

## LOCAL ECONOMIC DEVELOPMENT FOR AN INCLUSIVE AND SUSTAINABLE DEVELOPMENT IN ETHIOPIA: CHALLENGES AND OPPORTUNITIES

MISGANU GABAYO

Misganu2050@gmail.com

PhD Scholar, Department of Public Administration and Development Management

College of Business and Economics, Wallaga University, Nekemte, Ethiopia

### Abstract

---

Local economic development (LED) is one of the development frameworks that enable and encourage stakeholder participation, including the private and public sectors, within defined geographical boundaries, empowering the joint design and implementation of community-based, locally accepted development strategies by utilizing local resources and comparative advantage in the global context. The final objective of the local economic development strategy is to create decent job opportunities to benefit local people and stimulate local economic activity, which is the basis for regional development and stability. The crucial element of local economic development is its focus on applying indigenous knowledge, techniques, and policies to harness the potential of local people, institutions, and resources. Ethiopia has been practicing local economic development since 2009 in different phases, with a focus on its potential for eradicating poverty in rural areas. Therefore, this paper aimed to investigate the challenges and prospects of LED during its implementation and subsequent practices in Ethiopia, in line with examining the genesis, theoretical and empirical background, and the rationales for LED policy, strategies, approaches, actors, frameworks, etc., both generally and specifically in Ethiopia. Methodologically, the research used critical secondary data source reviews. Accordingly, the possible opportunities for implementation, along with their applications and challenges from different perspectives, such as policy, actors (including local people), financial and technical areas, and administrative values, were carefully reviewed.

**Keywords:** Local Economic Development, Stakeholder Engagement, Sustainable Development, Indigenous Knowledge

---

### 1. Introduction

Seems the issues of local economic development are nothing new, as they must always have existed; however, they were not on the political and development agenda nor adequately recognized in traditional economic thinking and developmental frameworks until recent decades (Zentrum, 1993; Ökonomie, 1994; Birkhölzer, 1999). However, there are two main approaches in the economic development arena over the long term: micro- and macroeconomic approaches. The central focus of the microeconomic approach is the economic behaviour of enterprises and other entities. In contrast, the macroeconomic approach focuses on the national economy and, increasingly, on the global level. These are the two economic development approaches that

existed until recent decades. However, in both economic development approaches, entities such as communities, neighbourhoods, localities, and regions were not considered, nor were their agencies, nor was the accumulated application of indigenous knowledge and techniques. Although this might sound strange again, scientific efforts specifically designed to improve the economic performance of neighbourhoods, communities, localities, or regions were not considered important or necessary (Benington, 1986). Therefore, this paper aims to discuss the application of local economic development for inclusive and sustainable development in developing countries like Ethiopia, from its challenges and opportunities throughout its implementation, from the government policy and

strategies, from the LED actors, including the local community, the comparative advantages of LED for the local people's economic improvement, etc., since 2009 GC.

## **2. Meaning and Concepts of Local Economic Development (LED)**

The debate over the meaning of the term "local economic development" is an ongoing battle of ideas and a struggle among academic communities and authorities (Rogerson, 2010). The battles over the meaning of LED and the lack of a common definition stem from how the concepts are perceived in the field of development by authors and development agencies. Despite such controversy, various authors and organizations have attempted to define the term 'local economic development'.

Helmsing & Egziabher (2005) defined Local economic development as "the process of establishing partnerships among local private sectors, public-based entities and local government structures partnering to create decent job opportunities, protect and manage the existing resources and synergies of the local economic development of a defined territory. This definition demonstrates that LED initiates and mobilizes concerned local economic development agents and necessary resources through dialogue and strategic joint actions among the agents.

On the other hand, the International Labour Organization defined LED as a participatory development process that creates partnership arrangements between the main private and public stakeholders, enabling the joint design and

establishment of a common developmental strategy with the aim of equal benefit from comparative advantage in the global context (ILO, 2006).

Definition of the local economic development according to the World Bank is "the process by which public, business and non-governmental sectors partner to work collectively to create better conditions for economic growth and employment generation to improve the quality of life for all" (World Bank, 2010). As per this definition, LED initially aims to establish a favourable climate for local businesses, to create and promote sustainable, fair, locally oriented competitiveness, improve incomes, retain jobs for local communities, and build institutional capacities and capabilities at the local level, which enable and attract more investments.

Another interesting definition of the term local economic development is that of Birkhölzer (2005), which focuses on both descriptive and analytical perspectives. Accordingly, from a descriptive perspective, the author defined LED as encompassing all economic activities at the local or regional level that affect localities. From this perspective, localities are seen as active agents of local economic development, exercising their own rights. In traditional economic thinking, localities existed more or less as places or spaces where others, such as industries, enterprises, investors, and authorities, compete for their own advantages or exploit both human and natural resources. The analytical perspective of local economic development seems very important, but it is not often put into

practice. However, more interesting is the political perspective on Local Economic Development: "It is definitely more than just economic development at the local level"; it is a distinct form of economic development, different from other forms.

The following four interrelated scenarios explicate the term Local Economic Development. The first scenario is "the development from the above". The main actor in this scenario is the state, working from the top down through national, regional, and local governmental authorities and structures. However, local actors, such as local communities, enterprises, and even local government authorities, wait for decisions and resources from the state because they believe the state is entirely responsible for all development and has the power to deliver them. Such an attitude is found in the centralized government, not only in authoritarian regimes but also in strong welfare states. This scenario gradually led to a high degree of dependency on the state or national government by the local government.

The second scenario is "development from outside". It often follows the breakdown of the first scenario, and what they have in common is that the locals (people, enterprises, and local authorities) cannot act on their own. For that matter, outsiders, especially investors, were expected to bring resources (money). This scenario is widely practiced in developing countries; everybody waits for investors. The outsiders create disastrous competition in communities, regions, and even countries, as

outsiders and investors benefit from an inevitable dumping process that reduces wages, lowers prices, reduces taxes, and lowers property prices. Furthermore, communities and local authorities were forced to divert resources to infrastructure to attract investors. In this scenario, the winners are few, and the majority of local people and developmental actors are the losers, and human and natural resources are exploited. Nowadays, such a scenario is widely practiced and flexible. If they find better conditions and/or the situation is changed easily, they move from one place or country to another. In terms of success objectives and sustainability, the outsiders' objectives differ from those of local communities. Therefore, attracting investors and relying on them is a risky business.

The third scenario is "wait and see". The local actors are roughly waiting for something to come from above. Some might see it as a quasi-natural process of selection; others might have resigned because of the failures of the one- and two-scenario scenarios. This scenario promote migration and the migrant (the people) take migration as the solution.

The final scenario is "development from within". This scenario demonstrated that local actors and development agents play a key role in local development. They are the heart of the local development activities and beneficiaries. It starts when local people, local entities, and local governments realize that neither state nor market economies have addressed their interests or solved their critical problems, thereby directing both private and public entities. An interesting

point from this scenario is the need to utilize locally available resources and take advantage of existing opportunities for inclusive and sustainable growth and development. Furthermore, the socio-cultural assets the people hold are commonly better preserved, and their local integration is more strengthened. This is the basic principle behind local development frameworks: local work for local people using local resources (Roberson, 2001).

### **3. Conceptual frameworks of LED**

**3.1 Goal and objectives of LED:** - Evidence indicates that local economic development is a self-help development strategy originated by and for the losers and benefiting marginalized segments of communities, such as women and youths (Kumari and Bhanoo, 2022). The same authors highlighted that it is developed through trial and error, including learning from successes and failures and improving practical experiences from others. Recently, LED has gained attention and is seen as a grassroots developmental approach. It empowers people by instilling and boosting their socio-economic prosperity through the promotion of self-resilience (MAAIF Uganda, 2012).

The goals of LED are: enabling local businesses and local investment centres, supporting the growth of private-sector investment in communities, and encouraging locally generated revenues in the form of direct taxes. As a result, LED helps create a conducive environment for investment, increases household income, and benefits marginalized and disadvantaged groups, ultimately improving households' well-being.

**3.2 The objectives of LED:** The overarching objectives of local economic development practices and promotion are to encourage locally owned economic activities without compromising the sustainability issues and to magnify the livelihood through locally accepted and effective remedies like increasing the opportunities of employment, expanding local based income-generating activities, and capacity building for both required private and community segments. Depending on these points, local economic development program practices can take two prolonged approaches. The first level is local capacity-building to create enabling conditions. At the second level, support is provided to create decent job opportunities for marginalized communities, such as youth and women, through increased investments and targeted economic interventions (UNDP LED assessment report, 2011).

### **3.3 Local Economic Development (LED) as a Development Strategy:**

LED as a development strategy is a relatively recent phenomenon and is not well known or acknowledged in existing economic thinking (Birkholzer, 2007). Through the local economic development framework, local authorities and local development agents strengthened their capacity to utilize existing local resources. The progression toward self-sustainable economic development is a major challenge, while ensuring that all the needs of communities, including marginalized groups, are met is an even greater challenge. To address such challenges, LED has a strategy-driven,

territory-based, locally owned and managed approach primarily aimed at increasing employment and economic growth (UNDP, 2012). Understanding the local economy and identifying opportunities is critical for growth. Decent literature indicates that LED is at the heart of efforts to solve the wide-ranging growth and development challenges, and that ensuring a democratic way of practice and transparency is part of their strategy.

to include in their strategy. Three areas, MSE development, revenue generation and investment promotion were identified as the LED intervention areas in Ethiopia (UNDP, 2012). These three areas were selected for their ability to sustain positive impacts in the local areas and for their strong interrelationships (UNDP LED Assessment Report, 2015).

MSE are the basis for job creation and self-employment at the local level and enable the promotion of industries and the advancement of local economic growth. On the other hand, maximizing local revenue is crucial for local economic advancement, as continuous inflows of capital are required for community-driven development initiatives. The issues of attracting and retaining investment are crucial, as economic progress and dynamism may collapse unless they are addressed.

#### 4. Actors of Local Economic Development

There are active developmental actors in the LED design and implementation process, including communities, their entities, government, non-governmental organizations, and the private sector. Community organizations and their agency are framed by local traditional practices and, increasingly, by local, regional, and national legislation. The establishment of community-based organizations and federations has several advantages in the design and implementation of the LED and in its sustained implementation afterward. The other active and very important actors in LED are local producers and their associations. They are a crucial organ of the local development frameworks. Local government is



**Figure 1:** Illustrative Components of an LED Strategy

Sources: [www.worldbank.org/urban/led](http://www.worldbank.org/urban/led).

Local economic development cooperation would enable the introduction of various strategies to achieve goals. Communities within a regional economy will need to decide which key programs

also an active actor in LED.

### **5. Local Economic Development Practices in Ethiopia**

Despite Ethiopia lack of a of a separate LED framework, the decentralised forms of the regional and central/Federal/ government embarked on following the adoption of the 1995 constitution, attention given to the adoption and implementation of pro-poor policies and activities by the government based on different times and pave the way for the introduction of the LED in Ethiopia (Tessema, 2022). It is relatively late compared to other African countries. The LED program was commenced in Ethiopia with the support of the United Nations Development Program (UNDP) in two phases across different selected localities and towns (UNDP, 2012). Accordingly, the first phase of the program began in 2009 in seven cities, including Mekele, Bahar Dar, Adi-Girat, Assalla, Nekemte, Soddo, and Hawassa, as a pilot study (UNDP, 2012). The major objective of the first phase of the local economic development intervention was to promote market-oriented, pro-poor economic development and inclusive livelihood growth by creating conducive conditions for overall improvement. Ventures selected intervention areas in the selected areas. The local economic development's second intervention step commenced in 2012 and concluded in 2015. In the second phase, the implementation of LED was scaled up in the 27 cities to promote inclusive economic growth and create decent jobs and employment opportunities for youth and women through creating a conducive business

environment and developing the capacities of relevant local stakeholders (public, business and civil society organizations) was the objective (UNDP, 2012). However, the second phase was shut down without a substantial exit strategy and merged with the Entrepreneurship Development Program (EDP) (Defferew, 2022).

### **6. Opportunities for LED Adoption in Ethiopia**

LED stands as the economic solution that best fits for building local assets, strengthening the involvement of local people and actors, and building the community's capacity (UN-Habitat, 2013). It is used as an alternative to the traditional top-down development approach, aiming to generate greater significance and sustainable local development over the long term (Defferew, 2020).

Evidence indicates that the LED program is appropriate and beneficial for Ethiopia (UNDP, 2013). It is seen as the proper weapon to eradicate poverty and foster local economic development. This capacity and benefit marginalized groups like youth and women by increasing income, generating employment opportunities, building capacity, catalyzing the poverty alleviation campaign, and contributing to the overall growth of the region or country.

In Ethiopia, a decentralized form of government and a decentralized governance structure prominently contributed to the implementation of LED. The acceptance by local people and their commitment are seen as crucial steps and major opportunities (UNDP, 2012; UN-Habitat, 2013). On the other hand,

the introduction of pro-poor policies and strategies is opening the way for the successful design and implementation of LED in Ethiopia. The attention given to the program by local government and participating localities, along with their full willingness, interest, and commitment, was considered a major opportunity for practicing local economic development in Ethiopia.

### **7. Challenges of LED from implementation, police, practices, and actors**

Despite some interesting opportunities, challenges from different perspectives exist. In Ethiopia, LED faces various challenges, including LED-focused policy and strategies, challenges related to public-private actors' fair representation and active involvement, and integration problems. While many countries have developed LED-specific policies and strategies to leverage their advantages for local development, Ethiopia has yet to adopt LED-related policies. As a result, the local economic development program was merged with other sectors. During the implementation of local economic development in Ethiopia, there is a lack of integration with potential actors. Literature and assessment reports for both phases of the LED implementation demonstrated a lack of fair representation across community segments and meaningful contributions and participation by local entities. Recent literature indicated that the local authorities and the structure of the local government capacity in assuring and convincing various sectors to encourage their contribution to the economic progress of the locals in a

transparent manner, with the aim of multi-stakeholder involvement, has been one of the main reasons for the successful local economic implementation and alteration in a justifiable manner. In this case, despite the major actors in the implementation of the LED program being supposed to include all concerned stakeholders, specifically the public, private, and civil society organizations (Defferew, 2022). The assumption is that adequate and fair representation and active involvement of these actors ensure sustainability in local economic development, as each actor pools knowledge and skills, their own resources, and the LED partnership philosophy. However, Defferew (2022) highlighted that the public-private-civil society alliance to address development issues is still in its infancy. Local governments are unable to provide an enabling mechanism for the community, the private sector, NGOs, and other development forces at the local level (Tegegne 2014). In fact, this is due to limited capacity to provide proper facilities and infrastructure, financial resources, and updated market information, among other factors, for market improvement. For this reason, community-based institutions and the private sector were limited in their participation, which was seen as a bottleneck. The other challenge highlighted in the review is the weak coordination and collaboration of potential actors (Defferew, 2022). The same author stressed that there were weak relationships and partnerships among the regions, cities, and localities during LED practices. The lack of timely follow-up and crucial technical guidance

is a challenge hindering the successful implementation of the LED in both phases.

During program implementation, sustainability issues are addressed, with a focus on expanding their positive impact and reducing potential technical and financial risks. It helps improve overall acceptance and encourages sustainability by replicating it through a well-designed program.

In this regard, the paper found that initiatives to build capacity, strengthen, and create smooth partnering and dialogue between the public and private sectors, enable business, create enabling conditions, and ensure the active involvement of private entities in the local economic development program needed to be strengthened (UNDP, 2015). It is critical to ensure these initiatives work properly to sustain the program.

Currently, the development procedures and initiatives are state-owned and directed by the federal government. Developmental incentives and state-level direction for the mega projects demonstrate that the importance and applications of LED are being left behind. The key pillar of LED is the “Local Work for Local People using Local Resources”. To realize this LED approach, local economic development actors were currently passive and did not work together. Currently, the development approach of local government and LED actors is to wait for resources and decisions from above, and they facilitate and try to establish a conducive environment for outsider investors.

## 8. Conclusion

Sustainable and inclusive local economic

development is the best way to utilize existing local opportunities (local resources, knowledge, etc.) without undermining the future in the fight against local poverty. Since 1991, Ethiopia has been governed by a decentralized administration, which has paved the way for implementing local economic development initiatives to benefit local people. Therefore, LED is the best alternative for Ethiopia to enhance local economic development by utilising local economic opportunities sustainably and developing local LED actors. Rural Ethiopia is characterized by poverty and a high unemployment rate, with local people extremely vulnerable; hence, the LED strategy, which utilizes local economic development opportunities for local LED actors, is the best solution for poverty eradication and for improving the lives of local communities.

Therefore, this paper discusses the conceptual definition of local economic development (LED), including its goals and strategies. The local economic development practices in Ethiopia were well reviewed in this paper. Based on the research's purpose/aim, different data sources were systematically reviewed, cross-checked, and thematically organized. Methodologically, a secondary data review was used to discuss where and what the challenges and opportunities are for LED implementation and practices to achieve its objectives for inclusive and sustainable development. Hence, the opportunities and challenges of LED practices in Ethiopia from different perspectives were a concern in the discussion section of this paper.

## 9. Recommendations

Local authorities and government structures are responsible for supporting civil society and the private sector in fulfilling their crucial roles.

Ensuring their involvement, equipping them with the necessary roles and responsibilities in the decision-making process, ensuring meaningful contributions, and sharing their roles and mandates to magnify efforts to achieve LED's strategic goals and objectives.

Worryingly, the local economic development practices and programs were financed by donors; however, to sustain and plan for the long term, and to widely practice them, diversifying funding sources is a must. Therefore, authorities and LED actors may have to take on the responsibility of identifying sustained and reliable funding sources, especially from within, to sustain and develop grassroots alternatives to eradicate poverty in the local area. As clearly stated in the discussion section, in addition to the funds obtained from UNDP, creating an investment-friendly environment, mobilizing the community for LED, encouraging the private sector, and strategic planning were also needed as mechanisms to implement the LED program. Capacity building for local actors in its implementation was not overlooked. To do this, emphasis is needed, as capacity building is a foundational activity of the program. Economic advancement is locally acceptable and ensures inclusiveness and an equal share of benefits among the marginalized segments of local communities. This process and its procedures address cross-cutting issues such as increasing capacity building and development, considering

gender disparities, ensuring women's empowerment, human rights and dignity, and livelihoods resilience, and promoting a green economy at all stages of the program's design, implementation, and evaluation. In the local economic development approach, two crucial concepts are on the table. The first is that localities should be at the centre of the expansion of human capital, socio-economic, and physical resources. Secondly, the application of indigenous knowledge, techniques, and local resources (human and organizational) should be the cornerstone of any inclusive, locally oriented development. Therefore, in Ethiopia, the LED practice process should be one in which local governments, communities, and local institutions participate fairly and equally, conserve and save it for the future with a sense of sustainability, and jointly protect and manage their locally owned resources, which helps energize locally owned economic activities.

## References

- Assessment of Local Economic Development (LED) Approach in Ethiopia Tegegne Gebre Egziabher and Richard Clacey. Report Submitted to United Nations Development Programme and Ministry of Finance and Economic Development of the Government of Ethiopia, Final Report 18th, 2011)
- Cunningham, S., & Meyer-Stamer, J. (2005). Planning or doing local economic development? The problems with the orthodox approach to LED. *Africa Insight*, 35(4), 5–14
- Defferew. K, (2020), Governance and Policy Environment for Local Economic Development in Sub-Saharan Africa: Ethiopian Experience, (Public Policy

and Administration Review June 2020, Vol. 8, No. 1, pp. 26-39).

Helmsing, A. H. J. (2005). Governance of local economic development in Sub-Saharan Africa: who are the dancers and do they act “in concert? ISS Working Paper Series/General Series, 408, 1-5.

International Labour Organization. (2006). A local economic development manual for China. ILO. <https://www.ilo.org/media/387431/download>

Local Economic Development for Employment Generation, Peace and Security: Approaches, Tools and Good Practices in the Philippines/International Labour Office. - Manila: ILO, 2007.

Meyer-Stamer, J. (2003). *The hexagon of local economic development and LED in South Africa* (Mesopartner Working Paper No. 2). Mesopartner. Available at [https://www.mesopartner.com/fileadmin/user\\_upload/working\\_papers/mp-wp2\\_hexagon.pdf](https://www.mesopartner.com/fileadmin/user_upload/working_papers/mp-wp2_hexagon.pdf)

Nel, E., & Rogerson, C. M. (Eds.). (2005). Local economic development in the developing world: The experience of southern Africa. Transaction Publishers.

Rogerson, C. M. (1995). Local economic development in the developing world: Editorial introduction. *Regional Development Dialogue*, 16(2), v–xv.