2010 the focus shifted to various direct interventions to capacitate beneficiaries through basic training in business management, financial management (bookkeeping) at a significant scale. During 2010 more than 3000 youth, women and members of vulnerable groups were trained in vocational and

entrepreneurial skills in the 7 localities.<sup>32</sup> These also included interventions to strengthen the training of intermediaries such as LED experts through the Training of Trainers (TOT) delivered on entrepreneurship and leadership.

The institutional intervention processes were largely focused on securing specific staff in requirements for the localities (LED experts) and the provision of logistical support through the provision of equipment (computers, printers, photocopiers, motorbikes etc) In the last quarter of 2010, a series of capacity building concept notes were developed to provide the context, justification and description/summaries of 10 sub-projects (table 6) under the Capacity Building for Enabling Environment as an integral part of formulating the Locality LED strategies.<sup>33</sup>

Although generic to all 7 localities, the focus and character of the 10 proposed projects provide a more coherent set of capacity interventions that begin to respond to the key issues and challenges relating to the current status of the LED programme including: the need for LED institutionalization and sustainability at government level, the issue of partnership, value chain integration and the general broadening of the concept of LED beyond the current narrow confines of poverty alleviation micro enterprises. The interventions also begin to connect capacity building across the individual, organizational and environmental dimensions

**Table 6: Projects/sub projects under the capacity building program**

No	Project title
1	Institutionalization of LED
2	Skill Development Training for MSEs
3	Town Social/Community Mobilization
4	Integrating LED interventions in the town Growth and Transformation strategy
5	Enhancing town revenue generation through Resource Mobilization
6	Promoting Value chain approach and cluster development
7	Labor force development for the local economy
8	Business/Investment Climate Monitoring
9	Strengthening existing local development partnership forum
10	Establishing Business Development Resource center (BDRC)

<sup>32</sup> <sup>32</sup> UNDP, (DELCAP)2010 Annual Review Report Developing Local Capacity for the Achievement of the MDGs (DELCAP)

<sup>33</sup> DICT “Capacity Building of LED Actors for Enabling Environment in Nekemte”,( November 2010)

### 4.3.3 Key Findings around capacity building: Strength and weaknesses

#### *Beneficiary capacity*

The capacity building interventions targeted towards micro- enterprises have been extensive in nature (reaching over 3000 participants), and effectively implemented, but the feedback from both micro enterprise beneficiaries and locality based LED experts and other implementing actors is that they were somewhat generic and superficial and not sufficient to strengthen the capacity of the micro-enterprises to meet current challenges and empower them.

#### *Executives' capacity*

The LED programme has been an important practical capacitation experience for public managers in the regions and localities, particularly around the tools associated with programme and project management. In this regard some changes have been noted in some localities as the executives in their respective offices have started to implement project preparation, monitoring and evaluations. But despite significant efforts to facilitate LED strategy development, participatory planning and specific capacity building interventions, LED has not yet been fully mainstreamed within regional and locality institutions.

#### *Usefulness of study tours*

Study Tours have been important instruments for sensitizing and orienting senior city administration politicians and decision makers to the policy and practice of LED. A number of innovations in micro-enterprise practice around partnerships between existing enterprises and new enterprises took place because senior decision makers were supportive of the concept based on knowledge acquired through study tours. The case of Sodo is instructive in this regard. The innovation in the town to link established business with new start-ups is an initiative that was based on the experience of the Mayor from South Africa (see below).

#### *High turnover of trained individuals*

Many sector heads and steering committee members have taken training and have attended workshops. Most of these individuals however leave offices or get transferred to new positions. In such circumstances, these individuals will not be able to utilize their skills and trainings to influence LED implementations. At the same time, the new committee members or sector heads who replace them will not have the necessary exposition. Such interruptions need to be factored-in in designing training program. This necessitates continuous training to be designed or it may be plausible to concentrate training on technical people rather than sector heads and steering committee members since technical people are less mobile or have fewer turnovers.

### *Limited duration of training*

Most of the trainings given to beneficiaries have very limited duration. For example, it was reported that in Assela about 600 trainees received five day training on how to start their businesses. The training involved different components such as entrepreneurship, business idea, marketing plan, costing, record keeping and business communication and leadership. While these components are essential, the amount of training given, however, is inadequate and is difficult to assume that those beneficiaries who are new to the business world would be able to conduct their business in a required manner. Such concern for example has initiated a plan to retrain beneficiaries in Sodo town.

### *Supply-based training*

The current skills trainings provided to the beneficiaries are supply driven. The trainings are the standard business skills training. Such types of trainings do not usually fit into the needs of each individual and assumes a 'one-size fits all' approach. It is important to tailor trainings to the needs and stages of enterprises in which beneficiaries find themselves. In this regard the current MSE strategy which advocates for differentiated support to enterprises on the bases of their stage of development could be used as the basis for fashioning and designing trainings. More over sector or industry specific capacity linked to partnerships around supply agreements or franchising with existing established businesses and other forms of value chain integration would more effectively address issues of market knowledge and access, innovation, technology, than simply "more and uniform training".

## 4.4 Enterprise Development and Employment

### 4.4.1 Overview

Enterprise development and employment constitute the core focus of the programme. The UNDP project document states that:

*Employment and self-employment opportunities enhanced for youth, women and vulnerable groups, through investments and targeted economic interventions, for the promotion of pro-poor economic growth and sustainable livelihoods, in 4 Big Regions (Oromia, Amhara, SNNPR and Tigray).<sup>34</sup>*

The results to be achieved under this component were<sup>35</sup>:

- *The unemployment rate of the LED localities reduced to 50%, i.e. all the registered unemployed youth (over 50% women) will be employed and their household incomes will be increased to at least 50%.*
- *Annually, around 2,000 unemployed youth and women (at least 50%), especially target population, gainfully employed and their household incomes increased*
- *50% unemployed and employed youth (50% women) trained in vocational and entrepreneurial skills (Annually, around 500 youth (50% women) will be trained in vocational and entrepreneurial skills in 4 Regions*

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<sup>34</sup> UNDP Project Document 2009 - 2011

<sup>35</sup> Ibid

As table 8 below indicates, the programme has had considerable success to date, including activities currently being implemented in 2011 to meet its own quantitative objectives and targets with 10,110 beneficiaries of the targeted groups (unemployed women, men, youth and vulnerable groups) supported in establishing and expanding 771 micro small enterprises with a total budget of Birr 88 831 664 (UNDP Birr 72 696 514 Local Budget 17, 134408) over the past two years.<sup>36</sup> The local budgets were largely in-kind contributions in the form of land and premises. Furthermore as part of the process over 5,000 selected youth, both women and men were trained in entrepreneurship and vocational skills through a series of workshops and training programmes, held in the selected localities.

**Table 8: LED Programme: Enterprise Development (2009-2011): Indicative Quantitative Data**

Name of city	No of projects	No MSEs	MSE %	Budget UNDP (birr)	Budget Local (birr)	Total Budget (birr)	Total number of beneficiaries	% beneficiaries as a total
Bahir Dar	25	311	40.3	22873796	3967190	26,840,986	2554	25.26
Nekemte	12	84	10.89	11947457	3264445	15,211,902	1357	13.42
Hawasa	13	62	8.04	8948961	1694633	10,643,594	1810	17.90
Sodo	15	127	16.5	6399900	4197654	10,597,554	1922	19.01
Mekele	12	42	5.44	6584390	3044400	9,628,790	521	5.15
Adigrat	12	51	6.61	4080069	103577	4,183,646	797	7.88
Asella	12	94	12.10	11861942	862510	12,724,452	1149	11.36
<b>Total</b>	<b>101</b>	<b>771</b>	<b>100</b>	<b>72696514</b>	<b>17134409</b>	<b>89,831,700</b>	<b>10,110</b>	<b>100</b>

Although it is of more interest than of significance, Bahir Dar city has allocated the largest budget (EB 22, 8 million), established and supported the most enterprises (311) and created the most jobs (2554). This is followed by Sodo in terms of jobs (1922) and enterprises (127). But this indicative quantitative data in no way constitutes a reflection on locality performance or the more fundamental qualitative issues relating to the performance of the enterprises, or their likely sustainability and impact on the local economy.

The average indicative cost of creating a job in the programme is EB 8885 with city variations between EB 5249 - 18 481 (See Table 9). This figure can only be of significance and importance for comparative purposes with other job creating initiatives, once the sustainability of these enterprises has been determined. At this stage it would be too early to provide hard evidence on the sustainability status of the enterprises, as this could only be assessed after 3 – 5 years. Most micro-enterprise experience in developing countries shows

<sup>36</sup> Readers are cautioned not to draw conclusions on comparative data between localities as these figures are merely indicative having been collated from a variety of project lists and reports often with significant variations in themselves. The local budget allocations were based on highly variable estimations on land and premises made available by city administration, with some localities not including an estimated value on the reports reviewed. Some of the budgeted 2010 enterprise activities captured in project lists are still in implementation not yet moved into full activity.

a failure rate of between 70 – 80%, sometimes even higher in the first 3 years.<sup>37</sup> A key MFI informant in Bahirdar interviewed by the assessment team indicated that on the basis of current performance, only about 25% of current enterprises were likely to reach sustainability, with 65% "currently at" risk and 10% already confirmed failed after 5 - 15 month operations for the 2009 and 2010 enterprises respectively.

**Table 9: Indicative costs per beneficiary/job**

Name of city	No. of beneficiaries	Budget	Cost per job/beneficiary
Bahir Dar	2554	26840986	10509
Nekemte	1357	15211902	11210
Hawasa	1810	10643594	5880
Sodo	1922	10597554	5514
Mekele	521	9628790	18481
Adigrat	797	4183646	5249
Asella	1149	12724452	11084
<b>Total</b>	<b>10,110</b>	<b>89831664</b>	<b>8885</b>

#### 4.4.2 Character and Typology of Enterprises supported by LED Programme in the seven cities

Figure 3 below indicates the 6 sectors across which the enterprises are located. The locality development and public works sector (cobble stones, waste management, environment protection etc account for the largest number of jobs in the programme (32%) while manufacture accounts for the largest number of enterprises (28%), but a small proportion of the jobs (8%). Private construction accounted for the fewest enterprises and jobs. From an analysis point of view, it has been useful to identify four typologies which relate to the essential character of the enterprises, and the implications of that for LED practice and sustainability. These are described below.

##### 4.4.2.1. Enterprises with a public works and locality development dimension

These enterprises were common to all the localities and included cobble stone production and road construction, solid waste management, environmental protection, drainage ditch. The key feature of these enterprises is that they are essentially public works programmes involving contracted services with local government and/or other public agencies. They contribute not only towards enterprise and employment, but also towards locality development and business enablement objectives of city development which has multiplier effects for both economic and social development.

They seldom involve "displacement activities" in that they do not compete with existing enterprises, although in most cases they would involve services that should be provided directly by local government, although they can as effectively be provided through government-MSE contracts and partnerships. Their sustainability obviously depends on the ability of local government or other public entities to provide ongoing public funds. They can also be temporary or finite services, in that once key infrastructure has been developed,

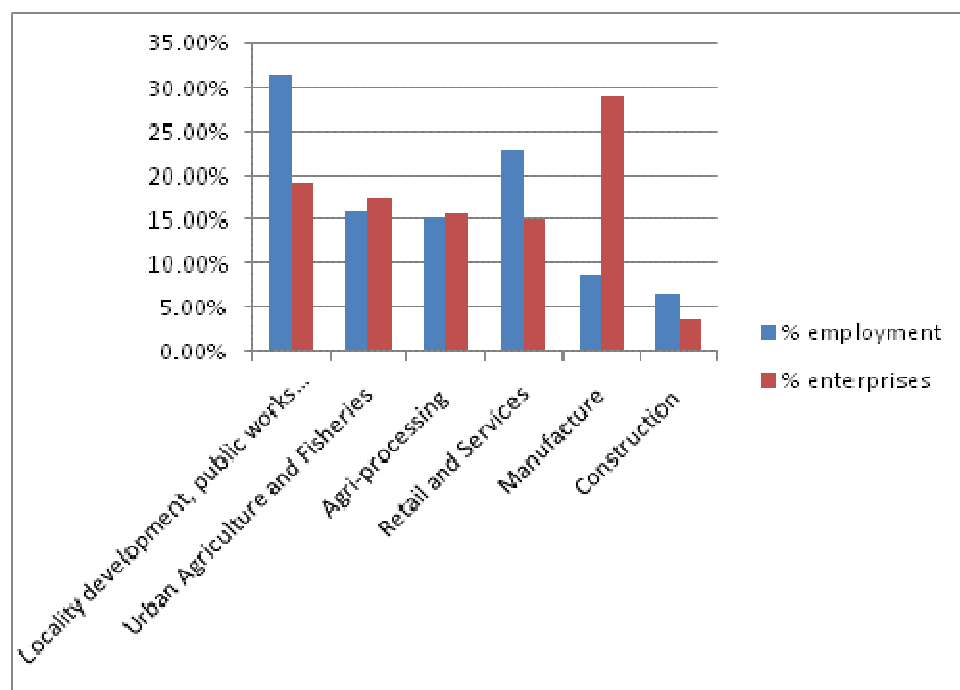
<sup>37</sup> ODI Background note: Micro Finance (March 2011)

there will not be demand for the services, although core competencies developed through these public programmes be transferred to other related activities. As figure 3 indicates, this sector has demonstrated significant employment absorptive capacity, accounting for 2898 or 31, 2% of all jobs created in the LED programme, with an average employment ratio of 222 jobs per project.

#### 4.4.2.2 Services and Retail enterprises

These included a range of generic services including car wash, sports and Marshall Arts, computer maintenance, stationery, injera, cafeterias etc. The key features is that they are targeted towards particular sectors (women and youth) having been promoted by the sector offices of Womens' Affairs and Youth Affairs, and most significantly they are sectors which (a) are already well traded and (b) do not constitute key areas of real economic growth potential nor exploit the key competitive advantages or existing distinctive local economic competencies of the localities. While these enterprises may well be emerging in sectors where there is a demand gap in the market, a real danger exists that these enterprises may merely constitute "displacement" actions, crowding out and displacing existing MSEs who are unable to compete with the special preferential public funded support provided by the LED programme to these enterprises in terms of financing, access to premises etc. Significantly it is this sector, such as the Injera makers, which grapple most with market access and continual dependency on public support.

**Figure 3: Enterprises and Employment per sector**



#### 4.4.2.3 Urban Agriculture and agri-processing

These enterprises are focused on generic horticulture (spices) and livestock production (dairy, sheep, poultry and cattle fattening). These enterprises have also been embedded in well traded sectors, although the domestic gap demand, particularly in dairy, poultry and cattle in some localities, means that there is a real market demand which these enterprises can meet. Their competitive advantage is that their location being close to the urban market

makes them more competitive than their rural counterparts. But as in retail and services, the danger exists that they too may constitute a form of displacement economic activity, with their preferential access to municipal land and financial support, crowding out less well placed and supported rural producers, and not necessarily contributing towards aggregate economic growth and activity or making a vital contribution towards strengthening core components of the local economy. Their key strength however is that they are an enterprise typology or sector where the enterprise members' have previous experience and where by and large the core technical skills exist.

#### 4.4.2.4 Manufacturing and building related products

These are predominantly generic textile, woodwork, leather, metal work, craft and building related products. The key feature of these enterprises is that they are largely centred on the provision of municipal manufacturing premises and "clusters" in addition to micro-financing, whose products are largely aimed at the local market, with the exception of some tourism related leather and wood products. A large number of these enterprises battle with both quality of goods and securing markets. Their products are often exact duplicate items of already overtraded products that flood the local market, or products whose indifferent design, cost and quality limits their demand. In one of the textile enterprises visited by the assessment team in Awassa, the enterprise was sitting on 100 000 birr of unsold textile products<sup>38</sup>. The manufacturing sector has been identified as a key sector in the Growth and Transformation Plan (GTP), particularly in terms of import substitution. This sector thus has potential, but only if accompanied by vast improvements in product innovation based on real market needs, improved technology, and greater cost efficiencies.

#### 4.4.3 Micro-Finance

A key innovation of the LED programme in relation to the enterprise development component has been the development of an inclusive financing strategy for the LED programme which is based on a series of agreements between BoFEDs, City Administrations (CA's) and selected regionally based Micro Finance Institutions (MFIs) to establish Revolving Loan Fund (RLF) and to manage and disburse micro-credit loans to enterprise beneficiaries under Level 2 of the programme.<sup>39</sup>

During the first level 2 intervention in 2009, most localities distributed the funds either in the form of a grant loan or as non-interest bearing loans. The assessments undertaken by DICT in all four regions as part of the formulation of the financing strategy noted that the strengths of this modality were; the funds were disbursed promptly given the short time frames, city administrations could set up Revolving Loan Funds (RLF), and there was a commitment by city administrations to ensure that the funds were repaid. But the limitations were more compelling, principally that the legal/regulatory framework did not allow government

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<sup>38</sup> Hawassa enterprise field visit 27<sup>th</sup> March 2011

<sup>39</sup> Amhara Credit and Saving institute (ACSI), Omo Micro-Finance Institution (OMFI), and Oromiya Credit and Saving Share Company (OCSSCO), Tigray Credit and Saving Institution (DEDEBIT) See "All-Inclusive Financing Strategy and LEDFund Management Manual for 7 localities: DICT Consultancy and Training (Nov 2010)



organizations to provide and administer loans, that the MSEs' perceived the loans to be a grant. Furthermore the interest free loans had the effect of distorting both the micro-credit and savings environment as well as the enterprise market environment itself, placing the selected LED enterprises at an advantage over MSEs' not included in the LED framework.<sup>40</sup>

As a result an agreement around level 2 funds were developed which has involved a series of Memoranda of Understanding (MOU) which:

- Created a LED Revolving Loan Fund (RLF) in the name of the City Administrations which then uses the MFI systems and capacity to provide disburse and administer micro-finance loans to the enterprises.
- The MFIs are part of the loan approval process on the Locality Steering Committees, but there is a special rate and conditions under which LED programme enterprises receive loan financing. The relationship between the MFI and enterprises is regulated by an agreement
- Although the MFIs sign an agreement between themselves and the enterprises, the real liability on the unpaid loans stills vests largely with the City Administration

Although somewhat complicated (see table below) the system of financial management and funds transfer is such that it is consistent with legal and other regulatory frameworks of all the actors (UNDP, City Administration, MFI).



### LED Fund Flow<sup>41</sup>:

The net effect has been a well thought through mechanism to place the enterprises on a more orthodox “semi”- market oriented loan financing arrangement, with loan rates of between 8 – 10% below the normal MFI rates without the standard requirements around collateral, and savings. The goal has been to meet the virtuous circle of both increasing access, but simultaneously exposing beneficiaries to the concept and practice of financial

<sup>40</sup> DICT (Nov 2010)

<sup>41</sup> DICT Assela and Nekemte Localities All-Inclusive Financing Strategy and LED-Fund Management Manual (Nov 2010)Ibid

markets and risk. In most cases the MFI's receive a service fee for the disbursement and administration as well as a return on the interest payment, with the Revolving Loan Funds (RLF) receiving a lower share. The concept of the LED Revolving Loan Fund (RLF) is an innovative instrument to secure LED funding sustainability strategy by City Administrations, contingent obviously on the enterprise beneficiaries meeting their loan obligations.

Nonetheless, there remain some significant challenges with respect to the current system; the preferential rate and conditions has only partially overcome the perception that the loans remain grants on the part of some beneficiary enterprises. This perception has been heightened by the failure of both the MFIs and the City Administrations to act decisively on non repayment of loans. An MFI informant reported that while standard MFI clients had a repayment rate of 98%, the LED programme beneficiaries currently stood at 35%, although this also included the recently disbursed 2010 loans. At the fundamental level, the MFIs status is more that of service agent in that the liability and risk for non serviced loans still principally remains more with the City Administrations than the MFIs. This raises the risk of "moral hazard" on the part of the MFIs.

#### 4.4.4 General and Business Support to LED enterprises and the Business Development Resource Centres (BDRC)

Almost all agencies, including the MSE agencies at city level, in all the locations were unanimous that the LED programme MSEs received more intensive support than those under the regular urban package programmes. At the same time there remained the standard concerns about the standard and quality of the services, not dissimilar from those raised in the general context of MSE support in Ethiopia, and in fact more broadly in the developing world. This related to:

- The level of the package of enterprise training and support
- The extent of monitoring and follow up by implementing agents and MSE agency staff

Although there were no specific references to the business plans, a brief review of the specific enterprise plans suggest that they were often generic in nature and that there exists a disjuncture between very optimistic projections and enterprise reality on the ground. But at the same time the consultants undertaking the plans had to deal with a large undertaking and the plans did engage with core financial and marketing issues.

The critical issue is therefore not how efficient and effective the support to "LED enterprises" is, but whether it is desirable or sustainable to continue providing preferential support to LED programme enterprises which might only contribute towards a further level of differentiation in public intervention and support along a continuum between "regular", "urban package" and "LED programme" SMEs which serves only to lead to local distortions and displacements without contributing towards the aggregate economic growth in localities.

#### 4.4.4.1 Business Development Resource Centres (BDRC)

As part of the level 1 intervention for promoting an enabling environment, the programme is currently establishing Business Development Resource Centres (BDRC) in each of the 7 localities. Proposals were completed in November 2010 for all 7 localities by DICT through a nationally co-ordinated process.

According to the proposals, the rationale for the BDRC lies in the demand from local government, business community, as well as the CSOs for professional business development support in order to: (i) strengthen job opportunity creation, (ii) increase, investment, (iii) strengthening existing SMEs and promotion of new ones. The proposals further notes that “the lack of institutionalized business development services has contributed to the hindrance of economic growth in the locality. The formal and non-formal SMEs in the town have very little facilities to access for such services to support them and promote new enterprises”<sup>42</sup>.

The overall goal intention is for the BDRC s to become a major business development hub providing professional assistance for entrepreneurial development to current and prospective small business owners and business associations through the provision of a wide variety of information, training, guidance, and counselling on a partnership basis. There are 4 key functions: (i) professional BDS services including business planning and counselling; (ii) a knowledge sharing platform based on library, website etc, (iii) business and market development services including resource mobilization, (iv) job counselling and placement services. Significant budgets of between 700 000 and 1,3 million Birr have been allocated for the “incubation” stage by the UNDP in 2011 for the physical establishment of each of the centres and the appointment of at least 3-5 staff including co-ordinator, ICT specialist, Business Support Specialist, Career Guidance and job placement councillors. In terms of sustainability the plan is for the centres to be financed through revenue generated through the provision of services including secretarial, office supplies, training, research and consultancy.

The BDRC process is currently in the physical location, construction and early staff recruitment stage, with some concern regarding the speed of their establishment by localities. It is therefore too early to come to any findings regarding their role and impact. Positive aspects to date relate to the commitment by city administrations to provide suitable land, locations and in some cases premises and the multi-stakeholder nature of the initiatives, which include cross- sectoral partnerships both within government and business and CSO partners.

Key areas of concern relate to the possibly over-optimistic projections around revenue collection, given that the target market’s willingness and ability to pay have to be tested within the context of the largely “public goods” orientation of the initiative. One city administration indicated during the assessment visit that the initiative would continue to obtain funding from the municipal budget in addition to revenue generation income going forward.<sup>43</sup> The other key concerns relate to the extent to which existing user groups and

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<sup>42</sup> *ibid*

<sup>43</sup> Bahir Dar BDRC opening ceremony and visit 19<sup>th</sup> March 2011c

service providers, particularly Chambers of Commerce, have been fully integrated given that some of these services are already being provided through both public and private entities although not in the integrated form envisaged by the initiative.

#### 4.4.5 Strength, weaknesses and issues of enterprise development

##### *Pro-poor employment creation*

The major strength of the LED program since its implementation is the creation of enterprises that resulted in employment for the poor and the disadvantaged. The programme has interpreted pro-poor economic growth to mean an explicit and exclusive targeting of the very poor and marginalized including unemployed women, youth, people with disabilities and other vulnerable groups in the society through promoting largely group-based micro enterprises. The programme with its implementing partners has had considerable success in meeting quantitative targets and establishing the systems, procedures, institutional arrangements and deploying resources to establish micro enterprises with the targeted beneficiaries in line with the plan.

##### *Adaptability of the program*

The programme management and its implementing partners have shown a remarkable ability to adapt to circumstances and to innovate rapidly to improve elements of the programme. This is particularly evident in the development of the inclusive micro-finance strategy and the integration of Micro Finance Institutions (MFI) into the programme implementation modality. It is also evident in the flexible approach that the programme has taken in shifting its focus from the establishment of new enterprises to integrating and supporting existing MSE's in the 2010 implementation programme. For instance in Assela town in 2010, 51.8% of those micro enterprises supported were existing enterprises while 48.4% were new start-ups. This is a shift made from supporting 100 % new start-ups in 2009 (Assela report). The key lesson from current practice is that micro-enterprises with the greatest likelihood of reaching business sustainability are those that (a) were already in existence for some time and (b) where the members of the groups have technical skills and previous experience in the sector.

##### *Targeting*

The LED program targets the poorest of the poor. A committee established at kebele level is given the task of recruiting unemployed youth and women, the vulnerable and the poor. The official selection criteria in most cases are targeting the unemployed, poor and resident of the kebele (see box 6). These people often lack business capabilities. This was reiterated in Assela and Awassa Focus group discussions. The steering committee members in Assela indicated that 'the target group members are mainly selected on the basis of their poverty status irrespective of their business capability'. In other words social objective is dominant in selecting beneficiaries. Although it is still too soon to make a finding, it is highly likely given growing signs, and evidence from similar international practice (including South Africa), that

current targeting strategy will lead to low levels of enterprise sustainability amongst the micro-enterprises established and that in terms of their current character and typology, will not have made a significant contribution to either economic growth with significant pro-poor outcomes or contribute meaningfully to strengthening the local economy.

**Box 6: Beneficiary selection criteria in Assela**

- Resident of the town;
- Able to produce kebele ID;
- Unemployed and deprived in economic terms;
- Ability and willingness to work in micro projects;
- Experience and skill related to the specific sectors of the micro business is preferable;
- Not a member of any operational project or enterprise;
- Free from any debt
- Willingness to work in group

*Networking of enterprises*

While the field visits have shown that some MSEs are linked to each other for purposes of marketing, serious networking among enterprises is far from a reality. In particular networks of MSEs that undertake joint activities such as joint marketing, joint procuring, joint learning are missing. Such joint activities are basis for collective efficiency. It is therefore useful to enhance collective efficiency. The animal fattening cluster<sup>44</sup> in Bahridar and the dairy cluster in Mekele could form good grounds for such networking to emerge and develop. It is clearly known that individual enterprises often are not able to compete in the market mainly because of their smallness and size. Networking avoids the problem of size and enables firms to compete in the market. In addition to this an obvious outcome of the current targeted approach has been that the established small, medium and large private sector have played little or no role in the enterprise establishment and expansion activities of the programme. On the other hand there is growing evidence on the need to forge partnerships and linkages between big and small enterprises. Such linkage formation has never been part of the enterprise development program of LED.

*Marketing and market linkages*

One of the efforts made in the MSE development is to create markets for the established MSEs by linking them with large government institutions or linking them with each other. Nekmet injera makers who supply Wellega University and Assela injera makers who supply Adama University are examples of MSEs linked to large government institutions. The link between cobble stone chisellers and pavers in many localities and linkages between MSE

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<sup>44</sup> The word cluster is used here to refer to indicate the physical proximity these MSEs have. It does not refer to other dimensions of cluster.

grain traders, grain millers and injera makers in Nekemte are examples of MSEs creating markets with each other.

Notwithstanding the market linkages observed above, there are many firms who are facing market problems for their products. Weavers in Awassa have indicated that they have a stock of finished products worth 100,000 birr in their store. Their main problem is lack of market as merchants who used to buy from them are now sourcing similar products at cheaper price from rural areas. In the same way, spice MSE in Mekele (Fryat 2001) has major marketing problem with neither a marketing outlet nor a connection to large institutions in the town. Part of the reasons for such market problem is the fact that the micro enterprises are largely supply-product driven based on the members' current technical and design knowledge. Inadequate knowledge on marketing, cost, and quality has made enterprises unable to secure markets constituting a high sustainability risk. The potentials of micro enterprises can be realized only through market driven products and market integration.

#### *Lack of real cluster development*

In all the localities there is an attempt to provide working spaces for MSEs and put together those activities which are in the same line of product. While this may have its contribution for cluster development in the future, it is however a misnomer to designate the provision of common working space as cluster development. The bases for cluster development are firm interaction and linkages with suppliers of inputs and services in addition to support institutions for a particular sub-sector. In the absence of such arrangements, the existing practice is only an effort to provide a working space.

#### *Limited rural urban linkage*

Most of the income generating activities in all localities is urban-based. Activities such as cobble stone, dairy farm, animal fattening, weaving, shoe making grain trade, injera making etc sell their products to urban dwellers and secure their inputs from local or other towns. Rural urban linkage ensures not only wider market but also wider supplies for some processing activities that may take place in towns and cities. There is therefore a need to strengthen rural urban linkages in town based income generating activities. There is however some plans which are envisaged to strengthen rural urban linkage within the LED program in some places. In Sodo town in particular, there is a plan to engage MSEs in milk semi- processing activities. The milk is envisaged to be collected from the surrounding area and deposited in a milk collection centre. The collected milk will be semi-processed and distributed to the town. In the same way, the LED program in Sodo town wants to use the existing government poultry centre to promote poultry farm and poultry feed making in the town. The project will link the rural and the urban as both the poultry feed and chicken from poultry farm will be distributed to the rural areas. At present there is neither poultry feed nor chicken incubation centre in Sodo town despite the high demand.

#### *Lack of full engagement of the beneficiaries*

In many MSEs, the beneficiaries are not fully engaged in the MSEs. For instance they take turns to attend to the MSE activities. In many instances there are situations where beneficiaries come once every 5 or more days to the MSE. There are two reasons for this.

First since members in many MSEs do not receive monthly income or they receive low monthly income they have to supplement their income from other sources. Secondly, the MSE activity is at very low stage that there is no need for all MSE members to be engaged simultaneously. This is an indication of the weak state of the MSEs.

### *Empowering MSE Beneficiaries*

Beneficiary empowerment should be an important outcome in business development. Empowerment entails beneficiaries being able to handle the business on their own. Empowered beneficiaries can handle their finance, marketing, and are visionary about their businesses. They have also less dependency syndrome. The field visit has shown that there are some success stories in enterprise empowerment as much as there are failures stories (see annex 1 for description of interviewed enterprises). Part of the reasons for enterprises not to be on positive trajectory including empowerment is the limited follow up enterprises receive. Some businesses require strict follow up in order to pass through the business hurdles. The LED set up for strict follow up however seems to be loose and this will be reflected in weak enterprise development and empowerment. The other reason is related to the training philosophy of LED. The LED program envisages that the group will receive short term training and achieve a certain level of competency to run their businesses. Often however, the short term training provided at the start of the businesses is not enough to fully empower the beneficiaries and enable them to acquire skills and run a business. As indicated above, in Sodo town there is a plan to retrain the starters in order to empower them and help them establish themselves. Even if there is an agreement that poverty should be the major criteria, the poor with entrepreneurial spirit and capability should be given priority for self-employment. Others with less potential and skills for business can be recruited as employees.

### *Positive spill-over's of enterprise development*

The primary goal of enterprise development is employment creation and income generation. Different enterprises however have positive spill-overs that transcend the employment creation and income generation benefits. The cobblestone enterprises are clear indications of this since the project upgrades local infrastructure and increase land values. It also stimulates business development as it facilitates access to different areas. Other cases of enterprises with significant positive spill-overs are environmental enterprises. These enterprises are engaged with environmental improvement in the process of earning income. Solid waste management are such enterprises. In addition, enterprises with significant environmental protection benefit are those which are involved in developing lake shores. Box 7 is a description of an environmental enterprise in Awassa city.

**Box 7: Environmental enterprise in Awassa**

The Awassa green environmental cleaning, beautification and boat recreation association is an association formed by 20 members in 2005. The 20 members are unemployed youth who live in the surrounding. They chose to enter in environmental cleaning and beatification business because they saw how other businesses which were engaged in lake shore entertainment were profitable. They also expressed that environmental protection is a public good they should engage in. The city administration granted them the land by the lake with an area size of 1800 m<sup>2</sup> (300 by 6 meters). They then started to clean up the area and planted seedlings. They performed the same activity for four years with no salary. Later they started income earning activity with a loan of 30,000 birr from MFI. The association became beneficiary of the LED program in 2009 with a grant of 150,000 birr which was used to reclaim land from swampy area, and expand income earning activities. Further expansion of the income earning activities was done with a loan of 120,000 birr from the LED program.

*Lack of MSE tracer study*

Tracer studies are useful to evaluate the status and conditions of the MSEs which are already in operation. This type of study provides feed back to adjust the interventions and also understand the problems and status of the operators. This type of study has not been undertaken in all localities to date. In a stakeholder discussion in Nekemte, the need for this type of study was emphasized since those who were organized under cobble stone are no more in operation due to budget constraint. Tracer studies therefore need to be organized in order to ensure the success of those MSEs which have been established and under operation.

*MSEs and key competitive advantages*

Few if any of the enterprises exploit the key competitive advantages or existing distinctive local economic competencies of the localities. While some of these enterprises may well be emerging in sectors where there is a demand gap, they are unlikely to contribute towards systematic strengthening of the local economy or contribute towards new products or services that will impact on economic growth with pro-poor outcomes.

*Micro-finance strategy*

As indicated earlier the development of the Micro-finance strategy has reflected commendable innovation on the part of the programme management to not only ensure that it is consistent with legal and other regulatory frameworks of all the actors (UNDP, City Administration, MFI), but seeks to meet the twin objective of increasing access, while simultaneously exposing beneficiaries to the concept and practice of financial markets and risk associated with enterprise. Nonetheless, the preferential rate and conditions has only partially overcome the perception that the loans remain grants on the part of some



beneficiary enterprises, and the repayment on LED loans is significantly lower than regular MSEs.

### *LED support to MSEs*

There is strong consensus that the LED programme supported “MSEs” in all the locations receive more intensive public support than those under the regular or urban package programmes. For example the LED financial support is given at lower interest rate or as a grant. The amount of loan is also consistently higher than the MFI loan to MSEs. The concern is whether it is desirable or sustainable to continue providing preferential and differentiated support to LED programme supported enterprises which may in the end only contribute to local distortions and displacements without contributing towards the aggregate economic growth in localities.

### *Issues on BDRC*

The Business Development Resource centres are still in the set up stage. Positive aspects to date relate to the commitment by city administrations to provide suitable land, locations and in some cases premises and the multi-stakeholder nature of the initiatives, which include cross- sectoral partnerships both within government and business and CSO partners. Key areas of concern relate to their sustainability given the over-optimistic projections around revenue collection, the target market’s willingness and the largely “public goods” orientation of the initiative. The other key concerns relate to the extent to which existing user groups and service providers, particularly Chambers of Commerce, have been fully integrated given that some of these services are already being provided through both public and private entities although not in the integrated form envisaged by the initiative.

## **4.5 Finance and Grant management system**

The following is some reflection on this issue in terms of its possible impact on substantive LED outcomes and the general approach.

### **4.5.1 Overview**

The key source of funds comes from the UNDP core funds (TRAC 1 & 2). The programme falls under the well established implementation frameworks of the National Implementation Modality (NIM) and the Programme Implementation Manual (PIM).

In order to plan, implement and manage the LED initiatives effectively, a 3-tier institutional arrangement has been set up, involving the key institutions at federal, regional and local levels. There is a requirement given the nature of programme to have high levels of vertical and horizontal to facilitate optimal participation, coordination, and accountability.<sup>45</sup> The financial procedure and fund flow in line with the Harmonized Approach to Cash Transfers (HACT) is based on signed Annual Work plans (AWP), quarterly tranches to BOFED regions and disbursement through implementing partners for both level 1 and 2

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<sup>45</sup> United Nations Development Programme LED Project Document (November 2009)

activities with the approval of the respective Regional and Local Steering Committees. The project plan required that beneficiaries, along with the local authorities contributed to the LED initiatives in cash or in-kind to increase ownership and sustainability of the SMEs and reduce dependency. This has occurred and in most cases, municipalities have leveraged land and premises into the programme, while beneficiary have brought their own matching savings as well as undertaken to repay loans as part of the programme.

As indicated in Section 4.4.3, the programme was able to successfully develop an inclusive financial strategy which amended the operation of the UNDP micro-grants to be consistent with legal and regulatory requirements of all the actors (UNDP, City Administrations (CA) and Micro Finance Institutions (MFIs). The innovation did require an additional set of agreements to underwrite the distinction between the Level 1 and Level 2 financial procedures, and which in the case of the of the establishment of Revolving Loan Funds (RLFs) and the loans administered by the MFIs' included signed agreements by the respective BOFEDs, City Administrations, Micro Finance Institutions and beneficiaries.

#### 4.5.2 Issues

The procedures set in place across the entire fund flow constitute a significant level of financial scrutiny and financial risk management mitigation, although the additional agreements and the line of financial and reporting procedures were lengthened significantly through the process.

The key issue raised by a number of regional and local programme role players relates to the delay in the planning and approvals, commitments and concomitant disbursement of funds which took place in November/December each year shortly before the end of the financial year, leaving a very short time frame in both years for the enterprises to be selected, organized and for the funding to be committed. It would be important for future years that a more efficient system is set in place that allows for a more structured time frame and process for selection and fund commitments.

## 5. Chapter 5. Positive benefits and best practices: Bases for sustaining and scaling up LED in Ethiopia

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### 5.1 Introduction

The LED program implementation through institutional arrangements, capacity building and enterprises development has brought some tangible results for the communities involved. Most of these changes are qualitative ones and demonstrate the powerful effects of local economic development as a development approach. The following will highlight some of these changes though it does not mean that LED as it is currently practiced is adequate. In fact, to the contrary there are a number of areas that need to be re-examined, strengthened or re-designed for greater impacts and results. This will be the subject of the next chapter. This chapter, in addition to pointing some positive outcome, will also highlight some innovative practices the assessment team observed during the field visits. These practices could form bases for further replication and development.

### 5.2. Positive benefits of LED

#### 5.2.1 Poverty reduction

Ethiopia is one of the most poverty stricken countries in the world. The proportion of population living below poverty line is quite high. Poverty reduction thus has become the number one development agenda of the government for many years now. A further complicating matter is the spatial dimension of poverty between rural and urban areas. In Ethiopia, the rapid pace of urbanization is matched with a rise in urban poverty. Urban Poverty has risen from 33 % in 1995/96 to 37% in 1999/00 showing an increment of 11%. In 2004/05, urban poverty showed a modest decline from previous period and reached a level of 35%. The situation in urban Ethiopia is in contrast to the national and rural poverty which has shown a consistent decline. Unemployment in urban Ethiopia is staggeringly high with an average rate of 20.6% (females have high unemployment incidence of 27.2%). Though there are numerous reasons for the high poverty and unemployment rate in urban areas, the weak economic base and dynamism of our cities and towns is the main culprit (Tegegne, 2011).

Local Economic Development (LED) is an obvious choice for poverty reduction and employment generation. LED activities are poverty focussed. They have targeted the poorest sections of the society and have provided financial and non-financial assistance to the poor. This has resulted in creating employment to the unemployed and helping the poor to gain income and improve the livelihood. It has served as a good addition and compliment to government run MSE program which also has a poverty reduction role. In fact, Steering Committee members have elaborated that the LED program has enabled them to reach those segments of the population who could not be reached by the government MSE

programs. These groups of people are in particular the vulnerable and the poor. Though it is difficult to quantify the level of poverty reduction in different localities, the creation of newly employed people in different cities and the number of enterprises newly established or strengthened as indicated in section four of the report are good indications of the positive role of LED in local poverty reductions.

### 5.2.2 Societal benefits

The MSEs created through the LED programs have generated different goods and services that offer different societal benefits. The retail and service MSEs have strengthened the trade sector of the locality and enabled the community to be serviced well. Those enterprises engaged in road construction and locality development have improved the infrastructural stock of cities which in turn has impact on improving business environment and residential quality. The manufacturing MSEs have produced cloth, shoes and other items that cater to the needs of local people. The MSEs mostly rely on local resources for their use. These include the use of stones for roads, the use of local grains in grains mills and food preparation, the use of local spices in food preparation etc. Such use of local resources creates additional market for local producers and helps stimulate the economy. The MSEs created thus do not have only consumption benefits but also generate multipliers effects though quantifying these effects is difficult as it requires isolating the LED MSE impacts from other factors.

### 5.2.3 Locally based and owned development

Sustainable development can be achieved only when development is pursued at local level with the local actors owning the process. The local level provides not only informational advantage for development functions, but also provides arena to bring everybody on board and pursue participatory development.

The current LED initiative through its various programs in level one project: international visit by major political and technical personnel, national level training, local level training and sensitization has brought everybody on board to take LED as the major city program. LED has triggered interest and awareness among local government personnel to look inward and identify local strength, potential and resources to sustain LED. The fact that LED was based on the preparation of strategic plan on the basis of local potential is seen as a major achievement. This has been reiterated by many stakeholders in different localities. There is a commitment to continue with LED in the localities using own resources and strength even if donor assistance stops. In fact in a stakeholder meeting in Assela, it was mentioned that though the UNDP is currently providing financial and technical assistance, the government is the one which is running the program.

### 5.2.4 Contribution towards creating developmental local government

Developmental states are necessary in situations where the market needs to be assisted. In the same way, local governments can be developmental by actively engaging in local development. The introduction of LED in the seven localities has served as a way of energizing the developmental role of local government. Through LED programs, local governments are seen not only as providers of services but also as providers of economic development to their constituencies. Developmental local governments in addition to satisfying the needs of their constituents, gain political dividend in the form of political stability and development in the locality.

#### 5.2.5 Resource mobilization

The program has become instrumental in mobilizing resources for economic growth in general and poverty reduction in particular. The LED program has infused financial resources to the locality which has served as catalytic agent to generate more local resources to fulfil the goals of LED. In other words the LED fund has been capable of leveraging public resources in all localities. These additional resources have come not only in kind and cash but also included local knowledge, skill etc. This has enabled capital to be available for the city and locality. Capital availability is the major problem that constraint localities from engaging in innovative ways of local development.

#### 5.2.6 Inclusiveness

The LED program is designed with the objective of inclusiveness in terms of its focus on women, youth and the vulnerable. Beneficiaries are selected and targeted from the marginalized groups. This is a positive step in making growth broad-based and pro-poor. The fact that there is a deliberate attempt to include women beneficiaries in enterprise development is a reflection of its inclusiveness. In this regard, the LED annual progress report indicates that 44% of the MSE beneficiaries are women. In addition to the inclusive targeting, the inclusive finance also has the potential of creating credit access to the poor.

#### 5.2.7 Potential to improve business environment

The current LED program has introduced BDRC as one of its strategies. Many localities are on the way of establishing a BDRC center which has the potential of stimulating the local business environment. The program enables the city to prepare city profile that could be used for investment attraction and promotion; it provides BDS services and undertakes counseling. The program of job counseling and placement makes employment information widely available for potential users thereby reducing unemployment in the city.

#### 5.2.8 Forging partnership

LED management has necessitated the creation of a partnership among diverse government groups. Inter-governmental partnership has been created as a result of the LED program implementation. The only significant structure that precedes the LED steering committee in many localities is the MSE council. The latter is an inter-governmental body to address the needs of the MSE program. The steering committee has a wider mandate of leading locality economic development by mobilizing resources, approving plans, programs and projects,

and providing technical and managerial leadership on matter pertaining to local development. LED thus has sown the seeds of partnership in many localities which is the only surest way of sustaining development.

### 5.3 Best practices

The implementation of LED has resulted in several best practices that could be upgraded and scaled up for possible replication.

#### 5.3.1 Resource contribution by government to LED (All localities)

As much as LED has received political support in all localities, it also has received contributions from government. These contributions are necessary inputs to realize LED objectives. The contribution made in different cities is mainly in kind. Mekele city has spent 17 million for shed building and 3 million birr for training. In Adigrat city, the government has spent 12,500 birr for land and construction and 90,300 birr for training in the year 2009. In the year 2010, though the estimates of government control for land and buildings are not valued, it has spent 200,000 birr for training. In Assela the government has invested a total amount of 1.7 million birr for land, premise and infrastructure.

In the year 2010, Bahir dar city has taken a step towards establishing a LED fund. The city has implemented an inclusive micro finance strategy originally developed by the LED program. The inclusive finance strategy is a strategy that introduced micro finance services particularly for the poor and the vulnerable. In so doing the city government paid 7% of the grant capital in cash for service charge. Currently ACSI, the micro finance institution of the Amhara region, charges LED projects an interest rate of 10%. Of this, 3.5% is given for the city administration in order to maintain the present value of the fund. The remaining will be paid to MFI as service charges. Currently the financial resources of the LED fund are handled as the revolving fund to be obtained through ACSI and government contribution. The government has contributed in-kind, and in cash that could be used as part of the LED fund. The cash contribution of the city amounts to nearly 4.0 million birr. Though this, as it stands now, is not enough to sustain the LED program, the establishment of a LED fund and contribution by the government is a step in the right direction and should be strengthened and enhanced.

#### 5.3.2 Resource mobilization from civil society (Adigrat and Sodo)

The role and contribution of civil society in LED activities and programs is paramount. Civil society can contribute knowledge, skill, ideas and financial resources to the LED programme. The Catholic Church in Adigrat participates in LED program by covering the cost of training for some beneficiaries. In addition, the same Catholic Church has provided a grain weighing machine for 'Fryat 2001 spice MSE in Mekele. This machine has enabled the MSE to properly undertake their business. Similarly, the Catholic vocational center in Sodo town has trained 40 individuals in wood and metal work at a lower price. The Mariam vocational center in Sodo has also trained 20 women in the same manner. Such practice of leveraging the civil society in different places will strengthen the LED program and ensures its sustainability.

### 5.3.3 Support to existing enterprises (many localities)

Many localities have witnessed an “organic” shift in the enterprise development component away from an approach that just focuses on start-ups for marginalized groups – women, youth and people with disabilities (PWD) as per the formal criteria established in most localities, towards supporting new or existing enterprises with a greater potential of sustainability and job creation. There is also a beginning in making a shift towards including enterprises where the enterprise owners have either high levels of technical skills (University or TVET graduates) or the requisite past experience in that industry or sector to undertake the managerial and technical requirements of the enterprise.

### 5.3.4 Partnership between existing business and new-start ups for skills transfer. (Sodo)

New-start ups need support at the start of their business. They need to be provided with skills and they have to be coached how to run their business. They also require information on sources of inputs, quality of inputs, and maintenance of business, market etc. Existing businesses often have adequate skills and information on the specific business they are engaged in.

The LED programme in Sodo town, designed a strategy of creating partnership between existing businesses and new-start ups. In this regard, an existing poultry farm was linked with three new-start ups for purposes of transferring skills and information. The existing poultry farm was assisted with a loan of 100,000 birr for purchasing an incubator. The assistance will serve as an incentive for the existing business to engage in skills transfer to the new ones. Such partnership creation will not only help new businesses to receive hands on experience from skilled business men, but also relieves the government from organizing assistance to help new businesses. The resource that is freed from this activity can be used for other activity. Such partnership based models with established small, medium and large private sector role players for the purposes of achieving pro-poor outcomes should form the basis for a refocused approach for the programme going forward to 2012.

### 5.3.5 Linking MSEs to each other and major buyer (Nekemte)

Availability of continuous market and dependable sources of inputs are the major difficulties MSEs face in their operation. This is because MSEs on their own find it difficult to compete in the market and ensure dependable sources of inputs. Moreover, MSEs often lack enough working capital to run their businesses smoothly. Among the different MSEs organized in Nekemte by LED programme are ‘injera’ making, grain trade and grain mills. The Nekemte LED programme convinced Wellega University to purchase ‘injera’ from ‘injera’ making MSEs which in turn are supplied with ‘teff’ flour from grain mill MSEs. The grain mill MSEs in turn are supplied with ‘teff’ by the grain trade MSE. This chain of linkage between grain trade, grain mill, ‘injera’ making and the University ensures a continuous flow of activity with dependable sources of market and inputs. In this regard, the University is a dependable market for the ‘injera’ making MSEs while the grain trade and grain mills are dependable sources of inputs. This type of linkage is also useful to avoid cash constraint if transaction is carried on credit basis. It has been observed that ‘injera’ makers receive ‘teff’ flour on credit

and pay the credit only after being paid by the University. As a result the cash constraint faced by 'injera' makers is alleviated.

#### 5.3.6 Importing technology for technology transfer (Sodo)

Many localities in Ethiopia import final products from the capital city, Addis Ababa. Upon reaching their destinations, these products fetch high prices which are no longer affordable by residents. The availabilities of these products are also dependent on the performance of local traders.

In Sodo, the LED program resorted to importing technology with the view of achieving technology transfer. The program bought a floor tile making machine and hydro foam making machine from China and South Africa respectively. These machines will be used to make floor tiles and hydro foam blocks in the town. Those MSEs engaged in these activities will not only produce the goods but also make the technology available to the locality as well. Such technology transfer ensures reliable and continuous availability of the goods and services in the locality and its surrounding.

#### 5.3.7 City promotion (Sodo)

One of the activities envisaged in level one program is the preparation of city profiles. One of the towns which have taken some steps along this line is Sodo town. The town has started preparing a documentary film. The filming process has already started and the documentary will be broadcasted in the national TV for purposes of promoting the city. In addition, the LED programme has bought 20 programs for 30 minutes each from Welaita Sodo radio station. The program will air the various investment opportunities and incentive packages of the Sodo town to attract or cultivate investment. On top of this, the town is preparing to open a web site of the city. The town has allotted 60,000 birr for this purpose from the LED program. The town has also bought an air time from the radio station to create awareness about tax payment in the community.

#### 5.3.8. LED stakeholder forum (Adigrat)

LED stakeholder forum is established in Adigrat at kebele level. The forum includes about 60 people representing the beneficiaries, the kebele people, cooperatives, private sector and others. The uniqueness of this initiative is that it creates space for wider representation of stakeholders at local level. The LED stakeholder forum is a good instrument to create local level consensus among a wider representatives of the community. In addition, the fact that the beneficiaries are part of the forum enables them to take part in decision making on matters that affect their affairs.

#### 5.3.9. Inclusive MFI strategy (programme level)

The programme has designed an inclusive finance strategy to leverage and integrate the Micro Finance Institutions (MFIs) into the programme. This represents responsiveness and innovation in the programme management. Despite some of the weaknesses with the current MFI framework, there are important lessons that can be learnt from this experience



that should be taken forward in refining and furthering the programme. The inclusive finance strategy experience indicates that it is possible to make concrete and enforceable agreements with existing implementing partners whose core or distinctive competencies can be more effectively leveraged into the programme than attempting to duplicate the service with limited likelihood of sustainability.

#### 5.3.10. Economic development through social development (sport enterprise in Bahirdar)

In Bahirdara, LED has combined social and economic development in enterprise development. The Marshall arts MSE is an enterprise that envisages creating employment, promote healthy physique and vigilant citizen. The business shows that sport can be a business that can bring financial return in addition to its social benefit. Such MSEs thus have critical role to play in the society as they bring social and economic benefits.

#### 5.3.11 Emergence of entrepreneurial talent

There are instances of MSEs which are on growth trajectory (see Box SMART and Box Hadish hiwot ) as much as there are MSEs with little evidence of their growth and prosperity For instance, SMART a printing enterprise in Nekemte and Hadish Hiwot a computer service enterprise, in Mekele are cases of business on growth trajectory.

##### **Box 8: SMART enterprise in Nekemte**

SMART is a printing enterprise established in Nekemte town. The enterprise was established by three university graduates who wanted to come together and engage in micro-enterprise. They started with 18,000 birr loan in 2008 from a micro finance institution. The fund was used to purchase a computer, simple printing machine and for house rent.

One year later, they were able to get a loan of 200,000 from LED program. The loan was used for buying machineries such as computers, stamp machine, printing machine etc. This helped them to expand their original businesses and opened branch enterprises in Nekemte and Gimbi towns. Though the enterprise still has to pay some of its loan, it has grown from an initial capital of 18,000 birr to the current capital of 450,000 birr. It also has employed 10 employees while the initial employees were only 2. The enterprise spends a monthly expenditure of 9300 birr on salary. The future plan is to purchase photo printer machine which will be used not only for photography but also for printing bulletin. The capital for this machine costs about 1.7 million and will be secured from the bank. The business has chosen a strategy of diversification as they use the loan or the profit to invest in internet cafe, photo printing in addition to printing.

**Box 9: Hadish Hiwot enterprise in Mekele**

Hadish Hiwot computer center was initiated in 2006 with 10 members in Mekele town. All members are degree and diploma holders and are women. They took a loan of 45,000 birr from Dedebit micro finance in 2008 and raised about 15,000 from own fund. The money was used for purchasing photocopy, computers, binding, cutting and printing machines. They were able to pay the loan in one year and eight months. At that time members of the MSE were not receiving any money since they were living with their families.

In 2010 they were given a loan of 218,000 birr from LED fund for business expansion. With this fund they were able to open two branches. One of them is in the business College of Mekele University and the other in Ayder campus. The monthly income of the MSE is about 18,000 birr. Out of the LED loan, they have already paid about 12,000 birr. Members now receive a monthly salary of 350 birr each and they have a monthly saving of 4,000 birr. In total they have saved 21,000 birr so far. They have a vision of expanding their business by acquiring more machinery in order to cope with the demand. They want to have heavy duty machinery for a price of 350,000 birr. They are hoping to secure a loan to achieve this objective.

This MSE is well positioned with respect to market since they operate in Mekele university where there is a huge student population requiring IT service. Members have received adequate training. The MSE agency has arranged for five of the members to go to Addis Ababa twice to receive IT training in computer maintenance. Members have high level educational background that enabled them properly manage their business.

## 6. Chapter 6: Sustaining and scaling up of LED: Way forward

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This chapter is forward looking and raises issues and ideas that may be needed to sustain and scale up LED in Ethiopia. The basis for sustaining and scaling up LED are the positive gains both in terms of benefits and good practices in the different localities and the possible contribution of LED for national economic growth and fights against poverty.

Programs are usually piloted to test their suitability and relevance which could be manifested in terms of their outputs and positive gains. These positive gains need to be sustained and replicated elsewhere in order to achieve greater impacts. Both sustaining and scaling up requires identifying key strategic areas that need to be deepened and consolidated, those that need to be initiated or redesigned, and those that need to be replicated. These three intervention areas span across institutional, financial, programmatic and capacity issues.

### 6.1 Strategic areas that need to be consolidated and deepened

These are issues and interventions that were not adequately implemented or are those which need further attention, refining and developing.

#### 6.1.1 Capacity building: the need for continuous training for skills and awareness raising about LED

As indicated above, the implementation of LED has two levels; level one is a capacity building component and level two deals with income generating activities. Various capacity building activities have been executed in each locality. These included visits abroad, in-country training, local level training etc. In some localities the private sector has also participated in such programs. In Mekele town, for example a representative of the chamber of commerce has received training in Bishoftu town. Besides individual capacity building, there has also been organizational capacity building in the form of equipping different offices.

Despite these efforts, the quality of leadership to improve locality is very low. LED is a new concept and development approach in Ethiopia in general and in the study localities in particular. Continuous training and awareness raising is needed to ensure that the concept is well understood and well implemented. Continuous training is needed for coordinating committee members, technical experts and politicians. Continuous training is needed because of a number of reasons. First there is high turnover among training recipients in the government structure. For example it was mentioned that in Sodo town 10 people took the first training, but none of them are now participating in LED as they have left offices. Second, continuous refreshing and updating of the LED concept and practice is needed in the absence of knowledge platform in LED in the country. Third, discussion with stakeholders revealed that most of the training offered to technical and steering committee members focused on project implementation, project preparation etc which are important in their own right but do not address the more substantive areas of local economic development.

In order to provide quality leadership in LED, there is a need for multiple capabilities that include not only operational areas but also programmatic and substantive areas as well. Some capacity needs on the substantive areas include ability to understand and assess local economy and ability to formulate and implement LED strategy. These in turn requires designing ways of appropriately targeting public and private investment, promoting local competitiveness, enterprise development, cluster development, resource brokerage etc. In this regard, there is perhaps a need to shift from one-off non-accredited training course interventions to more systematic, long term formal accredited in-service professional vocational training programmes that could involve institutionalized partnerships with accredited training institutions and higher education institutions in Ethiopia at both undergraduate and post graduate level. The challenge is to ensure that the programmes occupy a close nexus between LED practice and theory and can contribute more meaningfully to the broader capacity objectives of institutional development and creating an enabling LED environment.

#### 6.1.2 Public-Private Dialogue Forum (PPDF)

Public-private dialogue forum is useful to address the concerns of the business community and the government with the aim of promoting economic development in a locality. Creating the Forum at an early stage of LED process is critical for getting support for the initiative to be undertaken. It also has an impact on the business-enabling environment and service provision.

National level PPDF exists in Ethiopia This Forum is co-chaired by the Minister of the Ministry of Trade and Industry and by the president of the Ethiopian Chamber of Commerce and sectoral associations. The Forum is conducted four times a year with the fourth one being chaired by the Prime Minister of the country.

Bahirdar town has initiated its public- private dialogue forum (PPDF) with participants from the business community, the civil society and the government. The PPDF is jointly run by the private and the government sectors. In one PPDF in which the assessment team participated, the government was presenting its future plans for Bahirdar town and was seeking ways how the non-government actors can participate in the program. This was done in ad hoc basis and this raised several questions from participants. Among the questions raised was the absence of a previous study on the subject at hand. It was also raised that there was no full awareness of the PPDF by all members of the chamber. This indicates that there is a clear need for capacity building in order to properly run the PPDF. In addition, transparency on PPDF needs to be put in place so that all the community members have similar understanding of the issue. PPDF started in Mekele some three years ago. Meetings take place every three months where several issues are discussed. It was, however, indicated that since there are no adequate structures to keep its regularity and focus, there is a need to strengthen the initiative.

#### 6.1.3 Business enabling environment

One of the activities of LED should be to create an enabling environment for business development, attraction of investment and stimulating the economy. This is also indicated in the strategic plans of different cities. The creation of business environment involves honest and systematic identification of regulatory and administrative hurdles or bottlenecks to private sector development in the locality. Local business climate survey is a useful tool to identify the needed regulatory and administrative reforms. Facilitation in the provision of some inputs such as land and infrastructure could also contribute to the attraction of investment. In this regard, LED can engage in local business climate survey, place marketing and infrastructural development. The cobble stone activity of different localities can have a positive contribution towards stimulating businesses in localities. It also plays a role in upgrading urban infrastructure and increasing land values. The infrastructural deficiencies in different cities, however, indicate that this is not enough and there should be more active engagement of upgrading roads, storm drainage and the environment in addition to other activities of business enabling environment.

#### 6.1.4 Engaging the private sector in LED

The chamber of commerce, a voluntary member based private sector association, has a great potential to contribute to and benefit from the LED program. Invariably the chamber of commerce is very much unhappy with the way LED is conducted in all localities. This is because of the limited involvement of the private sector in the program implementation. On the other hand, the chamber of commerce has shown willingness to participate in LED in all localities. In line with the poverty reduction focus of the program, they demand that their poor members who have business skills need to be supported. This has come forcefully in Assela and Adigrat. In fact in Adigrat, a women association was formed by the Chamber to assist poor women. A request was made to the local steering committee to provide assistance to these women who were however turned down. The private sector has also identified a number of core competency areas in business development, training and marketing (see above). In order to seize these opportunities and leverage the private sector, it is important to broaden and deepen the involvement of the private sector at different levels.

#### 6.1.5 Revolving fund

One intervention area that has been piloted in LED is the revolving fund approach. This fund is made available to poor micro enterprise groups that do not meet the technical requirements of banks or micro finance institutions. Ownership of the revolving fund lies in the city administration. As such it enables the city government to reach wider beneficiaries as those who receive the fund continuously pay back the principal and interest. The use of LED fund as revolving fund clears the confusion of treating the fund as grants. It is important to continue with the revolving method of financing; the management and administration of the fund however needs to be tailored to the needs of the beneficiaries.

### 6.1.6 Gender imperatives:

The UNDP LED program make a specific recommendation that the program should give due consideration to gender equality. This is in line with the Ethiopian country imperatives which targets gender equality as a critical issue in Ethiopia. Although the legal framework in Ethiopia is very progressive in addressing discrimination, it has not managed to translate this into major changes and results in terms of gender inequality. In a 2003 survey of small scale manufacturing industries, 82.5 percent of business owners and 94.5 percent of permanent employees were male.<sup>46</sup> Women comprised 24% of all undergraduate students at universities in Ethiopia in 2004/05 and 29% in 2008/09.

Though it is commendable that figures indicate that a large percentage of the beneficiaries of the programme are women, it is evident that gender considerations have not been sufficiently considered in the management structures within MOFED, BOFED and within local structures, like the steering committees and nor were they evident in business chamber structures. It is however not sufficient to indicate gender representation only in terms of numbers, but it's critical that women are empowered within structures and that their input informs program design and is prioritised in management and decision making.

Gender considerations are important if LED is to contribute to equity. These gender considerations should thus be mainstreamed in LED strategies, plans, implementation of the process as well as be a factor that is monitored and evaluated. The aim of mainstreaming is to integrate gender issues into all LED strategy objectives, activities, structures, and resources allocation (personnel and financial). The ultimate goal of mainstreaming is to promote gender quality and should not be a side issue or a lower priority but should be reflected in, and inform, all activities and initiatives of an LED process. More than merely the numbers of women reached through programmes and projects it also includes the following, amongst other considerations:

- The promotion of positive women's self-image and the image of women in society;
- Ensuring access to land;
- Ensuring access to financial and other resources;
- The capacity building of women to enable them to participate equally in LED activities and decision-taking
- The promotion of equal access to, and control over, resources and the benefits of productive and community activities by women.
- The promotion of safe and respectful working conditions for women and men in the workplace.

These considerations not only directly reduce poverty, but also lead to higher productivity and a more efficient use of resources. In addition, it also results in significant social gains: better household nutrition, reduced infant, child, and maternal mortality and improved access of children to education. These aspects should be consistently measured, monitored and evaluated if the imperative for gender equality is to be achieved as women's economic empowerment, together with their social emancipation, can have far-reaching impacts on achieving local economic development imperatives.

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46 CSA, 2003. Report on Small Scale Manufacturing Industries Survey.

It is thus important that over and above outlining the gender equality imperatives in the program objectives that clear indicators are designed to measure output as well as the outcome and impact of the program and include both qualitative and quantitative measurement. These include, the economic participation of women (both employment numbers, but also levels of economic activity), access to economic opportunity (women representation in management position, provision of child care,) women empowerment (women involvement in strategic decisions making and representation in significant structures of the program), women's access to capacity building initiatives (to impact of skills and capacity and their upward mobility in job ranks).

In the current LED program this could include considerations for the following:

- Provision of gender segregated data in all interventions and initiatives
- The consideration for the enabling factors, e.g. access to land, access to child care, that promotes that are able to engage in economic activity
- The number of female representatives in current structures of the program, the LED Steering Committee,
- Support and incentivize outstanding women achievers in all LED programs
- Link current relevant program aspects to the Ethiopian Women Exporter's Association (EWEA). EWEA is an association of export oriented SME business women from various sectors. Services offered to their members amongst others are consultancy, market analysis and participation in national and international trade fairs. EWEA can be considered as a self-sustainable association and a competent partner in public private dialogue in Ethiopia.

## 6.2 Strategic areas that need to be replicated: What works well?

The implementation of LED has resulted in some practices that ensure the sustainability of the program and others that are innovative. It is quite possible to replicate these practices elsewhere in an event of expanding LED to other localities in order to place the LED program in solid foundations. These strategic areas have been described above in different sections and the followings only highlight the same briefly.

At government level, the highest political priority given to the LED program in order to create local ownership and champion is a cornerstone of the program that need to be replicated. This replication would provide political champion for the program and ensure local ownership. A related fundamental aspect of the program is the commitment of city level resources for the LED program. Such local resource utilization is very essential component of the LED program without which the program risks sustainability.

The way LED is run in the form of partnership even if the program is government dominated is a good show case of the program. Such partnership will give room for more expanded participation of the private sector and civil society.

The responsiveness, capacity and innovation the programme management has shown in developing an inclusive finance strategy to leverage and integrate the Micro Finance Institutions (MFIs) into the programme is quite worth replicating elsewhere. Despite some of the weaknesses with the current MFI framework, there are important lessons that can be

learnt from this experience that should be taken forward in refining and further developing the programme.

The enterprise approach of the program needs to be intensified and replicated since enterprises are the building blocks of the local economy. Any program that aims to generate employment, improve local income and form basis for full fledged development cannot do without enterprise development. Enterprises are therefore appropriate entry points for countries such as Ethiopia where urban poverty reduction is a critical development agenda.

The innovation to include existing enterprises in the program in the form of business expansion and retention has worked well. Existing businesses are those businesses which are already in the sector for some time and they have the skills and knowhow of running businesses. It is seen in all localities that, the existing enterprises supported by LED are almost invariably successful. The inclusion of existing businesses in LED enterprise development is a step in the right direction. These enterprises if supported and assisted have the capacity of employing more people in their locality.

The programme has had significant success in promoting community economic development (CED) initiatives where the products and services are in the form of public or locality development contributing towards improvements in the business enabling environment. These include initiatives such as cobble stone paving, solid waste management, recycling, and environmental protection. Their strengths are that they do not displace or distort existing markets, they have a high potential for employment absorption and poverty reduction, they are cost effective providers of public goods and services, and they contribute towards the triple bottom line of economic, social and environmental sustainability. The challenge is that they are largely dependent on ongoing committed funding from city administrations and other public agencies. It is suggested that for the next phase of the programme, such CED initiatives that contribute significantly towards locality development products and services be delivered under municipal -private or municipal-community partnerships instead of being driven by government alone.

In addition, the best practices outlined above in linking MSE with each other along input-output domain, partnering existing enterprise with new start-ups, including beneficiaries in decision making in the form of LED stakeholder forum, engaging in city promotion etc, though they have been tried only in some localities, are worth replicating for better results of LED.



## 6.3 Strategic areas that need to be initiated or re-designed

The proposals revolve around four dimensions:

- the strategic approach of the program;
- policy institutional issues,
- enterprise development;
- competitiveness issues

The ideas put forward if implemented can result in greater impacts and help LED achieve the fundamental goals of the GTP.

### 6.3.1 A strategic approach that focuses on economic growth

The current LED orientation and its actual implementation are pro-poor and focus on vulnerable groups with the objective of generating self-employment. The strategic plans have been able to identify those sectors in which the poor can engage on the basis of the local resources. As a result, LED implementation has followed the strategy plans and initiated numerous targeted projects in which the poor are engaged. The pro-poor focus is highly appreciated and in fact it is reiterated in many localities that the key problems in cities and towns are poverty and unemployment, housing shortages and infrastructural inadequacy.

The current LED program, by focussing on the poor segment of the locality, addresses the key problems of poverty and unemployment. Sustained poverty reduction, however, requires economic growth. Economic growth is also a means of creating wealth and dynamizing cities. Without wealth creation and sustained income, cities cannot deliver their service and developmental functions. A meaningful contribution of cities to the GTP can only be ensured if cities are on growth trajectory. Local Economic Development should make its fundamental goal and aim to generate growth and income in cities. The goals of LED should thus include not only reduction of the number of poor people and realizing sustainable livelihood but also the creation of local economic growth. These goals could be achieved only when we have a strategic focus of creating attractive, resilient and competitive economy (Kerstan,2004). A focus on economic growth is needed to create a competitive local economy that shows dynamism and sustained growth. It is therefore imperative to embrace growth in any future programmatic development of LED in addition to its current focus on poverty reduction.

### 6.3.2 Policy and institutional issues

#### 6.3.2.1 National LED policy framework

A national economy is composed of local economies. The health of a national economy is also determined by the health of local economies. Robust, sustainable and efficient local economies provide not only employment, income and assets to their residents and their surrounding but have direct contribution to national economic growth by influencing aggregate growth, output and employment. Local economies, however, need space, legal provision and vision to influence their functioning and depart from haphazard and uncoordinated path of development.

The Ethiopian condition with a decentralized governance system recognized local economies. Local authorities are also given mandates of pursuing local economic development. Different sectoral issues: education, health, agriculture, industry are directed with concerted policy direction. As local economic development is territory based and deals with cross-sectoral issues, it requires policy directions that recognize the territorial dimensions of local development and the mandates, authorities and responsibilities of local authorities. Among the existing policies those with territorial dimensions and with some elements of local economic development are the urban policy and the regional policy framework. The latter is only at draft stage and focuses on addressing inter-regional disparities, allocation of fund at federal level, and orienting public and private investment (Policy document). The urban policy, which is issued in 2005, has the objective of making cities centers of development so that they contribute to national and rural development in the country. The main policy components are employment, housing, infrastructure and governance.

Though the policy concerns are of direct importance to Local Economic Development, the latter clearly is not only about job creation and infrastructural improvement. Local economic development is about creating competitive local economy both in rural and urban areas through concerted efforts of local actors: the government, the private sector, and the civil society. The components of the existing urban policy thus do not do justice for local economic development. Many countries have seen the value of having a separate local economic development policy framework to properly guide local economic development. In this regard mention can be made of South Africa and the Philippines. In South Africa, each local government has a mandate of putting together a local economic development plan under the umbrella of the national policy framework and the integrated development plan (IDP).

A national policy framework for local economic development is required to set out national policy for the development of localities and identify issues of particular importance in the local context.

The policy framework, among others, will help

- Explain national economic and social policy with respect to localities;
- Explain the national vision for local economies including their contribution for national economic growth;
- Establish a framework for the development of local economic strategies by local governments, covering institutional requirements and methodology;
- Identify issues of particular importance to local economic development including issues of interest to groups of localities (both rural and urban ) and give indication how they might be handled

### 6.3.2.2 LED structure and systems

Key to sustaining the LED program in localities and regions is to ensure institutional sustainability. While the existing institutional arrangement in the form of steering and technical committees has an integrative function by bringing together government executives with relevant portfolio, the main problem is that it is an add-on to the existing functions of the executives to which they are more accountable and responsible. The “add-on” functions of

the committee members were reiterated on several occasions by informants from Awassa, Adigrat, Assela etc. Secondly, there is no LED structure in the government system that is easily identifiable with government budget and responsibility. As a result, LED is currently run as a project activity. This discourages LED to be transferred from project to the government system. If LED is to be transferred from project to government system, a suitable structure within the existing government system is needed. There is therefore an imperative for fully fledged LED units with the necessary strategic leadership, human resources and financial capacity to be established at the various levels with their respective roles.

While there is no question of the need to institutionalize LED activity, the following provides two options for institutional arrangements. Basic considerations for institutionalization of LED however apply to both options.

#### *Basic considerations*

- i. The LED institution should be able play an integrative and coordinating role of different sectors which are working on different dimension of LED at national, regional and local level; the different sectors which are working on different LED dimensions are trade, micro and small enterprises and industry, youth and women affairs, investment office, revenue generating office, office of finance and economic development;
- ii. The LED institution should also coordinate the activities of non-state actors particularly the private sector and the civil society;
- iii. LED has to be done by existing government structure with government people in order to be sustainable; and
- iv. LED should transfer from project phase to government activity
- v. LED coordination and management will be done at different levels in the following way
  - a) National Level: national policy formulation, co-ordination, monitoring and evaluation, national platform of learning and information exchange
  - b) Regional Government : Regional LED Strategy and Programme Management and co-ordination, monitoring and support to localities including regional platforms for learning and information exchange
  - c) Locality: Local Economic Strategy and programme management, co-ordination and support to LED partnerships at the locality level.

#### *Proposed institutionalization*

- I. Establish a LED unit at a process level with its own process owner in
  - a. MoFED/ BoFED/DoFED (Option 1)
  - b. Ministry of urban development/ Bureau of urban development / City government (Option2)
- II. Assign appropriate human resources/finance/logistics
- III. The LED unit will be coordinating and supporting the different sectors with LED related mandates namely micro enterprise, investment, revenue generation, youth and women and trade;

- IV. The LED unit shall also be linked with the chambers of commerce and sectoral associations and major civil society groups and build their capacities to help them engage actively in locality economic development at different levels;
- V. There is a need to continue with the steering committee composed of representatives of all sectors coordinated by LED unit in order to effectuate major decisions. There is a need to continue with the Mayor holding the chairmanship of the steering committee at the city level to ensure political commitment. Steering committees at regional and national levels will be chaired by appropriate person in the respective institutions. It is important to ensure that proper incentive mechanism is in place in order to secure the full commitment of the steering committee members for LED activities
- VI. LED unit should establish advisory committee particularly at the local level. These are all relevant stakeholders in the locality that work on LED related activities. These stakeholders will meet occasionally and discuss issues on how their activities could be aligned with LED endeavours of the locality. Academic institutions, local and international NGOs working on economic development programs, capacity building and training will be part of the advisory committee

#### 6.3.2.3 Enabling private sector and civil society in LED

Experiences from many countries abound that LED programs often do not give enough space and room for the non-state actors namely the private sector and the civil society. For instance in South Africa, Local government-driven LED had limited involvement of the non-state actors (Rogerson, 2009). In Ethiopia though there are some initial beginning of recognizing the role of the private sector, there is a long way to go to make these non-state actors part of the LED program. Local governments have responsibilities of enabling both the private sector and the civil society so that they play their appropriate roles. Enabling involves providing them with necessary space in decision making and assisting them in building their capacities, allocating specific roles, mandates and responsibilities.

#### 6.3.2.4 LED knowledge sharing and learning platform

Despite the capacity building component of the program, capacity is a continuous process that requires frequent updating of current knowledge and innovation in the field. This could be fulfilled through a formalized LED knowledge exchange and learning platform that could be linked to professional training institutions. Such knowledge platforms ensure continuous exchange of LED experience, share and adapt innovative ideas to local conditions. Knowledge platforms could be organized as membership associations through web-based dialogue and exchange of ideas. Such web-based dialogue and exchange will help local governments to sharpen their understanding and practice of LED in the country. It will help develop a working and learning community of LED in the country. In this regard the experiences of LEDNA and LED Network of South Africa could be drawn and adopted.

### 6.3.2.5 Combining resources and capabilities with other organizations: Institutional linkage

Beneficial impacts can result when resources and capabilities are combined with other organizations. This will not only free resources that would have been used to provide services, but also introduces efficiency in operation. More over it is a means of leveraging resources and strength from appropriate institutions. Existing BDS service providers<sup>47</sup>, TVET and Higher Learning Institutions are potential institutions to tap resources and capabilities. This also applies to specialist sector and industry based support institutions, which could contribute more relevant and higher quality support to sector specific industries than the current generic support from MSE agencies and LED experts. The aim in the future should be for the programme to fund actions that assist existing support institutions to design and develop new products and services that meet the pro-poor requirements of the enterprise activities within the LED programme, and which can then be integrated and offered as a standard service offering on a sustainable basis going forward by these institutions.

### 6.3.3 Enterprise development issues

#### 6.3.3.1 Market development approach to local enterprise development

Traditional enterprise development approach views enterprises as isolated from market and there is a tendency to provide direct solutions to identified problems such as BDS, finance etc. In the market development approach however interventions are designed to impact the economic or market system in which the poor interact. The basic assumption is that by influencing changes in the economic and market systems in which the poor interact, the intervention will more likely lead to sustainable enterprise development and poverty reduction.

The market development approach addresses the causes of a weak market instead of its symptom. Key to implementing the market development approach is to understand how the specific market works. Participatory value chain analysis is one tool that helps to understand the market. In participatory value chain analysis, value chain stakeholders will identify the key constraints. Value chain development is then used to upgrade the technical capabilities and market linkages that enable firms to improve their competitiveness (see box 10). Value chain analysis has the advantage of defining MSEs in terms of their commercial system i.e., the goods and services they provide, their size or customers they serve and not by their location. In so doing the tool allows to cover a bigger geographical area taking links to the outside area.

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<sup>47</sup> The assessment team has observed that the New Generation College in Nekemte is providing a BDS service to the town dwellers. This service can easily tapped by the LED program under the program of combining resources and capabilities with appropriate institutions

**Box 10: Value chain analysis and development (VCA&D)**

Value chain analysis conceptualizes enterprises, not as discrete enterprise, but as part of a system of linked production and exchange activities. The analysis plots the flow of goods and services up and down a chain and possibly even between different chains and focuses on three primary aspects: understanding where value addition occurs in the chain, understanding the power dynamics of relationships between actors in a chain; and understanding the nature of power dynamics across the chain. The development occurs when the analysis is used to 'upgrade' the acquisition of technical capabilities and market linkages that enable firms to improve their competitiveness and move into higher value activities

**Source: ILO, 2010, p 7**

The Enter-Growth project in Sri Lanka used the market development approach to enterprise development (box 11 ) with the most important achievement being the identification of weaknesses in the market which affect the poor, so as to achieve sustainable impact at scale; these have then impacted MSEs, employment etc

**Box 11: Enter-Growth's market development principles**

Principle 1: Enter Growth aimed to identify the underlying causes of weak market performance (as opposed to symptoms). In order to do this the project introduced the value chain development (VCD) tool as a means of facilitating market players undertaking this analysis;

Principle 2: Enter Growth aimed to address these underlying causes of weak market performance by facilitating systemic change in market systems; these are changes to the underlying causes of poor market performance;

Principle 3: Enter-Growth then identified frameworks for achieving sustainable outcomes

Principle 4: Enter-Growth followed a light approach- a facilitative role-acting as catalyst for change i.e., providing limited direct financial support to partners, instead focusing on providing technical support, coordination and networking and information. This helps to develop partner capacity to do and deliver, build local ownership and ensure sustainability

**Source: ILO, 2010**

### 6.3.3.2 Support to individual entrepreneurs

The current LED program supports groups that form association and are ready and willing to enter into self-employment. While supporting groups ensures wider distribution of benefits, there is no guarantee that groups will succeed in businesses. This could be due to a number of reasons. First, group dynamics is a key factor in group success. There are instances in which there has been set backs in groups because of several reasons. For example in Assela town, 'injera' making MSEs have suffered from corruption and embezzlement by group members who were in the leadership positions. In such instances group business are liable to fail. Second, the entrepreneurial capacity of members varies. In situations where entrepreneurial capacity varies, it is difficult to create synergy and common vision in the group. This could lead to group failures. Conversely, individuals with proven skill of entrepreneurship have high chances of success and growth. These individuals could also be used as additional sources of employment as they employ more people following a boost in their business. The LED program should thus identify such individuals and support them to unleash their entrepreneurial capacity.

### 6.3.3.3 Create entrepreneurial support organization

The role of entrepreneurship in fostering economic development has been highlighted by many authors (Schumpeter). Entrepreneurs can perceive opportunities within the local or global marketplace and create enterprises around these opportunities. As a result they create wealth, income and jobs for themselves and others. Nurturing entrepreneurs however is needed since most do not bring a full set of skills and are also short of support services. The development of entrepreneurial support infrastructure is thus an important strategy in local economic development and enterprise development. Entrepreneurial support organizations (ESOs) are critical in creating entrepreneurial environment in localities. The organizations could take the form of networks, intermediary organization or industry clusters. In general entrepreneurial support organizations

- Focus on entrepreneurs rather than the enterprise they create;
- Build support system that nurture entrepreneurs during the idea phase, provide the resources and tools needed to create new enterprises and guides enterprises in the process of growing businesses
- Support the creation of entrepreneurial environment where entrepreneurship is supported in both the public and private sectors

### 6.3.3.4 Focus on value adding enterprises

Value addition is the key to sustainable enterprise growth. Supporting enterprises that produce any product will not be sufficient. Instead, enterprises that take products to higher stage and create values need to be targeted for enterprise development. For example in the case of edible oil production, it is not enough to support enterprises that produce low quality oil. Support should instead go to those enterprises which create value through refining, packaging and producing higher value product.

### 6.3.3.5 Focus on enterprises that enhance rural-urban linkages

Enterprises help strengthen rural-urban linkages associated with production and trade. These enterprises are those which process rural products or supply inputs to rural people. Linkage enhancing enterprises need to be isolated and given special emphasis since their activity has a far reaching impact. Export enterprises for example are one such group of enterprises. This requires identifying the basic economic resource with export potential in the locality. In many cases the export base will be found in the rural areas. It may include agricultural commodities like dairy, small ruminants, honey, poultry, coffee, livestock, fishing, incenses extraction etc. Enterprises can engage in packaging, processing and exporting these and similar products.

Services and trade enterprises could also foster linkages. Services and trade often provide a much larger share of employment and income in towns. In the case of agriculture for example, service firms will be responsible for storage, delivery, marketing, advice etc while trading enterprises will have a significant importance in linking surplus and deficit areas.

### 6.3.3.6 Focus on technology transfer and new knowledge

Stakeholders in different localities (Nekemte, Sodo) emphasized that LED should support technology transfer and knowledge. These could be technologies and knowledge that are new to the area that could be picked up by the MSEs in the locality. TVETs could be one such area of focus for LED in the future. TVETs can improve the quality of products in the locality and introduce new technologies to the local MSEs. There is thus a need to capacitate TVETs for purposes of facilitating new technologies in the locality. In addition it is worthwhile to import new technologies from outside to be adopted by local MSEs<sup>48</sup>.

### 6.3.3.7 Diversify MSE to related function

Diversification increase resilience and also enables business to generate additional income. Diversification could take place either through vertical integration of businesses or horizontal expansion. In vertical integration for example, animal fattening MSE could diversify into butchery and meat processing. In horizontal expansion, a dairy farm could expand to meat processing or compost making. Such diversified and expanded MSEs can generate sustainable income and reduce the risk of sustainability and they can also exploit economies of scope.

### 6.3.3.8 Promote Enterprise Partnerships: Local Competitive Fund

Enterprise partnership is a key to sustain the growth of small, inexperienced enterprises by twinning them with the most established businesses. Under enterprise partnership program it is possible to forge linkages between the micros and the more dynamic businesses in the

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<sup>48</sup> Sodo has an experience of encouraging technology transfer from outside to be adopted by local MSEs



surrounding. This will ensure not only market linkage but also quality and competitiveness through learning that may take place in the linkage.

It is quite possible to introduce a fund that will maximize such partnership. The fund will be operated on a competitive bidding approach and would only be open to partnerships between existing competitive enterprises and MSEs and co-operatives which will contribute towards economic growth with pro-poor outcomes. The instrument for undertaking the program will be a grant fund for the “public goods” aspects of the partnership group, with a view to overcoming market failure, lowering risk and incentivizing investment by the private sector in those aspects that could not reasonably be absorbed by market based enterprises. The fund will be modeled on the Local Competitiveness Fund (LCF) described in the South African LED experience in Section 2, but adapted and designed for Ethiopian conditions. It will support the implementation of actions with one or more of the following objectives:

- Support to new and innovative economic development ideas;
- Support to specific sectors and clusters of industry in order to reposition the locality into higher value-added segments of supply chains, while increasing equitable participation in these value chains;
- Support to particular sectors that have a high potential to boost employment.
- Promote systemic competitiveness of and grow the economies of localities by providing a base of infrastructure and services as a platform for increased competitiveness
- Support economic development initiatives which are part of locality LED plans and Strategies and promote positive pro-poor economic outcomes.

The key principle of the LCF is that the fund will support market-led development to ensure the creation of sustainable employment and facilitate access to loan finance for part of the implementation costs of the project. The fund will only provide a percentage of the costs (up to a maximum of 70% of the cost) on a competitive basis, to Partnership Groups to implement sustainable economic development interventions. The balance of the investments for the partnership action will be provided by the partners through own equity or loan financing through MFIs for MSEs and through formal banks in the case of medium, large enterprise partners. All interventions will be aimed at ensuring the functioning of the market rather than its distortion. Actions will be demand, rather than supply driven, and applicants will have to demonstrate the existence of a market and effective demand for the goods and services they seek to provide. The fund will operate according to highly transparent and competitive basis

#### 6.3.3.9 Promote Business Enabling Environment: Business Enabling Fund (BEF)

It is only through proper business enabling environment that businesses can thrive and grow. Thus business enabling environment need to be given adequate attention under enterprise development programs. This is one area which needs to be re-designed though deepening the existing practice could also lead to better business enabling environment.

Under the re-designed business enabling environment promotion, public agencies either alone or in combination with other public and private entities can play a major role in creating conducive business enabling environment. Business enabling fund is one instrument that

could be used to stimulate favourable business environments. The fund will be open to all urban localities on a competitive basis requiring public entities in partnerships (public-public, public-private) for programme/project specific funding to undertake research and actions that contribute towards improving the business enabling environment for economic growth with pro-poor outcomes.

The rationale for making the process competitive is to ensure that limited resources are geared towards those proposals that are (i) innovative and demand driven (ii) are formulated by agencies based on their locality priorities (iii) can be evaluated against a set of objective criteria around likely impact, (iv) can be more widely replicated once they have proved their success.

Based on the assessment team's experience of the localities this could include actions to:

- Reform and improve land allocation and administration systems
- improve the implementation of regulatory frameworks that impact on the business enabling environments including tax collection, planning, development approvals, environmental approvals
- undertake participatory research and monitoring on the local economy (Assessment of Competitive Advantage, Business Climate Surveys, Business Retention and Expansion visitation surveys, Investment Climate surveys and implement the priority interventions proposed from the research
- Establishing effective participation in LED planning and implementation within the local sphere including improving coordination with the private sector and CSOs

#### 6.3.3.10 Encourage enterprises that create green jobs

One of the newest ideas in local economic development that has relevance for Ethiopia is the notion of green economy. The central concept of green economy promotes the notion that green investments can reduce environmental damage while boosting economic growth and creating jobs and bringing about sustainable development (ILO, 2011). Studies have shown that green investments are employment intensive. The Growth and Transformation Plan aims at creating a 'green' and climate change resistant economy through both adaptation and mitigation measures. The GTP foresees that economic development should mitigate climate change. Such actions, in addition to their environmental benefits, will attract international funding for localities and will also ensure the alignment of local economic development with the GTP. Renewable energy, water provision, waste management, tourism, fisheries, buildings and the urban economy are some sectors where green jobs can make contributions to employment creation (ILO, 2011). The GTZ local economic development component in Ethiopia aspires to create solar enterprises in a bid to promote the use of renewable energy for employment generation and productive use.

### 6.3.4 Unleashing the growth potential of localities: working towards competitive localities

#### 6.3.4.1 Building competitiveness

Michael Porter's (1998) competitive city concept is one of the most influential discourses in local economic development. According to Porter (1998) cities, regions and nations have sets of unique local conditions that underpin the ability of companies based there to compete in a particular field. Camagni (2001) mentioned that territorial competitiveness is theoretically sound not only because of the role territory plays in providing competitive environment to individual companies but also due to the role that it plays in knowledge accumulation and in the development of interpretative codes, models of cooperation and decision on which the innovative progress of local companies is based.

Despite this, there is, however, little agreement as to what constitutes city competitiveness and how local policy can enhance it (Xu and Yeh, 2005). Porter mentioned productivity, formation of clustering, technological leadership, and public-private partnership as key dimensions in a locality's competitiveness. Kresel (cited in Biggs) identifies six attributes to signal competitive urban economy 1) jobs created should be high skill and high income jobs; 2) production should evolve towards environmentally benign goods and services; 3) production should be concentrated in goods and services with desirable characteristics such as high income elasticity of demand; 4) the rate of economic growth should be appropriate to achieve full employment; 5) the city should specialize in activities that will enable it to gain control over its future activities; 6) the city should be able to enhance its position in the urban hierarchy. He further distinguished between economic determinants (factors of production, infrastructure and similar) and strategic determinants (policy factors and institutional design).

On the basis of the above, important elements of a strategy to build competitiveness of a locality include

##### *i. Support for improving productivity and efficiency of the business sector*

This entails identifying factors that determine the productivity and efficiency of the business sector and availing them to the extent possible. Providing effective and efficient energy and telecommunication infrastructure will increase the productivity and efficiency of businesses. Facilitating the creation of economies of scale and agglomeration is critical for productivity and efficiency. In terms of agglomeration, regional researchers have found that agglomeration is the key to stimulating economic growth (Krugman, 1991). Density and size offers substantial advantage in labor and product market for both for workers and firms. The main conclusion of this literature is the existence of scale economies of 3-8% (i.e., a 10% increase in the size of an activity in city raises productivity in this activity by 0.3 to 0.8%) (Duranton, 2008). The agglomeration effect takes place within sectors (localization economies) and between sectors (urbanization economies). Strong localization economies foster the growth of specialized cities and strong urbanization economies foster that of diversified cities (ibid)

## *ii. Support for continuous innovation*

The capacity to create change or innovation is a determining factor in the competitiveness of businesses. Innovation underpins seizing market opportunities and market information. In this regard, studying domestic and export markets and making the information available for enterprises could encourage innovation. There is also a need to integrate or promote products into local/regional/national/global market. Promotion agencies can undertake the latter task. Innovations could also be supported by helping micro and small enterprises get product certification and patents.

## *iii. Support cluster-based economic development*

The advantages of clusters in ensuring competitive advantage are well elaborated by Porter (1998) who mentioned that there are three ways how clusters affect competition. These are increased productivity, increased capacity for innovation and stimulation of new business formation (Porter, 1998). The advantages of clusters in increasing productivity are predicated on the fact that clusters facilitate access to specialized inputs and employees, allow firms to access technical and other specialized information, ensure complementarities between participants, provide access to public goods and institutions and serve as incentives due to peer pressure competitions etc. Similarly, firms become innovative due to rapid perception of buyer needs, new technology, opportunity for innovation etc. New businesses are also easily formed in clusters due to inducement to entry in cluster, lower barrier to entry etc (Porter, 1998). Most of the firms in clusters cooperate and in fact each of the advantages of clusters comes from intense interaction, face to face communication and interaction among networks of individuals and institutions (Porter, 1998).

The cluster development approach has been tried in Ethiopia by UNIDO. The approach was applied to Merkato footwear cluster, the Gullele handloom cluster, the Addis Ababa readymade garment cluster and the Mekele metal and wood work sector. The approach has been very successful and has shown results (see box 12 for steps in UNIDO cluster approach). As the approach is experimented in Ethiopia, it is necessary to use the approach as a model for cluster development in local economic development.

### 6.3.4.2 Use of local potential

Localities have several local potentials. These endogenous potentials arise from opportunities presented by the local economy, from new policies or from new orientations (see box13 for examples of local potentials in the study localities). These potentials need to be critically identified and should form the bases for LED. The potentials provide niche areas for different localities on the basis of which localities can attain competitive advantages. These niche areas are what the communities can offer and attract activities. They can trigger growth in different localities and bring higher income and value to the localities.

### **Box 12: UNIDO cluster approach**

**Step one: Prioritize your clusters.** Given time and resource limitations, the first step is the identification of clusters that are comparatively important to the local, regional and national economy, that are viable and sustainable and that have potential to generate inclusive growth and that can be promoted as examples for others to follow.

**Step two: Study your clusters:** Carry out a detailed diagnostic study on each cluster. Make it participatory ensuring that everyone with a stake in a cluster is heard. Learn about the current status of the cluster (against which you can later measure the success or otherwise of your interventions), untapped opportunities and challenges and the most appropriate entry points for intervention;

**Step three: Agree a vision:** Reconcile diverging objectives and identify shared goals around which all cluster actors coalesce. Build up their commitment to a shared vision based on the realization of collective efforts. Make sure that the vision is owned by all actors.

**Step four: Draw up an action plan:** Agree on the activities necessary to achieve the vision. These should be based exclusively on collective endeavours, needs-based and dynamic. Distribute responsibilities on how they will be managed and organised. Get other relevant institutions on board and contribute to the discussions. Identify providers of credit, training and business development services (BDS) and kick start dialogue with cluster firms in order to bridge the gap between demands for and offers of support services

**Step five: Implement the Action plan.** Facilitate the implementation of activities and make sure that all cluster actors are made aware of any and all benefits accruing as a result of collaborative activities. Give ownership of change to local actors and progressively build up their capacity to sustain the action plan.

**Step six: Monitor and Evaluate (M&E).** It is important to keep an eye on progress. Keep track of the extent to which activities implemented are on schedule and in line with budget and analyze the degree to which these activities are translating into the anticipated results. Use monitoring and evaluation as an opportunity to learn from experiences and improve the action plan. Scale up activities that prove successful and avoid stumbling twice into pitfalls

**Source: UNIDO, 2010, Cluster development in Ethiopia PP 7-8.**

### **Box 13: Local potential in different localities**

Bahirdar is found in the newly designated Tana Beles growth corridor. Numerous irrigation projects that are underway will put excessive pressure on the town not only for marketing but also for inputs and services. LED in Bahirdar could be designed to exploit such opportunities in the sphere of agro processing, provision of inputs such as pumps etc.

Similarly the town's tourism potential does not seem to have been adequately tapped in the current LED programs. The tourism potential in the city could be used as sustainable sources of income. For example in the year 2000 EC, the city generated a total of 51,045,517 birr from tourism industry in the forms of taxes, fees (ANRS, Bahir dar city administration office, 2000). At the same time, it is reported that there are about 1710 employees in tourism industry in the city (ANRS, Bahir dar city administration office, 2000). In addition, water front packaging and honey production and processing could be other areas of development. Assela is found amid rich and fertile agricultural land which would make the city a suitable place for agro-processing activities.

Nekmete has a locational advantage of being a gate way to number of places such as Benishangul, illubabor, Jimma, Bahirdar. This potential could be used to develop the town as commercial center . The surrounding resource could be used as bases for agro-processing activity. The case in point is mango fruit, livestock etc. The Adigrat people are especially inclined to trading activity as the surrounding agricultural resources are not adequate to serve as the bases of growth.

#### **6.3.4.3 Investment promotion/attraction in alignment with local development vision**

Investment remains the key energizer of local economy and competitiveness. Attracting investment in different sectors: education, transport, services etc is the key for sustainable development and dynamizing the economy. Part of the investment promotion strategy should be to support those individuals who have capital and who can engage in different economic sectors. These investors provide not only goods and services to the community but can also generate significant amount of employment. There are several examples of individual investors in different localities generating a significant amount of employment<sup>49</sup>.

Different localities have investment offices under the city government. These offices need to put together investment promotion plans and target industries in line with their local development vision. Such plans need to be based on proper information such as business climate survey. There is a need to energize and dynamize these offices so that investment promotion is properly done. For instance promotion skill is one area investment offices need to be equipped with. In Nekemte town, one of the shortcomings of investment office is to target industries on the basis of the local potential.

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<sup>49</sup> For instance, in Nekemte town a private college namely New Generation College has 200 employees.

#### 6.3.4.4 Leveraging private sector investment: Introducing business linkage

It is important to induce the private sector engage in activities that reduce poverty and promote sustainable growth through employment generation. One way of doing this is by establishing a system that encourages the 'for-profit' businesses to enter in the activity. A business linkage challenge fund of DFID could be used as an example for leveraging private sector investment.

##### **Box 14: Business Linkage Challenge Fund**

Business linkages involve activities that are of commercial interest to the private sector but also contribute to growth and poverty reduction objectives. In business linkage projects, initial risks for the private sector is avoided by sharing some upfront costs through cost sharing grants. Businesses apply for cost sharing grants on a competitive basis. Linkage projects supported through the fund should lead to outcomes for private sector promoters that include increased sales, penetration of new markets, and higher profitability, and enhanced efficiency, compliance with quality standards, employment generated for poor individuals, purchase of micro-enterprise products, production of products or services consumed by the poor

#### 6.3.4.5 Enhance revenue generation capability

Cities perform both state and non-state functions. The latter are mostly municipal functions including infrastructural and service provision, housing etc. State functions are funded with grants from regional government while non-state functions are funded by own revenue collection. Invariably, cities collect much less than their potential tax collection ability. For example Nekemte town is collecting less than 50% of its potential and Mekele town is collecting 50-60% of its tax potential<sup>50</sup>. Several problems and constraints abound which limit the existing revenue collection capacity of cities. For instance, in Mekele town, low tax rate, inability to expand the tax base, peoples reluctance to pay tax, lack of incentives on the part of the tax collectors were mentioned as critical problems. In Nekemte town, lack of appropriate data base to identify the tax potential, inefficient door to door collection mechanisms, manual billing, lack of appropriate property assessment system were cited as some of the problems constraining revenue raising capacity in the town. In Adigrats skill deficiency and lack of adequate manpower are cited as major factors that constrain revenue generation.

One of the ways to unleash the growth potential of a locality is to enhance its revenue generation capability<sup>51</sup>. There has to be a continuous flow of revenue to support economic

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<sup>50</sup> Communications with Nekemte and Meklele heads of the revenue offices

<sup>51</sup> the revenue generation capacity of localities has not been adequately ventured as one programmatic area of LED. In this regard the only exception where some activities along this line has been ventured is in Sodo town. Sodo town has planned to purchase local radio air time for 30 programs. Of these 30 programs, eight are dedicated to creating awareness of the local community about the importance of tax payment and persuading the local community to pay taxes. This will be a very useful instrument to increase the revenue generation capacity of the locality.

and other activities in the locality. Expanding existing revenue base and introducing new sources of income should therefore be seen as key areas of local development. Some localities (Nekemte, Adigrat) have put together revenue raising plans. These kinds of activities need to be given priority to ensure sustainable growth in the locality. Local economic development program should thus design strategies and support the same as key element of growth enhancing activity in the town. Skills enhancement, awareness creation, modernizing the information base and billing system etc could go towards contributing to city revenue.

### 6.3.5 Financing options

The major thrust in supporting LED in a sustainable way is to diversify the sources of finance. In its full fledged manner LED needs funding from different sources. The strategy should thus be to mix and combine different sources of funding or financial diversification instead of relying on one source. In the Ethiopia context funding streams that can impact on LED are:

- National government budget
- Regional government budget
- Local (city government) budget
- International donor grants
- Public entities (ministries)
- Loans
- Private sector funding (Development venture capital)
- MSEs own fund

#### *National government budget*

Each year the national government draws resources from tax revenue, non-tax revenue, external loan and assistance and design its budgets. The budgets are divided into federal and regional budgets. The federal budget is allocated to economic development, social development and general development while regional budgets are allocated to different regions in the form of block grant. Besides this, the federal government runs special funds as well. These include food security fund, road fund etc. The latter are ear marked to specific purposes and allocated to different regions on need basis. The special funds are capitalized from different sources. For example the food security fund sources both government budget and donor assistance while the road fund has a contribution from petroleum tax. One way of financing LED from national government will be to establish LED fund as a special fund that goes to different regions and localities on the basis of some criteria to be determined. This requires the commitment of the national government to institute such fund at the highest level.

#### *Regional government budget*

Regions receive block grants from the federal government. The block grant is given to cover the difference between their revenue raising capacity and expenditure needs. Regions therefore collect own revenue from designated sources and also get block grant. In many



cases regions rely on block grant since own revenue covers a small proportion of their expenditure. The regional budget is used to transfer resources to woredas and urban governments and is also allocated to different economic bureaus at regional level. Within an institutionalized environment which recognizes LED as one of the regional activity, dedicated LED units at regional level can receive funding from the regional government to undertake region level LED activity

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#### *City (local) government budget*

Regional constitutions are the bases for city governments' role and function. In fact different regions have issued proclamations which recognize and provide legal basis for city governments. Under these proclamations city governments' functions are split into state and municipal functions. City government receive revenue from regional governments to run their state functions and raise their own revenue to run municipal functions. Local economic development is a prime function of city governments. The various activities of LED: enterprise support, capacity building, building competitiveness, supporting entrepreneurs, business environment, investment attraction all require adequate funding. The city government should thus be able to allocate a budget for LED in order to execute the different activities. LED however needs institutional base to receive government funding on a continuous basis.

#### *Public entities (ministries)*

Public entities such as ministries receive government budget to carry their responsibilities. Several ministries are mandated with economic development in Ethiopia. Some of these are ministry of trade, ministry of industry, ministry of transport, ministry of tourism, ministry of urban development etc. These ministries operate at different levels through their bureaus and offices. In order to tap finance from these ministries it is important to make LED objectives part of their mandates or responsibilities. With proper institutionalization and coordination, this helps to channel resources to different LED activities at different level. A very vivid example will be for instance leveraging resources from ministry, bureau and office of tourism and culture to promote tourism as the core activity of local economic development.

#### *International donor grants*

International agencies are interested to promote development at different levels. There are many instances of international agencies channelling resources to states or localities to pursue general or specific activities. Both bilaterals and multilaterals need to be targeted to secure funding for local economic development. Localities should put together innovative LED projects and ideas to secure funding from international donors in the form of grants and assistance

## *Loans*

### *Direct public loans*

There are different sources for loan: private bank, micro finance institutions, public loan etc. Public loans are usually provided for non-traditional borrowers who cannot access capital from lending market. They include borrowers who may not have tangible assets to offer as collateral. By lending to borrowers who cannot access from credit market, public loan funds pass the risk of default and financial loss to taxpayers. At the same time public loan funds address failure of credit market which cannot address the needs of these people. Public loan programmes are common in some countries (see box for USA EDA title II business development programme).

#### **Box 15: USA's EDAs title II business development programme**

The programme provides loans and loan guarantee for those who cannot access the private banks. Such loans usually have lower interest rate than private banks. Under this loan scheme business must demonstrate that they will create or retain a minimum of one job for every 20,000 in EDA loan agreement and the business must show that they are capable of repaying the loan.

### *Revolving loan funds (RLF)*

It is quite possible to avail public loans through revolving funds. The principle is that the repayment of the outstanding fund replenishes the pool of loanable funds and as such it provides a pool of renewable fund. RLF can also serve as bridge loans that will be given to strengthen MSEs to move to private bank loan. In general RLFs are initially capitalized by donors or governments. Generally RLFs have higher default rate than conventional banking system.

### *Capital access program (CAP)*

This is a loan programme designed to encourage private banks to provide loans that are too risky under the current lending rule. CAP reduces the higher risk associated with these loans by establishing a loan-loss reserve fund which can be used to recover the loss from the loan. The loan-loss reserve fund is capitalized both by government and the bank making CAP loan. The banks are liable for losses that exceed their loan-loss reserve.

### *Government loan guarantee scheme*

This is a scheme in which governments provide guarantee for a loan to be provided to small businesses. As the government bears the risk of default, it designs a system of getting the loan repaid. This type of scheme has worked well in rural Ethiopia for fertilizer loan for farmers.

### *Development venture capital*

This makes equity investment in businesses for creating jobs and strengthening local economy. It makes risk capital available for entrepreneurs. Funds for development venture capital can come from different sources such as banks, state and local governments, foundations, corporations etc

Enterprises have to grow and develop on their own. This is reiterated by steering committee members in Nekemte, Assela and Awassa. It was suggested that the key to LED sustainability is the creation of self-sustaining enterprises. This could happen when enterprises are profitable and are able to save from businesses which will be re-invested in the businesses themselves. This requires a close follow-up and monitoring in order to guide businesses save and re-invest. In general saving is possible in profitable businesses. The key therefore is assisting enterprises to profitable and sustainable.

### 6.3.6 Partnership for LED

A central aspect of LED is partnership between the government, the private sector and the civil society as this provides opportunities to sustain and develop LED. Partnership generates 'benefits arising from economies of scale, sharing of resources, commitment and enthusiasm (Marias, 2008).

In local economic development, there are opportunities to form both Public-Private Partnership (PPP) and cross-sector partnership (CSP) (Rogerson, 2009). PPPs are usually formal and regulated while CSPs involving government, business, civil society and donor community are usually unregulated, but bring together stakeholders with common interest and facilitate greater gains. Cross-sector partnership could be formed at national, regional and local levels with varying responsibilities and tasks.

Ethiopia has a myriad of government ministries and departments, non-government organizations, donor agencies and the private sector many of which have responsibilities that cover the LED activities. The central point in forging partnership is to identify areas of synergy on the basis of the mandates, activities and responsibilities of different institutions. The assessment team has made consultations with selected government, donor, and NGO and private sector agencies for purposes of examining areas of synergy with LED program that could serve as bases for possible partnership. The consultation was by no means exhaustive as there are numerous institutions that need to be studied.

The consultations revealed that the Ministry, Bureau and Departments of Finance and Economic Development have the mandates of co-ordinating sectoral activities. The preparation of economic plans and allocation of budgets at different level is mainly conducted by the Ministry and the respective bureaus and departments. The Ministry of Urban development and construction has a very strong mandate on urban development. Urban development is a cross-sectoral issue that includes economic growth, service provision and good governance. These activities are central for local economic development. During the consultation period, the representatives of the ministries have expressed readiness and a strong sense of partnership to work with LED program. Other government ministries such as ministry of social affairs and the investment agency have very similar mandate with that of the LED program.

In addition to government institutions, international institutions undertake numerous projects that have relevance to LED. These include market development, enterprise development,

energy development etc. For instance UNIDO had recently implemented different projects in different localities such as i) cluster development for enterprise development ii) Bamboo development project iii) Cleaner production project iv) value chain development of edible oil v) one village industrial cluster approach.

GTZ under its Energy Coordination Office (ECO) is developing solar energy, micro hydro power and fuel saving stoves. In solar and micro hydro power, the objective is to create small enterprises that will foster the productive use of the energy in rural areas. ILO is implementing the edible oil value chain enhancement program in addition to green jobs initiatives, women entrepreneurship and other projects. PANE a non-government organization has the mandate of coordinating NGOs working on poverty reductions in the country. SNV a Dutch based non-government organization is involved in value chain development for selected products in different regions of the country. The consultation with VOCA in Awassa has revealed that they are engaged in forage production, feed processing and dairy activities. The following table (table 10) is a summary of possible areas of partnership formation for LED program between different government and non-government agencies

**Table 10: Possible areas of synergy between government and non-government institutions and Local Economic Development program,**

Institutions	Possible areas of partnership with the LED program
Ministry of Finance and Economic Development	Coordinating sectors
Ministry of urban development	Urban employment creation General urban development
Federal Micro and small enterprise Agency	Urban employment creation
UNIDO	Cluster development Value chain development
ILO	Value chain development Women entrepreneurship
GTZ	Private sector energy development
SNV	Value chain development
VOCA	Dairy management, feed processing
PANE	Capacity building; lesson sharing and learning; Gender analysis of LED ; conducting dialogue forum
Chamber of commerce	Public-private partnership Marketing, training

## 7. Chapter 7: Conclusion

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In an era of decentralization and globalization, local economic development has become a chosen development approach both in developed and developing countries. By strengthening their economies and improving their competitiveness, local economic development enables local authorities to contribute to overall national growth, poverty reduction and local employment generation. The particular attraction of local economic development is that it is multi-actor, multi-sector, territory based and endogenous development approach. As such it complements sectoral and macro-economy development approaches in the fight against poverty and unemployment and aspires to bring sustainable and inclusive local economic growth.

While the record of Ethiopia on the growth trajectory and poverty reduction is commendable, local economies need to strengthen their economies, fight local poverty and unemployment. Urban Ethiopia in particular is plagued with rising unemployment and poverty. Local economic development thus has a huge potential for local economies and could also be used as instrument of achieving the Growth and Transformation Plan (GTP) the country is currently implementing.

The UNDP/MoFED pilot local economic development program is currently implemented in seven localities and is in tune with the needs of the country in general and local economies in particular. The program is designed as a multi-year development program with capacity development and investment programs comprising the major components of the program. This report is an assessment of the program with a view to draw lessons on those elements which are working well and those which need to be deepened, re-designed and reinitiated.

Through extensive consultation at local, regional and national level, the assessment finds that the program has resulted in numerous positive outcomes including the creation of huge employment particularly for the poor segment of the society, establishing many MSEs that are delivering not only consumer products but also locality development products and services. It has resulted in introducing an inclusive financing strategy to address the poor segment of the society in the form of a revolving fund.

The program has introduced a governance system in which partnership is forged between different sectors of the economy. The program has worked extensively in the area of capacity building with the objective of improving the working capacity of executives, experts and beneficiaries. This was undertaken by arranging different training programs on different subjects and issues both locally, nationally and internationally. Organizational capacity building was also part of the program. The planning phase of the program has proved to be participatory with the aim of identifying strategies that could be used as bases for long term local development.

This report has raised several issues with respect to institutional arrangement, capacity building and enterprise development. These issues represent both the strength and weaknesses of the program in general and its different components in particular.

As the report is a fore ward looking, it has indicated strategic areas that need to be deepened and consolidated, those that need to be replicated and those which need to be initiated or re-designed.

Among those strategic areas that need to be re-designed or initiated are those which pertain to the strategic focus of the program, policy and institutional issues, enterprise development issue and those factors needed to create a competitive local economy. The report recommends that the strategic focus of the LED program should centre on economic growth in addition to poverty reduction. It is only when local economies are enabled to forge their growth that their contribution to the Growth and Transformation Plan will be realized. LED in Ethiopia needs a national policy framework and institutionalization to ensure greater and sustainable impact on local economies. While the enterprise development approach is considered to be an appropriate entry point for Ethiopian LED, it, however, has to take a different course to ensure more growth and realize more dynamic enterprises. A market approach that capitalizes on value chain development, enterprise development that cultivates entrepreneurship, enhances value addition and rural-urban linkages, forges partnership and works on technology transfer as well as exploit green job opportunities are desirable path for enterprise development. At the economy level, local economies need to be competitive and attractive. Thus measures to enhance productivity, innovativeness and clustering are critical as much as those which work towards exploiting local potential, raising local revenue capability and leveraging the private sector.

Finally sustainable LED requires dependable sources of finance and partnership. This report has suggested that there should be diversified sources of fund for LED. The primary source of funding however should be government at different levels. In addition grants and loans should also be tapped particularly for enterprise development. The government can still play a role to finance MSE either in the form of revolving fund or instituting loan guarantee system and accessing micro finance institutions or banks. Similarly as partnership is a critical component of LED for its success, it is important to create synergies with other institutions for purposes of combining resources and capabilities.

In conclusion, the pilot program shows that LED is beneficial, appropriate and useful for Ethiopian cities. With proper policy, strategy and institution, LED could even result in much better outcome and effect. It is an indispensable instrument for city growth and poverty reduction and for the goals of Growth and Transformation Plan. There is thus a need to scale up LED to other localities, strengthen and sustain LED in the existing localities and forge a national umbrella that requires localities to embark on local economic development initiatives.

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## 9. Annexures:

### 9.1 Profile of Interviewed MSEs

Town	Name of the MSE and main activity	Description of the MSE	Challenges and prospects	Remark
Assela	-Ediget Besera grain trade -Grain trade	-The MSE started in 2002 -eight members (4M and 4F) -loan size of 155,567.67 -constructed store which is used to store and sell grain -Each member receives 6 birr per day	-Face fierce competition from private traders since they do not have cash on hand in time of need -suffer from market fluctuations -So far they do not know whether they have made profit or not -lack adequate business skill -limited follow-up -Members hope they will make profit in the future	-Business do not seem to be on the growth trajectory.
	Gudina Chilao and Welkituma -Injera making	-Gudina has 15 members while Chilalo has 24 members currently -Took a loan of 341,000 birr each -Each supply 'Injera' to Adama University -Wulkitoma has retail outlet and small hotel while Gudina does not have outlets -members in each receive 200 birr per month	-Both faced leadership problem in the past. -Women do not feel empowered due to limited training and poor systems of bringing everybody on board. -Members complain that the salary they get is too small -Members in Wolkituma suggested they hope to bring good result in near future	-Need strong support and follow up -Do not seem to be in line with business growth trajectory
	ZKK wood and metal work -Metal work	-The MSE started in 2001 with 3 members. -Current members are 5 with 2 males and 3 females -Business started with own capital of 7000 birr -Business got land for free from MSE agency -took a loan of 62,000 from LED program for expansion which was used for purchase of machineries -Business records daily expense and income	-Due to some competition in furniture making in Assela, the MSE produces construction material for houses only. -Business does not have market linkage -No culture of networking with other firms in the town -problems of getting loan from MFI due to the size limit -the business has currently employed 3 workers and hope to increase the number of workers to 5 -Some saving has started and there is clear growth of capital -Business hopes to soon start furniture making by partnering with skilled people in the town	-This is the case of loan used for business expansion -the business is in good prospect as evidenced in growth of capital and activities of saving

Town	Name of the MSE and main activity	Description of the MSE	Challenges and prospects	Remark
Nekemte	SMART printing enterprise -Printing	<p>The MSE started in 2001 with 18,000 birr loan from MFI with which computer and simple machines were bought</p> <p>-the loan was repaid in 2002 and received 200,000 birr loan from LED program, which was used for purchase of machineries</p> <p>-Currently there are 3 members of the MSE who monthly receive a salary of 2000 birr each.</p> <p>-Each member is a university graduate</p> <p>-Business has grown both in terms of capital and employment</p> <p>-Initial capital was 18,000 birr and present capital is 450,000 birr (fixed plus working)</p> <p>-Initially employed people were 2 and now 10 people are employed.</p> <p>-business has diversified by opening one branch in Gimbi and 2 in Nekemte</p>	<p>-Main challenges of the business include shortage of working capital, expensive house rent and corruption in the business world. The latter has precluded them from winning bids issued by government</p> <p>-the business has a future plan of expanding and securing more loans to buy photo printer machine that will enable the business to print bulletins. .</p> <p>-there is a plan to diversify business and enter in to the garment sector.</p>	The business is in clear growth trajectory as evidenced by increase in capital, employment and number of branch firms. The future plan to scale up the activity also indicates the potential of the business
	Tokuma hotel -hotel service	<p>Business started in 2011</p> <p>-Received a loan of 390,594 birr</p> <p>-there are 20 people in the MSE</p> <p>-Each receive a monthly salary of 300 birr</p> <p>-two hotels are now operating</p> <p>-Employed seven people</p> <p>-their current profit is about 10,000 birr</p> <p>-the profit however is used up for salary payment and house rent</p> <p>-there is no saving from current business</p>	<p>-Increasing price of inputs such as oil has reduced their profit</p> <p>-difficulty in competing with other private hotels</p> <p>-there is a plan to open a third hotel which combines traditional craft with hotel service</p> <p>-there is hope that the existing two hotels will be used as base and hope to get profit from the third hotel</p>	-The sustainability of the current business is doubtful since there is no saving from the business
	Kayofkani injera making and Abdi Bora injera making -injera making	<p>Started in 2010</p> <p>Kayofakani has 8 members while Abdi Bore has 10 members</p> <p>-members were previously engaged in daily labor work</p> <p>-a loan amount of 35,000 was allowed to each of them</p> <p>-Both used only 10,000 birr so far</p> <p>-Bought necessary equipments to prepare Injera</p> <p>-took 2 days training on hygiene and business</p> <p>-Each member receives 400 birr per month</p> <p>-Supply Injera for the University</p>	<p>-Increase in price of teff</p> <p>-no much profit because the University requires that the 'injera' has to be of certain standard.</p> <p>-no profit unless the University revises its requirement</p> <p>-No saving from the business</p>	<p>-Not a business in growth trajectory</p> <p>-there is a need to follow up the business and adjust factors that constrain them from making profit</p>

Town	Name of the MSE and main activity	Description of the MSE	Challenges and prospects	Remark
Adigrat	Enbabeles MSE -silk production	<ul style="list-style-type: none"> <li>-Took a loan of 135,000 birr</li> <li>-there are 15 members who are all disabled people</li> <li>-The MSE is given 500m2 to grow strawberry plant that will be used as food by the silk worm</li> <li>-bought seedling that costed 1500 birr and planted it</li> <li>-the plant however was destroyed by bad weather</li> <li>-have planted again</li> <li>-the land is also used to produce vegetables from which some income is being earned.</li> </ul>	-weather problem is reported	Business has not yet started
	Grain trade -trading	<ul style="list-style-type: none"> <li>-the association has 12 members</li> <li>-received a loan of 144,000 birr</li> <li>-they buy grains and sell the same</li> <li>-each member received 300 birr per month</li> <li>-members are able to handle their finance</li> <li>-source their grain from wholesalers in town</li> <li>-Members have permanent meeting to review their business</li> </ul>	<ul style="list-style-type: none"> <li>-Main problem is price fluctuation and competition from private grain traders</li> <li>-not able to travel and buy at cheap price</li> </ul>	Business can be prosperous if they can bulk purchase from sources instead of wholesalers

Town	Name of the MSE and main activity	Description of the MSE	Challenges and prospects	Remark
Awassa	Awassa green environmental cleaning and beautification, boat recreation association -recreation and environment	<ul style="list-style-type: none"> <li>-This association is formed by 20 members in 2005 by unemployed youth from the surrounding.</li> <li>-Took land (1800 m2) from the city administration &amp; Contributed 3 birr per individual per week as working capital.</li> <li>-Cleaned up the area and planted seedlings for four years with no salary.</li> <li>-In 2008 they took a loan of 30,000 from the MFI.</li> <li>-In 2009 they became LED beneficiary and received 150,000 birr in the form of a grant and in the second round, they received 120,000 loan</li> <li>-The members also receive about 500 birr as the average salary every month</li> </ul>	<ul style="list-style-type: none"> <li>-Members feel that the business is profitable.</li> <li>-They have invested 25,000 and put together a pool house and a DS TV show at the cost of 20,000 birr.</li> <li>- Main problem is seasonality of market as main clients are university students</li> <li>-The second problem is finance. Finance is required to renovate the area and also expand to the surrounding land.</li> </ul>	Business is in growth trajectory as evidenced in investment and saving - Business plans to provide internet service for clients, build library for students, upgrade local boats.
	Gamo union weavers association -weaving	<ul style="list-style-type: none"> <li>-Established in 2006 with. 75 members. At the beginning members contributed 100 per share and 20 registration fee. Received 140,000 loan from Omo MFI.</li> <li>-All loan was repaid in 2007.</li> <li>In 2009, they received 300,000 birr from LED in the form a grant. Used it to buy machinery, raw material and construction.</li> </ul>	<ul style="list-style-type: none"> <li>-They have a stock of 100,000 worth final product in the store.</li> <li>-Lack of market is a serious problem the association is currently facing.</li> <li>-can not use machineries in full</li> </ul>	<ul style="list-style-type: none"> <li>-No sign of growth</li> <li>-Cannot produce more</li> </ul>

Town	Name of the MSE and main activity	Description of the MSE	Challenges and prospects	Remark
Sodo	Kuku Poultry -poultry	-A newly established poultry farm. -All the five members are university graduates - Received a loan of 130,000 from LED and a shade for free. -Bought 400 egg laying chicken	-Have not yet started selling eggs. But believe it will be profitable -they are supported by Ediget dairy association through the transfer of knowledge	Difficult to comment
	Ediget dairy association -dairy and poultry	-A family association organized under family package. It is engaged in dairy and poultry. -The association started operation in 2008 with a loan of 126000 from omo Mfl. -Applied for LED fund for 100,000 birr under a condition that the association forms a partnership with new start-ups - The association bought an incubator with the money with the view that it will supply chickens to other farmers	-The association has a prospect of expanding on the basis of its experience in dairy and poultry	-Clearly an MSE on growth trajectory and expansion

Town	Name of the MSE and main activity	Description of the MSE	Challenges and prospects	Remark
Mekele	Lemlem dairy association -dairy	<ul style="list-style-type: none"> <li>-Association formed In 2008 with 10 members</li> <li>-Each member used to work as hired labor</li> <li>-Took training on dairy for 2 months</li> <li>-Took a loan of 275,510 loan</li> <li>-Members do not receive salary but the association pays 700 birr for a guard</li> <li>-monthly income is 2500 which goes directly to paying the loan</li> </ul>	<ul style="list-style-type: none"> <li>Members do not know whether there is profit or not</li> <li>-currently struggling to repay their loan</li> </ul>	No evidence of growth or accumulation
	Hadish Hiwot computer center -computer service	<ul style="list-style-type: none"> <li>- Organized in 2006 with 10 members in Mekele town</li> <li>- Took a loan of 45,000 birr from Dedit micro finance in 2008 and raised about 15,000 from own fund.</li> <li>- In 2010 they received a loan of 218,000 birr from LED fund for business expansion. With this fund they were able to open two branches</li> <li>- Members now receive a monthly salary of 350 birr each</li> </ul>	<ul style="list-style-type: none"> <li>. the MSE has a monthly saving of 4,000 birr. In total it has a saving of 21,000 birr so far.</li> <li>-members have a vision of expanding their business by acquiring more machinery in order to cope with the demand.</li> <li>They want to have heavy duty machinery for a price of 350,000 birr. They are hoping to get more loans to achieve their objective.</li> <li>-good market availability</li> <li>-members well trained</li> </ul>	The MSE is in growth trajectory and is accumulating through saving
	Frayt 2001 spice -spice selling	<ul style="list-style-type: none"> <li>-Established in 2009 with 10 women members</li> <li>-Received training for 3 months in Adigrat catholic mission</li> <li>-Received a loan of 78,000 birr and also received a shade for free</li> <li>-have already paid loan for 6 months</li> <li>-Members do not receive any salary</li> </ul>	<ul style="list-style-type: none"> <li>-Major marketing problem</li> <li>-they also need more loan to start outlets and buy grinding mill</li> <li>-members have difficulty in maintaining their finance despite their training</li> <li>-in future they aspire to find market for their products</li> </ul>	The business is in problem and is not in growth trajectory

Town	Name of the MSE and main activity	Description of the MSE	Challenges and prospects	Remark
Bahirdar	Dil Tesfa Fattening project	<ul style="list-style-type: none"> <li>-The association has 11 members</li> <li>-received a loan of 143,000 from LED project</li> <li>-members do not receive salary</li> <li>-They work part time to make ends meet</li> <li>-initially received training for 7 days on urban agriculture</li> </ul>	<ul style="list-style-type: none"> <li>-members have sold fattened ox and have made some profits</li> <li>-their main challenge is finance</li> <li>-they aspire to open butchery and want to diversify to garden crops as well</li> <li>-they also want to link with major exporters</li> <li>-Business has a good record of its finance</li> </ul>	-Business can be profitable if properly handled and its financial problem solved
	Elroi weaving and garment	<ul style="list-style-type: none"> <li>-the association has 11 members</li> <li>-was established in 2008 but started operation in 2009</li> <li>-started work with own contribution of 9000 birr</li> <li>-Received 100,000 from LED in 2011 which is used to buy machinery</li> <li>-they have a working premise which was obtained for free</li> </ul>	-At present the association sells to merchants and feel they get low price	-the business has a potential to become profitable with adequate access to market



## 9.2 Annex 2 List of key informants and members of the focus group discussion by towns

### 9.2.1 Nekemte town

#### *Steering committee and BDRC members (FGD)*

1. Ato Berhanu Abeshu, Vice Mayor
2. W/o Atsede Kadire, Vice manager, Municipality
3. Ato Tekle Bobo, Training head OPDO office,
4. Ato Beketa Kena, Head, Civil service and good governance
5. W/O Rekik Aklilu, Deputy head, MSE and Industry office
6. Ato Matheious Hailu, head, Labor and social affairs office
7. Diniksa Keno, Student service director, Wellega University
8. Ato Dereje Mulat, Campus dean, New Generations university college
9. Ato Temesgen Beyene, manager, TVET
10. W/O Yeshimebet, Head, Women's affair
11. Ato Taye Jalata, Head, Finance and economic development head
12. Ato Olkeba Bashe, business manager, OCSSO
13. Ato Bikila Daba, IT expert, GTZ
14. Ato Temesgen Daba, Head, Youth and sport office
15. Ato Fekadu Goshy, LED expert,

#### *Key informants*

1. Ato Taye Jaleta, Head Department of Finance and Economic development
2. W/o Rekik Aklilu, Deputy Head, Micro and small scale enterprise and industry
3. Ato Mamo Kitala, Head, Nekemte city investment office
4. Ato Zelalem Admassu, Head, Nekemte Revenue office
5. Ato Esayas Alemu, Nekemte Chamber of Commerce

### 9.2.2 Bahirdar

#### *Key informants*

1. Ato Tadie Kelemu, Advisor to the Mayor
2. Ato Assefa, Wolde Senbet, President Chamber of commerce
3. Ato Dawd, LED expert
4. Wt Dege, LED expert
5. Ato Seyom Dereje, Head investment office
6. Ato Lakew, Guder Agro industry PLC
7. Head Amhara saving and credit

### 9.2.3 Awassa town

#### *Sub-city steering committee members (FGD)*

1. W/o Alem Dubale, Women's affairs of sub city head
2. Ato Tinsaye Mesay, youth and sport of sub city, head
3. Ato Kabona hanihocho, Omo micro finance officer
4. W/O Hiwot Hagos, Finance, payment and purchasing officer
5. Ato Tsegaye woldesenbit, Trade and industry of sub city, head

#### *Key informants*

Ato Daniel Tiruneh, SNV Awassa  
Ato Senbetu, VOCA, Awassa  
Kernel Yekum Shata, Chamber of commerce

### **9.2.4 Sodo town**

#### *Sodo Steering committee members (FGD)*

1. Ato Tekle Ukolo , Head civil service
2. W/O Tadellech Menna, Vice head, Couslor office
3. Ato Masresha Tessema, Town administration
4. Ato Asfaw Fanta, Town administration
5. Ato Shebeshi Shirko, Head, Finance and economic development
6. Ato Gelesu Siltie, Town council
7. Ato matewos Bakha, LED expert

#### *Key informants*

1. Ato Matewos Balcha, LED expert
2. Ato Lanteno Leku, Deputy Mayor and trade and industry head

### **9.2.5. Mekele Town**

#### *Members of Tigray Regional steering committee (FGD)*

1. Ato Woldegebriel G Micael, Bureau of labor and social affairs, head
2. Ato Seleshi Tesema, Bureau of Womens affairs
3. Ato Ashenafi Tarekegn, BoFED
4. W/o Zafu G/Hiwot, Deputy, BOFED
5. Ato Mulugeta Hailu, Head, youth and sport bureau
6. Ato Tesfaye Berhe, Tigray Youth association
7. Ato Solomon Gezaye, Tigray BoFED, UNV.

#### *Mekele town Steering and technical committee members (FGD)*

1. Ato Tsegaye Hailegiorgis, COFED (City office of finance and economic development), Head
2. Ato Solomon Gezay, BOFED programme coordinator
3. Ato Teshale Fisehaesyous, Secretary general, Mekele chamber
4. Ato Belay Haile, Labor and social affairs, head
5. Ato Kidu Hailezgi, Deputy mayor, Mekele city
6. Ato Getachew Asayehegn, Membe of technical committee
7. Ato Goitom Abadi, Business developer
8. Ato Girmay Hailu, BoFED, Planning process head
9. Ato Gebre Yohannes W/Mariam, Women affairs
10. W/O Zahara Mohommed, Women's association
11. Ato Ataklite Hailselassie, Youth association of Mekele, chairperson
12. Ato Ayele Kindaya, TDA, Mekele zone
13. Ato W/Amanuel G/Yesus, MZYS affairs, Office head
14. Ato Yemane Teklu, Youth and sport coordinator
15. Ato Mesfin Woldu, urban agriculture head

#### *Members of Mekele chamber of commerce (FGD)*

1. Ato Teshale Asfeha, President chamber of commerce
2. Ato Dawit Beyene, Business development department head
3. Ato Mulugeta Belay, public relations and member organization department head
4. W/t Roza Selemon, Training coordinator
5. Ato Solomon Kahsay, Tax advisor.

*Key informants*

Ato Zeru Asfeha, Head trade and industry  
Ato Mekonnen Masa, Investment coordinator

### **9.2.6 Adigrat town**

*Members of steering and technical committee (FGD)*

1. Ato Berhane Tsegay, Mayour, Adigrat town
2. Ato Kahsay Muruts, Youth association, chair person
3. Ato Muluberhan kahsay , youth expert
4. Ato Edris Kedir, Finance and economic development, head
5. Ato Ataklite Negash, LED expert
6. Ato muez Araya, Plannign officer, BOFED
7. Ato Teklay Gebre selassie, techncial committee member
8. Ato Yohannes Hailemical, Finance and planning office
9. Ato Kidu Hailemariam womens affaris
10. W.O Gergis Abadi, womens association, head

*Key informants*

1. Ato Mulubirhan, Head Revenue office of Adigrat
2. Ato Hailemariam Berhane, Vice president, Chamber of Commerce
- Ato Abreha , head investment process

### **9.2.7 Assela**

*Steering/technical committee members, Assela (FGD)*

1. Ato Shazeli Kedir Head labor and social affairs
2. Ato Kebede Feysa, Head, Industry and urban development
3. Ato Mohammed Gabite, LED expert in Assela
4. Ato Amin Kedir
5. Ato Seid Mohammed, head, youth and sport
6. Ato Mamo W/Amanuel, head TVET office
7. Ato Mustefa Geleto, Process owner
8. Ato Bedilu Diriba OCSSCP MFI
9. Ato Ali kedir, LAEM