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**What can rural local governments
contribute to private sector
development?**

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1 Introduction

Institutional reform aimed at strengthening decentralisation policies is gaining ground in a number of countries. Local governments are acquiring more authority and powers, particularly in rural areas, and this reinforcement of local governments creates opportunities for economic development through the expansion of private sector activities in their territories.

A lot of work has been done on local economic development in urban areas (Cities alliances 2007; VNG 2007). This paper explores instead how local government in rural areas can contribute to private sector development. The focus is on West Africa, where local governments are a new actor with a growing mandate and resource base. These new local governments, as well as organisations supporting them, are showing a growing interest in approaches to economic growth and poverty reduction.

This paper explores how local governments can support existing private sector actors within their territory: farmers and enterprises, both formal and informal, and in particular those providing a source of income and employment to poorer and more marginalised members of society. The word *local* refers to the lowest sub-national governance level where elected local government¹ and 'frontline' service providers engage with the private sector. In these formally-delimited territorial units, where local governments have political jurisdiction, local governments can contribute to private sector development by acting as service providers, regulators and catalysts (VNG 2007).

Farmers and entrepreneurs, men and women, experience a number of problems that hamper their progress. These include a lack of knowledge on regulations and rights, and limited or costly access to financial services, markets, information and innovations. Resource-poor farmers and entrepreneurs in particular tend to be less well-organised than other types of businesses, and have fewer contacts with policy makers (OECD 2006; OECD 2004; Poel *et al.* 2005). The issues that affect the environment for private sector development are: economic governance; physical infrastructure; market access and functioning markets; financial sector development; and knowledge management and vocational training. Local governments can contribute particularly by improving economic governance and making investments in infrastructure. In their role as "catalysts" they can work towards attracting other type of services providers to their territory.

This paper starts by exploring policies affecting the environment for private sector development, such as regulations, taxes and levies, and land and deed administration (economic governance). The next section investigates local government contributions to physical infrastructure: support for investments in roads, markets, electricity and marketplaces. The third section looks at natural resources management, particularly "the commons" such as forests, grazing lands and water bodies. Secure access to and sustainable management of these assets are important for many private sector actors, and rural local governments have a key role to play in this.

Local government can also be a client for the private sector. In section 4, we explore how local government procurement and market access-based measures can be used as another strategy to support the local private sector. Finally, creating space for exchange and dialogue and promoting coordination between private sector actors and other stakeholders, is also important for economic development. Local government has a mandate to promote dialogue and synergy and can play a role as a "catalyst". This set of activities, in which local government, business and non-governmental sector partners work collectively to create better conditions for economic growth and decent employment generation, is what is often referred to as local economic development (LED) (World Bank and ILO ²). This role is discussed in the last section.

¹ What local government entails varies from country to country. There are variations in size of territory, population density, potential for economic development, available capacities and existing infrastructure, all of which have implications for private sector development. This paper will not deal with the regional or provincial level, although at this scale level planning for private sector development with respect to large scale infrastructure investments and support to sub-sectors is more appropriate (Janvry & Sadoulet 2004).

² http://www.ilo.org/dyn/empent/empent.portal?p_prog=L

2 Contributing to an enabling environment for private sector development

In rural local governments in West Africa, the private sector is composed mostly of farmers and entrepreneurs, mostly small-scale and often informal. Many are self-employed or employ family labour and temporary labourers. Occasionally, an industrial plant (e.g. cotton ginnery), mining operation, airport etc. is situated in the territory of a rural local government, creating both opportunities and challenges for the local governments involved, which may benefit from focussed support. These situations are not discussed in this paper.

2.1 Registration and licences

A number of laws and regulations implemented at the local level influence the environments within which businesses operate, either positively and negatively. They may concern registration, building permission, employment conditions, environmental protection etc. Some regulations are part of the mandate of local governments. Others are the responsibility of ministries and agencies, while implementation is delegated to local governments.

Often, starting a business “formally” tends to involve many steps and interactions with several public sector entities at different levels of government. These interactions with public sector authorities may include tax reporting, renewing permits and government inspections. All these different administrative procedures form the legal and regulatory framework for private operations. The number of steps, the time it takes and the costs involved are monitored annually for each country³.

Entrepreneurs – new or informal – will look first at the overall costs and advantages before deciding whether to register. The benefits of formalising a business include access to business services, financing or government procurement (Sa 2005). For governments, the main objectives for registration are: having instruments to check whether business activities are in accordance with the existing legal framework, facilitating tax collection, and gathering and using statistics. Registration data can provide important information on sectors, size, and ownership of enterprises, for example.

Business registration often involves regional or municipal authorities. Local governments may also play a role in issuing operating permits and building permits, and in overseeing respect for employment legislation. In Tanzania, for example, each local government is supposed to set up a business registration centre⁴. Local governments may also be involved in valuation and inspection of land and property (e.g. Nigeria, Lesotho, and Ghana) or issuing declarations that taxes have been paid (DR Congo). Another registration and administration role of local government is emerging around land titles and deeds regarding transactions. In Benin, for example, copies of land sales or rentals are kept by local government (for a fee) for safekeeping. Local government is also involved in converting farm land into residential areas, allocating plots and issuing certificates which allow people to occupy the land.

Entrepreneurs may not be aware of the regulations that are important to them, nor which public department or agency they can approach for questions and concerns. So-called one-stop shops or special windows for the private sector are being proposed all over the world (the Netherlands, Bolivia, Vietnam etc., see *box 1*) to make the registration and administration process more efficient for the private sector. They are mostly set up in cities or at the district level.

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTURBANDEVELOPMENT/EXTLED/0,,menuPK:341145~pagePK:149018~piPK:149093~theSitePK:341139,00.html>

³ <http://www.doingbusiness.org/>

⁴ See Business registration act, 2005.

Box 1 One-stop shop in Vietnam and Bolivia

The objective of one-stop shops in Vietnam is to create a single window for administrative services required by citizens and the private sector so as the delivery of these services will be more efficient, effective and transparent. Some examples are notarisation and authentication; business licensing, construction permits, land administration related permits etc. The program started in the early 1990s in Ho Chi Minh city and has since then spread to districts and 562 one-stop shops were established in 2002. The results were positive. Users of local government services were more satisfied. Staff of local government was also satisfied, even though it has increased their workload.

In La Paz, the capital of Bolivia, IFC has also promoted the development of one-stop shops to reduce the complexity of business registration. They started by training of civil servants and upgrading information technology. An analysis of the efficiency of the registration process resulted in the reduction of the number of steps by 70%. Following the introduction of one-stop shops in La Paz, the time it took to register a business was reduced by 90% while the number of applications increased by 25%. The same approach has now been extended to other urban municipalities in Latin America.

2.2 Taxes and levies

Taxes and levies provide the resources required for running the local administration and for investments, including in local economic development. The degree of fiscal autonomy local governments have varies from one country to another. Local tax and levy collection is an important source of revenue for local governments and complements central government transfers, grants from donors and other external project funds. Local governments are interested in high levels of local revenue income, since internally-generated revenues are not earmarked for a particular use.

The possibility for local “resource mobilization” depends on the extent to which local governments are authorised to collect taxes and levies, such as market tolls, development tax, shop licences, service fees, taxes on vehicles, motorbikes, minibuses etc; levies on mining and quarries, levies on fuel wood, charcoal and timber and sometimes on land and other properties. Taxation has a pro-poor dimension, such as through the choice of products or services that will be taxed. When flat tax rates are used, a larger tax burden is placed on the smallest enterprises. Where local tax rates vary from one council to another, and across markets and commodities, markets and competition are distorted, while those having to pay more will perceive this as unfair. Here, coordination between local governments is needed.

Excessive taxation can harm local economic development and damage relations with private sector actors. The fee for business licences, for example, can become a burden for enterprises that want to become formal. Moreover, tax collection methods can be perceived as harassment, and even discourage formalization if more visibility attracts even more “pestering” for fees, levies etc. (Bahiigwa *et al.* 2004). A related issue with respect to the perceived legitimacy of tax collection is the efficiency and transparency of the collection system and resource use by local government.

Interestingly, local government’s need for more tax collection can be used as an opportunity to enter into dialogue with the private sector and improve the governance of the tax collections systems. In Mali, improved market toll collection systems are being developed to raise revenues for local government and simultaneously improve marketing conditions. Part of the collected taxes has been used to upgrade infrastructure. In Ghana, taxation of small enterprises has led to more engagement with private sector organisations and support, though particularly in more urban areas (see box 2).

Box 2 Local government and a private sector organisation jointly set fees and collaborate on collection in Ghana

In Ghana, district assemblies (DA) are authorised to levy and collect taxes. These include fees, fines, rates, licences and taxes chargeable on the income of self-employed persons. Internally generated resources (IGR) constitutes on average 14% of the total budget.

To improve the collection of taxes and licences, Kpando District Assembly has developed a communication strategy. Firstly, private sector organisations (PSOs) were invited to participate in meetings on fee-fixing. Secondly, support to private sector development is being discussed in district assembly meetings, and funds have been made available for SMSEs (through Poverty Alleviation Fund). The District National Board of Small Scale Industries now also provides advice and training on business development and marketing for these groups. There are two conditions for eligibility: formally recognised and being a member of a PSO. Licences are better paid now. Some PSOs collect the fees from their members and pay it collectively to the DA.

This form of cooperation between the private sector and the DA is working well for some type of enterprises in urban areas, where access to business development services is relatively easy. Advantages are much less for the more informal and smaller rural enterprises.

In the next section, we discuss in more detail the role of local government in natural resource management. Taxes or levies on natural resource use such as firewood and timber, and access to grazing lands, are all potential sources of revenues. The challenge for local government is to balance the short-term interest of maximising revenues with the long-term interest of sustaining the resource base.

2.3 Physical infrastructure and other investments

Appropriate physical infrastructure is a major determinant of production costs, product quality and market access. Electricity, roads, water supply, sewage facilities, telecommunication services, business land and workspace are critical factors for economic development. For example, access to electricity determines the type of technical processes that can be used. Poorly maintained roads increase the cost of production and marketing. Access to telecommunications networks is essential for market information and for making deals and may reduce travel expenses. Lack of access to adequate running water and sewer facilities affects production capacity in food processing enterprises.

According to law, local government may be responsible for some of these investments, such as spatial planning and the provision of legally demarcated land for business development, maintenance and supply of feeder roads and basic utilities such as electricity and water. Their contribution to actual investments in infrastructure is likely to be limited given their weak resource base, but they can attract and facilitate investment from the private sector, from projects and from government agencies. Telecommunication services are increasingly provided by the private sector. Mayors in Benin and Cameroun, for example, are lobbying government and agencies for electricity, roads and water points.

In Cameroon, the commune of Bikok secured resources from a national-level development fund (through an investment of 10% of the costs by local government) for improving the main road in the commune, which tends to be impassable during the raining season. The mayor of the commune of Aguégué in southern Benin lobbied central government for access to electricity and for investment in an irrigation scheme. The mayor of Glazoué, again in Benin, used local government resources to pay the salaries of a number of extension workers to support cotton production and feeder road maintenance. In Mali, local governments have invested heavily in economic infrastructure through the Local Government Investment Fund. Between 2002 and 2006, 251 projects were completed, such as the construction of markets, slaughterhouses, public transport stations, cattle markets and vaccination posts. In the southern regions of Mali, communes have

managed to mobilise resources for small-scale irrigation and watershed management to develop agriculture. Another development in Mali and Benin is that, increasingly, communes cooperate and share costs of inter-municipal infrastructural projects to improve regional mobility and market access (ANICT 2007; Dongmo Tsozbe et al. 2007; Langley et al. 2006).

2.4 Quality of service delivery: Reliability and transparency

Private sector organisations often refer to governance attributes (transparency, reliability) around the issuing of permits, licences etc. when they are asked to rate the performance of the public sector. They value an efficient and fast process that is accessible, predictable (procedures are correctly implemented) and transparent and maintains a level playing field with competitors.

Another important aspect is the cost of the service, including transaction costs for the demander and timely provision of adequate information on what is required and how to achieve this. However, improving procedures and regulations may not be easy because some of the 'inefficiencies' are a source of income to some and offer opportunities for political patronage or unfair competition (e.g. access to export licences).

Resource-poor entrepreneurs may find it harder to deal with all the regulations. In some countries, tax, labour and environmental regulations have been waived for small firms, but it is argued that this type of general support may hinder rather than help local economies if it condemns the communities to low-level economic stagnation, degradation of the environment, and violation of worker rights (Tendler 2002).

Local government officials are not automatically acting transparently, focus primarily on sustainability or act in the interest of all citizens. They have to deal with pressure from political authorities and commercial interest, as well as servicing a local clientele. Councillors and staff may be oriented more towards the exigency of administrators, government officials than the interests of the local population. There is increasing apprehension also of the potential risks of politics⁵ intruding upon the management of local affairs (Banzhaf *et al.*, 2000 in (Crook 2003; Thiéba 2003).

Some local government councillors may give priority to the economic interests of the elite. One only has to look at the way that residential plots have been managed by urban and rural municipalities to get an idea of some of the risks involved. Local governments are often actively involved in the process of converting agricultural land to residential plots by authorising the conversion (planning decisions), and sometimes in the allocation of plots for housing and registration of occupancy (Bagré et al. 2003). "Good" economic governance assumes that certain groups or interests do not unduly influence decision-making and the allocation of resources.

⁵ Cases have been documented in Mali and Niger of attempts by customary authorities to reduce interference from political parties and party struggle by developing their own list which was then offered to a prominent party (Hilhorst & Coulibaly 2004); in other situations powerful clans seek to become mayor, to protect their interests over natural resources (Cotula & Cissé 2007).

3 Local government contribution to management of natural resources

The state of a natural resource can vary depending on the area, the season and the year, and at the same time there are many groups of resource users, particularly for the “commons” (forests, grazing areas, water bodies and watersheds). All this variability demands adaptive management systems - at the appropriate level and for that type of resource - and (legal) space for “subsidiarity” in decision-making. These negotiated rules and regulations may address bushfire surveillance brigades, marking out livestock tracks, fixing periods for harvesting wild fruits or for entering grazing lands, setting quotas for resource use (fuelwood, timber), and protecting regenerating forests. This type of action would also contribute to preventing and reducing conflicts over resource use.

Decentralisation has often resulted in the formal superposition of a new governance structure on top of existing customary institutions, which are particularly important in the field of natural resource management. To be effective, local governments have to involve these local institutions in natural resource management and thus reconcile legitimacy and legality (Benjamin 2006). In fact, local governments in rural areas are well-placed to strengthen decentralised management of natural resources and support performing and legitimate governance institutions. Local government can provide the platform for including local actors in natural resource management, give support to local conventions and other types of regulations that have been negotiated by various users’ groups to enhance sustainability and prevent conflicts, and local government may have some discretionary space to adjust national policy to local circumstances and local priorities. They may also be asked by local users to intervene when conflicts emerge. (Djiré & Dicko 2007; Lavigne Delville 1999; Ribot 2002).

Clearly, local governments in rural areas offer great potential for more sustainable and equitable natural resource management. Land use planning, integrated management of water resources and environmental protection is part of the mandate of local governments. They may also become involved in registration and administration of land tenure and transactions (Niger, Mali, Burkina Faso, Ethiopia, Burundi, etc.). However, despite the various laws setting set out their responsibility for natural resource management, the effective transfer of powers and resources to local government is often delayed. Although in practice this has not prevented them from getting involved (through other mandates, such as securing local peace), delays are not facilitating their work.

Realising the potential of decentralisation for natural resource management requires a repositioning of central government. The role of central government should evolve towards setting policies, guiding, informing, supervising, inspecting and arbitrating, while making sure that exclusion and social injustice do not develop in the name of autonomy. The role of central government is also to ensure that local governments safeguard natural resources and biodiversity, in accordance with national policies and international commitments. It is essential that future policies support decentralised management of natural resources more actively, by supporting and building the capacity of local governance institutions and by promoting innovations towards more sustainable management of natural resources and water bodies [\(Hilhorst, 2008\)](#).

4 Procurement: local government as a client for private sector services

Local governments purchase goods and services. They procure advisory services, may tender for the construction of infrastructure and may outsource the provision and maintenance of public utilities such as drinking water, markets, and even tax collection, and can outsource some of their responsibilities or give out concessions (forests, quarry). Local government can be an important client for the private sector, and they can use this influence to guide the type of economic growth and employment generation. They can privilege local enterprises, although they will have to stay within the terms of law on procurement and free competition. They can also specify the work in such a way that they become highly intensive in terms of labour requirements (for example infrastructure-led economic development).

It is estimated that in Uganda, for example, one third of all procurement by the state is handled by local governments⁶. In Bolivia, local governments have influenced the system for sourcing school meals, emphasising the importance of buying locally-produced food. The Ghana school feeding programme intends to build a similar type of markets for local producers. This 'market' function of local governments will become even more important when more resources are transferred to them and where local resource mobilisation is successful.

Procurement systems can be used to promote pro-poor development and job creation. In South Africa, legislation has been put in place to promote pro-poor economic development and local employment creation by means of a preferential procurement framework for goods and services that targets local companies, and in particular small firms and companies owned by persons from previously disadvantaged communities (i.e. Black Economic Empowerment). The policy has worked best in larger towns where more small businesses are present. The results improve when municipal officials are more aware of the situation of small and micro-enterprises and how to draft tender documents, but also more knowledgeable about the possibilities of using more labour-intensive approaches and to improve quality. Other countries that use local government procurement to promote local development are Bolivia, Brazil, Namibia and the Philippines (Rogerson & Vorster 2003; Ton & Mendoza 2007).

Elsewhere, the scope for a preferential procurement policy may be restricted when existing regulations set high minimum conditions for companies to be eligible for procurement (e.g. in Benin, possession of a 4x4 vehicle and recruitment of an engineer for firms that want to tender for construction contracts). Lack of transparency and even corruption in procurement systems may undermine the development of a healthy private sector that delivers good quality. Flawed procurement systems benefit enterprises that have good relations and are prepared to pay, not those that work well (for an example from Cameroon, see Dongmo Tsozobé et al. 2007). It is hard for local governments to change the outcome of flawed procurement processes and put pressure on the entrepreneur selected to deliver good quality work. They need to collaborate with other stakeholders and find allies in ministries that require good quality infrastructure for improving service delivery.

Situations where the private sector is formally or informally involved in providing utility services are also emerging, such as in Benin's water sector, where the management of water points is outsourced to an entrepreneur following a bidding process. However, there are risks involved for those local governments that lack experience and resources. Local government may sign up to contracts that give them a poor deal due to their limited capacity to negotiate⁷ and supervise. Adequate cost-benefit analyses are needed to make appropriate decisions (Plummer 2000). Municipalities need to share lessons and experiences with signing different kinds of contracts with the private sector, because a lack of exposure to information perpetuates weak partnerships.

⁶ http://www.busiweek.com/index.php?option=com_content&task=view&id=1317&Itemid=58

⁷ Many of the older PPP water and sanitation contracts lack a poverty-focus. There is a need to improve targeting and to reconsider the scope and processes of delivery. Skilled specialists are needed to support municipalities achieve pro-poor objectives.

5 Coordinating dialogue and partnerships to promote private sector development

5.1 Dialogue

Misunderstanding, uneasy relationships and distrust between public and private sector actors are common in many countries, resulting in limited responsiveness of public sector institutions to requests voiced by the private sector. Insufficient communication processes may lead to inadequate policies and programmes that sometimes even aggravate the business climate, which inhibits growth, investment and poverty reduction.

A better dialogue and more communication between the public and private sectors can be a first step to improving the economic environment, policies and regulations. Local economic development (LED) can be approached as a partnership between the business sector, community interests and municipal government aimed at building the economic capacity of an area. It is argued that governments engaging in genuine dialogue are more likely to promote sensible, workable reforms, while participating businesses and farmers are more likely to support these reforms. This “LED” strategy is promoted by ILO, branches of the World Bank and has become policy in South Africa. According to ILO, it is an empowering strategy when compared to traditional development policies (see Box 3). (Bannock Consulting 2005; Herzberg & Wright 2005; Jutting 2003; OECD 2006).

Box 3 Local Economic Development strategies according to ILO

- Empower local societies and generate local dialogue. People living in areas of the world that have until recently had little say or control over the economic activity taking place in their territory, begin to adopt a more proactive stance with regard to their own future;
- Help to make local institutions more transparent and accountable and contribute to the development of the local civil society;
- Make economic activity dependent on the specific economic conditions and comparative advantages of a defined territory, generate sustainable employment in firms more capable to withstand changes in the global economic environment;
- Contribute to a general improvement in the quality of jobs as a result of the involvement of local stakeholders and of the rooting of economic activity in a territory.

Source: <http://learning.itcilo.org/entdev/led/>

The challenge is to arrive at an exchange of expectations regarding roles and responsibilities, which could form the basis for working towards a functional and transparent relationship between the stakeholders. Through dialogue, the first goal is to build trust and bridge perceptions in order to lay the foundation for a joint problem analysis.

A poor enabling environment in terms of overly complex legal and regulatory frameworks, registration, licensing and tax regimes, corruption and limited support, is an obvious area for dialogue. This problematic relationship with public officials makes entrepreneurs reluctant to trust the government in the first place. For many, their only contact with government is through tax collectors or the police over regulations (Bannock Consulting 2005).

Local governments can play an important role in promoting partnerships and collaboration on natural resource management and conflict prevention by showing direction and promoting equity (preventing certain areas and communities from being ‘forgotten’). For this to happen, elected councillors and local government staff need to accept being part of non-hierarchical, collaborative relationships, and welcome citizen participation. Politicians, whether seasoned or newly-elected, often need to develop skills to understand the potential of these partnerships and the council’s partnering role and responsibilities. Municipal officials and policy-makers may also need capacity

building focused on building effective public-private partnerships for the delivery of municipal services.

5.2 Private sector organisations

There is a risk that local policy dialogue to promote private sector development will be dominated by an elite with privileged access to political and governance structures. To prevent this, micro, small, and medium enterprises (MSME) and farmers need to be well-organised and focussed. Structures and process are needed that deliberately elicit the participation of poorer and marginalised farmers and businesses in policy formulation and implementation. This requires more insight into approaches and mechanisms which ensure that MSME, the informal sector and smaller agricultural producers can voice their concerns.

The presence of well-organised, accountable and capable private sector organisations, that also represent the interests of poorer groups, makes public-private dialogue and collaboration more pertinent (*see Box 4*). In most countries, there is a shortage of associations that represent the diverse issues of specific sub-sectors or product groups at all levels, from local to central. Where such organisations do exist, they often lack capacity and resources to effectively voice the opinions and concerns of their constituency, and thus become an effective dialogue partner.

Box 4 Private sector organisation

At the local government level, producers may be organised in cooperatives or business associations. Sometimes a national chamber of commerce or agriculture may be represented. Many grassroots-level private sector organisations are not linked to apex private sector organisations such as chambers of commerce at the regional or central level, which potentially could have taken care of their interests in national-level dialogue processes.

Federations of farmer organisations have a wider membership of local-level organisations and co-operations but internal communication and dialogue may be too limited. National-level umbrella or apex organisations would be the best way for the private sector to express its voice in central-level policy discussions, but few such organisations exist that truly defend mutual interests. Most chambers of commerce, chambers of agriculture and other business organisations bring together only a small part of the private sector (Bannock Consulting 2005).

At the national level, private sector organisations (PSOs) include national chambers of commerce and chambers of agriculture and their branches at sub-national level; organisations that are organised around a certain product (coffee, cotton, cattle) or a line of business (farmers, traders etc.)⁸. All-purpose business associations tend to have many members (membership is in some cases compulsory) and address a broad perspective of the business environment, but they may have less in-depth knowledge of sector issues or specific MSME concerns. In turn, sector organisations and specialised membership organisations (MSME, farmers) have a deeper understanding of their areas of work, but perhaps less of the general business environment. Few poorer entrepreneurs are members of business organisations and when they do join, their specific interests tend to carry limited weight. Often membership fees are relatively high for MSME in comparison with the immediate value of the services delivered.

Strong farmers' associations and other business associations, which genuinely speak for MSME, can be extremely helpful in making sure that their concerns are heard. Two policy approaches are needed: encouraging self-organisation by MSME and cooperation with apex organisations, and stimulating these organisations to become more representative (MSME membership) and enhance awareness and understanding of MSME issues. Policies in relation to existing farmers' and business organisations need to focus on organisational strengthening and promoting mechanisms that enhance accountability and transparency in their way of working, as well as capacity building on

⁸ (Former) state-owned enterprises, some international companies and larger firms might find it easier to maintain informal dialogue with government officials, while looking for one-to-one deals (OECD 2006).

issues such as sub-sector analysis, lobby and advocacy in order for them to participate effectively in local public-private dialogue (OECD 2006).

The next challenge is the quality of participation. Even when farmers and MSME organisations are invited, the effectiveness of their participation may be limited. Small businesses' voices often are drowned out. Without a more equitable dialogue, local governments tend to follow the loudest, most powerful voices, which rarely speak in the best interests of broad-based private sector growth, let alone poverty reduction (Herzberg & Wright 2005; OECD 2006).

The design, preparation and quality of dialogue facilitation can prevent the process and issues covered from being dominated by larger, more powerful businesses. MSME and farmers may need training and coaching before starting the dialogue, so that they learn how to present their case effectively, as well as assistance in designing consultation mechanisms and soliciting feedback from their constituency (OECD 2006).

5.3 Partnerships

Service provision by local government to the private sector is more effective and sustainable if it's embedded in a form of cooperation or partnership that matches supply and demand and provides the opportunity for shared decision-making and problem-solving.

After dialogue has been established and local government brought on board, the next step is to build local partnerships that seek to address development, employment creation, and maybe even enhanced local competitiveness. The actors may engage in a form of strategic analysis and planning, which ensures that priority issues are addressed and scarce resources well-targeted, while building a conducive environment for private sector development. They jointly analyse sub-sectors and markets, discuss policies and assess regulations.

Concerning the local "territory", discussions on public service delivery and synergy are best coordinated by local government. Partnerships that focus on the relations within a particular sub-sector or value chain, however, may be best coordinated by a private sector actor, with local government as one of the invitees. Implementation of the agreements is then carried out by all actors involved, according to their abilities and strengths (Swinburn *et al.* 2006).

One example of this approach is ECOLOC, which was developed for West Africa by the Club du Sahel and the Programme de Development Municipal (Bossard 2001; Cour 1999). The focus of ECOLOC is on secondary cities and their rural-urban linkages. Although the approach included consultation and planning of activities, in reality most efforts were spent on studies.

5.4 'Municipio productivo'

In Bolivia, using an approach referred to as "municipio productivo", local governments encourage economic development in coordination with private sector organisations, and technical support is provided by specialised ministries. Activities include the facilitation of fora for public-private dialogue to develop a joint vision on private sector development.

During these discussions, the impact of existing regulation on private sector development is analysed and the responsibilities and roles of local government in these processes is addressed. The private sector has also tried to convince local government to restrain their active involvement in productive services provision, beyond upholding rules and regulations around private sector development. Local government must represent the public interest and prevent harm to the general interest (health, pollution, employment conditions, prevent discrimination etc.). The responsibility of local government in promoting a rational, sustainable use of natural resources by promoting and upholding regulations and even enforcing protection was frequently mentioned (Valderrama *et al.* 1999).

Local governments have also become a niche market for the private sector, which may support value chain development for those enterprises that manage to comply with the administrative requirements (Ton & Mendoza 2007).

The Bolivian approach has led to more constructive relations between local government and the private sector. It has resulted in the joint undertaking of sector studies. Activities supported by local government are the organisation of trade fairs and support to the development of regional products accompanied by labelling and certification. Some exchanges even culminated in public-private project proposals in, for example, tourism and a milk value chain programme with farmer organisations.

Another promising development is coordination with NGOs specialised in agricultural service provision to ensure that these services are available to the population in their territory. In Bolivia, central government has stopped providing agricultural extension services on the assumption that local governments would take on this responsibility. This did not happen in practice because local government regarded extension services as a central-level responsibility and lacked the funding to engage in this type of activity.

6 Conclusions

Local governments can contribute to private sector development in a number of ways. They will have to analyse better the effect of local regulations, taxes and levies on private sector dynamics; target their infrastructure investments also to the needs of the local private sector; facilitate sustainable management of natural resources; and consider local suppliers when buying goods and services. Local governments can also become a catalyst for coordination, innovation or services provision by promoting dialogue and partnerships.

However, the role of local government should not be exaggerated. Local governments are one actor among many involved in productive service delivery, such as financial institutions, traders, input supply, innovation services etc. They are not necessarily the most important structure, and other levels of government (regional and national) also have a role in policy making and large-scale investments. The challenge is to improve vertical linkages and communications to ensure that issues that cannot be dealt with locally and should be addressed at a higher policy level are indeed taken up.

Local government planning and budget allocation is based on a multi-annual local development plan. Although economic development opportunities are included in the inventories, these assessments tend to be rather general and descriptive, and a solid analysis of what “pro-poor” development implies is often lacking. Moreover, the degree of consultation and meaningful participation of private sector actors tends to be limited. Even when a local government development plan highlights economic potential in its territory, the actions identified tend to focus on the taxation potential. There is much less attention for how local governments could contribute to economic development and who the key actors should be⁹. Local governments are not well informed on the requirements of private sector actors, and there tends to be a lack of dialogue between public and private institutions. A shift in emphasis from controlling towards facilitation and service orientation may be called for.

Local governments need to become more aware of their role in economic development, which is not always obvious to them, and interact more with the range of private sector actors in their territory. Parts of the public sector do not believe that such public-private dialogue is useful. At most, they may regard the private sector as a useful ‘cash cow’. Local government authorities need to understand that by collaborating with the private sector they stand a greater chance of achieving their development objectives and improving their revenue base. At the same time, the private sector should understand that it has obligations, such as respecting rules and regulations, as well as rights, such as the right to expect accountability and better services and to be consulted on policy making.

The ability of local governments to facilitate private sector development depends on the legal framework that sets out their authority, their mandate and the resources available to them. Another aspect that is critical for the performance of local government is the quality of management, the availability and performance of staff¹⁰ and local government efficiency of resource use. The private sector needs to be reassured that agreed policies, systems and procedures are applied, respected and enforced by local government and other public sector actors. Related issues are whether engagements and commitments are honoured and whether interactions are respectful. All these issues refer to the legitimacy of local government and whether it is perceived as a trustworthy and credible partner by local entrepreneurs and farmers.

⁹ Or the plan may be overtly interventionist (a variation of top-down development planning) such as suggesting that all actors in a commune should specialise in one commodity, as is proposed in the local government plan of Bikok in Cameroun.

¹⁰ Local government may have its own staff and departments or host ‘deconcentrated’ branches or just staff of line ministries.

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