

## Governance and Policy Environment for Local Economic Development in Sub-Saharan Africa: Ethiopian Experience

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### Abstract

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Local Economic Development has gained relative importance as feasible option to traditional top-down development approaches that have generally been unsuccessful in generating significant and sustainable development at the local level. The ability of LED to create economic growth and improve the overall of life the community however relies on the national and local environment where the LED strategy takes place. The aim of the paper therefore, is to systematically examine whether existing decentralization governance framework and national policy environment allows for the successful implementation of LED in Ethiopia. A number of documents like 1995 FDRE constitution, the decentralization governance framework, Sustainable Development and Poverty Reduction Program (SDPRP), Plan for Accelerated Sustained Development to End poverty(PASDEP), Growth and Transformational Plan (GTP) (I & II), Urban Policy, National MSEs Strategy, Regional Development framework and their alignment with LED were critically reviewed. The results of the study revealed that the existing decentralization framework, series of national plans and policies has created opportunities for LED implementation despite the country lack concrete LED framework. But facts on the ground do not suggest that the decentralization governance framework in the country has put the right institutional framework in place for the successful promotion of LED at local level.

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**Key words:** Local Economic Development, Governance, Ethiopia, Policy Environment

### 1. Introduction

Though Local development practices could have existed for long, the issue of Local economic development (LED) concept as development strategy/approach was relatively new. It is generally agreed that the practice of LED as an alternative developmental approach have been initiated in industrialized countries like Western Europe and North America in 1960s and 1970s (World Bank, 2004 and Akudugu, 2013). But, it was only from late 1990s onwards that LED became a dominant strategy and give emphasis on enterprise development, improving infrastructure, building local partnerships and generally promoting an inclusive and dynamic framework (World Bank, 2003). Thus, LED has been increasingly started to be recommended by scholars and practitioners as a complement, if not as an outright alternative to the traditional top-down development approach (Helmsing, 2003; Rodriguez-Pose, 2008; Rodriguez-Pose & Tijmstra, 2009; Rogerson, 2010; Rodriguez-Pose & Palavicini-Corona, 2013 and Mensah et al., 2019).

The failure of traditional top-down policies, together with the developmental challenges generated by globalization, has incited a serious rethinking of the validity of this approach to development planning by practitioners and scholars (Rodriguez-Pose, 2001, 2008b & Rogerson and Rogerson, 2010). This rethinking was resulted in the rise and the emergence of novel development polices grouped under 'local economic development (LED)' in which endogenous and institutional factors are integrated within a comprehensive development framework with activities to support infrastructure and foreign direct investment that would offer opportunities for growth to all areas (Walter, 2008) through unleashing the economic potentials of every territory (LEDNA, 2012).

Adopting LED as alternative development strategies however by itself may not be a panacea for every local problem (Rodriguez-Pose, 2009a), unless certain conditions are fulfilled for planning or implementation of LED strategies.

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The national, regional and local starting conditions and potential of the territory where the LED strategy is designed and implemented will impact greatly the ability of LED to create economic growth and employment and play a vital role in its overall success. The existence/absence of economic hardware, software, and orgware factors influence the likelihood of success and flourishing of LED strategies (Vazquez-Barquero, 1999 and Rodriguez-Pose & Tijmstra, 2007).

Rodriguez-Pose & Tijmstra (2007) also added that the potential for LED as development strategies will only be successful when the policies and legal environments are appropriately established in a specific local context and institutional arrangements are structured to ease the implementation of local actors' collaborative initiatives. However, in Sub-Saharan Africa as a whole, outside the more well-capacitated and resourced centers, the absence of these enabling environment likely to limit the ability of local institutions to develop and implement LED strategies. Taking into account these factors, LED can indeed be a complement, if not an alternative, to existing development strategies in the SSA context (Rodriguez-Pose & Tijmstra, 2007). Though the government of Ethiopia has started the implementation of LED in certain major cities/localities, the existence/absence of the national enabling environment for planning and implementing LED in country is not empirically studied so far.

The purpose of this article therefore, is to systematically and rigorously explore existing decentralized governance and national policy environment for LED planning and implementation and indeed, to recommend whether LED could be complemented to the top-down development approaches or could be a viable alternative development strategy in Ethiopia. The article also contributes to the debate and evidence of LED in SSA which is relatively scarce in the existing LED literature (Rogerson & Rogerson, 2010). It also provides a valuable resource for policy-makers and development agencies and other stakeholders delivering LED.

## **2. Research Method**

The research method employed for this study was basically desk review. This was done by collecting data from existing literature, governance and policy documents and critically examining them. A number of documents such as the 1995 FDRE constitution, the decentralization governance framework, Sustainable Development and Poverty Reduction Program (SDPRP), Plan for Accelerated Sustained Development to End poverty (PASDEP), Growth and Transformational Plan (GTP both I & II), Urban Policy, Micro and Small Enterprise Strategy, Regional Development framework and their alignment with LED were critically reviewed and examined. The author critically subjected these documents to a proper analysis which made it possible for him to reach on conclusions and the way forward about LED as development strategies in Sub-Saharan Africa in general and in Ethiopia in particular.

## **3. Overview of Local Economic Development**

LED has been increasingly started in developing countries in general and in SSA in particular as a complement, if not as an outright alternative to traditional top-down development strategies (Helmsing, 2003; Rodriguez-Pose, 2008; Rodriguez-Pose & Tijmstra, 2009; Rogerson, 2010; Rodriguez-Pose & Palavicini-Corona, 2013; Mensah et al., 2019). This is largely due to the failure of traditional top-down approach to development in addressing local needs, together with the developmental challenges caused by globalization, growing decentralization and the inability of many central states to intervene at the local level, market failure, rapid urbanization (Rogerson, 1997; Rodriguez-Pose & Tijmstra, 2007; Helmsing, 2002; Nel & Rogerson, 2005a; Gomez & Helmsing, 2008 ), debt crisis, imposed structural adjustment, massive currency devaluation (Nel, 2001), problems of unemployment and poverty at local level (Meyer- Stamer, 2003).

However, despite its significance is recognized as an alternative development strategy, there has been yet ongoing battle of ideas and struggle by many authors and authorities over the meaning of the term (Trah, 2004; Nel and Rogerson, 2005; Rogerson, 2010a; Akudugu, 2013). One of the main reasons for this definitional difficulty emerges from how the concept has been perceived by various authorities. Despite the greasy nature of LED however, the emphasis of the concept is on endogenous development policies which make use of potentials and existing local resources such as institutional, human and physical resources.

For Blakely (1989, 1994), who is one of the early authors and advocates of the contemporary local economic development approach, defines LED as "a process by which local governments and/or community based groups manage their existing resources and enter into new partnership arrangements with the private sector, and/or each other to create new jobs and stimulate economic activity in a well-defined economic zone." The concept of LED is also defined as a bottom-up, territorial, decentralized (Rodriguez-pose, 2008a and Rogerson, 2010b), and participatory approach to stimulate the local economy using locally available resources (Trah, 2004 and ILO, 2006).

World Bank (2002, 2006a) also added that “LED is the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation with the aim to improve the quality of life for all.” A subsequent World Bank document also asserts that LED is about local people working together to achieve sustainable economic growth that brings economic benefits and quality of life to all in the community. In that sense, LED is primarily about enhancing local competitiveness, developing local business climate, attracting investment, retaining jobs and improving incomes.

### **3. Evolution of Local Economic Development**

Local development practices could have existed for long. But, the issue of LED conception as development strategy/approach was relatively new and until recently not on the political agenda and not sufficiently recognized in the conventional economic thinking as well (Birkholzer, 2005). According to World Bank (2004, 2009a), LED has gone through three broad developmental waves or stages since the 1960s. Each of the waves has its own attention and instruments. LED practitioners have developed a better understanding of LED (both effective and failed) programs in each wave. LED policy and practice is currently in its “third wave”. Although LED has moved through each of these waves, elements of each wave are still practiced today. The fundamentals amongst them is the role of local government, the private sector, NGOs and the local community in creating opportunities to work together to improve the local economy. Within all these waves, the concept focuses also on enhancing competitiveness, increasing sustainable growth and ensuring inclusive growth (Davis & Rylance, 2005 & Oduro-Ofori, 2011).

The first wave of LED was experienced during the periods of 1960s to early 1980s and its emphasis was on mobile manufacturing investment and agricultural production. The focus during this stage was to attract foreign investment and hard infrastructure by providing grants, subsidies and tax allowances (Kanyane, 2008). The second wave from 1980s to mid-1990s and during this stage, the focus moved towards the retention and expansion of local businesses as well as internal/inward investment targeted at specific sectors. This was achieved through direct payment of individual businesses, business incubators, business start-up support and the provision of hard and soft infrastructure (Swinburn and Yatta, 2006a & Kanyane, 2008). Third wave from late 1990s onwards and during this wave, the focus shifted from direct financial assistance towards making the whole business environment conducive by focusing on soft infrastructure, creation of partnerships and networks, supporting the formation of business clusters and the development of workforce through education and training with a view of providing encouragement for entrepreneurship (World Bank, 2002; Kanyane, 2008 and Kahika & Karyeija, 2017).

### **5. Rationale of LED in Developing Countries**

Despite the fact that interest in LED approaches to development was first apparent in Western Europe and North America (Blakely, 1989; Harvey, 1989; Clarke and Gaile, 1998), the ideas of LED strategy also subsequently spread to other parts of the world for reasons not much dissimilar with that of developed nations. Alongside other development initiatives, developing countries also eventually come to a realization that the top-down approach, which hitherto was the approach to implementing development programmes, was not yielding the desired results. This realization inevitably precipitated the need for a more effective approach to development. Therefore, in the early 1990s, LED as a development approach was introduced in a number of developing countries including SSA as a bottom-up approach. This is expected to ignite economic growth and development through the exploitation of endogenous resources and involving local actors. During this period, LED has become the most attractive and influential policy that was promoted and popularized in many of countries in west, east and Africa (Harvey, 1989) of which the Republic of South Africa is among the most successful countries in LED implementation in Africa. In addition, with the advance of globalization and growing decentralization, the 1990s also saw a diffusion of LED ideas and practices from the global North to the South (Rogerson, 1997; Rodriguez-pose et al., 2001; Helmsing, 2002; Nel and Rogerson, 2005; Gomez & Helmsing, 2008 cited in Rogerson et al., 2010).

In most developing countries including SSA, LED is also gradually gaining prominence as an alternative development approach/strategy among development organizations with the aim to reduce poverty of local communities, inequality, and to help deal with the negative impacts of globalization (Meyer-Stamer, 2008; Rodriguez-pose & Tijmstra, 2007; Rodriguez-pose & Tijmstra, 2009; Rogerson and Rogerson, 2010; Marais, 2010; Rogerson, 2010a; Hampway and Rogerson, 2011). Factors such as the collapse of social services, hyper-inflation, massive currency devaluation, vast debt burdens, disastrous effects of global trade, structural adjustment packages, transition to democracy aggravate the situation in these countries (Binns and Nel, 1999; Nel, 2001; Mensah et al., 2013a).

Rodriguez-pose & Tijmstra (2007) also stated that the emergence of LED in Africa in general and in SSA in particular attributed to the persistence of problems of slow economic growth and poverty combined with the changes in the national and international economic environment and the inability of many central states to intervene at the local level have provided a spur for locally based initiatives.

The rising importance of LED across sub-Saharan Africa is also signaled by the activities of the United Cities and Local Governments of Africa (UCLGA) (Swinburn and Yatta, 2006a, b) and Swinburn et al., (2007). As part of its mission of 'building African unity from within and driving development through the grass roots', this association identifies LED as one of main priority areas for action for the period 2006 to 2015 (Swinburn et al., 2007) since the national level macroeconomic policies are no longer sufficient for attaining sustainable broad based economic growth in the continent.

However, despite developing countries adapt LED for the indicated purposes, the success story of LED as an alternative development in all developing countries in including Sub-Saharan Africa is not the same. Reviews of the status of LED within local government areas in the south indicates that formal LED, as opposed to community-based variations is still in its infancy and few local governments and other agencies can be said to be actively engaged in LED at present time (Nel, 2001). LED success or failure relies on the existing enabling environment where it takes place and which is discussed in the subsequent section.

## **6. Enabling Environment for Local Economic Development**

The 'enabling environment' represents the broad context within which development processes take place. Experience suggests that environment may in fact be either enabling or constraining, or possibly a mix of both (Bolger, 2000). Therefore, enabling environment in this context can be defined as a set or mix of conditions to create a favorable or dis-favorable setting for local economic development to take place (Konig et al., 2013). LED can produce visible efficiency improvements in public spending, but only under certain conditions. Writers in the area of local economic development (Vazquez-Barquero, 1999 and Rodriguez-Pose and Tijmstra, 2009) and others classify and explain enabling environment that influence the success or failure of LED strategies in different ways.

Vazquez-Barquero (1999) for instance, argued that the environment for LED will tend to be more favorable in countries which already possess a relatively better stock of economic hardware, software, and orgware. The accessibility of economic 'hardware' such as transport and communication networks, as well as infrastructure for the development of human capital like education, health and cultural facilities, significantly facilitates the success of LED. The availability of economic 'software' such as the accessibility of the necessary ingredients to analyze local comparative advantages and resource bottlenecks and develop LED strategies also improve the possibilities of success. Availability/absence of data and information and capacity at all levels can promote or hinder the creation of viable and appropriate development strategies. The availability of organizational capacity or 'orgware' which nurtures the involvement of local stakeholders develop networks and partnerships, and coordinates actions at different levels of government is of importance too. Especially, long-term institutionalized cooperation between public, private and civil society actors are key to building the trust and understanding necessary to finding creative solutions to common problems (Rodriguez-Pose and Tijmstra, 2009).

The influence the availability or absence of hardware, software, and orgware factors has on the likelihood of success of development strategies indicates that LED may be a more fruitful approach in some areas and localities than in others (Vazquez-Barquero, 1999). In high and, to a smaller degree, middle-income countries, it is believed that the initial level of endowments and the presence of relatively developed and well-functioning civil societies create a fertile ground for LED. In low-income countries, in general, and SSA countries, in particular however, this may be more problematic and a pure LED approach may prove less viable for smaller settlements and more remote areas in many SSA countries (Rodriguez-Pose and Tijmstra, 2007).

The generally difficult development environment local and regional governments face, together with the lack of funding and government capacity, both in terms of skills and infrastructure, is also likely to limit the ability of local institutions to develop and implement successful LED strategies, specifically in those areas where capacity limitations are high. Especially, lack of resource endowments, poor accessibility and unevenly spread and relatively weak civil societies are likely to affect the practicality of LED outside the wealthier and most prosperous areas of SSA (Rodriguez-Pose and Tijmstra, 2009). Taking into account these factors, LED can indeed be a complement, if not an alternative, to existing development strategies in the SSA context.

Their less favorable endowment situation and less developed civil societies and institutions are likely to require that the governance-based part of the approach is complemented with alternative top-down policies aimed at generating capacity building and addressing some of the limitations that could prevent LED strategies from working properly.

On the other hand, the potential benefits of the approach, such as stronger participation of local residents and stakeholders, the formulation of more balanced development strategies, and greater emphasis on the sustainability of development, potentially offer a new way for tackling some of the main problems faced by SSA's urban centers and city-regions.

Rodriguez-Pose and Tijmstra (2009) also understand and classify the environment that determine the success and failure of local economic development (LED at three basic levels including; International, national and local environment and the potential of the territory which can be briefly discussed below.

### **International Environment**

The international environment can influence success of LED in two primary ways. First, international markets, trade, and investments can shape the opportunities and threats faced by localities. LED projects that ignore relevant trends outside the locality run the risk of developing strategies that do not materialize on potential opportunities or fail to address important threats. Secondly, non-government organizations (NGOs) and international organizations in which most African countries including SSA are lacking may also play a role in the LED process in terms of initiating and (co-)financing a project as well as providing technical assistance and training (Rodriguez-Pose and Tijmstra, 2009). The involvement of international organizations supports the spread of LED approach to areas or countries where national policies are not conducive to the approach. In addition, these organizations have an important role to play in filling local capacity gaps. However, localities that start a LED project on the basis of short-term external support, whether international or domestic, will need to work hard to internalize the process and find alternative sources of finance in order to ensure the long-term sustainability of their LED projects.

### **National Environments**

National environment including decentralized governance, national policies and legal framework also have an important role to play in promoting economic growth and employment. By providing localities with the powers and the resources to develop targeted projects at a smaller scale, national governments can help communities to exploit potential competitive advantages and increase local employment opportunities in a more successful and sustainable way. Both the quality of governance and the economic situation in a country will have an impact upon how the LED approach can be used and implemented (Rodriguez-Pose and Tijmstra, 2007).

It is now a consensus that the quality of governance has an important effect on the development prospects of a country as a whole and the territories within it (Kaufmann et al., 2008). In addition to the governance setting, the economic environment within which a locality needs to shape its future also influences the development opportunities open to them. Here too, national governments have an important role to play in providing localities with the opportunities and incentives to pursue fruitful and sustainable development strategies (Sinha et al., 2001). At the most basic level, key macro-economic variables, like inflation, exchange rates, interest rates and the extent of government borrowing, shape the development prospects open to a locality. In the same way, the actions of national government also influence these variables and thereby shape the risks in doing business, the cost of capital and the attractiveness of the national market for domestic and foreign investors. In addition, economic policies like deregulation, privatization, and trade and capital market liberalization can create both opportunities and threats for localities. Through taxes, tariffs, and penalties, and subsidies, national government can further influence these opportunities and threats and provide more favorable conditions for some economic activities than others (Ibid).

### **Local Environment**

The success for local economic development not only affected by international and national environment, local factors also play a role in making the LED approach work for a territory or locality (Rodriguez-Pose and Tijmstra, 2009). Participating a variety of local stakeholders and building their capacity is the aim and often a vital part of creating a successful and sustainable LED process. The likelihood of success greatly relies on how local policy environment support working together and enhanced if LED projects take due account of the need for strong collaborations and coordination among actors. The reasons for the need for greater coordination are: first, given that, within the framework of LED strategies, decision-making is taking place within smaller territorial units, a vertical co-ordination of all the institutional actors involved in the development process is required (Hooghe and Marks, 2001 and Vazquez-Barquero, 2003);

Second, the more participatory nature of LED development strategies often rooted in voluntary co-operation requires horizontal coordination between the public and the private sectors, amongst all actors in the local civil society, and of these with the local public institutions which results in increasing attempts to develop

“good governance” practices (Storper, 1997; Turok, 2000; Frisken and Norris, 2001; Wheeler, 2002; Grabher, 2002; Vazquez-Barquero, 2003; Hamilton, 2004). However, although these forms of coordination have grown rapidly with the upsurge of LED strategies, they are difficult to achieve, especially in areas where municipal or local identities are strong and local governments and citizens fear a possible domination by neighbors.

Understanding the local condition is also an essential prerequisite to formulate a balanced LED strategy that is capable of delivering real opportunities for growth and development. Even if time and resources are limited, some data on the local economic structure, endowments, and institutions will need to be collected before implementing LED. Although every LED strategy will be locally tailored and distinctive, (Rodriguez-Pose, 2002) identify policies that are most commonly used for LED success as follows: policies that aim to improve the competitiveness of local firm; transparent policies aimed at attracting new inward investment; programmes and projects aimed at developing local human capital and skill-pool in the local economy and lastly, activities that aim to upgrade the local infrastructure. For the policy to have the desired effect, it will need to balance these development axes with efforts to boost the remaining factors to a level that will allow the local economy to take full advantage of any development policy. The other conditions determine the success of LED is the creation of sustainable LED approach which rests in part on the creation of a strong LED process, creation of sustainable outcome and strong local ownership. Territories will need to think about how to continue to finance the LED effort. In the context of strong decentralization, local governments will benefit from a steady stream of income through grants or the power to raise revenues and capital themselves. In such cases, the financial means to sustain the LED effort over time may be more readily available. Where the LED project is based on a fixed term effort by a national or regional government, international organization, or NGO, localities will need to find options to finance the effort after the original source of funding ends. Strategies used here range from lobbying or pushing governments, NGOs, or international organizations for additional funding to creating partnerships with private organizations (Rodriguez-Pose and Tijmstra, 2009).

Through its focus on cooperation between governments, workers' and employers' organizations, and other civil stakeholders, the LED approach is also distinctively positioned to balance social and environmental issues with the need to create employment and foster economic growth. In order to take advantage of this potential, local stakeholders have to be aware of these interrelated pillars of development and make an effort to ensure that environmental and social protection are treated as integral parts of the economic development process. By balancing economic, social, and environmental needs, successful LED projects can help to create green and decent job opportunities that may bear fruits for generations to come.

## **7. Governance and National Policy Environment for LED Implementation in Ethiopia**

As discussed above, national environment in which LED take place has important role in promoting economic growth and employment in localities. Especially, 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 influence both private sector and civil society. In the same way, economic policy environment affects the opportunities and incentives to pursue productive and sustainable strategies (Rodriguez-pose and Tijmstra, 2007). The purpose of this section is therefore, to examine whether the decentralization governance framework and national policy environment of Ethiopia support and have linkage with LED implementation and practice.

### ***7.1. Decentralization Governance Framework and Opportunities for LED Implementation***

Following the down-fall of command economic system in Ethiopia in 1991, the scope of development programs has been extended to include the role of non-state actors in economic activities. However, despite some positive progress and continued effort towards enhanced involvement of relevant stakeholders in the development process, the role of non-state actors in decision-making/planning process is still minimal in the country (Ministry of Work & Urban Development, 2006).

That means, though participatory development in the country has a constitutional basis, the participation of non-state actors in the development process of the country is still at infant stage. For instance, as stipulated in article 89(6) of the FDRE Constitution, “Government shall at all times promote the participation of the People in the formulation of national development policies and programmes; it shall also have the duty to support the initiatives of the People in their development endeavors”.

The decentralization governance framework in Ethiopia which is emanated from the current constitution allows sub-national governments to participate in development process. The decentralization framework takes place in three phases. The first phase of decentralization governance which started from 1991 to early 2000 G.C, devolve power from center to regional states featured stability and ethnic federalism as a central issue.

The Constitution authorizes each regional state to draft, adopt and amend their own constitutions, thereby allowing them to use this constitution to design and adopt a system and structure of local government fitting to its circumstances (FDRE Constitution, 1995). Article 50(4) of the Constitution requires the regional states to grant adequate power to lower tiers of government to enable the people to participate directly in development processes. In addition, the regional governments have given the authority to establish state administration, formulate and execute economic, social and development policies, administer 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 given significant fiscal authority, both in expenditure responsibility and revenue collection powers (FDRE, 1995).

The second decentralization phase which started from the end of 2000 to 2005 national election devolves power to woreda/district level was directed more at the goal of development and democracy, of course as evidence shows it was imposed by national government without the consent of most regional governments (Dickovick and Tegegne, 2010 cited Tegegne et al., 2011). As per this framework, the woreda governments have given more power and authority. Though provisions vary modestly across regional states, each woredas are the key autonomous self-governing units to which power and resources are devolved. A woreda is also empowered to prepare and decide on economic and social service plans for its territorial area. In addition, Woredas are assigned certain tax bases though many of them suffer from vertical imbalance forcing them to depend on regional government to cover most of their expenditure requirements (Tegegne et al., 2011).

The third phase of decentralization policies which started from the end of 2005 onwards, shifted its focus from rural to urban areas. Some people such as Lidetu (2002 cited in Ayele, 2014) associate this policy shift with 2005 national election in which the ruling party (Ethiopian People's Democratic Revolutionary Front, (EPDRF) suffered harsh defeat in a number of cities, losing, for instance, all the seats in the Addis Ababa City Council to the opposition. From this time onwards, many regional governments resorted to reforming their municipalities by enacting municipal legislations that define the legislative system and 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/strong-council 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 appointed by the city council from council members and serves often as a chair of the council. This system gives the council more weight than the executive. This system is also referred to as "parliamentary system" (Yilmaz et al., 2008). However, in practice, strong mayor is practiced in most cities of the country in which mayor become dominant and the maker of everything with the jurisdiction, i.e., plays both governance and management function.

The city, among others, has given 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, justice, security, trade and industry and other while municipal functions include solid waste collection and disposal, drainage, sewerage, urban roads, water, street lighting, vital registration, fire protection, sanitation etc. These different functions are executed by different offices organized under the office of the mayor. 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.

Though sub-national governments are formally given power and authority, in practice however, all levels of government in Ethiopia are controlled, directly or indirectly, by one party. i.e., the Ethiopian Peoples' Revolutionary Democratic Party (EPRDF) in which the party changed to prosperity Party (PP) in 2020 by excluding Tigray people Liberation Front (TPLF) which was one of the former members of the front after Prime Minister 'Abiy Ahmed' came to power. Not only does the party control all levels of government, it has a highly centralized decision-making system founded on the principle of 'democratic centralism' (Ayele, 2014).

### **Opportunity for Planning and Implementing LED**

The aforementioned discussion indicates that despite its practice has been limited due to the control of all levels of government system by party's principle of democratic centralism, the decentralized governance framework formally allows local governments the authority and autonomy to undertake social and economic

development. This is ascertained by constitutional provisions. The country's decentralization governance thus has created opportunities for local governments to determine their future despite local governments lack real autonomy in practice. In other words, though the decentralized structure provides an enabling environment to undertake LED in Ethiopia, facts on the ground does not indicate that the decentralization governance framework in the country has put the right institutional framework in place for effective LED promotion at local level.

## **7.2. National Development Plan and Policies and Opportunity for LED Implementation**

### **7.2.1. Introduction**

There is no separate LED legal framework in Ethiopia despite there are different pro-LED policies and activities in the country. The Ethiopian government's commitment to LED instead manifested in its overarching series five-year plans including Plan for Accelerated Sustainable Development to End Poverty (PASDEP) from 2005/06-2009/10 and Growth and Transformational Plan (GTP) (I & II) from 2010/11 -2014/15 and 2014/15-2019/20 respectively. The PASDEP (2005/06-2009/10) builds on achievements pursued and challenges faced during Sustainable Development and Poverty Reduction Program (SDPRP) (2000/01-2003/04) while the GTP (2010/11-2014/15) builds on the achievement and challenges of PASDEP (2005/06-2009/10) which in turn has succeeded the SDPRP (2000/01-2003/04). The plans had an overall objective of attaining broad-based, fast and equitable economic growth, people-centered as well as to pave the groundwork for the attainment of the MDGs and reducing poverty (MoFED, 2010). These are envisaged to be achieved through strategic pillars and focuses mainly on macro and sectoral policies particularly; agriculture, the industrial sector, regional development framework, urban development policy, MSE strategy (UCLGA and LEDNA, 2016) and the alignment of these policies with LED implementation are given emphasis in this paper. The synergy and inter-linkage among the different components of the plans and LED are discussed below:

### **7.2.2. Agricultural Development Led Industrialization policy and LED**

Agricultural Development Led Industrialization (ADLI) has been chosen as government growth strategy 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). The focus of agricultural development strategy was on smallholder farmers that are predominant in rural areas with greater weight given to crop production (Ibid). During PASDEP (2005/06-2009/10), the direction of agricultural development shifted to market-oriented strategy that will be attained through construction of roads connecting farms to market centers; development of agricultural credit market; the improvement of specialized extension services, and the promotion of specialized export crops (spices, flowers, fruits and vegetables). The GTP (2010/11-2014/15) also pointed out the shift of agricultural strategy to production of high value crops with a focus on high productivity areas, intensified commercialization of agriculture, and support for large scale commercial agriculture through irrigation development. The scaling up of the best practices of the model farmers is the key to increase production and productivity (FAO, 2010). To complement this, the strategy provides intensive support to increase private investment in large commercial farms.

#### **Opportunity for LED Implementation**

The aforementioned reveals that the actions of LED are aligned with agricultural development strategy of PASDEP and GTP since LED will be effective if it is based on major source of growth of the economy which is agriculture.

Especially, GTPs to expand agricultural production through irrigation development can be complemented with the LED programs as the latter can organize enterprises which can supply pipes, pumps and other irrigation equipment though there is limitation in practice. The plan 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 fertile areas as in growth corridors will be benefited from massive increase in agricultural production which will let enterprises to be involved in the value chains of diverse products.

### **7.2.3. Industrial Development Strategy and Opportunity for LED Implementation**

Industrial Development Strategy identifies major areas of interventions required to accelerate the growth and development of the selected industrial sectors and enable them contribute their share to Ethiopia's vision of becoming one of the middle-income countries by the year 2025. One of the core areas and emphasis of the strategy to achieve its goal is the development of business enterprise and entrepreneurship program.

The business enterprise and entrepreneurship Development program component of the strategy consider SMEs as engine for development and job creation (FDRE Ministry of Industry, 2013). In addition, this program of the strategy also focuses on the development of entrepreneurship and enterprise cultivation. Moreover, the strategy also considers the development of private enterprises and flourishing of entrepreneurs as an engine of the envisioned growth and transformation. Ensuring conducive business environment, availing competent human resource and developing and providing institutional support are some of the important strategies identified to implement the business enterprise and Entrepreneurship Development program component of the industrial development strategy (FDRE Ministry of Industry, 2013).

### **Opportunity for LED Implementation**

As clearly indicated in discussion above, industrial development strategy of the country set direction for LED implementation since it focuses on enterprise development and creation of decent jobs which is also the central objective of LED. In addition, the strategies identified to implement the program also support and has synergy and linkage with the implementation of LED.

#### **7.2.4. Regional Development Policy Framework and Opportunity for LED Implementation**

The regional development framework is needed because of the presence of regional disparities and the role of regional development policy to control these disparities in the country. The framework has the aims of defining regional development priorities, deciding about the allocation of fund on the federal level and orienting public and private investment. The policy is devised to achieve sustainable regional development, reduce poverty, diminish regional imbalances and strengthen 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 mid-term development (Ministry of Finance and Economic Development, 2010).

### **Opportunity for LED Implementation**

The regional development framework acknowledges the importance of sub-national dimension of development and works towards promoting the same by coordinating resources and actors. LED has also shared the idea of promoting local development, with the intention 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 various localities. 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 could serve as a sunshade and reference points for local authorities to implement LED and realize its objectives at local level despite short of practice due to capacity gaps both from the local government and people.

#### **7.2.5. Urban Development Policy and Opportunity for LED Implementation**

Urban development in Ethiopia received attention compared to the long-standing rural orientation of the government policy since the issuance of urban policy in 2005.

The policy recognizes 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 (Tegegne et al., 2011). 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 (MWUD, 2006). Urban policy mainly emphasizes on micro and small enterprise promotion, housing development, land and infrastructure, social services, urban plans and environment and urban good governance as the main intervention areas to achieve the strategic objective of the policy.

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

- ✚ Reduce urban poverty and unemployment below 20% by supporting micro- and small-scale enterprises and accelerated urban based employment in linkages with rural development and delivery of housing and basic services;
- ✚ Achieve fast growth through the creation of linkages between micro- and small enterprises with medium and large enterprises;

- ✚ Facilitate the growth and expansion of micro- and small enterprises and create a foundation for industrial development; and
- ✚ Promote the economic rural-urban and urban-rural linkages (Ministry of Finance and Economic Development, 2006).

### **Opportunity for LED Implementation**

The aforementioned discussion clearly reveals that the increasing attention given to urban developments in the country is believed to make a significant contribution towards flourishing LED in urban Ethiopia and has intimate relation with urban LED. In particular, the attention given to employment creation through explicit employment generation projects essentially has acquaintances with the objective of LED. The urban policy provides context for urban LED since it aspires to make towns and cities centers of rural and national development. Similarly, the urban poverty reduction component of the urban policy also provides a context within which Local Economic Development can operate within cities and towns.

### **7.2.6. Micro and Small Enterprise Development Strategy and Opportunity for LED Implementation**

The first attempt in the history of the country to establish strategy and institutional framework for Micro and Small Enterprises was with the formulation of the National Micro and Small Enterprises Development Strategy in 1997 (Ministry of Trade and Industry, 1997). The strategy establishes a framework to create an enabling environment for MSE development including defining the purposes, the key components of MSEs support framework, the institutional arrangement, action program and budget. The strategy also identifies a significant process of formalization and institutional development for MSEs and MSE support institutions including the establishment of Federal and Regional MSE Agencies, different financial institutions and loan provision systems.

The primary aim of the 1997 MSEs Strategy framework is to create an enabling environment for small and micro enterprises. Facilitating economic growth and bring about equitable development; create decent jobs; strengthening cooperation between MSEs; providing the basis for Medium and Large-Scale Enterprises and promoting export are the specific objective of the strategy (Ministry of Trade and Industry, 1997). Nonetheless, despite some positive progress, the strategy did not attain the expected objectives due to various factors. For instance, there was insufficient meaningful government support in terms of recognition and access to finance and skills required for operating small businesses and enterprises profitably and efficiently. As a result, there was a consensus that further institutional and resource interventions were necessary if the sector was to contribute to the country's programme of sustainable development and poverty reduction (Tegegne and Meheret, 2010).

To mitigate the implementation gaps of the 1997 MSE strategy and improve the sector performance, a task force headed by the Ministry of Urban Development and Construction (MUDC) and the Federal Micro and Small Enterprises Development Agency (FeMSEDA), published a new strategy for the development of MSEs in 2011 (MUDC, 2011) with the vision to create a competitive MSE sector that lays the groundwork for industrial development. To realize the identified vision, three main 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.

Various development support frameworks were formulated in order to implement the development directions set in the strategy and to create enabling condition by solving problems of the past year. The strategy has also defined three stages for the development of enterprises involved in these areas including, (i) Start-up, (ii) growth and (iii) maturity and has developed a specific set of interventions and support packages for each stage. The main 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. But, despite effort made by the government to support the enterprises, transition from Micro to Small and then to Medium Enterprises in the new strategy is still rarely happening which makes the onlooker to equivocate the success of the Micro and Small-Scale Enterprises (MSEs) development strategy.

With respect to human resource development and technological improvement, the strategy identifies Technical and Vocational Education and Training (TVET) institutions to play the key role and serves as a center of technology transformation. The role of TVETs to identify and produce import substitute items as a sample and transfer technologies to MSE which is also part of the 1997 strategy repeated in the 2011 MSEs strategy.

To address challenges related to financial services, the strategy encouraged all stakeholders engaged in MSE, to accumulate their own savings and contribute to their start-up initial capital (20% of the start-up 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.

To resolve the challenges 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 improve graduation from small to medium level enterprise (MicroNed, 2008) though the strategy did not show progress in terms of graduating enterprises from small to medium. The new strategy also 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.

The strategy also proposed 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 the Federal Micro and Small Enterprise Development Agency (FeMSEDA), and strengthen implementing institutions at regional level. The aims of industry extension 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 (MSE strategy manual, 2011).

### **Opportunity for LED Implementation**

As it is possible to reveal from the discussion above, the MSE policy provides a setting for LED MSE development and employment creation components despite there has been limitation in practice. According to World Bank (2002), the objective of the LED intervention is to generate employment, reduce poverty, encourage private sector development, and foster rural-urban linkages. These same objectives are indicated in the MSE strategy. This shows that the MSE strategy supports and has strong synergy and linkage with LED implementation.

MSE strategy also provides both institutional structure and incentives systems in the operation and implementation of MSE programs. Both MSE policy and LED emphasize creating new start-ups and supporting the existing enterprises; encouraging local business growth; improving the local investment climate; promotion of inward investment; provision of both hard and soft infrastructures through training and capacity building; empowering beneficiaries and developing 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 envisioned to be implemented in the MSE strategy. This clearly indicates that the MSE component of LED is the basic tool for achieving MSE policy goal in different localities. Similarly, MSE strategy also provides a strategic direction for LED which provides opportunity for the LED program to re-focus its enterprise development strategy based on competitiveness and entrepreneurship.

## **8. Conclusions and Areas for Further Study**

### **8.1. Conclusions**

Local Economic Development (LED) has gained relative importance in both the global north and south as feasible option to traditional top-down development approaches that have generally been not successful in creating significant and sustainable development at the local level. But the likelihood of success of LED initiatives and its ability to create economic growth and improve the life of local community highly relies on the presence or absence of enabling environment and potential of the territory and place-specific conditions where the LED takes place.

In most Sub-Saharan Africa outside the more well-resourced and capacitated centers, the absence of these enabling environment likely to limit the ability of local institutions to develop and implement LED strategies. Taking into account these factors, LED can indeed be a complement, if not an alternative, to existing development strategies in the SSA context including in Ethiopia. The decentralized governance framework of Ethiopia formally allows local governments the authority and autonomy to undertake social and economic development despite its practice has been limited due to the control of all levels of government system by party's principle of democratic centralism and thus, local governments lack real autonomy in practice. In other words, though the decentralized structure provides an enabling environment to undertake LED in the country, the reality on the ground does not suggest that the decentralization governance framework in the country has put the right institutional framework in place for effective LED promotion at local level.

In addition, the different macro and sectoral development policies implemented in the country also believed to pave the way and make significant contribution towards flourishing LED despite most are short of practice.

## 8.2. Areas for Further Study

This study basically discusses whether the decentralization governance framework and different national policy environment support the implementation of LED in Ethiopia. The regional and local environments and potentials of localities where LED takes place also determine its success. In other words, the presence/absence of hardware, software, and org-ware factors at local level also matters and has an influence on the likelihood of success of LED strategies. So, study could be carried out on the existence or absence of these enabling environments at local (both rural and urban) level before implementing LED as a development strategy in the country.

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