Local Economic Development:

Unpacking potentials for accelerated transformation of Tanzania

CONCEPT NOTE

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If development is to benefit the people, the people must participate in considering, planning and implementing their development plans (Nyerere, 1979, p.41)

Background

Local Economic Development (LED), is now among the latest preoccupations in development reflecting the industry's shift from focusing on large and obtuse concepts and entities to smaller more manageable parts that can be joined up together (du Plooy, 2017; Khambule, 2018). LED relates to a participatory process that enables individuals and different types of market and non-market entities to utilise spatially proximate resources to engage in economic production and distribution of rents that create better conditions for economic growth and employment generation (Swinburn et al., 2006). LED focuses on identifying and utilising primarily local resources (and capital), ideas and skills to stimulate economic development (Sekhampu, 2010).

Globally, the current focus on LED is reflective of concerns over the limited utility of aggregating the contributions of vast (and occasionally) distinct populations into countries or economic regions (for example, Sub Saharan Africa or the developing world) which obfuscates the contribution (and indeed effect on) of productive sub-national entities. This is nowhere more pronounced than in Africa where a combination of large country sizes, inadequate regulatory environment, challenging infrastructure and uneven development and distribution of resources, has impacted sub national level spill-overs of agglomeration benefits (UNCTAD, 2018; World Bank, 2017). Rather than aid the development of local populations, the agglomeration of economies has itself hindered the distribution of economic rents. The result has been a spill-over of disbenefits as uneven development of people, infrastructure and capital has ensued within polities and geographical sovereignties. Attendant effects of uneven development have also been evident with inequality of income, opportunities, services, rights and governance at the fore. Evidence of uneven local development has been pronounced in some regions, with 7 out of the 10 most unequal economies being found in Sub Saharan Africa (Beegle et al., 2016). Rather, paradoxically, inequality in such regions has grown in recent years despite record flows of investment (Shimeles and Nabassaga, 2018). Quick attempts to rationalise such trends point to a prevalence of sub optimal policy outcomes (Andrews, 2008), mainly driven by the fallacy of decomposition—the mistaken notion that what is true of an individual is necessarily true of a group.

The attractiveness of LED as a development strategy owes much to its supposed ability to create contextually-relevant organizationally flexible entities capable of responding to changes and demands of local, national and international market economies (Swinburn et al., 2006). The idea is that LED strategies empower geographically small entities to realise their economic potential by exploiting resident comparative advantages in labour, technology, land and capital. LED encourages sub national governing authorities to compete with others in the creation and distribution of economic rents. LED often leads to the creation of sub national bases for the production and value addition of goods and services. In exploiting their economic potentials, sub national authorities are forced to review and rationalise their decision making, creatively translate national level policies, local business environments, service delivery and their decisions with local populations. These, in turn, help communities to strengthen the local economic capacity of an area, improve the investment climate, and increase the productivity and competitiveness of local businesses, entrepreneurs and workers.

At its core, LED primarily concerns the creation of local coalitions of authorities, communities, businesses and individuals to exploit local benefits and solve local problems. These attributes are certainly not new in the development discourse. They evoke memories of "participatory approaches to development" that characterised much of the development discourse in the immediate post-independence era of the 1960s and 1970s (Cohen and Uphoff, 1980; Cornwall and Brock, 2005). Historically, LED strategies first emerged in the 1960s -1980s as local partnerships to enable local authorities to compete within national boundaries for manufacturing investment, hard infrastructure investment and outside investment. LED subsequently evolved to focus on the retention and growth of existing local businesses underpinned by more specific- inward investment attraction in the 1990s as the drive for a decomposition of national economies began to prioritize the recognition of sectors, clusters and value chains. Presently, global LED focuses on soft infrastructure (supporting services) investments, public-private partnerships, networking and making the entire business environment more conducive to business (Patterson, 2008).

Unfortunately, in Tanzania, LED appears to have remained rooted in its Ujamaa-era conceptualisation as a goal of participatory engagement (Green, 2010). Thus, LED has for long been seen as an extension of localizing implementation of national policies within the framework of various forms of decentralization and service delivery but have provided little space for the promotion of local economic agents, and articulation of local distinctiveness. As a result, some major investments have not been associated with corresponding transformation of local economies and societies. For example, despite Tanzania witnessing a natural resource driven increase in foreign direct investment (FDI) from 172 USD million in 1998 to 1180 USD million in 2017, local areas where these resources are located have remained impoverished, unable to adequately absorb these vast flows of capital. Some of the areas with vast concentration of gas and mineral deposits in Tanzania continue to have above national-average poverty rates of 43.7% and 33.9% (Geita and Mtwara, respectively). Weak linkages among and along productive value chains, as well as between value chains and local communities have played a key role in undermining the country's absorptive and transformative capacities (World Bank, 2017) necessary for realising the utility of capital flows. For example, the latest Diagnostic and Trade Integration Study (World Bank, 2017) suggests that only 60% of the produce sold to the local tourism industry is sourced locally. This is despite tourism being Tanzania's largest foreign receipt earner and agriculture providing the main source of income for over two-thirds of the population (NBS, 2015). Weak local productive linkages have stifled local competitiveness, product diversification and employment.

Yet, Tanzania is not alone in failing to harvest the benefits of LED. Experiences in South Africa (another mineral rich country with a long history of LED) suggest that the ability of communities to improve the quality of life, create new economic opportunities and linkages with productive sectors of the economy, and fight poverty depends upon them being able to understand the processes of LED, and act strategically in the changing and increasingly competitive market economy (du Plooy, 2017).
These experiences warrant a review of how to design and make LED a viable policy option. While a consensus exists about what it can produce (its normative appeal) (Green, 2010; URT, 2016), there is less clarity and specificity over what it takes to actually make LED work and how to do so.

The 24th REPOA Annual Research Workshop

In response to the largely theoretical anchorage of the key concept of local economic development, the theme of REPOA's 24th Annual Research Workshop will be:

Local Economic Development: Unpacking potentials for accelerated transformation of Tanzania

The overall aim of the workshop is to provoke and promote policy dialogue and research on LED as a viable policy strategy in the transformation of the economy. This will include a closer look at LED as a necessary process in leveraging Tanzania's comparative advantages; global value chains and options for strategic linkages to enhance competitiveness in agriculture, industries, and other sectors; and how local authorities can promote local economic growth and create employment opportunities. This is the fourth consecutive workshop that closely analyses key features of Tanzania's current five-year development plan 2016/17 – 2020/21, offering a timely review of its implementation and reminding all stakeholders to assess their contribution towards meeting its objectives.

Specific objective of the workshop is:

To provoke and promote policy dialogue and research on practical realities of local economic development in accelerating economic transformation towards an industrial-driven and competitive economy aspired in the National Vision 2025.

Key questions to be explored will be:

i) How can Tanzania realistically exploit spatial disparities in development to empower local communities and LGAs to sustainably utilize resources in their localities for inclusive socio-economic development

- a) What are the key constraints to promoting LED, and what policy and institutional instruments are needed to address them in the context of the current global economic landscape and Tanzanian's growth trajectory?
- b) What role can the state and private sectors play individually and collectively to enhancing LED?
- c) How can the national development policy and regulatory framework facilitate LED in Tanzania?
- d) How has the existing Decentralization-by-Devolution Policy promoted or constrained LED activities in the LGAs?

ii) How can Tanzania leverage LED opportunities to help its disadvantaged populations and widespread informal economy?

- a) How can local authorities create dynamic and competitive employment opportunities capable of attracting and consolidating capital flows?
- b) How can local authorities innovate and adapt existing national-level policies for enhanced employment creation and sustainability?
- c) How can local authorities tackle pervasive informality in the labour market for inclusive development and distribution of rents?
- d) How can local authorities with limited resources lobby with the central government for more resources to enable them to actively engage in LED?

iii) How can Tanzania tap from the experience of other countries such as China, India and Europe in leveraging from global value chains through frugal innovation?

a) How can Tanzania create and nurture LED coalitions to take advantage of global value chains to promote frugal innovation?

b) What role should different actors (central government, local government authorities, and NGOs) play in promoting frugal innovation?

c) How can Tanzania enhance absorption of innovation from global value chains?

Proposed subthemes:

Along with the main theme of the workshop, dialogue will be structured to include important elements that derive from the process of structural transformation, which in themselves warrants special policy attention. The following three subthemes are proposed:

Sub-theme 1:
Pervasive Informality and Elusive Jobs: Challenges and Implications for desired Local Economic Development

Despite implementation of MKURABITA 2004 and other formalization promotion initiatives, the Integrated Labour Force Survey (ILFS) 2014 found that more than 2 out of 5 (42.5 percent) of all households in Mainland Tanzania have at least one member engaged in informal businesses. In absolute terms, the number of households engaged in the informal sector has increased from 3.3 million in 2006 to 4.3 million in 2014. It is widely acknowledged that the absolute size of this figure would be significantly higher were workers in Agriculture (most of whom are informal and work in non-decent employment) were to be incorporated in official statistics.

In addition, even in instances where self-employment is in an option, local participation in production is often unsustainable. According to the National Baseline Survey of non-farm Micro, Small and Medium Enterprise Survey (MSME 2012) the average lifespan of small businesses in Tanzania is 4.1 years. Some 18.5 percent of all small enterprises close within two years of their inception, with enterprises in Retail (69.6 percent) and Services (25.6 percent) the most affected. The precariousness of local self-employment has been associated with at least one of: insufficient working capital, poor access and utilization of markets, and a lack of competitiveness (Edwin, 2016).

In addition to being spatial, both informality and unemployment affect women and youth more than other demographic groups. According to the Integrated Labour Force Survey (ILFS 2014), unemployment among women is considerably high at 12.3 percent, compared to their male counterparts (8.2 percent). Similarly, unemployment is highest among young people aged 15-24 (13.7 percent) compared to other age groups or the national average of 10.3 percent. On average women and youth earn between half (51.6 percent) and four-fifths (80.7 percent) as their male counterparts or other age groups in paid and self-employment respectively, while more than twice as many women as men operate as under-paid and unprotected workers in the private sector.

Both dimensions warrant a careful exploration within the wider local development agenda.
Thus, the workshop will seek to explore, among other concerns, how to tackle the emerging challenges, and how LED can be harnessed to address the pervasive informality and elusive jobs in local economies.

Sub-theme 2:
Spatial Variations in Resource Endowments

Agriculture, forestry, fisheries, minerals, oil and natural gas together currently account for over a third of the gross domestic product (NBS, 2017). In some localities, such as those in the Lake Zone, these account for over 70% of all local revenue sources. Yet the transformation of agriculture and other primary sectors (including artisanal and large-scale mining) remains key to transforming the wider economy given its linkages to value chains, declining contribution to GDP and large share of employment. Recent years have witnessed a hype about the prospective gas economy in Tanzania, following large offshore discoveries of natural gas. While natural gas has attracted massive inflows of FDIs and contributed to significant generation of electricity, its utilization is still far from optimal in transforming the economy.

Further, as the location of such resources remains unevenly distributed across Tanzania, it is imperative that regions and districts establish key economic drivers in their respective regions and districts and focus on developing them. As the country strives to industrialize, regions and districts alike should try to link these key economic drivers in their localities with the industrialization process. Particularly agriculture, livestock, fisheries, forestry, etc should have direct links with value addition and industrialization.

However, there is evidence that the public is apprehensive about the corrupt influence of some prominent private local economic actors (Cappelen et.al, 2016). Thus, the workshop will seek to explore the prospects and challenges of using Tanzania's natural resource endowment for enhanced LED that can produce sustainable employment growth and poverty reduction.

In addition, the workshop will discuss alternative ways of harnessing opportunities of increasing significant of global value chains for producers in developing countries to learn and upgrade through frugal innovation, and to mitigate the negative effects of such processes where local conditions fail to support local adaptation or innovation diffusion.

Sub-theme 3:
Inter-governmental relations and empowerment of local authorities for desired local economic development

Tanzania has been implementing decentralisation reforms for over three decades. The country currently has some 185 local government authorities (LGA) that are meant to be the coordinating entities (along with Regional Administrations) of local development plans based on the principle of subsidiarity. Yet local governments have been unable to contextualise national development priorities, promote effective local planning, and monitor local implementation (URT, 2016). This has stalled the realization of LED initiatives and self-deprived LGAs of vital sources of income. Generalised frustrations within the Central Government over the inadequate decentralisation and devolution of governing authority have seen the recent recentralization of some sources of local revenues and functions (Lyon et al., 2018). Perhaps not surprisingly, this has demoralised rather than challenged LGAs to improve the effectiveness of function.

A recent study estimates that most LGAs depend almost 90 to 95 percent of their financial requirements from the Central Government through the intergovernmental transfers, and often, the ratio of actual flows against the approved budgets has not being satisfactory (Mushi and Kessy, 2017). The reduction in the financial wherewithal of LGAs places at risk their capabilities to coordinate among others Micro Manufacturing Enterprise (MME) Parks and support agricultural led industrialization, two potential LED initiatives described in Tanzania's Integrated Industrial Development Strategy 2025 (URT, 2011). Diminished local capacity has led among others to the shelving of the Government's Village Empowerment Fund (Tesha, 2018), worth TZS 50 million per village.

Weak LGA performance notwithstanding, LED initiatives have also been undermined by poor budget performance by the central Government to the tune of 30.8 and 25.3 percent of all planned local empowerment expenditure in 2016/17 and 2017/18.

Considering these developments, the workshop will examine how LGAs can be adequately empowered to facilitate LED.

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