

## *Original Paper*

# Local Economic Development in Ethiopia: Policy and Practice

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### **Abstract**

*Even though the current government of Ethiopia has enacted and implemented various pro-LED policies and started the actual exercise of LED in selected localities since 2009, little scholarly attention has been devoted to the policy and practice of LED in the country. The study fills this gap and contributes to the debates and evidence of local economic development in Sub-Saharan Africa (SSA) based on data obtained through key informants interviews and systematic review of extant literature and documentary sources on the policies and practices of LED in Ethiopia. The result of the study reveals that much work is needed to institutionalize LED practice in the country. The study also highlights that to institutionalize and sustain LED practice in the country, well-articulated LED framework and permanent LED institutions that are well integrated with the overall local government structure are needed.*

### **Keywords**

*Ethiopia, Local Economic Development, Policy, Practice*

### **1. Introduction**

In most developing regions including Sub-Saharan Africa (SSA), Local Economic Development (LED) is advancing and gradually gaining relative importance as an alternative development approach with the objective to decrease poverty, and unemployment & inequality at the local level and address the negative consequences of globalization (Meyer-Stamer, 2008; Rodriguez-Pose & Tijmstra, 2007; Rodriguez-Pose & Tijmstra, 2009; Rogerson & Rogerson, 2010; Marais, 2010; Rogerson, 2010a; and Hampway & Rogerson, 2011). The attractiveness of the concept in these countries also attributed to the collapse of hyper-inflation, vast debt burden, massive currency devaluation, social services, the central government's inability to intervene at the local level, structural adjustment packages, transition to democracy, disastrous effects of global trade, and other related factors (Binns & Nel, 1999; Nel, 2001, 2007; Rodríguez-Pose & Tijmstra, 2007; Mensah et al., 2013a). The importance of LED

throughout SSA is also signaled by the activities of the United Cities and Local Governments of Africa (UCLGA) (Swinburn & Yatta 2006a, b; Swinburn et al., 2007).

In Ethiopia, despite the country's lack of a separate LED framework, the federal and decentralized form of government which was embarked following the adoption of the 1995 constitution, attention given by the government of the country for urban development and the implementation of different pro-LED policies and activities at different times are believed to pave the way for the commencement of LED in the country. While late in comparison to other African countries, the actual LED programs have been officially commenced in the Ethiopia by the support of United Nation Development Program (UNDP) in two phases focusing on cities'/localities' local development though the program overlooks rural territorial development. Accordingly, the first LED intervention program was implemented since 2009 in seven cities including Bahir Dar in Ahmara regional state, Adigrat and Mekele in Tigray regional state, Asella and Nekemte in Oromia regional state, and Sodo and Hawassa in the Southern Nation Nationalities and People regional state as a pilot study (UNDP, 2012).

The second phase of the LED program which was started in 2012 and end up in 2015. During this phase, the LED intervention program was implemented as an up-scaled project in 27 localities (7 existing LED localities and 20 new localities) (UNDP, 2012). Then, the second generation/phase of the LED program was all of a sudden forced to be shut down without a substantial exit strategy and merged with Entrepreneurship Development Program (EDP) (UCLGA, 2016).

However, despite the country has enacted and implemented different pro-LED policies and later on, the actual LED exercise and implementation was launched; there is lack of rigorous and systematic review of LED practice in the country. This study tries to fill this gap and contribute to LED in SSA that is relatively not represented in the existing LED literature (Rogerson & Rogerson, 2010). The study is timely since it will assist policy makers, development organizations and local stakeholders in delivering LED to understand what was attempted and uncover existing gaps in implementing LED program in terms of composition and strength of established institutional arrangement, capacity building, enterprises development to scale-up LED exercise throughout the country. It also serves as a seed and stimulates more scholarly studies in the areas of LED in the country.

## **2. Research Method Employed**

This study employed a qualitative research approach to assess the policy and practice of LED in Ethiopia. The study principally relies on data gathered from secondary sources supplemented with data collected from primary sources. Secondary sources of data were obtained from existing literature, desk review of relevant official documents such as UNDP program document, study papers and examination of the LED strategic plan. Key informant Interview held with officials of Ministry of Finance and Economic Development (MoFED) currently the name is changed to the Ministry of Finance (MoF) who played a coordinating role at the time in the implementation of LED was also important in gathering the required primary data. The author critically subjected these secondary documents together

with primary data 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**

#### *3.1 Meaning and Concepts of Local Economic Development*

Difficulties in the definitions of social science ideas and concepts are neither started today nor going to end now. Thus, LED too is not exceptional as there has been an ongoing battle of ideas and struggle by many authors and authorities over the meaning of the term (Nel & Rogerson, 2005; Rogerson & Rogerson, 2010a). The main reason for the lack of a common definition of the term originates from how the concept has been perceived by various authors in the area. Despite these difficulties, however, attempts have been made to define LED concepts.

For Blakely (1989, 1994), who is one of the early authors 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 or each other to create new jobs and stimulate economic activity in a well-defined economic zone”.

Helmsing and Egziabher (2005) consider LED as a process in which partnerships between local private sectors, community-based organizations and local governments are established to create jobs, manage existing resources and excite the economy of a well-defined territory. As per this definition, LED initiatives mobilize concerned players and the necessary resources; develop new institutions and local systems by way of dialogue and strategic actions.

According to World Bank (2000, 20002, 2006a, 2010) 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.” In this context, LED is primarily about developing a favorable climate for local businesses, promoting local competitiveness, retaining jobs, improving income and attracting investment.

For the ILO (2006), LED represents,

*“participatory development process that encourages partnership arrangements between the main private and public stakeholders of a defined territory, enabling the joint design and implementation of a common development strategy by making use of the local resources and competitive advantage in a global context, with the final objective of creating decent jobs and stimulating economic activity”.*

The working definition of LED in this article which is contextualized from the aforementioned discussion is that LED is the process by which urban local governmental institutions and urban non-state institutions engage themselves, work jointly and enter into a new partnership to reduce the urban poverty, create a better environment for economic growth and manage locally available resources with the objective to improve the quality of life for urban community.

#### 4. Evolution of Local Economic Development

The practice of LED could have existed for a long. However, the concept of LED as a development strategy was relatively a recent phenomenon and not sufficiently acknowledged in the existing economic thinking until recently (Birkholzer, 2005). According to the World Bank (2004, 2009a), LED has gone through three broad developmental stages or waves. Each of the stages has its own instruments and attention. In each stage, practitioners of LED have developed a better understanding of both effective and failed LED programs. The policy and practice of the LED is presently found in its “third wave”. Each fundamental component of LED such as the contribution of local government, private sector and CSOs that are working together to create opportunities to improve the local economy are practiced until the present day despite it moved through the three waves. Again, ensuring inclusive and sustainable economic growth and promoting competitiveness are also concepts that found within all the three waves (Davis & Rylance, 2005; Oduro-Ofori, 2011).

The focus of the first stage of LED which started since 1960 and ends in the early 1980s was basically emphasis on investment in mobile manufacturing and production of agriculture. Investment in infrastructure by providing subsidies, grants and tax reduction and the attraction of foreign direct investment was the central focus of this wave (Kanyane, 2008). The second stage was experienced during the period of the 1980s to 1990s and the focus during the stage shifted towards expansion and retention of existing local business and inward investment as well by emphasizing on specifically targeted sectors. This was attained through supporting business start-up, direct payment for individual businesses, provision of both soft and hard infrastructure (Swinburne & Yatta, 2007; Kanyane, 2008). Third-wave from the late 1990s onwards and during this wave, the emphasis was more on the creation of a conducive environment for the whole businesses by focusing on the creation of partnership and network, supporting the establishment of the business cluster through intensive training and education with the assumption that entrepreneurship will be encouraged (World Bank, 2002; Kanyane, 2008; Kahika & Karyeija, 2017).

According to Helmsing (2003), LED is in its third wave and this wave is also described as: multi-level, multi-sector, and multi-actor by its nature. For him, multi-actor indicates that the success of LED relies on the participation of government, businesses and civil society’s actors while multi-sector implies to the significance of government, business and civil society sectors of the economy in LED. The final point- multilevel- denotes that LED success requires not local initiatives but also considers opportunities and threats of dynamism in globalization.

#### 5. Local Economic Development Approaches and Strategies

Helmsing (2001, 2003) identified three strategic approaches of LED including Community Economic Development (CED), Enterprise Development (ED), and Locality Development (LD).

**Community Economic Development (CED)** also known by the name market critical or pro-poor approach which basically emphasis on reduction of poverty. For Helmsing (2001, 2003), CED is the

process by which the local community builds institutions and collaboration that brought together successful business with other values and interests. The various strategies that are used in CED include training local businesses, empowering women, and developing human resources through intensive training. For Helmsing (2003, 2005), the overall objective of CED is empowerment and self-help, to contribute to employment creation, to excite a sense of belongingness, improve living and working conditions in settlements for the local community. He also underscores that most CED activities in Africa have related to the improvement of housing and settlement upgrading, creation of safety net for the local community, provision of basic service delivery and development of Micro and Small Enterprises (MSEs) programs. Pro-poor LED strategy was pursued by the Ethiopian government in designing and implementing its first phase of LED in 2009.

**Enterprise development (ED)** also known by the name pro-growth or market-driven LED strategy which is growth-oriented and it basically emphasis on supportive and creation of competitive business conditions, the attraction of high profile businesses and investment, provision of institutional assistant for a competitive sector of the economy, the introduction of incentives for the local economy to retain existing businesses and expansion of new businesses (Bond, 2002; Rogerson, 2009; Ingle, 2014). This strategy was adopted by Ethiopia in implementing its second phase of LED in 2012. The different interventions in Enterprise Development (ED) strategy include 1) pro-globalization ( export promotion, the attraction of FDI, sister city programme, export promotion) 2) locational (enterprise zone, industrial parks, enterprise zone and general tax incentives) 3) entrepreneurial merchant ( participation in equity, development of local corporations and business incubators) 4) general business (tax incentives of target businesses, provision of venture capital) 5) human resource (initiatives for human capital and provision of employment training) (Clarke and Gaile cited in Rogerson, 2000 & Tegegn, 2011).

**Locality Development (LD)** is LED strategy that combines both community economic development (ECD) and Enterprise Development (ED). For Meyer-Stamer (2005) LD is of a longer horizon than ED and CED. He confirms that LED involves a clash of cultures like the culture of businesses that basically in a very short time and culture of planners, who are long-term project thinkers. Meyer-Stamer (2005) further underscores that the LD planning aims is to maximize the LED positive externalities to minimize disagreement and thus, improve the attractiveness of localities such that LED objectives such as poverty reduction would be realized.

In most SSA including Ethiopia however, pro-poor LED strategies are relatively prevalent and an instance where both pro-market/ or pro-growth and market-critical/ or pro-poor dimensions of LED approaches properly combine are rare. Pro-poor LED strategies generally emphasis on survival, self-reliance, and alleviation of poverty instead of increasing competitiveness, improving the local economy and searching for market niches (Binns & Nel, 1999).

- **Why Local Economic Development in Developing Countries?**

Despite the fact that interest in LED strategies to development originated in North America and Western Europe (Blakely, 1989; Harvey, 1989; Clarke & Gaile, 1998), it was also subsequently

diffused to another worlds for reasons not much dissimilar with that of developed nations. Alongside other development initiatives, developing countries also gradually started to realize that the traditional top-down strategy is not creating the intended outcomes. As a result, Local economic development as a development approach introduced in the early 1990s in certain developing countries including SSA as a bottom-up development approach with the assumption that it would ignite the development and growth of the local economy. During this time according to Harvey (1989), local economic development has become the most influential and attractive policy that was most popularized and promoted in a number of developing regions including Africa. Especially, the Republic of South Africa is among the countries in Africa that have successfully implemented LED. Pervasive decentralization and advancement of globalization during the 1990s would lead to the spread of local economic development ideas from developed regions to developing regions (Rogerson, 1997; Rodriguez-pose et al., 2001; Helmsing, 2002; Nel & Rogerson, 2005; Gomez & Helmsing, 2008 cited in Rogerson et al., 2010).

In most developing countries including SSA, LED is also advancing and gradually gaining fame as an alternative development strategy among organizations with the objective of reducing poverty and inequality of local communities and to deal with the negative impact of globalization (Meyer-Stamer, 2006; Rodriguez-pose & Tijmstra, 2007; Rodriguez-pose & Tijmstra, 2009; Rogerson and Rogerson, 2010; Marais, 2010; Rogerson, 2010a; Hampwaye & Rogerson, 2011). Factors such as the collapse of hyper-inflation, vast debt burdens, massive currency devaluation, social services, the effective inability of central government to intervene at the local level, structural adjustment packages, disastrous effects of global trade, the transition to democracy aggravate the situation in these countries (Binns and Nel, 1999; Nel, 2001; Mensah et al., 2013a).

Rodriguez-pose and Tijmstra (2007) also stated that the emergence of local economic development in Africa in general and more specifically in SSA is attributed to acute poverty and the perseverance problems of slow economic growth together change in economic situations both nationally and internationally and the inability most national governments to intervene local level. According to Kahika and Karyeija (2017), different LED strategy initiatives specifically, the 1986 to 1990 significance program implemented by the Organization of African Unity in 1985 to restore the economy of Africa; the new collaboration and partnership for African Development and the 1980s Lagos action plan have been attempted in order to reverse local challenges in Africa. According to Nel and Binns (1999 cited in Mensah et al., 2013), the significance of local empowerment combined with dependency on local initiative and potentials are also some of the vital features of local economic development initiatives of Africa.

In addition, Meyer (2003) identify the two major causes attracting third world regions including Africa to adopt local economic development values includes: 1) the pursuit of decentralization and the responsibility of encouraging economic development at lower levels of government and 2) problems of poverty and unemployment at the local level have provoked questions about the capacity of national government and its centralized industrial policy to solve local needs. He also confirmed that the

influence of donor agencies (specifically, WB, ILO, UNDP) and GIZ in penetrating and propagating LED in developing countries as an alternative development strategy would not be undermined (Meyer-Stamer, 2003, Mensah et al., 2013a).

For Helmsing (2003), liberalization policy and structural adjustment program, pervasive decentralization, impacts of globalization and ideological dissatisfaction with central-state-led development were the main reasons for the emergence of local economic development as an alternative development in Africa since the 1990s. Similar to other developing countries especially in the past three decades, SSA also greatly affected by reduced control of state and decentralization in an age of rapid globalization (Nel, 2007; Rodriguez-pose & Tijmstra, 2007) and thus, LED as a development strategy has been grown as a response to these challenges.

The importance of local economic development throughout SSA is also signaled by the functions of the United Cities and Local Governments of Africa (UCLGA) (Swinburn and Yatta, 2006a, b) Swinburn et al., 2007). Since national economic policies are no more adequate for achieving sustainable growth in the continent, the association identifies LED as one of its main priority areas for the period 2006-2015 to attain its “mission to build African unity from within and promoting development at the grass root level” (Swinburn et al., 2007).

Though developing countries adapt LED for the indicated purposes, the success story of LED as an alternative development in all developing regions in including SSA is not the same. Except South Africa, the practice of local economic development strategies is limited in Africa, specifically, in SSA. Reviews of the status of LED within local government areas in the developing countries indicates that formal LED in contrast to community-based variations is still in its infancy and limited local governments are engaged in LED in the current time (Nel, 2001). In case they exist, initiatives most of the time are limited to project level, aimed at poverty reduction by overlooking the dynamism and economic competitiveness aspects of LED approaches (Rodriguez-pose & Tijmstra, 2007). Ethiopia where this study is conducted is not exceptional.

- **Pro-Local Economic Development policies in Ethiopia**

Even though there is not yet a separate LED legal framework in Ethiopia, different pro-LED policies and activities have been enacted and implemented in the country. The commitment of the current Ethiopian government towards LED evidenced in its all-embracing series of five-year plans including the Plan for Accelerated for Sustainable Development to End Poverty (PASDEP) from 2005 to 2010 and Growth and Transformational Plan (GTP) (I & II) from 2011 to 2015, and 2015 to 2020 respectively. In this case, each subsequent five-year plan builds on the achievements and challenges of the previous plan. For instance, the PASDEP (2005-2010) builds on achievements pursued and challenges faced during the Sustainable Development and Poverty Reduction Program (SDPRP) Sustainable (2000-2004). In the same way, the Growth Transformational Plan (2011-2015) builds on the attainment and problems of PASDEP (2005-2011) which in turn has succeeded the SDPRP (2000-2004). The overall objectives of these successive plans were to attain a comprehensive, rapid, people-centered and

equitable economic growth as well as to pave the groundwork for the attainment of the Millennium Development Goals and reducing poverty (MoFED, 2010). These are intended to be realized through strategic pillars and emphasis mainly on macro and sectoral policies particularly; the industrial sector, regional development framework, urban development policy, MSE strategy (UCLGA and LEDNA, 2016). Some of these macro and sectoral policies that are pro-LED by their nature will be discussed in this section.

### **Micro and Small Enterprise Strategy**

The formulation of the MSEs Development Strategy in 1997 establishes a legal framework to set an enabling business condition/environment for the development of micro and small enterprises (MSEs) including identifying goals, the institutional arrangement, the basic elements of MSEs support package and framework, program action and budget. In addition, the 1997 MSEs strategy also identifies the necessary steps and process of institutional development for MSEs and different support institutions including the formation and establishment of different financial institutions and loan provision systems, federal and regional MSE Agencies (Ministry of Trade and Industry, 1997).

The central aim of the 1997 MSEs Strategy framework was to create a conducive and appropriate environment for MSE. Creation of decent job; strengthening co-operation between and among MSEs; facilitating for the promotion of economic growth and equitable; promoting export and provision of a basis for the development of Medium and Large-scale enterprises were some of the specific objectives 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 limited government support in terms of acknowledging the program, access to finance and skills needed for the operation of MSEs efficiently and profitably. As a result, there was a consensus that if the sector was to contribute to the country's program of development and poverty reduction, more institutional and resource intervention were necessary (Tegegne & Meheret, 2010).

To mitigate the implementation gaps of the 1997 MSE strategy and improve the sector performance, a new strategy for the development of MSEs was established in 2011 by the task force established and coordinated by the Ministry of Urban Development (MUDC) and federal micro and small enterprise development agency (FeMSEDA) with the vision to establish MSEs that are very competitive and lays the groundwork for industrial development. To realize the identified vision, three main aims have been identified by the strategy, 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 cities throughout the country.

Different development support packages and frameworks were developed in order to implement the



development directions identified in the revised strategy and to create conducive conditions by addressing the challenges of the previous strategy. The strategy has also defined three stages for the growth and development of enterprises involved in these areas including Start-up stage; growth stage and maturity stage with specific set of interventions and support packages for each stage. The major target and focus areas for the new MSEs strategy were construction, manufacturing, services, urban agriculture and trade.

Despite the effort made by the government to support the enterprises, however, research conducted by Amare and Raghuvamsa (2027) and government official report on the growth of MSEs reveals that 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 MSEs development strategy.

Concerning 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. Identifying and producing import substitution product as a sample and transfer of technologies to MSE was the role expected of TVET. This role was also part of the 1997 strategy repeated in the 2011 MSEs strategy. All stakeholders engaged in MSE were encouraged to accumulate personal savings and contribute to 20% to their start-up capital in order to address the challenges related to financial services. The strategy also required regions and city administrations to build the market place and organize working areas for MSE to reduce their cost of capital investment.

To address the challenges of technology transfer, capital shortage, working place constraints and market problems of MSEs, the strategy suggests the use of a cluster development direction with special arrangements of credit, market and land to be made to facilitate and improve graduation of micro to small, small to medium level enterprises (MicroNed, 2008) though the strategy did not show progress in terms of graduating enterprises from small to medium. The revised 2011 strategy also suggests the formation of “sub-contracting market networks” as well as special support to enterprises working in the export market. Outsourcing, franchising, strengthening sub-contract and out-grower marketing system were also some of the other market development tools identified by the strategy.

The strategy also proposed the establishment of building the capacity of support giving institutions, industry extension services and one-stop services as tools to minimize problems of micro and small enterprises. The aims of industry extension services are to provide support on trade, entrepreneurship, technology transformation and development and to use to tools like KAIZEN to improve the efficiency of the manufacturing sector (MSE strategy manual, 2011).

As clearly indicated in the discussion above, MSEs policy and strategy is pro-LED and provides strategic direction and opportunity for LED programs to refocus on its enterprise development based on competitiveness and entrepreneurship.

### **Urban Development Policy**

Urban development policy enacted in 2005 also another pro-LED policy. The policy acknowledges urban development as a multi-sectoral that relies on the development of rural areas, which needs to consider global competitiveness in its plan and led by good governance (Tegegne et al., 2011). Making cities and towns centers of development is the strategic purpose of the policy which in turn fosters rural development and the overall economic growth of the country. The policy also focuses on the need to more invest on urban communities and helping them to attain and changing their living condition to similar to those middle-income nations (MWUD, 2006). The Urban policy mainly emphasizes on housing development, MSEs promotion, social services, land and infrastructure, urban good governance and urban conducive

environment as the key intervention areas to attain the strategic aim of the policy.

In terms of MSEs, urban development policy identifies various support packages including market place, the market linkage, finance, skills training, and infrastructure and working premises. The MSE 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 (MWUD, 2006).

### **Regional Development Framework**

The regional development framework was also devised by the current government of the country in 2010 to reduce poverty, reduce regional imbalances, achieve regional development and improve and strengthen rural-urban and urban-rural linkages. Specifically, regional development oriented towards reducing conflicts with regional and inter-regional consultation, strengthening national-territorial cohesion, producing spatial organization that promotes long and mid-term development and provision of equal opportunities for all (MoFED, 2010).

### **Industrial Development Strategy**

Industrial Development Strategy formulated in 2013 also identifies major areas of interventions required to speed up the growth and development of the selected industrial sectors and enable them contributes 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 businesses enterprise and entrepreneurship Development program component of the strategy consider SMEs as an 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 the flourishing of entrepreneurs as an engine of the envisioned growth and transformation. Ensuring a conducive business environment, availing competent human resources and developing and providing institutional support are some of the important strategies identified to implement the businesses enterprise and Entrepreneurship Development program component of the industrial development strategy (FDRE Ministry of Industry, 2013).

The aforementioned discussion reveals that the current government of Ethiopia enacted different pro-LED policies before the actual commencement of the LED exercise in the country. However, despite various macro pro-LED policies have been formulated in the country, local economic development continues to be lagging behind and sub-national government and other stakeholders did not get the opportunity to involve in their local economies. Because all levels of government in the country 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 and did not get adequate opportunity to involve the development of their localities. Not only does the party control all levels of government, but it has a highly centralized decision-making system founded on the principle of 'democratic centralism' (Ayele, 2014).

- **Actual Commencement of LED and Its Practice in Ethiopia**

Even though very late when compared with other countries in Africa, the actual LED programs have also been designed and implemented in Ethiopia in two phases focusing on cities/localities' local development though the program overlooks rural territorial development. Accordingly, the first LED intervention program was implemented since 2009 in seven cities including Asella and Nekemte in Oromia regional state; Bahir Dar in Ahmara regional state; Sodo and Hawassa in Southern Nation Nationality and People regional state and Adigrat and Mekele in Tigray regional state as pilot study (UNDP, 2012). The main purpose of this first LED program intervention was to promote market critical or pro-poor economic growth and sustainable livelihoods by creating an enabling environment for business development, investment, and targeted economic interventions in the cities (UNDP, 2012).

The second phase of the LED program was started in 2012 and end up in 2015. During this phase, the LED intervention program was executed as an up-scaled project in 27 cities/localities (7 existing LED localities and 20 new localities). The main objective of the second phase of LED program was to promote inclusive economic growth and create decent job/ or employment opportunities for youth through creating conducive business environment and developing capacities of relevant local stakeholders (public, business and civil society organizations) (UNDP, 2012).

These LED programs were financially and technically supported by UNDP with the initial allocation of around 10.5 million US dollar with the coordination of the Ministry of Finance and Economic

Development (MoFED) currently known by the name Ministry of Finance (MoF) at federal level and the bureau of Finance and Economic Development (BoFED) at the regional level. However, the second generation/phase of LED program was all of a sudden forced to be shut down without a substantial exit strategy and merged with Entrepreneurship Development Program (EDP). After LED merged with Entrepreneurship Development program (EDP), a coordinating unit established within Ministry of Finance was dissolved and Federal micro and small enterprise development agency (FeMSEDA) took the coordinating responsibility at the federal level.

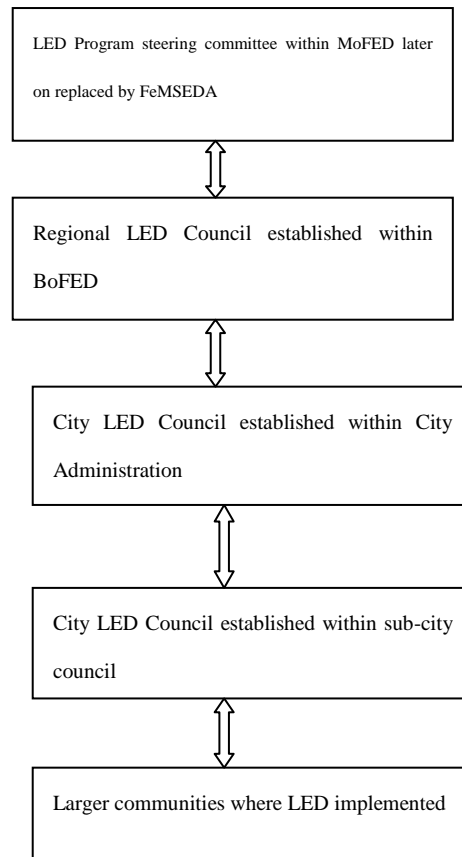
To achieve the LED program objectives of the selected localities, different interventions/projects were identified. Some of these major LED interventions including the establishment of institutions that implement LED program, capacity building for localities, enterprise development and Entrepreneurship development were discussed below.

### **Institutional Arrangements to Implement LED**

As part of the creation of an enabling environment, the LED program has created an institutional arrangement composed of different multi-stakeholders at all levels. The program is implemented at the local level by the coordinating role of the federal government. These arrangements have also a responsibility to approve projects and dispersing funds. Mobilization of local resources that significantly contribute to the sustainability of the program was also the other responsibility of this arrangement. The major actors in the implementation of the LED program had supposed to include all concerned stakeholders specifically, public, private sector and civil society organization. The assumption is that adequate representation of these actors ensures sustainability in local economic development as each actor pools knowledge and skills, own resources and the partnership philosophy of LED as well.

At the federal level, there is a national LED Program Steering Committee to be set up in Addis Ababa; whereas the regional LED Council and Local LED Council were set up or strengthened at the regional and local levels respectively. At the Sub-city/Kebele level, the program has Kebele LED Council to coordinate and manage all the LED activities implemented in the selected Kebeles. The steering committee and each council established at different levels of governments are supposed to include representatives from government, private and civil society organizations.

This organizational structure established to coordinate the implementation of LED in the urban context could be depicted by the following Figure:



**Figure 1. Urban Context**

At federal level

At regional level

City Level

Sub-city/Kebele level

As stated in the LED strategy document, the steering committee at the regional level is expected to provide coordination, guidance, monitoring and evaluation to the city level steering committee. The same committee is also supposed to undertake operational activities of budget disbursement and project approvals. On the other hand, while the city level steering committee serves as a bridge between regional level and kebele steering committee, the local level steering council is a tool to eloquent and channel local needs to steering committee found at city level for decision making.

Though the existence of the steering committee found at all levels and their strong interactions are very crucial for properly implementing the LED program in the localities, evidence reveals that their vertical coordination and relationships are very weak. Especially, according to assessment reports of UNDP (20120, there was a very loose relationship between region and city level steering committee. This is evidenced by the infrequent interaction in which the regional level steering committee rarely meets with the city level committee in addition to lack of capacity to provide technical guidance, coordinate and follow up activities of the city level LED structure.

With respect to kebele and city level relationship, the role of a task force established at kebele level was mandated only with performing recruitment process on the criteria indented and submit the results to the city level steering committee. Here the kebele levels LED structures are not allowed to involve in a decision related to different LED functions in their kebeles. This indicates that kebele level structures are established to serve as an implementing arm of the city level steering committee. The other weakness of the structure is that there was no mechanism put in place to ensure accountability and transparency on kebele level functions.

The domination of government representative steering and technical committee in the LED institutional arrangement was the other limitation observed though it is supposed to involve representatives of non-state actors. Evidence reveals that in most localities, the private sector is not part of the steering and technical committee. In some localities, they have been represented only by heads of the chamber initially but withdrew subsequently. There is also blame in all localities that the government is not willing and ready to involve the private sector in the technical and steering committee. An assessment report by UNDP (2012) also confirms that most of the time, the private sector was not allowed/invited to attend on steering committee discussions and meetings as a result of which they were forced to leave from their being committee membership. On the other hand, the private sectors were also accused by representatives of the government as being not developmental and not willing and ready to solve the needs of the poor and vulnerable community (UNDP Assessment report, 2012).

Similarly, as evidence reveals, almost in all localities, the civil society organizations were not also sufficiently represented in the technical and steering committees. Youth and women associations that are claimed to be created and financially supported by the government were the only civil societies that were allowed to participate in all steering committee found at different levels.

In addition to the absence of non-state actors in LED implementation, there is no easily identifiable LED structure within the system of the local government budget and responsibility. In almost all localities where LED was implemented as a pilot study, LED program and city level annual planning and budget were not well integrated. This discourages the transfer of the LED projects to the system of government. In this case, unless LED is incorporated in the overall city planning and budgeting, it is very hard to observe the integration and cooperation between activities of LED and that of the city-wide development activities. This lack of cooperation and integration between LED activities and the overall development activities of the city can open the door for the LED to remain to continue to be implemented as a project.

Moreover, the other factor that hinders and makes the effective implementation of the LED program to be more problematic with the existing institutional arrangement is that it is an add-on to the existing functions of executives to which they are responsible and accountable.

### **Capacity building as an intervention area for LED**

Capacity building is another intervention area identified for the implementation of LED. The program implementation plan identified two level of projects (Project level I and II) as LED capacity building

intervention projects. While the level I element of the project is wholly dedicated to capacity building of implementing bodies and program beneficiaries at the local level, level II projects were micro-projects which were essentially aimed at improving the income and employability of unemployed women, youth and other vulnerable sections of the society. Especially, level I elements of the LED capacity building project is very critical. Because it creates conducive conditions for the implementation of LED by improving the implementing capacity of implementers and skills and knowledge of beneficiary's as well.

Our evidence indicates that the two-level projects were financially funded by UNDP. While the level I capacity-building intervention was funded with grant provision, level II projects was funded through loan able revolving fund. As clearly shown in the LED implementation plan, in addition to fund obtained from UNDP, creating investment-friendly environment, mobilizing the community for LED and encouraging the private sector and strategic planning were also needed as financial support mechanisms to implement the LED program.

The implementation plan indicates that mobilizing the community for LED, an investment-friendly environment, promoting private sector development and strategic planning are also required as support mechanisms.

Capacity building was principally emphasized on the foundational activities in its first phase of the program. This was basically to build and create awareness as well as to integrate the program within the overall localities development plan. During this phase, different training and workshop were conducted including international field visits to other countries like South Africa that are considered to have more experience and relatively successful in the implementation of the LED program. Steering committee members found at different levels and heads of many sectors took the training and attended the workshops. But, the bad thing according our evidence is that most of those individuals who were participated in the training and workshop leave offices or some were assigned to new responsibility without utilizing the experiences and skills they got that impact greatly the implementation of LED in their localities.

The focus shifted to different direct interventions after micro-enterprise activities started implementation in 2010. The focus during this time was to capacitate beneficiaries through giving basic training in financial and business management at a larger scale. According to evidence, since 2010, around 3000 women, youth and members of vulnerable sections were trained in entrepreneurial and vocational skills training in cities/localities where projects were implemented. But these capacity-building efforts was argued to be inadequate to strengthen the capacity of micro-enterprises and unable to empower and meet their challenges since it is more generic than specific to their needs (UNDP, 2012).

### **Enterprise Development and Employment**

The development of enterprises and the creation of employment was also the other key emphasis of the LED program since it is considered to be the basic entry point of the LED program in the country. The

initial emphasis of enterprise development in Ethiopia was on the start-up of the new enterprises. Later on, it included business retention and expansion. Its primary aim is to establish MSEs and create employment specifically for the vulnerable groups in the localities like youth, women and disabled people.

Evidence indicates that as a result of the enterprise development intervention, the rates of youth unemployment at LED localities were reduced to 50 percent. That means all registered unemployed youth (over 50% women) in LED cities/localities got a job and the income of their families at least increased by 50 percent. In addition, as part of the enterprise development process, more than 5,000 selected unemployed youth (around 50% women) were given training in vocational and entrepreneurial skills through continues training and workshops conducted in the LED localities. Moreover, the enterprise development at the time created employment for about 10,110 groups target beneficiaries (unemployed youth and vulnerable groups) and around 7,715 micro-enterprises were established.

Furthermore, the innovative micro-finance strategy had also initiated as the main component of enterprise development for LED programs that establish and manage revolving loan funds and disburses credit loans to micro and small enterprise beneficiaries that were categorized under level II of the LED program. Evidence reveals that most LED cities dispersed the revolving loan funds as a non-interest-bearing fund or in the form of grant loans. But interest-free loan was criticized on the ground that it has the effect of distorting both the saving and micro-credit environment as well as the market environment of the enterprises itself since it gives opportunities for the selected LED enterprises over enterprises not covered in the LED framework, according to various sources.

As part of supporting enterprise development for promoting an enabling environment, the LED program also established Business Development Resource Centers (BDRC) that essentially provide technical support for entrepreneurial development to small business owners and business associations. There are four key functions provided by BDRC: Business development services (BDS) like provision of appropriate business planning and counseling; market and business development services; job placement and counseling services and skills and knowledge sharing platform-based library.

Evidence showed that UNDP in 2011 allocated considerable budgets of between 700 000 and 1,3 million Ethiopian Birr for the “incubation” stage for the physical establishment of each of the centers. Our evidence also indicates that around 7 networks of Business Development Resource Centers (BDRCs) were set up and functional in each pilot city during the first phase of the LED program and a total of eight more BDRC were set up and functional in eight localities during the second phase of the program. To ensure the sustainability of the center, it is planned to be supported and financed through income generated through the provision of services including office supplies, secretarial, research, training and consultancy despite short of practice.

- **Conclusions and The Way Forward**

Despite the current government of Ethiopia has implemented different pro-LED policies since 1991, yet, there is no separate LED framework in the country. Thus, though the commencement of LED



programs in selected localities of the country is a good step, LED framework is needed to expand and scale-up LED exercises to improve the living standards of local communities and contribute to the national economy as well.

The commencement of Local Economic Development (LED) has prompted awareness and interest among the government at the local level where it was implemented. But, existing LED exercise in selected localities of the country has been run as a project activity and there is no easily identifiable LED structure within the system of the local urban government budget and responsibility. Unless LED structure is incorporated in the overall city planning and budgeting, it is very hard to observe the integration and cooperation between activities of LED and that of the city-wide development activities. Therefore, to institutionalize LED program in the country, permanent LED institutions that are well integrated with the overall city responsibilities and budget is needed.

LED program in Ethiopia was financially relied on donor support, specifically UNDP. But, sustainable LED needs dependable and diversified sources of finance and collaboration. So, as much as possible, localities should search for diversified sources of finance including domestic sources extracted from private, civil society and individual citizens to sustain the LED programs in their areas.

Similarly, the partnership is a critical component for the success of LED. In Ethiopia, however, there is inadequate room and space for non-state actors to fully engage in the overall development efforts in general and in the LED process at localities. Thus, there is a need to strengthen the partnership initiatives between different stakeholders for the sustainability of LED program in different localities of the country.

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