



**ICMD CIDM**

# **Municipal Role in Private Sector Development**

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## Introduction

The central role of municipal government in local governance and service delivery brings it into close contact with all aspects of the community – including the private sector. The municipal government provides a local framework in which private sector operates. It manages the local business environment and supports local networks that are important for private sector development. The municipal sector also purchases goods and services from the private sector. In Canada, municipalities purchase approximately \$45 billion in goods and services annually.

The private sector provides jobs and products to strengthen the local economy, reduce poverty and enhance the quality of life. Often local governments and the private sector work together in various arrangements to achieve mutual objectives, such as delivering services, constructing and operating community facilities, and fostering a more competitive local economy. Increasingly, transnational companies make decisions to locate their operations based not on national boundaries, but on local conditions. This paper discusses the question of the role of municipal government in fostering private sector development for local economic, environmental and social sustainability. It presents a uniquely Canadian model that is relevant internationally and considers potential international cooperation to strengthen municipal capacities, based on the Canadian model.

## Private Sector and Development

A dynamic private sector expands the opportunities for people to earn income with which to satisfy their material needs. It creates local service and goods suppliers who can meet those needs in their own communities. It also generates tax revenues to finance education, health care, and environmental protection and other local activities crucial to sustainable development.

In an era of increased global economic integration, poverty reduction and sustainable growth in developing countries will depend on (1) economic reforms to improve competitiveness and (2) a strengthened domestic private sector. Governments throughout the developing world are seeking to create sustainable economic growth by attracting foreign direct investment and supporting the development of domestic small and medium-sized enterprises. This, however, requires a local enabling environment based on transparency and predictability as well as the strengthening of local capacity in both the formal and informal economic sectors.

### Key Points

- ◆ *Sustainable growth in developing countries will depend on (1) economic reforms to improve competitiveness and (2) a strengthened domestic private sector.*
- ◆ *Small and medium-sized enterprises, and the informal economic sector are essential to local economic development in developing countries.*
- ◆ *Municipal government is the key actor in:*
  - *establishing local governance frameworks and practices;*
  - *managing and administering the local business environment;*
  - *purchasing and delivering goods and services; facilitating equity;*
  - *and building networks and policy frameworks.*
- ◆ *In Canada, local governments play a key role in fostering local economic development and the growth of SMEs within their communities.*
- ◆ *The Canadian model is relevant in the developing world*
- ◆ *FCM has the experience and skills to share Canadian models to support PSD in the developing world*

## **Municipal Role in Private Sector Development**

Successful local private sector development (PSD) has the potential to address economic development and poverty reduction by expanding employment, wages and incomes. With proper municipal government strategies and management, PSD can also support entrepreneurs and enhance equitable access to goods and services. In developing countries, as in Canada, this can be best realized through a partnership involving government, the private sector and the community.

## **Local Governance and PSD**

Municipal government is the key actor in establishing local governance frameworks and practices. It plays a leadership role in community development, managing and administering the local business environment, purchasing and delivering goods and services, enabling integration, facilitating equity and building networks and policy frameworks. The local private sector is an important partner for municipal governments in these pursuits and therefore PSD is important for the success of municipal government (see Box 1, next page). Typically, municipal governments worldwide have 3 objectives in supporting PSD:

### **1) Leveraging private sector investment into local communities**

PSD presents an opportunity for municipal governments to more effectively engage new financial resources, technical know-how and operational efficiency.

Municipalities, working in cooperation with the State, are in a position to successfully leverage investment into basic services such as drinking water, solid waste management and energy distribution in order to expand the coverage of these services at lower costs to areas traditionally excluded from municipal service delivery. Successful leveraging of private investment targeted to specific neighbourhoods within a municipality can contribute to community regeneration.

### **2) Supporting existing and new small and medium enterprises**

Small and medium sized enterprises (SMEs) are typically the most dynamic sector within a municipality, generating the majority of employment and ensuring the economy is grounded in local ownership. In well-developed economies, this sector functions within the formal system of approvals and regulations.

### **3) Supporting informal private sector development**

The informal sector includes those who are either self-employed, engaged in informal wage employment, are home-based workers or street vendors.

The Commission on PSD and CIDA's PSD Policy point to the informal economy as a source of local entrepreneurship and a critical source of income for marginalized groups. The Informal Sector demonstrates the power and presence of local innovation, creativity and entrepreneurship. It contributes to both poverty reduction and economic growth<sup>1</sup>.

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<sup>1</sup> The International Labour Office estimates that informal employment comprises over 70 per cent of non-agricultural employment in sub-Saharan Africa, 65 per cent in Asia, and 51 per cent in Latin America. Home-based workers and street vendors represent an estimated 10-25 per cent of the non-agricultural workforce in developing countries.

### **Box 1: Local Governance and PSD**

*Studies by the World Bank have revealed various fundamental local government issues that foster, or detract from, PSD. They are:*

#### Good Governance & local leadership

- *fair and transparent decision-making for contracting and procurement,*
- *consistent and transparent enforcement of municipal by-laws and regulations,*
- *inclusion of the business community and its representatives in municipal decision making,*

#### Managing and Administering the local business environment

- *efficient, timely and transparent land use planning and development approvals process,*
- *suitable industrial and commercial land,*
- *adequate investment in hard and soft infrastructure relevant to the needs of the local and external business community,*
- *available information related to the legal and financial dimensions of business development, (the growth of the local SME sector is particularly constrained by lack of access to information and training),*

#### Supporting Equity

- *support for real and perceived legitimacy of day-to-day business activities of the informal sector,*
- *existence of regulations governing business permitting and licensing, security of commercial tenure and access to micro-financing, and*

#### Local Networks

- *existence of local business associations.*

Women workers - particularly those from low-income households - are concentrated in the informal sector. Informal employment is generally a larger source of employment for women than for men in the developing world<sup>2</sup>. As a result, the development of the informal private sector presents a tremendous opportunity to unlock the potential for creating more and better jobs in the small enterprise sector.

Local economic development in developing countries will be driven largely by the growth of small and medium-sized enterprises (SMEs) and the informal economic sector. If PSD is to flourish and serve the broader community interest, it must be accompanied by a local enabling environment characterized by: a rules-based economy; predictability; transparency and accountability; and a local public administration with the technical capacity to provide appropriate support for balanced and equitable growth.

Municipal government has the potential to coordinate local actors and to ensure equity in service provision, economic development and participatory governance. It interacts directly and continuously with other public service agencies and voluntary sector organizations. Municipal governments also work in partnership with companies involved in infrastructure and service delivery, chambers of commerce and associations of local employers.

Municipal governments manage and administer many of the elements of the local

commercial environment, including land use, infrastructure, housing and support for local labour force development and business processes such as licensing and permits. Table 1 (next page) presents the municipal role in PSD.

Municipal governments also have a demonstrated ability to implement programs defined at a national level. The management and delivery of local services involves significant integration across jurisdictional boundaries and lines of governmental responsibility.

<sup>2</sup> More than 60 per cent of women workers in the developing world are in informal employment, including over 80 percent of women in the labour force of Sub-Saharan African countries.

## Municipal Role in Private Sector Development

**Table I**  
**Municipal Responsibilities that Support PSD**

Issues	Municipal responsibilities
<b>Governance &amp; Effective local leadership</b>	<ul style="list-style-type: none"> <li>• Creating transparent and participatory decision-making processes;</li> <li>• Facilitating multi-stakeholder, participatory planning to diversify local economic development;</li> <li>• Supporting local solutions to economic development challenges;</li> <li>• Maintaining close links with local private sector actors to provide ongoing service and retain existing enterprises.</li> </ul>
<b>Managing and administering the local business environment</b>	<ul style="list-style-type: none"> <li>• Developing a policy framework, development approvals, by-laws and land use plans to support PSD that reflects community needs and interests, including equity and environmental sustainability;</li> <li>• Supporting the commercial environment for business by: improving services to businesses; expediting permits and approvals; providing single-point-of-entry for city services; supporting the business application and implementation process; developing transparent procurement and contracting systems to support local economic objectives;</li> <li>• Promoting the municipality to attract new economic actors from outside the community</li> <li>• Collecting and making available sector and market knowledge<sup>3</sup>;</li> <li>• Facilitating access to capital and finance; brokering loan guarantee schemes, or serving as a guarantor of venture capital investments; directly financing venture capital funds in niche areas;</li> <li>• Using subsidies related to property taxes and development charges to reduce both the capital costs and operating costs of development;</li> <li>• Supporting informal sector business development through actions targeted at their special needs;</li> <li>• Targeting women and youth who can invest in, or provide a work force for small businesses.</li> </ul>
<b>Purchasing and providing good and services for quality of life</b>	<ul style="list-style-type: none"> <li>• Investing in hard infrastructure to attract and retain business. Increasingly, this includes investment in information &amp; communication technologies, particularly in a rural municipal environment;</li> <li>• Managing municipal assets effectively;</li> <li>• Providing security against property and violent crime;</li> <li>• Investing in urban services required to increase the productivity of micro and small scale entrepreneurs and street vendors;</li> <li>• Providing basic infrastructure and services: safe drinking water, solid waste and wastewater collection, emergency services, public transit etc;</li> <li>• Providing good quality, affordable and suitable accommodation for growing small businesses, including the provision of micro and managed workspace;</li> <li>• Supporting service delivery by: establishing local capacities to manage and deliver services; developing effective assessment processes to determine service delivery strategies; developing and managing ASD arrangements, public-private partnerships and contracts where appropriate;</li> <li>• Assessing and supporting workforce development in post-secondary educational institutions, school boards, Chamber of Commerce and others;</li> <li>• Supporting training for micro-enterprise development and services such as literacy, numeracy, language training, and basic business and vocational training - especially for women and youth.</li> </ul>
<b>Enabling Partnerships and Networks</b>	<ul style="list-style-type: none"> <li>• Bringing together diverse groups of formal and informal companies, not-for-profit agencies, associations, institutions and governments to service local small businesses and entrepreneurs and establish business networks and associations;</li> <li>• Enabling strategic partnerships between sectors within the municipality; e.g. connecting high-level representatives from banks and SME organizations to identify problems and solutions;</li> <li>• Developing relationships with other orders of government to facilitate business registration, access to government programs and information;</li> <li>• Encouraging larger local firms to participate in local seed funds and mentorship activities;</li> <li>• Involving stakeholders in development and implementation of plans;</li> <li>• Planning land use through multi-stakeholder consultation.</li> </ul>
<b>Supporting Equity</b>	<ul style="list-style-type: none"> <li>• Influencing security of tenure and accessing land through land allocation, land use planning, and policies supporting informal development;</li> <li>• Enabling the provision of housing and land as assets for the poor;</li> <li>• Contributing to the quality and quantity of sustainable micro-finance institutions serving the poor.</li> </ul>
<b>Networks &amp; policy frameworks</b>	<ul style="list-style-type: none"> <li>• Developing municipal associations to support policy frameworks for local economic development;</li> <li>• Exchanging strategies, best practices etc to support PSD through associations and other networks.</li> </ul>

<sup>3</sup>SWOT Analyses and community profiles; business start-ups, export development, sources of public and private financing, and case studies of best practices.

## **Municipal Role in Private Sector Development**

Coordination within municipal governments, in the form of inter-departmental cooperation and multi-sectoral responses, is an added feature of effective local management.

In addition to their role in providing an enabling environment, municipal governments purchase goods and services and manage the infrastructure necessary to support private sector development.

The World Bank notes that these elements are central to supporting local private sector development. Of most importance to local private sector are:

- quality water or air, and adequate public amenities such as parks, playgrounds, and recreational facilities; accessible public transportation,
- low incidences of property and violent crime,
- sufficient number and reasonable quality of neighbourhood schools,
- available training and continuing professional development for local entrepreneurs and local employers dependent on employees with continuously upgraded skills, and affordable housing available to attract and retain employees and security of tenure.

### **The Canadian Domestic Experience**

In Canada, local governments play a key role in fostering local economic development and the growth of SMEs within their communities. Annex 1 provides an indication of the responsibilities of Canadian municipal governments.

Over the past 25 – 30 years the Federal and provincial role in local-level PSD has diminished. Companies have increasingly made location decisions based on local factors. As a result, municipal governments in Canada have not only had to serve the existing local business community, but also to attract and retain new investment. To do so effectively municipal governments have developed many skills and strategies for PSD and retention. Canadian municipalities prepare comprehensive strategic, action-oriented plans to support local economic development, using a multi-stakeholder, consultative process. They develop municipal by-laws and support SMEs by providing service units for small companies, including: hands-on and targeted business support and advice, particularly in the areas of finance, marketing and management skills.

They also purchase over \$45 billion in goods and services annually. This purchasing power can be applied creatively through initiatives such as public private partnerships, alternative service delivery mechanisms, servicing contracts etc. It is often used to help shape the local community, to support private sector and to direct PSD towards the kinds of employment, investment and economic activity that suits the interests of the community.

In addition to local strategies, municipalities have developed methods of working with other municipalities to combine service delivery and develop regional expertise as is illustrated by the Canada's Technology Triangle (see Box 2, next page). Municipalities also work with other orders of government to develop initiatives such as small business investment funds. They also operate internationally to foster change at the local level through North-South, South-South and urban-rural sharing through which they exchange best practices nationally and globally.

### Canadian Municipal International Cooperation and PSD in Developing Countries

Strengthening the capacity of local governments abroad to manage their relationship with domestic and foreign private sector actors is vital in order to counter the potential negative impact that PSD and international trade liberalization could have on local communities, the

#### **Box 2: Canada's Technology Triangle**

*Canada's Technology Triangle is the not-for-profit, private-public economic development organization marketing the Region of Waterloo and the cities of Cambridge, Kitchener and Waterloo to the world.*

*The vision of the organization is to position Canada's Technology Triangle as a leading location in the world for investment, and to keep and attract the most innovative businesses and entrepreneurs.*

#### **Main activities:**

- 1. Marketing Canada's Technology Triangle to the world.*
- 2. Identifying and addressing impediments to economic development.*
- 3. Developing private and public sector partnerships to enhance economic development activities.*

#### **Goals of the organization:**

- To create and nurture supportive relationships with our stakeholders.*
- Be where the companies of tomorrow will want to locate.*
- Foster sustainable economic development and value-added job creation enhancing quality of life.*
- Be results-oriented and constantly measuring our success against our expectations.*
- Have economic diversity that is broadly based and global, and to support the prosperity of our emerging business clusters.*
- Be an area offering high incomes and employment.*
- Have a brain gain and not a brain drain.*
- Be where educational institutions support and enhance advanced industries.*

environment and more vulnerable groups such as women and the poor. Effective frameworks at the local level to foster PSD will require, in turn, the implementation of widespread governance reforms and new management and administrative capacities.

Such reforms can support effective international cooperation between municipalities. Municipal governments have multiple international connections, through formal institutions and associations, through formal networks, and through informal relationships. They have a coordinated and networked way of working together and relating to one another, despite the differences between advanced and less developed countries. These networks share information, experiences and often create new opportunities for experienced companies and proven technologies.

Canada has gained considerable profile as a leader in local development. FCM's international programs have active working relationships with the World Bank, UN-Habitat, InterAmerican Development Bank and Asian Development Bank. Through FCM, Canadian municipal governments have worked with overseas partners to successfully adapt and transfer relevant Canadian models related to improved governance and local capacity development.

The Canadian focus through FCM on local governance builds the foundations in a society, creating transparent and

legitimate institutions that are inclusive and representative of the community's needs and aspirations. Upon these solid foundational institutions, new capacities, technologies and



processes can support economic, environmental and social sustainable development. As is evident from Box 3 (below), these are the fundamental capacities and conditions for effective private sector development. Canada, and FCM, are well placed to link the Canadian model with FCM's program delivery experience to develop a program targeted specifically at the issue of municipal government capacity development to support private sector development.

### **Box 3: Canadian Municipal Partnerships**

#### **Case 1: The Municipality of East London, South Africa**

*In post apartheid South Africa, FCM, with Canadian municipal officials and their counterparts in East London worked to: a) improve the management and administration for local economic development, and; b) support the informal sector.*

*With respect to management and administration, technical support from Canada focused on strategic planning & community visioning for economic development priorities. This included building relations between municipal government, the community, the private sector and the local university. The latter became involved in skills upgrading and continuing education. Following the planning exercise the municipality developed promotional materials to attract investment and tools and transparency concerning local rates and tariffs. It also introduced processes and systems for transparent tendering and contracting. Finally, FCM was asked to be the principal advisor to the municipality during negotiations concerning potentially significant FDI related to mineral refinery.*

*Equally important was the support provided to the informal sector. FCM and its Canadian team provided technical assistance to support communications between street hawkers and the municipal government. By-laws and land use plans were developed to formalize informal sector presence in the markets and on the streets. The Mdantsane Hawker's Association was supported to serve members, dialogue with municipal government and manage internal association affairs. At the project's completion the Government of South Africa awarded the Hawkers' Association an ongoing operating grant due to its capacities and effectiveness.*

#### **Case 2: The City of Ostrava, Czech Republic**

*In the post-Soviet Union Czech Republic, FCM, with Hamilton Ontario, supported the strategies for a local transition from a single industry focus (steel) to multi-sectoral business and industrial base. The project supported management and administration of their local economic development and enhanced land use planning for PSD. Through the project a local economic development office was established in the municipality, with job descriptions, an organization chart; and the framework for communications links for integration with other municipal departments.*

## **Conclusion**

Municipal governments and their local private sector have a very important relationship. Municipal governments provide the enabling framework and infrastructure to support private sector operations. The private sector provides goods and services, employment and a local tax base to support local quality of life. Canada has an important role to play internationally with municipal government to transfer knowledge skills and process to strengthen the local enabling environment, which will in turn improve local quality of life.

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## Municipal Role in Private Sector Development

### ANNEX 1 RESPONSIBILITIES OF MUNICIPAL GOVERNMENT IN CANADA

<i>Sector</i>	<i>Sub-sector</i>
1. Health	Hospital/health care Hospital capital Public health
2. Social Services	Social assistance
3. Housing	Social housing assistance Accommodation improvements Regulations
4. Public Safety	Police Fire protection Ambulance services Emergency response
5. Transportation	Highways, primary road systems Urban Streets Rural roads Urban public transit Road system lighting Airports Harbors
6. Environment	Air quality Drinking water quality standards Water supplies Sewers and storm drains Wastewater treatment Garbage removal and disposal
7. Recreation & Culture	Libraries/museums Parks/playgrounds Recreational activities Community Development
8. Land Use Planning & Development	Planning and zoning by-laws Preservation of agricultural land
9. Finances and Taxation	Property assessment Budget preparation, approval and auditing Borrowing approval
10. Local Economic Development	Economic development Community income Generation