4

The role of local governments in economic policy development

This chapter discusses the role of local economic development policies in Africa. It highlights the need to develop policies targeted to the local context and explains why local governments should play a greater part in supporting economic development. The chapter emphasises the increasingly important role of metropolitan governance in Africa and discusses strategic planning as an instrument for developing coherent policy packages. While it is impossible to develop one-size-fits-all solutions for local economic development policies, the chapter presents five principles around which targeted local economic development policies can be built.

In Brief

The role of local governments in economic policy development

- Cities differ from each other in many dimensions. They play different roles within the national economy, they are specialised in different sectors, their workforces have different skill profiles, they are served by different infrastructure and they have different natural endowments. Economic development policies at all levels of government need to be tailored to the circumstances of each city in order to be effective.
- Local governments are essential actors in economic development in Africa. Ideally, they play a key role in the implementation of national economic development programmes, and they pursue local economic development policies to strengthen economic growth. However, local policies often centre on service delivery rather than on economic development policy. Likewise, national governments do not always recognise the centrality of local governments in implementing national economic policy.
- Developing local government capacity and increasing decentralisation are both indispensable to accelerating and improving the quality of economic growth in Africa. Despite major decentralisation efforts in recent decades, African local governments still have low administrative and fiscal capacity. On average, only 14.1% of staff expenditure in the public sector in Africa is allocated to local governments. Likewise, local governments are responsible for only 11% of all public investment. Not only are these percentages less than half the global average, but they are also much lower than the average in low- and lower-middle income countries outside Africa. Many local governments lack the trained staff and the budget to pursue effective economic development policies. This has a detrimental effect on investments, revenue mobilisation, productivity and on the city's attractiveness to foreign investors. The consequences are felt not only at the local but also at the national level.
- Africa's urban population has been growing by 4.7% annually since 2000. As a result of this rapid growth, cities are expanding into the jurisdictions of neighbouring local governments and are becoming increasingly fragmented. The number of local government jurisdictions creates co-ordination gaps across local governments that make it difficult to establish coherent policies in urban areas. The negative consequences include sprawl, congestion caused by inefficient transport networks, and lower levels of productivity. Metropolitan governance arrangements are needed to co-ordinate policies across local governments within an urban area. Dedicated authorities at the metropolitan level, for instance, can be better placed to develop administrative capacity for specialised tasks such as the planning of complex infrastructure and the provision of public services and utilities.
- Effective strategic planning co-ordinates policies across sectors and ensures policy consistency over time. It helps to define common objectives among stakeholders and to determine policy measures to achieve these objectives. Not all strategic plans are effective, however. Unfunded commitments are a major reason why strategic plans are not implemented. Linking strategic planning to the fiscal decision-making process is therefore indispensable. The value of strategic planning extends beyond the plans it generates. The planning process allows administrations and external stakeholders to learn about effective policies to support the local economy. This builds capacity in the public and private sector. To realise these benefits, administrations should aim to conduct strategic planning internally.
- Local economic development policies need to strike a balance. They need to be aligned with national economic policy priorities, but they also need to be adapted to the local context. While it is impossible to provide a blueprint for strategies that work in every context, five basic principles are useful to bear in mind in building local economic development policies:
  1. **Co-ordinated policy packages** are more effective than isolated initiatives. Successful local economic development policies address multiple dimensions, and help to ensure that all the conditions necessary for developing economic activity are in place. Isolated policy initiatives often fail, because they can rarely remove all the bottlenecks that hold back economic development.
  2. Identifying and utilising a **city's competitive advantages** is a critical function of local economic

development policy. It is particularly important for economically lagging cities. To attract economic activity, cities need to identify attributes that distinguish them from their competitors and to use these attributes in their economic development policies. In many cases, advantages can result from complementarities and synergies with neighbouring cities. Cities should thus consider not only their own strength and weaknesses, but also their situation in the broader national and regional context.

3. **Specialisation** enables cities to generate economies of scale and increase productivity. It is especially important for small and mid-sized cities that lack the economic mass for multiple industries of significant size. However, not all kinds of specialisation facilitate economic development. Specialising in activities that generate value added for the local economy is particularly important for economic development. Cities that develop their own specialised economic profiles contribute to greater diversification at the national level. Most diversified national economies do not exhibit a spatially uniform economic diversity. Typically, they feature many cities with unique specialisations that create a diversified national economy.
4. At the local level, it is easier to stimulate economic development based on **existing economic activity** than to facilitate entirely new economic activities. Strategies that encourage innovation in existing economic sectors and that aim to increase the value added of existing economic activities are more likely to succeed than strategies that aim to attract new sectors. This also implies working with the informal sector to incorporate it into local economic development plans, since it constitutes a large fraction of the economic activity in African cities.
5. **Universities and other higher education institutions** are key actors for local economic development, because they create a skilled workforce and are a source of innovation. Many successful local economic development strategies are designed to ensure that universities and other higher education institutions contribute effectively to local economic development.

Local governments play a key role in economic development

Local governments are important actors in economic development. They are more familiar with the local economy than any other level of government, they are in close contact with local stakeholders, and they can ensure that policies are adapted to local conditions, promote specific advantages and address important bottlenecks. Few local governments, however, use all the tools at their disposal to support the local economy. Further efforts are needed to achieve higher levels of economic growth and well-being in all urban areas.

The importance of local governments in economic development does not mean that national governments have no role to play. National and local governments play complementary roles. Neither level can provide effective support for the economy without the contribution of the other. For example, only national governments can initiate major investment projects, such as the construction of an international airport. However, quite apart from such transformative projects, economic development relies on many small steps, such as the training of skilled workers, the design of an effective intra-urban road network and the efficient allocation of land to firms. Many of these tasks are among the core functions of local governments.

Moreover, national governments rely on local governments to implement many national economic development programmes. Such programmes may be in the field of education, infrastructure development or business development. For example, a programme that provides financial aid to small businesses to support capital investment might be better administered by local governments than by the national government. If it is successful, such a programme can attract tens or even hundreds of thousands of applications. A national administration would be quickly overwhelmed if it had to process all these applications, and it can be more effective if local administrations are responsible for processing them. Moreover, since local administrations are more familiar with local businesses, they may be better able to judge the merit of an application than the national administration.

Many African countries are highly centralised, and their local governments have lower levels of responsibilities and resources than local governments in other economies with similar income levels. Not only does this limit their ability to pursue economic development policies, but it has a negative impact on economic development. Further decentralisation is an important measure for supporting economic growth throughout a country, thus facilitating economic development at the national level.

The high degree of centralisation also needs to be considered in evaluating the possible options. If local governments with weak capacity try to do too many things at once, they may spread their resources too thinly. In such instances, it can be preferable to focus on doing a few things well rather than trying to do everything at once. Before undertaking the activities discussed in this chapter, local governments should thus evaluate the administrative and fiscal resources needed and prioritise accordingly.

The possible ways that local governments can support economic development are extensive, but not every policy intervention is appropriate in every context. This chapter does not aim to provide a blueprint for local economic development policies for governments to follow. Instead, it presents principles for developing local economic development policies and discusses why these principles are relevant. Because the informal sector makes up a large fraction of the economic activity in African cities, these principles must be applied to the formal as well as to the informal sector in order to design effective local economic development policies.

It is impossible in a single chapter to cover a topic such as local economic development policy exhaustively. Readers who are interested in local economic development in Africa are referred in particular to the Local Economic Development Training Series by UN-Habitat and EcoPlan International (2005[1]), which contains guidance for practitioners, and also to the local economic development implementation survey by UCLG Africa (2018[2]), which covers the current state of local economic development policy across Africa.

A territorial approach is needed to increase urban economic development

Cities differ from each other in various dimensions. Their businesses are active in different sectors, and their residents have different levels of education and skills. They have different levels of infrastructure, and the nature and spatial scale of their economic interactions varies. Some cities are close to a large metropolis, while others are important market towns for rural hinterlands or are located close to important natural resources. Others are centres for long-distance cross-border trade. These characteristics, meanwhile, do not remain constant. Given the pace of urbanisation in Africa, cities' economic profiles can evolve rapidly.

The diversity of local contexts and the varying scales of economic and social interactions require a territorial approach to policy making. Policies need to be designed and targeted to the territories that are concerned by an issue, ranging from the neighbourhood to the metropolitan, national and continental level. Different sectoral policies need to be co-ordinated to account for the fact that their effects depend on each other as well as on the conditions in a city or region. Instead of applying sectoral policies uniformly across a country, a territorial approach to policy making thus uses cross-sectoral policy packages at varying geographical scales.

A territorial approach to policy making is not only needed to respond to specific local challenges, but also because the consequences of a given policy can differ strongly from place to place. Take for example the case of a policy aimed at improving the connectivity of poorly accessible towns close to large cities. Two towns in a metropolitan area might meet the conditions for inclusion in such a policy. One town is home to large disadvantaged groups, who are cut off from jobs because they are not easily accessible, which has led to a vicious circle of increasing social deprivation. A second town might be home to well-off residents for whom the lack of accessibility, or seclusion, is in fact perceived as desirable. Improved accessibility could enhance well-being in the first town, but it might reduce it in the second town. A space-blind policy that does not take into account the policy's impact on different cities or regions could result in inefficient investments and might make matters worse in some circumstances.

Local governments are key actors in implementing place-based policies. Their exclusive focus on a city gives them an intimate knowledge of local circumstances and they are often well connected to local actors, such as businesses and educational institutions. By collaborating with each other, local governments can also implement policies across different geographic scales, depending on the policy issue at hand. Local governments are thus often better suited than national governments to targeting policies in the local economic context, identifying relevant stakeholders and co-ordinating actions among them. These advantages become more relevant the more specific to the local context a policy decision is.

Many problems cannot be addressed by local governments alone. Often, different levels of government need to become active in addressing issues that fall within their policy domain. For example, setting up a new system of schools for vocational training might require framework legislation and funding from the national government, while local governments would have to build and operate the schools. Effective multilevel governance is essential for implementing place-based policies (OECD, 2019[3]). Moreover, national governments need to implement place-based policies and territorially differentiated policies, such as national urban policies discussed in Chapter 3 (see also OECD/UN-Habitat (2018[4])).

Even strong place-based and territorially differentiated policies by national governments are only a complement, not a substitute, for the role of local governments. National governments are unlikely to be able to achieve sufficient policy differentiation on their own. Partly, this is a simple capacity issue. National administrations would quickly be overwhelmed if they had to devise specific policies for each city and region in a country. Beyond capacity constraints, informational constraints can be even more important. It is more difficult for policy makers in national ministries to grasp the local context fully than for local policy makers. They usually live in the capital, at a distance from the city in question, they lack local contacts, and their work obliges them to deal with a large number of cities and regions, rather than focusing on a specific place.

Local economic growth calls for decentralisation and capacity development

Local governments can only play their important role if the right legal and institutional frameworks exist and if they have sufficient fiscal and administrative resources. Almost everywhere, local governments have only those powers that are explicitly granted to them by the national government or, in some federal countries, by the respective state governments. Equally important are the fiscal resources that local governments control and the way they raise revenues. Whereas local governments in some countries have the power to raise a wide range of taxes and to take out loans or to issue bonds, they are almost entirely dependent on transfers from the national government in other countries (OECD/UCLG, 2019[5]). Finally, it matters whether local governments can use their powers and resources effectively. Given the comparatively small size of most local administrations, administrative capacity is an important constraint on their ability to conduct effective local economic development policies.

The institutional environment for local governments in Africa is improving

Local governments in Africa operate in challenging environments. They have very low levels of resources and poorly defined roles and responsibilities. On average, the African countries for which data is available spend only 14.1% of their staff budgets on local government. In Benin, the share is 3%. By comparison, the global average for that percentage outside Africa is 29.4% (OECD/UCLG, 2019[5]). Local governments in Africa also face other constraints on basic resources that prevent them from operating effectively, such as shortages of basic IT equipment. In Nigeria, 38% of civil servants in the federal government have regular access to a computer. By contrast, the share of Nigerian local government employees with access to a computer is just 6%, and local governments on average have internet access only on 3% of workdays. In Ethiopia, the percentages are higher, but still low, at 8% and 21%, respectively (Mo Ibrahim Foundation, 2018[6]). Five out of 18 local governments in Nigeria surveyed by the Mo Ibrahim Foundation (2018[6]) even report having no access to electricity. The same report, however, also documents instances of decentralisation that led to improved resource access and better service delivery by local governments.

While resource shortages remain critical, the institutional environment for local governments in Africa has been improving. Only seven African countries had institutional environments that were favourable or somewhat favourable to local governments in 2012, but by 2018, this had increased to 16. Nevertheless, the institutional quality remains unfavourable or somewhat unfavourable in 34 countries, and some countries have actually regressed in their institutional environment

(UCLG Africa/Cities Alliance, 2018[7]). Improvements have been noted in particular in the area of capacity building, as well as in frameworks to monitor and evaluate the performance of local governments. In contrast, the favourability of legislative frameworks has slightly deteriorated, as new constitutions were adapted that are less favourable to local governments, and as planned reforms to strengthen the role of local governments have been postponed.

Further decentralisation is necessary

Despite improvements in the institutional environment, the ability of local governments in Africa to develop and administer local economic development policies is constrained by a lack of administrative and fiscal resources (both in own source revenues and in transfers from higher levels of government). As long as local governments lack the basics of modern administrations, such as information and communications technology (ICT) and the staff trained to use it, they will not be able to establish effective local development policies. Providing the resources and developing the capacity for local governments is thus indispensable. Because administrations learn by doing, even governments with weak administrative capacity should attempt to develop local economic development policies if they have the opportunity to do so.

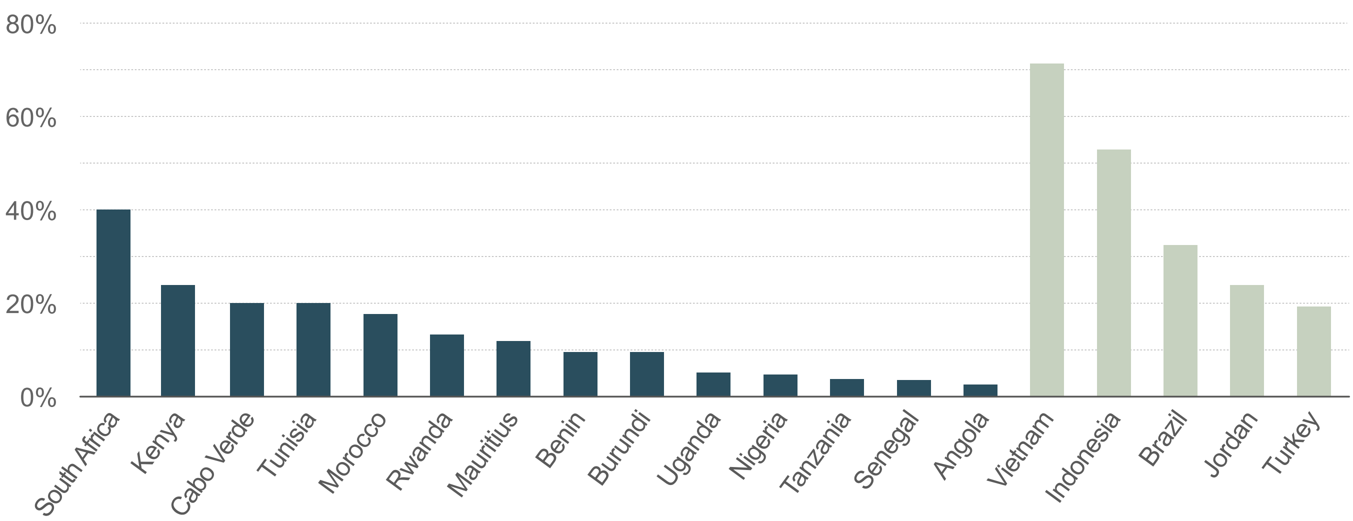
The reason local governments' resources in Africa are so much lower than national governments' is partly due to the fact that wealthier countries tend to be more decentralised than poorer countries (Bodman and Hodge, 2010[8]). Most African countries, however, have an exceptionally low degree of subnational autonomy, even compared to other countries with similar income levels (OECD/UCLG, 2019[5]). Most African countries undertook decentralising reforms in the 1990s and 2000s to strengthen local government (Crawford and Hartmann, 2008[9]). Meanwhile, deconcentration measures were initiated in many countries (Riedl and Dickovick, 2010[10]).[1] Despite these efforts, African countries are still heavily centralised. In the 14 African countries for which data is available, local governments are responsible for only 11% of all public investment (Figure 4.1). In contrast, local governments in low and lower middle-income countries outside Africa are responsible for 34% of all public investment, which corresponds roughly to the global average. This may in part be due to the fact that most African states gained their independence only in the 1950s and 1960s. It is possible that consolidation of the national government was the priority, and that embarking on decentralisation was a less urgent concern.

Given the low level of fiscal and administrative capacity, further reforms to strengthen local governments are indispensable if they are to participate fully in local economic development. Yet, even within the current framework, local governments can play a greater role. Rodríguez-Pose and Tijmstra (2007[11]) argue that despite their capacity constraints, the conditions to pursue local economic development policies are in place in most administrations of large African cities. Smaller administrations face more severe capacity constraints, but they can often make progress towards more effective economic development policies by making economic development a prime political objective.

Strengthening the fiscal capacity of local governments is perhaps the most important step for enabling local governments to pursue more active economic development policies. Chapter 5 of this report discusses the issue in detail and provides examples of how national governments can use public funds to provide resources to local governments.

Figure 4.1. Local government share of total public investment

African countries and select non-African middle-income countries



Note All African countries for which data is available and select emerging economies are shown, for 2016 or the latest available year.

Source (OECD/UCLG, 2019[12]) World Observatory on Subnational Government Finance and Investment.

Designing and implementing policies at the right geographical scale

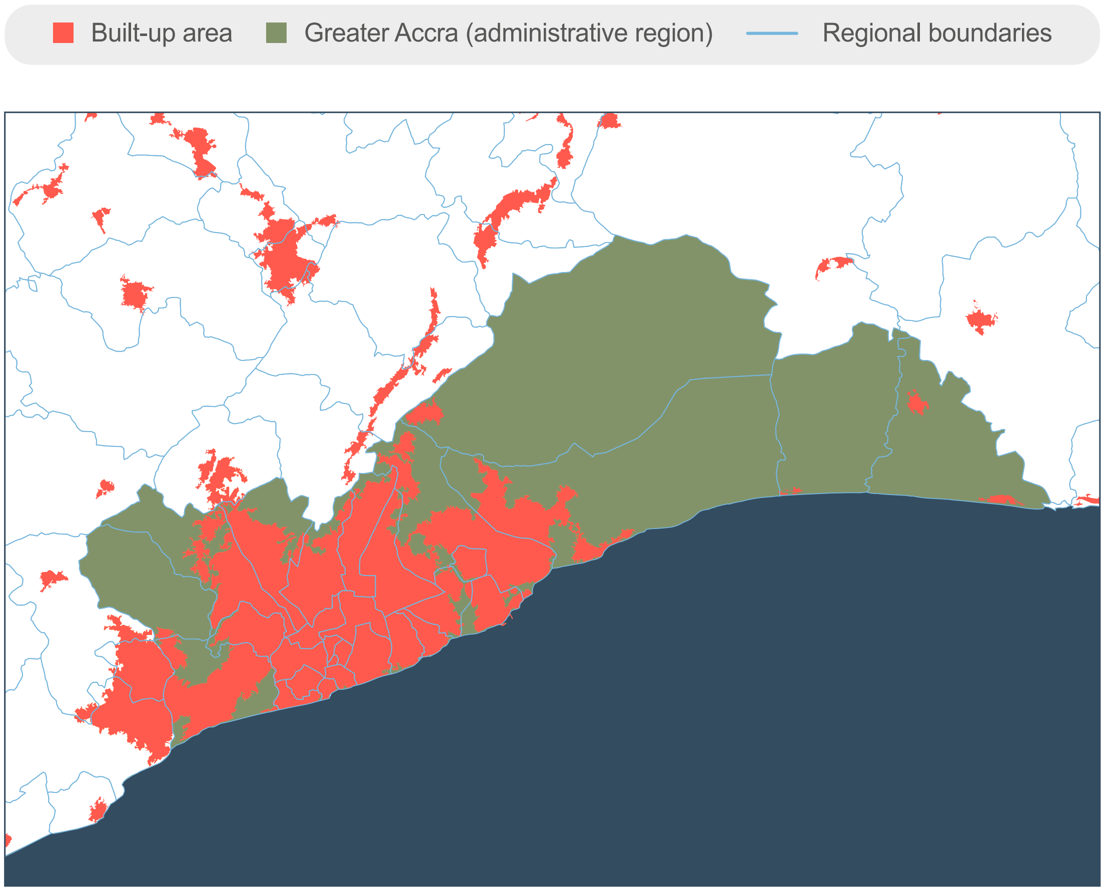
Designing and implementing local policies at the right geographical scale is essential for their success. While it is natural for local politicians and administration officials to focus on the jurisdiction for which they are responsible, this is often not the appropriate scale for a policy. In large urban areas, the jurisdictions of local governments often cover only a part of the urban area. In such a situation, local administrative boundaries do not correspond to the daily realities of residents and businesses. Workers commute daily from one local jurisdiction into another and may do their shopping in yet another jurisdiction. Likewise, firms have customers and suppliers and recruit their workers from the metropolitan area as a whole. In such cases, co-ordinating policy among local governments is essential for governing a metropolitan area effectively.

Administrative fragmentation increases the importance of metropolitan co-ordination

Most metropolitan areas are broken up into many local government jurisdictions. In Africa, administrative fragmentation of metropolitan areas is increasing rapidly. The accelerated growth of urban populations has meant that built-up areas expand into the jurisdictions of neighbouring local governments. The extension of public transport networks, and higher rates of car and motorcycle ownership, have also increased suburbanisation. Cities are thus growing in space even faster than in population, which has accelerated the spread of the urban agglomeration across multiple local jurisdictions.

Accra, in Ghana, is one typical city broken up into many local government areas. In Ghana, districts are the most important level of local government. Its more than 250 districts, with an average of more than 100 000 inhabitants, they are of average size by international standards, and are responsible for such policies as development planning, education, basic infrastructure provision and land-use regulation (Ghana Local Governance Act, 2016[13]). Map 4.1 shows how Accra's built-up area is spread across 30 districts. The two metropolitan districts in the city, meanwhile, are divided into sub-districts (Adusei-Asante, 2012[14]) and the city has started to grow into two neighbouring regions, increasing the number of actors involved in its governance.

Map 4.1. Built-up areas and local government jurisdictions in Accra, Ghana



Note Built-up areas with more than 10 000 inhabitants (2015) are shown in red; boundaries between regions are shown as blue lines; and boundaries between districts as black lines.

Source Administrative boundaries provided by Ghana Statistical Services (GSS) through Humanitarian Data Exchange (https://data.humdata.org/dataset/ghana-administrative-boundaries), built-up areas obtained from Africapolis (www.africapolis.org).

Administrative fragmentation in metropolitan areas makes policy co-ordination important for several reasons. First, many policies require measures that need to be implemented in several local jurisdictions. This concerns in particular transport infrastructure and land-use planning policies, but also many economic development policies (OECD, 2015[15]). For example, a planned large-scale housing development will only be successful if residents are able to reach good jobs within a reasonable commuting time. In practice, this can mean that the location of the housing development must be co-ordinated with the upgrade of a road and the creation of a bus rapid transit connection that runs through several municipalities to reach the city centre. Moreover, the activities at an industrial site in a neighbouring municipality might need to be limited, so that it does not affect environmental quality in the new residential area.

In practice, municipalities co-ordinate their policies most often in the fields of land use and development planning, economic development policy and transport planning. A lack of co-ordination can create bottlenecks and dysfunctionalities, such as increased congestion, long commutes and inefficient land-use patterns, which affect the economic performance of a metropolitan area. These negative effects become worse as administrative fragmentation increases. For OECD countries, estimates show that metropolitan areas with twice as many local jurisdictions per 100 000 inhabitants have 6% lower productivity levels on average (Ahrend et al., 2014[16]).

A second reason for co-ordination among local governments within metropolitan areas is the creation of economies of scale in service provision. Many public services that are provided by local governments can be delivered at a lower cost when they are delivered at a certain scale. For example, it can be cheaper for several local governments to work together to organise their waste management or water provision, rather than each developing their own solutions. Establishing such co-ordination can be easier within a stable framework than on an *ad hoc* basis. Moreover, co-operation between local governments can help to improve the quality of local administration. Larger local governments with more administrative capacity can provide specialised administrative services to nearby smaller administrations that do not have the capacity to take care of them themselves. Such models of asymmetric administrative service provision are used by many OECD countries to account for differences in administrative capacities across local governments.

A third reason for co-ordination among municipalities is to reduce so-called "beggar-thy-neighbour" policies by local governments. The term describes policies that are used by local governments to achieve gains for their jurisdiction at the expense of neighbouring jurisdictions. For example, a local government might try to clear a slum without providing its residents alternative housing solutions. This displaces the slum population to other parts of the metropolitan area without solving the problem, not only harming the affected slum dwellers but creating problems for the jurisdictions to which they are displaced. Increased co-operation of local governments in a metropolitan area reduces the likelihood that they will engage in such mutually harmful policies.

Box 4.1. How to define functional urban areas

The OECD uses the concept of functional urban areas to provide a harmonised definition of urban areas and provide an indication of the scale across which metropolitan governance matters most. A functional urban area consists of an urban core and a surrounding commuting zone (OECD, 2012[17]). The urban core is a contiguously built-up area with a population density of at least 1 500 inhabitants per square kilometre and a population of at least 50 000 inhabitants. The commuting zone consists of all surrounding municipalities from which at least 15% of the working population commute daily into the urban core. While these thresholds are necessarily arbitrary, they provide a good approximation of the extent of the economically integrated urban area.

Applying the definition requires data on commuting flows, which is not available in many countries. In these cases, it is possible to approximate the extent of the commuting zone around an urban core based on typical commuting distances and the distribution of population around an urban core (Moreno-Monroy, Schiavina and Veneri, 2020[18]).

Metropolitan governance arrangements vary widely

No single best-governance arrangement exists to ensure policy co-ordination across local governments and levels of government. The most straightforward solution for administrative fragmentation would be a merger of local governments into larger units that correspond more closely to the actual footprint of the urban area. In some places, this can be an effective solution. South Africa created metropolitan governments in six cities, for example, by merging multiple local governments. The reorganisation was part of an ambitious decentralisation reform intended to overcome the spatial segregation in South African cities that was a legacy of apartheid (Pieterse, 2017[19]). However, such reforms remain rare. Experience shows that many countries struggle to create effective unified metropolitan governments, because mergers of local governments often meet resistance from local stakeholders, including local politicians, local administrations and the local population. In such cases, it is important to create the institutional arrangements necessary for policy co-ordination in the absence of a unified metropolitan government.

Where amalgamations of local governments are impossible or undesirable, other solutions have to be found. Usually, these involve co-ordination arrangements for a limited number of policy areas within the responsibilities of local governments, in particular for spatial planning and transport policy (Ahrend, Gamper and Schumann, 2014[20]). Globally, a wide variety of institutional arrangements exist to ensure policy co-ordination. They range from "soft" co-ordination bodies that serve primarily as a forum for exchange among local policy makers to metropolitan authorities that take over some of the functions of independent local governments (OECD, 2015[15]). The decision-making structures of such bodies, their legal responsibilities and their revenue raising and spending powers vary widely. As Haas and Wani (2019[21]) show, all approaches have advantages and disadvantages. The right choice of an institutional arrangement depends on a variety of factors, including the responsibilities of local governments, their administrative capacity, the size of the metropolitan area and its fragmentation into several local jurisdictions.

One of the most important characteristics of metropolitan governance arrangements is the difference between voluntary and mandatory co-operation. Voluntary co-operation relies on mechanisms that facilitate exchange and co-operation between local governments, but do not oblige them to find a mutual position. It works well if all actors involved have an interest in co-operating, and it has the advantage that it is a flexible form of co-operation, which can be quickly adapted to newly arising issues. However, voluntary co-operation is not effective if the actors are not willing to co-operate, due to diverging political or personal interests. Moreover, voluntary co-operation leaves all legal responsibilities with individual municipalities and does little to overcome capacity bottlenecks within local administrations. In policy areas where local governments have insufficient administrative capacity, it can be more effective to delegate responsibilities to a dedicated metropolitan authority. This can then build the administrative capacity needed to perform advanced functions, such as complex infrastructure planning, more easily than local governments (see OECD (2015[15]) for an in-depth discussion of how to structure statutory co-operation arrangements).

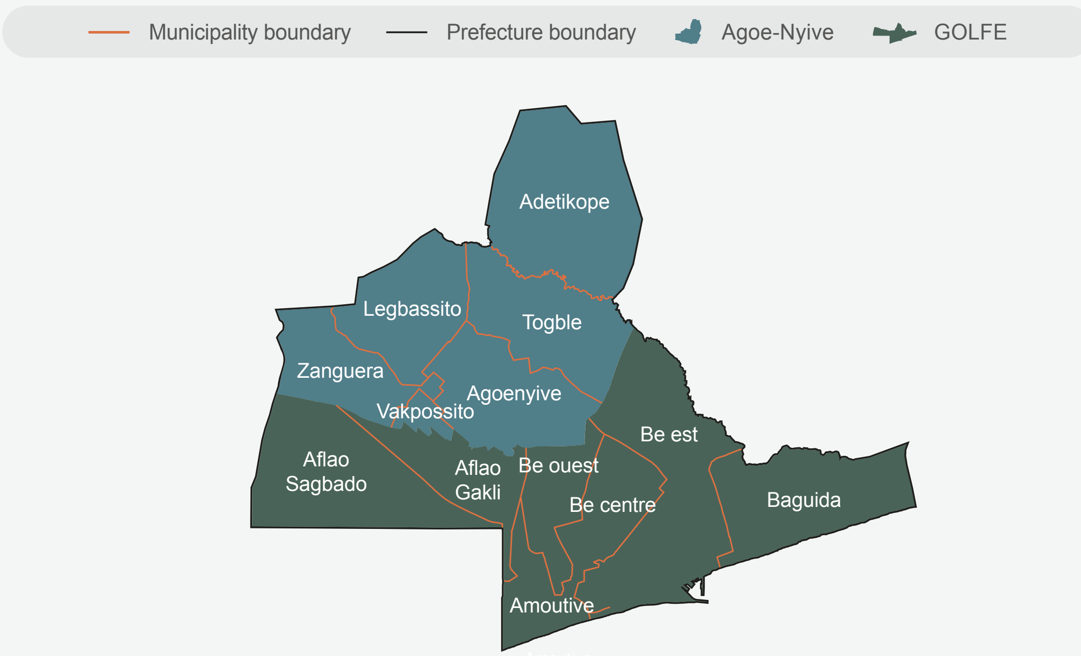
Despite the multitude of approaches and the wide range of advantages and disadvantages associated with each approach, the evidence shows that some degree of policy co-ordination at the metropolitan level is better than no policy co-ordination at all. Studies for OECD countries have shown that metropolitan areas with metropolitan bodies in charge of policy co-ordination have lower levels of sprawl and residents who report higher rates of satisfaction with public transport systems by approximately 12 percentage points. The benefits of improved policy co-ordination are also reflected in higher levels of productivity, as metropolitan authorities reduce the "productivity penalty" of administrative fragmentation by approximately 50% (OECD, 2015[22]).

Box 4.2. Metropolitan governance in Lomé, Togo

Lomé, the capital of Togo, has seen several important institutional measures facilitate a coherent development of the metropolitan area. Since 2010, several strategic documents have been prepared to guide public policies. The Development Strategy for the Horizon 2030 (*Stratégie de développement urbain du Grand Lomé à l'horizon 2030*) provides a joint vision for the development of the metropolitan area. The Strategic Plan for the Development of Greater Lomé (*Schéma directeur d'aménagement et d'urbanisme (SDAU) du Grand Lomé*) is intended to guide urban development and public investment. With a budget of XOF 177 billion (approximately USD 320 million), the plan focuses on improving the drainage of flood-prone neighbourhoods, widening roads and revitalising central districts.

In 2019, the Autonomous District of Greater Lomé (*District Autonome du Grand Lomé*) was created by the national government. It is a metropolitan government responsible for the territory of the 13 municipalities of the Greater Lomé area (Map 4.2). It covers an area of 425 square kilometres, home to approximately 2.4 million inhabitants. The newly created administration is responsible for sanitation, environmental protection, spatial and urban planning, economic development, as well as the construction and management of schools.

Map 4.2. Municipalities and prefectures in the Autonomous District of Greater Lomé, Togo



Source (Programme Solidarité Eau, 2019[23]).

To fund its operations, the Autonomous District of Greater Lomé can levy taxes (notably property taxes) and receives a share of the revenues from other fees and taxes. Moreover, it has the authority to take out loans to finance investments. The governor of the Autonomous District of Greater Lomé has the rank of a minister and participates in Cabinet meetings. He or she is appointed by the national government, just as half of the members of the governing council. Only the remaining half of the members of the governing council are appointed by the 13 municipalities within its jurisdiction. While this arrangement ensures close political alignment of the metropolitan authority with the national government, it limits its accountability to the local population.

Sources (République Togolaise, 2019[24]), Loi No. 2019-018 du 15/11/19 Portant attributions et fonctionnement du District Autonome du Grand Lomé; (Jeune Afrique, 2016[25]), Togo : le ministre de l'Urbanisme veut améliorer les conditions de vie des habitants de Lomé, https://www.jeuneafrique.com/mag/363545/politique/togo-ministre-de-lurbanisme-veut-ameliorer-conditions-de-vie-habitants-de-lome/; (French China, 2013[26]), Togo : un schéma directeur pour faire du Grand-Lomé un pôle d' attraction en 2030, (http://french.china.org.cn/foreign/txt/2013-12/03/content_30776701.htm); District Autonome du Grand Lomé, https://dagl.tg/.

Strategic planning for local economic development

Strategic planning is probably the most important activity for developing successful local economic development policies. Effective strategic plans ensure policy consistency across governmental departments and external stakeholders as well as over time (UN-Habitat, EcoPlan International, 2005[27]). It is not only the plan itself that matters, however. The planning process is equally important because it is an opportunity to define common objectives to learn about the local economy and to connect stakeholders. This section provides a brief overview of the importance of strategic planning for local economic development.

Economic development is the consequence of efforts by many actors, including private businesses, different levels of government and various departments within a government, other public and semi-public organisations such as universities and international donors, as well as civil society. Many of the efforts of these actors are complementary, which means that the actions of one actor enhance the positive effects of the actions of another actor. Conversely, the absence of an action by another actor can create a bottleneck that renders another policy ineffective even if it is otherwise well designed. Therefore, co-ordinated policy packages are more effective than individual policy initiatives (see below). Strategic planning is a tool that can help formulate and co-ordinate such policy packages.

The purpose of strategic planning is to create a common understanding of the current situation, to define common objectives among all stakeholders and to devise steps for achieving the objectives. To fulfil these functions, strategic planning must be a collaborative process in which all stakeholders are represented, rather than a top-down process in which a local government presents a strategy without giving other stakeholders a chance to influence it. In particular, it is important to give an adequate voice to participants in the informal economy, which are often underrepresented in the policy-making process despite their importance in the economies of African cities.

Box 4.3. Implementation and evaluation of local economic development policies in Botswana

In 2010, Botswana initiated the Local Economic Development Planning and Implementation Project (LED Project). Its objective was to create a national Local Economic Development Framework and build the institutions necessary at the national and local level to systematically develop and implement LED policies. The project covered eight dimensions, including capacity development, the creation of guidelines for LED planning and setting up systems to finance the implementation of LED policies and to co-ordinate stakeholders at national and local levels. Elements of the project were rolled out nationwide, but all eight dimensions of the project were introduced only in four pilot districts.

In 2018, the outcomes of the LED Project in the four pilot districts were evaluated (Ogwang, 2018[28]). The evaluation concluded that the pilot districts had mostly made good progress in setting up local economic development strategies. The two main bottlenecks were connecting the local economic development strategies with existing administrative processes and implementing them.

The evaluation highlights the need to link the planning process to the policy-making process. The best-designed local economic development strategies will be inefficient if they are not carried out. Ensuring implementation of local economic development strategies should be a key aspect of the planning process. A potential implication of this argument could be that it is preferable to limit the scope of a local economic development strategy if it increases the probability that it will be implemented.

Source (Ogwang, 2018[28]), Local Economic Development Project Evaluation. Final Report.

The range of policies that should be covered by local strategic planning depends on the responsibilities of local governments. In many instances, land-use planning and transport policies are among the most important policies covered by strategic plans. It is no surprise that strategic planning is often the responsibility of metropolitan authorities and serves as a tool of policy co-ordination across local jurisdictions (OECD, 2015[15]). However, other policies, such as skills policies and regulatory policies, can be equally important.

Beyond contributing to the co-ordination of policies by different actors, strategic planning is important to ensure policy consistency over time. Many economic development policies take years to become effective. If a city makes the strategic choice to encourage economic growth in a certain sector, it may invest in specific infrastructure, develop new training programmes in collaboration with technical colleges, build an industrial park and engage in targeted promotion to attract foreign direct investment. Such policies cannot be implemented at once, and one-time initiatives are likely to fail. A strategic plan that guides policies over at least five to ten years helps ensure the consistency of policy necessary to carry out advanced local development policies.

Using strategic planning to guide future policies also has an inherent advantage, in making it easier for businesses to plan ahead. In many instances, a predictable policy environment is one of the most important factors in businesses' investment decisions. A firm is more likely to invest in a new regional headquarters, for example, if it knows that the chosen location is linked to a public transport network that will grow progressively over the years. An effective strategic plan that guides infrastructure development over extended periods can provide this certainty. A strategic plan can thus have positive economic effects even before the first policy measures that it foresees are initiated. Of course, this positive effect emerges only if businesses trust that the measures in a strategic plan will be realised. Public trust in the willingness of local governments to adhere to their own plans is indispensable.

Box 4.4. Policy co-ordination with external actors outside the strategic planning process

Beyond the strategic planning process, local governments have a range of other options available to facilitate co-ordinated measures by several actors. In some cases, local governments may use incentives to ensure co-ordination and co-operation among stakeholders. Funding or regulatory approvals can be made contingent on whether several actors co-operate with each. For example, local governments may only invest in infrastructure that primarily benefits an industrial firm if the firm commits to co-operating with a nearby technical college on a vocational training programme. Often, however, local governments rely primarily on their power of convocation. They may set platforms for dialogue between actors (such as business roundtables), arrange hearings and consultations, and use their connections to introduce actors to each other. Importantly, policy co-ordination is a two-way process. It can also imply that local governments adjust their policies to align them better with other actors. In many instances, local governments should consult stakeholders when designing policies and adjust their decisions based on the feedback collected in the consultation process.

Strategic plans are only effective if they are aligned with funding decisions

In all contexts, strategic planning and fiscal decisions must be closely aligned with each other, because most policies can only be implemented if sufficient funding is available (OECD, 2019[3]). Unfunded commitments in strategic plans are a major reason for their failure. The strategic planning process and the fiscal decision-making process thus need to be linked to each other, with the goal of aligning strategic planning and funding decisions.

As major funding decisions are always political decisions, strategic plans must reflect the political priorities of the key funders. Unless they do so, it is unlikely that funding decisions will correspond with strategic plans. It is important to keep in mind that strategic planning does not aim to replace political decision-making by governments. Instead, it has the objective of finding effective solutions for implementing policy priorities of governments and aligning them with the objectives of other stakeholders.

Self-discovery improves the quality of local economic development policy

Strategic planning also contributes to another, often underappreciated, dimension of the policy-making process – the process of learning about what is effective. Although local policy makers are generally well informed about their cities, it is unlikely that they have all the knowledge required to prepare effective local economic development strategies. They might not know all relevant economic conditions in their city, nor are they necessarily aware of all economic opportunities and the conditions that are required to use them. Entrepreneurs tend to have a better knowledge of economic opportunities than civil servants, but even they are often not aware of new economic opportunities. Hausmann and Rodrik (2003[29]) argue that entrepreneurs underinvest in economic discovery because they reap only a fraction of the value of discovering a new economic opportunity, while most of it accrues as value to society.

The importance of developing administrative capacity on economic policies gives the strategic planning process another value that goes beyond the plans that are produced by it. The planning process is a key opportunity for policy makers to learn about the local economy. The insights gained in the process are important for many other policy decisions beyond those directly associated with the strategic plan. Therefore, local governments should aim to producing strategic plans internally and use external expertise only in limited ways. Outsourcing the preparation of plans to external consultants forgoes many of the learning opportunities associated with the planning process.

Maximising the value of learning that is associated with the strategic planning process is another reason to involve external stakeholders, such as businesses and universities extensively in the planning process. Not only does a greater involvement of external stakeholders help local officials collect more information about the local economy, it also creates an opportunity for stakeholders to learn. For example, it can give businesses the opportunity to better anticipate policy priorities, to learn about applied research conducted at a local university or to engage with businesses in other sectors. Any of these activities may lead to new partnerships or innovations that have commercial value and strengthen the local economy.

The content of local economic development policies

Local economic development policies must fulfil two important roles. On the one hand, local governments are essential for the implementation of national economic development programmes. National administrations lack the capacity to carry out programmes throughout a country. They must thus rely on local governments to carry out many of the measures typically included in national programmes. For example, local governments may decide to process applications for targeted aid to small businesses. Due to the potentially large number of requests, the national administration would be quickly overwhelmed if it had to process all applications.

On the other hand, local governments need to pursue their own complementary economic development policies. While these policies must be aligned with national policies, they must also reflect local circumstances, including the local skills of the workforce, the availability of infrastructure and the roles and responsibilities of different levels of government as well as their administrative and fiscal capacities.

Due to this complexity, it is impossible to provide blueprints for successful local economic development policies that could be adopted anywhere. The more closely policies respond to both national priorities as well as specific local opportunities and challenges, the more likely they are to be successful. This section discusses five principles that can guide the formulation of local economic development policies.

Co-ordinated policy packages are more effective than isolated policy measures

Economic development requires the right conditions in many dimensions. Factors such as good infrastructure, effective institutions, an adequately skilled labour force and a customer and supplier base are all essential conditions for economic development. The absence of only one of these factors can create a bottleneck that prevents economic growth. It also implies that governments do not have any silver bullets to facilitate growth. In most circumstances, an isolated investment in any of the factors mentioned above will have a limited impact, because bottlenecks in other dimensions will persist that prevent the investment from realising its potential benefits. In a nutshell, this means that:

> *having good roads but no electric power leaves a place unattractive for private investors (Duranton and Venables, 2018[30])*

Local economic development policies thus need to be multidimensional. Instead of pursuing individual measures, policy makers should aim at pursuing co-ordinated policy packages.

A co-ordinated policy package consists of a range of measures in several policy areas that aim at a common objective. Take for example the case of a local government that tries to attract an industry in a specific sector. As a first step, a local government could dedicate land to a new industrial park. Without accompanying measures such as providing road and electricity to the area, the project is almost certain to fail. Even a well-serviced industrial park, however, cannot attract businesses if other conditions are unsuitable. In many situations, governments should thus take additional measures to increase the likelihood that it can result in a success. Depending on the context, governments might advertise the industrial park to international investors. They could also create a contact point within the local administration to help companies navigate the administrative processes required to obtain the necessary permits. If the lack of a skilled workforce is a bottleneck, a local government could arrange a training programme at a vocational college, in co-operation with the companies that will locate in the industrial park.

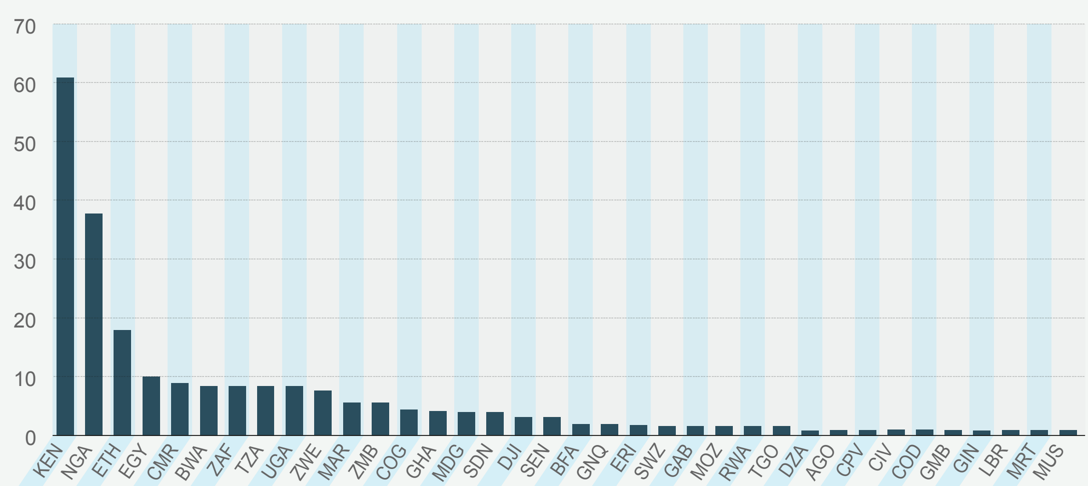
Co-ordinated policy packages are valuable because their impact is likely to be larger than the sum of the effects of the individual measures. In practice, however, local economic development policies frequently consist of individual policy measures that are implemented in an unco-ordinated fashion. Partly, this is because competing interests among politicians and administration officials make it hard to agree on a common set of policy objectives along which policies can be aligned. Partly, it is also because it is more difficult in practice to develop co-ordinated policy packages than in the stylised example above. However, in many cases, a lack of strategic planning as discussed in the previous section is responsible for an *ad hoc* use of individual measures.

In contrast to many other issues, local governments with lower administrative capacity are not necessarily at a disadvantage in developing co-ordinated policy packages. Smaller administrations with fewer activities are easier to co-ordinate than a large administration engaged in many complex tasks. Moreover, the setting of common priorities across an administration is generally a political choice that does not depend on administrative capacity to the degree that the implementation of policies does.

Box 4.5. Special economic zones as tools for multidimensional policy interventions

Special economic zones (SEZ) are a tool for implementing co-ordinated policy packages within geographically confined areas. Often, they are subject to economically more favourable legal conditions than the rest of the country, feature enhanced infrastructure provision and are governed by an improved administration. SEZ are used to attract investment and facilitate the emergence of economic clusters. They are widely used throughout Asia, where more than 4 000 have been established. By contrast, UNCTAD (2019[31]) reports only 237 SEZ in Africa, most located in Kenya, Ethiopia and Nigeria.

Figure 4.2. Number of special economic zones in Africa, 2018



Note: Number of special economic zones established by law.

Source: (UNCTAD, 2019[31]), World Development Report: Special Economic Zones.

While the framework legislation for SEZ has to be established by national governments, an SEZ can be an important instrument for local governments. In China, the country that uses SEZ most extensively, prefecture-level municipalities receive permission to host an SEZ from the national government. A local government appoints an administrative committee, which manages the SEZ on its behalf, for example, by providing infrastructure and regulating land use. Such locally managed SEZs greatly contributed to economic development in the early stages of China's economic transition in the 1980s, even if their impact in subsequent decades was weaker (Wang, 2013[32]).

The performance of SEZ in Africa has been mixed. In his comprehensive analysis of SEZ in Africa, Farole (2011[33]) emphasises a factor for the success of SEZ that is particularly important from a subnational perspective. Many SEZ have been unsuccessful because they were located far from existing infrastructure or targeted industries for which the necessary skills base was unavailable. To avoid these shortcomings, the location of SEZ should be decided not on political considerations but on where they can complement existing economic advantages.

Cities' competitive advantages should be used to encourage local economic development

Across countries, the distribution of economic activity is an important factor in their comparative advantages. However, at the subnational level, absolute advantages play a greater role. The idea of comparative advantage is a key concept in international trade that was originally described by Ricardo more than 200 years ago (Ricardo, 2015[34]). It implies that a country does not necessarily have to be the most efficient producer of a product to develop a successful industry around that product. Its industry has to be relatively more efficient in producing the product (as compared to producing other products) than the industry of other countries. The distinction from absolute advantages is important because it implies that every country has comparative advantages around which it can develop industries.

However, the concept of comparative advantage is not readily transferable to the subnational level, because the price adjustment mechanism essential in theories of comparative advantages is imperfect within countries. Relevant price adjustments occur primarily through changes in exchange rates and real wages. In contrast, different regions within a country share a currency, and wages are often not sufficiently flexible to overcome the disadvantages of struggling regions. In this situation, comparative advantages cannot emerge, leaving undeveloped cities permanently unattractive to produce in (Duranton and Venables, 2018[30]). This explains why some local economies remain permanently depressed, while other local economies in the same country are booming.

For policy makers at the subnational level, this implies that local economic development policies should not rely exclusively on comparative advantages. It is important to identify absolute competitive advantages and use them as a basis for their economic development policies. While it is often easy to identify absolute advantages of booming cities (e.g. a highly skilled workforce), absolute advantages of struggling cities are less obvious, because they are usually not utilised. Such hidden absolute advantages are often characteristics that cannot be replicated easily by other cities in the same country. A strategic location on a major trade corridor might be an absolute advantage. Likewise, certain skills within the workforce can be hidden absolute advantages. For example, the population of a city might have language skills that facilitate trade with neighbouring countries and allow the city to serve as a gateway between the countries. The availability of specific infrastructure, such as a hydropower plant that generates a reliable supply of electricity, can be another source of absolute advantages. Likewise, proximity to some natural resources, such as perishable agricultural products, is an absolute advantage if it can serve as the basis for the development of a more advanced industry (e.g. food processing). Unique attractions that can form the basis of a tourism industry are another common absolute advantage (Box 4.6).

Box 4.6. The South African tourism planning toolkit for local government

The tourism industry is particularly reliant on absolute advantages, because many tourists are looking for unique experiences that cannot be found in other parts of the world. South Africa's Ministry for Tourism has published a guide for local governments on how to develop a tourism industry (Department of Tourism, 2010[35]). The document describes the important part that local governments play in tourism development and encourages them to take a stronger role in developing a tourism industry. Among other aspects, the toolkit emphasises the role of local governments in co-ordinating public and private actions and emphasises the importance of strategic planning. It also provides toolboxes for important activities of local governments that are required to build a tourism industry, such as infrastructure provision, marketing and branding, and managing natural assets.

Source (Department of Tourism, 2010[35]), The South African Tourism Planning Toolkit for Local Government, https://tkp.tourism.gov.za/Documents/Tourism%20Planning%20Toolkit%20for%20Local%20Government.pdf.

Policies need to focus on supporting the right kind of local specialisation

Africa's economies are highly reliant on extractive activities, which makes them vulnerable to external shocks and which limits the potential for value-added growth. In response, the African Union emphasises the importance of diversification in its strategic priorities for economic development (AUDA-NEPAD, 2021[36]). This policy is supported by evidence that shows that at low- and middle-income levels, countries with more diversified exports are more developed (Cadot, Carrère and Strauss-Kahn, 2012[37]).

By contrast, at the subnational level, empirical evidence suggests that local specialisation is associated with better economic performance (Kemeny and Storper, 2014[38]), (Hidalgo, 2021[39]). It is especially important for mid-sized cities that do not have the economic mass to support an adequate amount of economic activity in multiple economic clusters. Without any specialisation, these cities cannot realise the localisation economies that emerge from having a large number of firms in related activities in close proximity to each other. In contrast, large cities can more easily sustain multiple sectors of sufficient size and are therefore less reliant on specialisation.

However, not every form of local specialisation is beneficial. Cities that are specialised in a single economic activity, such as resource extraction, are subject to large shocks if the demand for the city's specialisation declines. Moreover, they often struggle to develop economically, because the dominant economic activity crowds out all other economic activities. An extreme form of such specialisations are so-called monotowns, which rely on a single employer, such as a major mine.[2]

Regional development scholars generally advocate specialisation in a variety of economic activities that are related to each other. A city that is specialised in this sense would not only contain a single economic activity. It would contain economic activities that benefit from proximity to each other, without necessarily depending exclusively on each other. For example, a cluster of firms producing packaging for processed food might benefit from the proximity of a food-processing cluster within the same city, without relying exclusively on these firms as customers. Specialisation that includes several stages of the value-added chain allows a city to capture a larger share of the value-added from an industry than specialisation in a single activity. Moreover, the diversity of related activities makes it easier for a city to transform its economy in response to changing economic conditions.

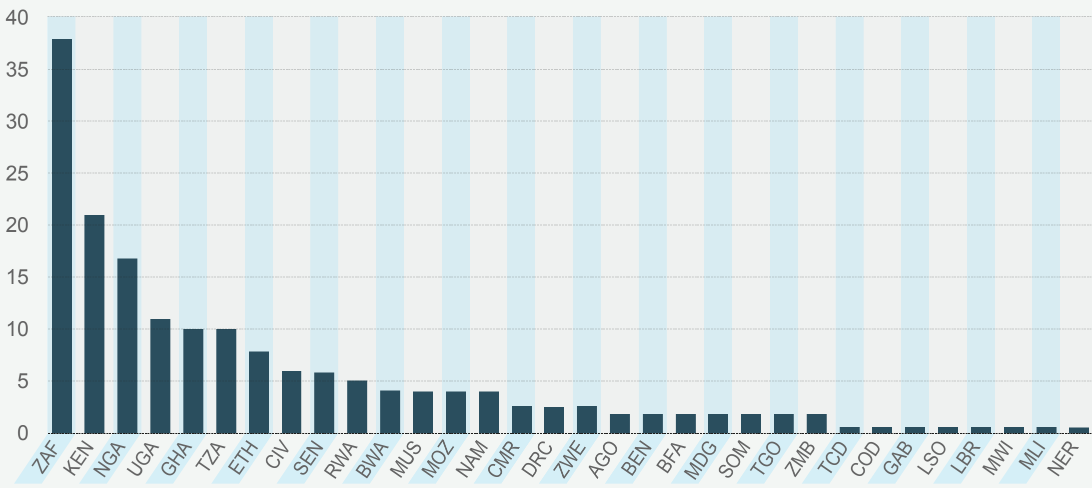
It is important for cities to develop their own economic profiles. By focusing on the specific competitive advantages that make them distinct from other cities (see above), they can avoid competing with other cities in the same country. If different cities specialise in different activities, such local specialisation can contribute to national diversification. In fact, it is rare to find a diversified country that is uniformly diversified across its territory. Countries with diversified national economies are usually diversified because many of their cities have distinct specialisations.

Box 4.7. Business incubators in Africa, excluding North Africa

Business incubators are organisations that help start-ups overcome the challenges of establishing a business. Usually, they provide office space and administrative services, such as secretarial and accounting services. Often, they also offer training on essential aspects of running a business and facilitate links with universities to support product development. In some cases, incubators also provide initial seed funding.

The number of business incubators in sub-Saharan Africa has grown rapidly in recent years. In 2018, David-West, Umukoro and Onuoha (2018[40]) counted 196 business incubators across sub-Saharan Africa. Anecdotal evidence suggests that the number has since continued to grow (Tibaingana, 2019[41]).

Figure 4.3. Number of business incubators in sub-Saharan African countries, 2018



Source (David-West, Umukoro and Onuoha, 2018[40]), Platforms in Sub-Saharan Africa: startup models and the role of business incubation, http://dx.doi.org/10.1108/jic-12-2016-0134.

Globally, business incubators are predominantly operated by governments as an instrument for local economic development. In Africa, by contrast, most business incubators are privately operated. Only 6% of the business incubators identified by David-West, Umukoro and Onuoha (2018[40]) are public sector initiatives, and approximately two-thirds are privately operated. The downside of this otherwise valuable private initiative is that most incubators focus exclusively on providing office space. Less than 10% offer start-ups other forms of support that are common in incubators elsewhere. To make existing incubators more effective as tools for local economic development, local governments could work with private operators of business incubators to improve the range of support offered to start-ups. The impressive growth of privately operated business incubators indicates the degree of demand that exists.

Source (David-West, Umukoro and Onuoha, 2018[40]), Platforms in Sub-Saharan Africa: startup models and the role of business incubation.

Local economies are likely to grow by producing related products

Many modern local economic development policies, in China, the European Union and Mexico, for example, encourage the emergence of so-called "related varieties". These economic activities require capabilities (in particular a similar knowledge base) similar to the existing economic activities in a region (Asheim, Boschma and Cooke, 2011[42]). Economic activity is much more likely to expand gradually into related activities than to emerge in areas completely unrelated to existing economic activity. If a new economic activity relies mostly on existing production methods and needs only a small innovation to become viable, it is relatively easy for businesses to enter the activity. In contrast, entering completely new fields of economic activity may require managers and workers to acquire new skills, a new network of suppliers and large capital investments. Businesses often struggle to make such major changes. Local economic development policies that encourage the emergence of related varieties of economic activity thus have a higher rate of success than policies that try to attract completely new economic sectors.

To identify related varieties that can be targets for public support, local administrations can use the economic self-discovery processes discussed above. In this process, public officials work with business representatives, academics and other stakeholders to identify potential avenues for economic development that build on existing economic structures. They also determine jointly the measures required of various public and private actors that would enable businesses to move into the production of such related varieties, and they target policies accordingly.

The focus on related varieties imposes an important restriction on local development policies. Cities and regions with low levels of development might have few related fields of economic activity into which their economy can grow. In order to develop quickly, such cities have to move into economic activities that are unrelated to their current activities. However, as this is more difficult to achieve, local governments rarely have the resources and capacity to manage such a transition on their own. This requires a concerted effort by national and local governments that involves a range of co-ordinated policy measures.

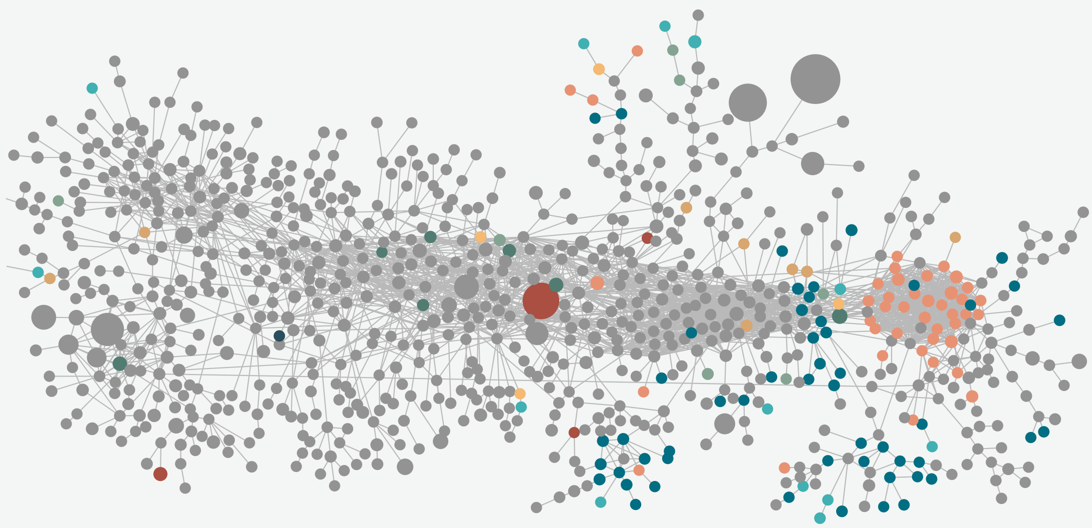
Box 4.8. The 'Product Space' of African economies

Local economic development policies that emphasise related varieties are influenced by economic complexity theory and the Product Space approach (Hidalgo, 2021[39]). This approach measures the relatedness of products from data that indicates how likely it is that they are produced by the same economy (Hidalgo et al., 2007[43]). If two products are usually produced by the same economy, they are related to each other, whereas products that are not usually produced by the same economy are unrelated to each other. The Product Space approach also makes it possible to compute a measure of diversification of the local economy. If this measure is combined with a measure of how common the products produced by the local economy are, it is possible to obtain a measure of economic complexity that correlates highly with future GDP growth (Hidalgo and Hausmann, 2009[44]). The greater the diversity and the less common the products produced by a local economy, the more complex is its economy and the higher its expected GDP growth.

Economic complexity theory thus quantifies two dimensions of economic activity that are crucial for local economic development policy. Relatedness indicates how likely it is that an economic activity can be established in a city, whereas complexity indicates how strongly it will contribute to economic development of the city. Academic researchers have spent much effort on measuring the complexity and diversity of the Product Space of cities, regions and countries. Based on this, methods have been developed that suggest a range of products into whose production economies are most likely to expand (UNCTAD, 2015[45]). These approaches require detailed data, however, and the applicability of their results to a real-world policy-making process still needs validation. For the time being, economic self-discovery processes are likely to yield more effective policy solutions than quantitative approaches.

The Product Space is a method for visualising the relatedness of the products produced by an economy. It is a network representation of all products produced globally, where products that are usually produced by the same economy are connected with each other. By overlaying the products produced by an economy with the global universe of products, it is possible to visualise the degree of diversification of an economy and show its potential to expand into the production of related products. The example below (Figure 4.4) shows the global Product Space. Each dot represents a product category, with those that are predominantly exported from Morocco highlighted in colour. The two most common product classes among Morocco's exports are textiles (green) and agricultural goods (yellow). Product categories that are commonly produced by the same country are connected. A country is likely to expand into the production of product categories related to many of the categories that it already produces.

Figure 4.4. The 'Product Space' of exports from Morocco, 2018



Note Each dot represents a product category in the global Product Space, where products that are usually exported by the same country are connected with each other. Coloured dots represent products disproportionately exported by Morocco. Grey dots reflect the entire universe of products exported globally.

Source (Harvard Growth Lab, 2021[46]), Atlas of Economic Complexity, https://atlas.cid.harvard.edu/.

Many studies have explored the Product Space of African economies in the past decade, to identify opportunities for diversification and economic development, for example (Hidalgo, 2011[47]), (Abdon and Felipe, 2011[48]) (Ulimwengu and Badibanga, 2012[49]) (Hausmann et al., 2014[50]) (Bam and De Bruyne, 2018[51]) (El-Haddad, 2020[52]) and (Goldstein, 2020[53]). Most studies confirm that agriculture and mining are dominant product categories. Where opportunities for diversification exist, they tend to be related to these sectors. However, in most African countries, the Product Space has a low level of economic complexity, and the products produced tend to be unconnected to each other. This limits the possibilities for diversification based on the existing productive capabilities.

Due to the extensive data requirements, no studies of the Product Space in African cities exist. Nevertheless, it is likely that the complexity and diversity of urban economies exceed those of rural areas. Balland et al. (2020[54]) show that in the United States, economic complexity has been higher in cities than in rural areas for the past 150 years. The complexity and potential for diversification in urban areas is likely to be higher than the national average.

Higher education institutions are key drivers for local economic development

Besides businesses and governments, universities and other higher research institutions are the most important external actors in local economic development processes. They can play an outsized role in producing a skilled workforce and can be a major source of innovation for the local economy (Box 4.9). Neither of these roles come automatically, however, and the impact of universities on local economies varies widely. To have a positive impact on local economic development, universities must transfer skills that are useful for the local economy and connect their research to the activities of local businesses. This is especially important, given the strong evidence of a skill mismatch in sub-Saharan Africa, in particular among young workers. Bandara (2018[55]) finds that only 10% of youths are appropriately skilled for the job they do, with 55% are overeducated and 34% undereducated.

Box 4.9. Emerging 'triple helix' co-operation in Algeria

Since the early 2000s, Algeria has moved towards strengthening the links between universities and businesses. Universities have explored the possibility of collaborating with businesses in workshops and conferences and have placed a greater emphasis on teaching entrepreneurial skills. Algeria's universities have traditionally not participated in such activities, so this has been a paradigm change.

The process has been driven by the national government. Even though higher education institutions are dispersed throughout the country, they act primarily on behalf of the national government and engage only rarely with local actors. This contrasts with developing and emerging economies such as India, Indonesia and Malaysia, where higher education institutions act more frequently on behalf of local governments and generally enjoy greater levels of autonomy. Universities in Algeria have more frequently engaged with larger companies than with small and medium-sized enterprises (SMEs), even though SMEs are more important in many local contexts.

To strengthen the links between universities and local economies, teaching and research activities have to be further linked to the needs of local businesses. This requires greater autonomy for universities to initiate co-operation with the private sector, and more co-ordination by local governments.

Sources (Saad, Zawdie and Malairaja, 2008[56]), The triple helix strategy for universities in developing countries: the experiences in Malaysia and Algeria, http://dx.doi.org/10.3152/030234208x323316; (Saad et al., 2010[57]), Mapping the diverse roles of universities in supporting innovation: Opportunities and challenges for Algeria, Indonesia, Malaysia and India, http://triplehelixconference.org/th/8/doc/PROCEEDINGS/0092_Saad_Mohammed_O-099/SaadMahdiAbdrazakDatta_THVIIIMadrid_FinalDraftSubmittedPaper_V10.pdf; (Baaziz, 2019[58]), Towards a new paradigm of "coopetitiveness" in emerging countries: Case of the Algerian Entrepreneurial Ecosystems, http://dx.doi.org/10.5585/iji.v7i1.354.

Valorising universities for local economic development is the objective of the so-called "triple helix" model that emerged in the mid-1990s (Etzkowitz and Leydesdorff, 1995[59]). Traditional innovation systems are linear, with universities responsible for basic research that is commercialised by businesses. In the traditional model, innovation systems are national, and interactions between universities and businesses are limited. In contrast, the triple helix model emphasises continuous interactions between universities and businesses at the subnational (i.e. the regional and local) level. Universities collaborate more closely with businesses and conduct research targeted to the needs of businesses. At the same time, they become more active in commercialising inventions and obtain additional financial resources from grants by local businesses.

Local and regional governments act as intermediaries between businesses and universities and enable closer collaboration between them. They provide incentives such as grants for joint research by universities and businesses, and they create positions at universities dedicated to technology transfer. They also build and operate infrastructure, such as business incubators attached to universities. Beyond creating an enabling environment, governments may also have to employ coercive measures to enforce co-operation. Such measures can include making funding contingent on co-operation between universities and businesses or providing permission for certain commercial activities only if they include a research component.

While the triple helix approach has made inroads in North Africa (see Box 4.9), it remains rare in sub-Saharan Africa. Saad and Zawdie (2011[60]) argue that the successful application of the triple helix model in sub-Saharan Africa is prevented by the general lack of interactions between actors. Governments are far removed from the research activities of universities, the role of universities in economic development is underappreciated, and businesses prefer to source technology and consultancy services from foreign actors instead of domestic universities. A paradigm shift is needed that recognises the value of such interactions. Moreover, governments, universities and businesses have to build institutional capacity that enables them to develop the strong ties necessary to engage in true collaborations.

Box 4.10. Stanford University's role in the making of Silicon Valley, 1940-60

Silicon Valley in California is the most famous economic cluster in the world. However, in the 1930s, few signs pointed to its future importance. The region was home to several unremarkable electronics companies, and Stanford University was a mid-sized university with an equally unremarkable electrical engineering research programme. The story of the emergence of Silicon Valley in the 1940s and 1950s demonstrates the instrumental role that universities can play in local economic development.

With the outbreak of World War II, Stanford University received significant funding from the military to scale up its electronics research. The crucial element in the emergence of Silicon Valley, though, was not the additional funding, but a new form of co-operation between the university and businesses. Frederick Terman, dean of the engineering department and later provost of Stanford University, called the university and the local industry a "community of interest" (Saxenian, 1978[61]). He encouraged faculty to "be sensitive to the creative activities of the surrounding industries" (Saxenian, 1978[61]) and even used his contacts to attract new firms to the region. In return, the university started to receive significant donations and research contracts from nearby firms that compensated for the decline in government funding after the end of the Korean War in the early 1950s. At same time, the Stanford Industrial Park was set up on land next to Stanford University as one of the first industrial parks in the United States. Stanford University managed access tightly. Land leases were granted at extremely low rates, but only to firms that were considered beneficial to the activities of the university. By 1961, the industrial park was home to 11 000 employees, and its success made it a model for subsequent generations of business incubators and industrial parks around the world.

As the number of electronics firms around Stanford University grew, the university increased its training of graduates. Between the early 1950s and the early 1960s, the number of doctorates awarded in electrical engineering nearly tripled, from an average of 13 annually to an average of 37. In the late 1950s, Stanford had also established an honours programme to train employees of local firms in the evening, after normal working hours. The programme was extremely valuable to small and mid-sized firms that did not have the resources for their own training programmes in an industry characterised by rapid technological change. In turn, Stanford used access to the programme as a tool to attract more firms to the region.

By the late 1950s, the region had already become the leading location for the electronics and semiconductor industry. The availability of skilled workers in the field of electrical engineering exceeded that of any other region. Not only Stanford University but the region's higher education system, including many smaller community colleges, dedicated their educational efforts to the sector. As the network of suppliers and customers became more complex and a venture capital industry emerged, the benefits of being located in the region increased. At the time, spin-offs from established firms became more common, further reinforcing the positive dynamics of business creations.

These benefits from agglomeration created a virtuous cycle that has lasted for several decades. The region is still one of the most productive places in the world. While Stanford University was not the only factor in this success story, Silicon Valley would not exist in its current form without the university's strong support of local economic development. Its focus on university-industry links, which treated the success of the surrounding businesses as indispensable for the success of the university itself, helped create one of the most singular instances ever of local economic development (Adams, 2009[62]).

Sources (Adams, 2009[62]), Follow the Money: Engineering at Stanford and UC Berkeley During the Rise of Silicon Valley, http://dx.doi.org/10.1007/s11024-009-9138-y; (Saxenian, 1978[61]), The Genesis of Silicon Valley.

Notes

1 The term deconcentration describes the distribution of powers to local administrations that remain under the control of the central government rather than locally elected governments.

2 The term "monotown" originated in the centrally planned economies of the former Soviet Union, where cities were built around a single industrial complex.

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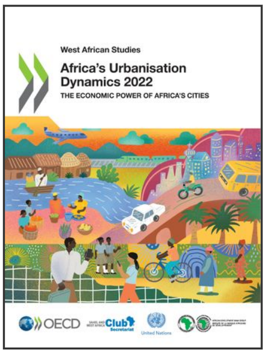

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