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Strengthening the Local Economy: Lessons Drawn from the ECOLOC Programme for Poverty Reduction in West African Cities

Dr. François Paul Yatta

Regional Adviser, ECOFILOC, Municipal Development Partnership (MDP)

Cotonou, Benin

fyatta@pdm-net.org

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I. Introduction

The West African Long Term Perspective Study (WALTPS) demonstrates that the economy of a country or region can be interpreted not only as a combination of sectors, but also as an interlocking system of local economies each made up of an urban centre (or cluster of towns) and its rural hinterland. In most West African countries, these small urban-centred regions generate at least four-fifths of total economic activity although they occupy less than one-fifth of the country's total area. It is these small urban-centred regions that see the main innovations in farming and trading systems, and also in land management and social relations.

The decentralisation process, which all West African countries have undertaken, is thus the logical consequence of the increasing number of cities and towns that are power centres seeking to assert themselves. The newly created local authorities were initially given the task of administering their territories, but soon realised that they could not do their job properly without getting involved in local economic development and understanding the workings of the economy of their area and its interactions with surrounding areas.

For that reason in 1997 the Municipal Development Programme (MDP) and the Club du Sahel set up the ECOLOC programme: "Managing the economy locally in West Africa". Its objectives are as follows:

- ❑ define the concept of local economy and show that it is possible to analyse and describe its workings, main driving forces and interactions with the rest of the country and the world at large;
- ❑ reveal the potential and the obstacles to the development of these local economies and examine how they could be sustainably revitalised;
- ❑ define the roles of the various public and private, local and external actors, and set up conditions for more effective dialogue between them all;
- ❑ assist in the emergence of a coalition of interests for a strategy of local development;
- ❑ determine the consequent information and training needs of local actors: ECOLOC is an application of the principle "empowerment by knowledge".

II. Managing the Economy Locally in West Africa: The ECOLOC Programme

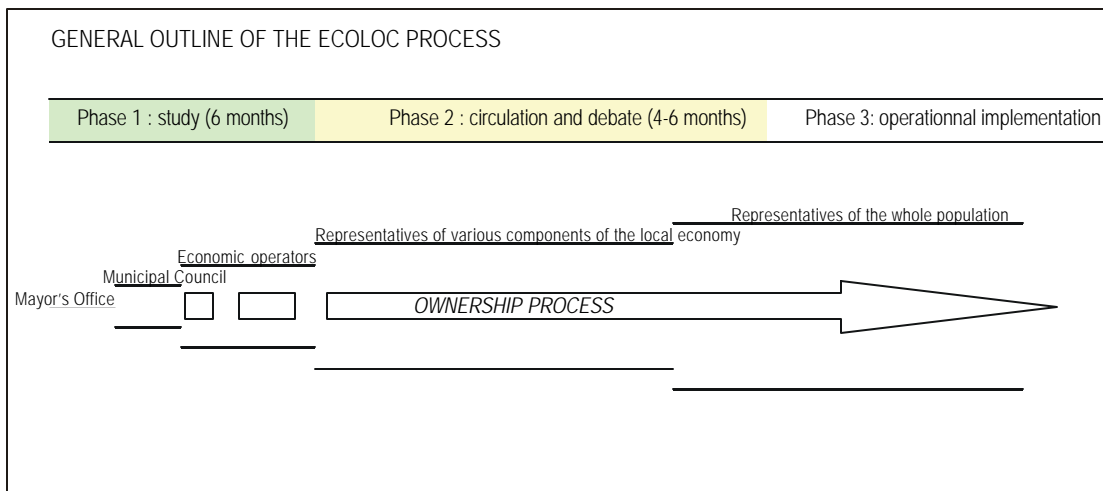
2.1 Origin and organisation of the ECOLOC programme

Each ECOLOC exercise covers a small region comprising a second-rank town (regional capital or town with a population of the order of 100,000 inhabitants) and its rural area of influence. West Africa has at present a hundred or so such towns. ECOLOC areas, with total populations of roughly 500,000, are small enough to be studied "exhaustively", but sufficiently differentiated to reveal the complexity of economic and social processes, to help understand the

actual behaviour of the actors and identify the main determining factors in urban-rural interactions.

An ECOLOC exercise has three phases: a study phase lasting four to six months; a policy dialogue and consultation phase of the same length; and an implementation phase for the local development and economic revitalisation strategy, which begins after the consultation phase and lasts for an indefinite period.

The study phase leads to the production of a set of coherent retrospective and prospective data on the local economy, its actors, issues, and trends, expressed quantitatively (as urban-rural Social Accounting Matrices), qualitatively and spatially. The study is steered by a committee made up initially of the local mayor or mayors and a few economic agents or representatives of chambers of trade, gradually extended to other stakeholders. The study phase ends with a public reporting-back of results in the presence of all stakeholders.



The policy dialogue and consultation phase starts as soon as the studies have been reported back. It consists of a series of targeted consultations and negotiations under the auspices of each local authority with the participation of members of the study team and resource persons. The aim is to gradually construct a shared vision of how the local economy works, its strengths and weaknesses, and to reach, if not a broad consensus, at least a coalition of interests around a strategy for local development and control of their own future regained by local institutions and operators.

The implementation phase for the strategies of local development and revitalisation of the local economy concerns, first as individuals and then in partnership, every major decision-maker and group of local stakeholders: local authorities, administration and public services, professional organisations, local and external partners. This phase may involve the creation of associations of municipalities to lobby the national authorities on common issues (such as improving the local network of markets) and, in the case of border municipalities, the creation of consultative bodies with the local authorities in neighbouring countries to discuss common issues, particularly regional planning and the encouragement of regional trade.

Full details of the ECOLOC exercises can be found in the methodology handbook and published case-studies. Below are a few aspects of the method for devising a local economy information system.

2.2 Quantifying the local economy

The ECOLOC programme is based on the principle that for dialogue between the various components of civil society and their partners to be fruitful it must be based on quality information available to all. In the ECOLOC exercises, therefore, an exhaustive, quantified and mapped presentation of the local economy is an essential preliminary task.

To apply the principles explained in the Introduction, the quantified description of the local economy is based on the combination of a partly “modelled” macro approach and a micro approach using targeted observation on the ground. The success of the ECOLOC approach partly depends on the capacity of the study team to achieve the right balance and cross-fertilisation between the two approaches.

The macro approach constructs an initial dynamic picture of the local economy by spatialising national accounts and using demo-economic and spatial models. This dynamic picture is used as a framework for the studies on the ground, which in turn gradually refine it. The demo-economic and spatial “model” of the local economy that emerges from this iterative process is then used to interpret past performance and sketch long-term visions, to evaluate the consequences of a given action on the local economy, and to carry out various comparative analyses between the study area and the rest of the region or country.

The second approach is more practical but necessarily partial, based on the compilation of existing statistics and short ad hoc surveys. This micro or meso approach, which consumes most of the study resources, is intended to provide adequate information on topics such as the household economy, enterprises in the “modern” and “informal” sectors, trading in goods and services and transfers, private and public capital, and administration and local authorities.

2.3 Analysis of the local economy in terms of connected activity complexes

A complex here means all those activities and transactions related to a given economic activity, directly (via the production process), indirectly (via the inputs for that production process) and the induced effects (via the distribution of income generated by the activities). By considering each activity complex and the location of its direct, indirect and induced activities (in town, in the hinterland, in the rest of the country, and so on), it is possible to calculate a set of local multipliers for employment and value added and assess the degree to which each activity is connected to the local economy or the outside world.

The first and most important activity complex is obviously the primary complex. Whereas actual agricultural production takes place mainly in rural areas, an increasing proportion of the indirect

effects, due to intensification, occur in urban areas. The central town in the study area is not always the main beneficiary of these indirect effects. For example, Saint Louis in Senegal only gains a marginal advantage from the neighbouring sugar plant in Richard Toll and the irrigated rice-farming in the River Senegal valley. Saint Louis's future will largely depend on the ability of its business community to regain control of the valley's primary complex, repressed by decades of State and "socialist" management of agriculture. This example shows that a town's economy cannot be studied without proper information about changes in the agriculture and rural economy of its hinterland.

Apart from the primary complex, which has a mainly rural base, and complexes linked to specific activities such as mining, each area exhibits the following town-based activity complexes corresponding to the various functions normally exercised by an urban area:

- ❑ providing for the population's basic needs, besides food;
- ❑ building and maintaining the town and its area of influence;
- ❑ producing final and intermediate goods and services other than those previously mentioned;
- ❑ trading (exporting, importing, re-exporting) goods and services with the rural area of influence, other towns, other regions, the rest of the world, and circulating money;
- ❑ administering the town and its area of influence.

The importance of the marketing function and size of the "import-export" complex are typical of town dynamism. A town can only grow faster than its natural population increase if it is able to connect to a circuit of transfers and a market economy that goes beyond local self-sufficiency.

Analysis of the local economy in terms of complexes makes it possible to see towns not as closed systems but as centres that structure the local economy and develop relations with the hinterland and the rest of the world.

2.4 Identifying the "pilots" of the local economy: local control and globalisation

Within each complex, the study team seeks to identify the main public and private actors, whether local or from outside the region, "modern" or "informal", assess their degree of involvement in local economic life, their performance, strengths, weaknesses, desires or expectations, and their ability to react to the business cycle and anticipate structural change.

In this way, the ECOLOC studies seek to answer the following questions: what centres of decision do the various components of the local economy depend on? What external factors have a major influence on these various components? What can local operators do to maximise their chances in an increasingly "globalised" environment?

In most of the mid-sized towns studied, the great majority of the population lives and works at the base level of the economy. This component is therefore a large one, in terms of jobs, income generation, access to essential goods and services, and capital accumulation.

While the base level economy of a town may indisputably be called local, in the sense that it only depends on local decisions and incentives, this is less clear for the exposed level: its centres of decision are not necessarily, indeed hardly ever, located in the city or town considered. They are to be found further up in the national city network, most likely in the capital, or even overseas. Given these outside centres of decision, local decision-makers have indeed little room for manoeuvre, but not none at all. The great value of the ECOLOC exercises is to help them realise how much room for manoeuvre they have.

2.5 Taking into consideration space and regional planning

Decentralisation is in itself a major act of regional planning (*aménagement du territoire*): by setting up local powers and granting them autonomy and their own resources, however modest, decentralisation offers local authorities managing part of the national territory the chance to express their objectives and to pursue, explicitly or implicitly, local development and *aménagement du territoire* policies.

With decentralisation, no national regional planning policy can be developed top-down without building on local initiatives, without holding consultations between local authorities and between them and central government.

One aim of the ECOLOC exercises is to help local private and public operators to identify the issues involved in regional planning decisions taken at various levels, from the sub-region down to the local town district, and to understand the connections between these levels. To that end, the spatial analysis is carried out, in an iterative process, out at four different scales:

- the macro-regional level (in this case West Africa), made easier by WALTPS: local decision-makers who cannot intervene in decisions taken at this level have every interest in being well informed about the issues;
- the regional level, which shows relations between the study area and the rest of the country or region, reveals the potential and constraints or handicaps of the local economy, and helps to address the issue of competition between the city or town considered and nearby urban centres of equal or higher ranking. At this regional level, also beyond the influence of local jurisdictions, local decision-makers need to be attentive to the decisions taken, prepare to seize any opportunities that arise and defend their interests;
- the local level, corresponding to the ECOLOC study area, made up of the town or towns and the rural hinterland. This is the preferred level for consultation between State services, local authorities (municipalities and rural communities), and local business people;
- the conurbation level, corresponding to the area that is currently urbanised or likely to be so within a generation.

2.6 Local economy information system: the ECOLOC indicators

The “*tableau de bord*” is a set of maps, graphs and indicators of the study area, designed to be readily accessible to a wide non-specialist audience. The successive sections provide graphic views of the study area within the country, economic activity analysed by sector, by type (modern, informal, etc.), by activity complex and by location (town, rural area, etc.), public administration, spatial analysis and outlines of a long-term vision.

III. Lessons from the ECOLOC programme

3.1. The popular economy is local rather than urban or rural

The ECOLOC approach to territories consisting of one medium-sized town and its essentially rural hinterland shows that “real” households and economic operators live and act in a unified urban-rural context, not in two separate spaces, urban and rural. The usual conceptual cleavage between rural and urban and between farm and non-farm sectors proves to be artificial and deceptive.

The ECOLOC studies confirm that about three in four town dwellers and almost all the non-primary rural population earn their livings in the informal sector (also called the popular economy). This “sector” is in general poorly accounted for in national accounts, and how it operates is not well understood. The method developed in the ECOLOC programme, combining modelling with field surveys, is effective for assessing the size of the popular economy in terms of jobs, activities, output, savings, capital accumulation and resource mobilisation. It is also useful for clarifying the complementary, interdependent relationship between the popular economy and the “modern” economy.

The ECOLOC studies also confirm that a high proportion of the activities and incomes of both rural and urban dwellers comes from trade in essential goods and services, and short-distance transfers, the expenditure of one being the income of another. Individual and collective strategies for combating economic insecurity quite naturally include having several activities (one foot in the town and one in the country), transfers between urban and rural households and seasonal, or otherwise alternating, migration.

The ECOLOC programme’s findings suggest that the best approach is to design practical poverty reduction actions at the scale of a whole local area comprising a town and its hinterland. Because to a large extent, it is the revival of the local economies of such areas that will determine growth in the incomes of most of the population and any reduction in the risks connected with the sectoral situation and the macro-economic environment.

3.2. Rural poverty and the development of the local market

As regards rural areas more specifically, the ECOLOC studies confirm that migration from the poorest and most remote areas to the better-endowed rural areas and the towns is one of the

keys to “sustainable” population growth. Such migration is also one of the manifestations of the modernisation of farming and of greater openness to the market economy. Today, crops exported to the world market generally represent only 10% of total primary production. As a result, the quantity of foodstuffs a farmer can market, and therefore their cash income, mainly depend on the number of local consumers per producer, i.e. roughly the numerical ratio between the urban and rural populations.

Over the long term, the increase in farmers’ cash incomes and their ability to invest in equipment and inputs to intensify production depend much more on trends in the domestic market, especially the local market, than on any other factor such as changes in relative prices or the diversification of activities in rural areas.

This argument, developed in detail in the WALTPS study, is of a structural order. In the long run, the only way to ensure strong, continued growth in average income per head of the rural population is to foster (or at least, not hamper) the division of labour between farmers and non-farmer consumers, who are mainly town dwellers. Rural areas therefore need dynamic towns that can structure their hinterland and attract people and business.

3.3. Urban poverty and the workings of the informal sector

The ECOLOC studies confirm that the mean value added per head of the urban population (“urban productivity”) and total per capita urban expenditure are twice or three times as high as in rural areas. The lower a country’s level of urbanisation, the bigger the gap; it narrows as urbanisation progresses.

Mean per capita incomes and expenditure in the modern-sector portion of the urban population are two to ten times as high as in the informal-sector portion.¹ Per capita incomes in the (mainly urban) informal sector are in most cases more than twice those in the (mainly rural) primary sector. Comparing mean **monetary** incomes between these two categories, the ratio is four or five to one.

Throughout the demographic transition phase, these gaps between urban and rural areas and between the modern, informal and primary sectors are among the factors that drive mobility and spatial concentration of population and activities. People and activities migrate towards areas of best opportunity, or areas they perceive as such.

In countries in demographic transition, one function of towns is to attract as many people as survival conditions in the urban area allow. Arriving in the town, people discover that the cost of living is several times higher in the town than where they came from. Compared to their urban neighbours, they are the new poor. But a migrant has a purpose: to get ahead. Migrants will get what it takes to achieve the living standards their new environment requires. Experience shows that most of them succeed.

¹ With the proviso that many people have more than one job.

Analysis of this process shows that the proportion of poor people in a town increases with the town's population. So it is not the presence of poor people in the town that we should worry about, but the average time it takes migrants to integrate. To simplify, it may be said that one function of the town is to help the new poor integrate quickly. This will enable the town to accommodate other newcomers who will integrate in their turn.

This explains why the informal sector is so extensive at times of rapid urbanisation. In this sector, the priority is given to finding work for as many people as possible, not on increasing labour productivity. So mean productivity in the informal sector tends to remain stable. But this does not prevent some people in the informal sector increasing their incomes and so forming a core group of budding economic operators. Not all these new operators move on to the capital or abroad, and those who stay form a network of small businesses in the town and its rural hinterland.

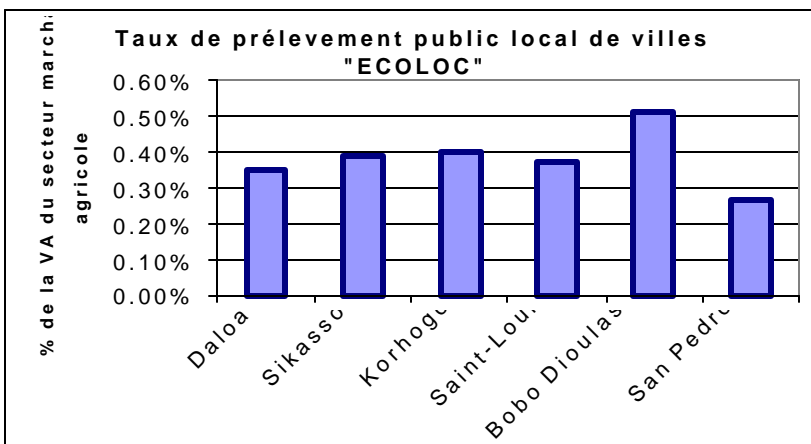
3.4. In the towns, the local authority is often poorer than the residents

One of the most striking findings of the ECOLOC exercises is the very low rate at which West African urban municipalities tax their local economies. In most cases local taxes amount to about 0.3% to 0.5% of the town's gross local product. This is only one-fifth to one-tenth the

rate in other parts of the developing world. Land tax is in most places less than 0.1% of land value.

It is local authority underspending that holds back local business, not overspending.

Chart: local tax burden in ECOLOC towns; Percentage of value added of the



non-farm market sector

Local governments' inability to spend money is the cause of a vicious circle where an impoverished urban environment leads to the stagnation or relative regression of the local economy: the less a local authority takes in taxes and spends, the poorer everyone is at the end of the day.

The ECOLOC studies show that local public spending, which can have a very low "import" content, is a driver for local business, private investment and people's mobility. One additional franc in local authority taxes to boost local public spending can result in increased business that generates at least two francs more in household incomes.

Current levels of taxation probably need to be tripled. This would benefit local operators and households alike. But to achieve that, the municipality must be transparent in its workings, manage its affairs efficiently and maintain dialogue with the community. The example of Ségou shows that a process of this kind can be triggered by dialogue.²

As regards raising the necessary funds for public spending, this should gradually be extended from the town to the rest of the local area. Taxation and spending should be organised for the local urban-rural economy as a whole, not for the town and each village individually.

3.5. ECOLOC and poverty profiles

Each ECOLOC study concerns some 5-10% of a country's total population. It provides specific, detailed knowledge of household living conditions and the working conditions of local private and public operators, especially the decentralised local authorities. Each study includes simple surveys³ on household expenditure and the activities and transfers from which households obtain their incomes. These surveys are not designed solely to build up poverty profiles, and they provide little information on the *distribution* of incomes within each population stratum. However, they do provide an understanding of the demographic and meso-economic background, which is necessary for working out a local poverty profile that reflects the real situation.

In countries where ECOLOC studies are run in many parts of the country, as is the case in Burkina Faso at present, a synthesis of these studies should provide a better understanding of poverty in each situation, providing a sound basis for defining poverty reduction programmes.

3.6. Local-level poverty reduction and access to information

The administrative decentralisation process now under way throughout West Africa has not so far involved decentralisation of information systems,⁴ which are still the preserve of central government departments and their external partners. One thesis of the ECOLOC programme is that the extreme paucity of information available to local public and private operators hampers the development of the local economy and so perpetuates poverty at the individual level.

That is why the ECOLOC programme tries to help all local actors obtain high-quality information appropriate to their needs. The ECOLOC programme seeks to empower operators through knowledge, and help them form coalitions of local interests around local development strategies based on that knowledge. This brings us back to the “freedom of choice” issue developed in recent approaches to poverty reduction.

² See paper “Experience with the ECOLOC approach in Ségou”.

³ These surveys are 1-2-3 surveys, revised and adapted to the ECOLOC approach by Afristat and ENSEA in Abidjan.

⁴ Demographic, economic, financial and socio-economic.

For dialogue between the various components of civil society and their partners to be fruitful, the dialogue has to be based on high-quality information shared by all concerned. So one important task in an ECOLOC study is to present the local economy in its national and sub-regional context in a thorough, quantified way, with explanatory maps.

In the pilot phase of the ECOLOC programme, several types of summaries and “local economy profiles” were developed. They show local economic indicators in forms that are suitable for different audience groups: experts in the central administration, donors, local elected officials, informal sector economic operators.

Saint-Louis de Sénégal is a good example where information from an ECOLOC study was immediately put to use by the Municipal Council to increase their revenues and negotiate more effectively with higher authorities and external partners.

IV. New proposals for complementing current poverty reduction strategies

4.1. How is wealth to be created within each town-based region?

One pre-condition is that all the actors, local and external, should have a sound understanding of the workings of the local economy, its strengths and weaknesses. The ECOLOC approach, as we have seen, can contribute to this process.

As shown in Sections 1.2 and 1.3, a large proportion of these local economies (called the “basic level”) depends directly on population trends and the ability of economic agents to interact by buying, selling and processing local goods and services, sending and receiving transfers, etc. Activity within this part of the local economy is not restricted by supply constraints. It is hindered rather by the poor fluidity of exchanges and lack of information. It suffers from the inadequacy and poor management of infrastructure, and consequently from the poor spending capacity of local authorities.

One way to revive the local economy is therefore to increase the capacities for interaction between town-dwellers and the residents of the rural hinterland. Everyone must be able to have one foot in the town and another in the country, so as to seize opportunities as they arise. This means reducing transaction costs and obstacles to the free movement of people, goods, services and information.

The role of the local authority is crucial here. However, for it to play that role, its image needs to be enhanced and steps taken to considerably raise the flow of local public expenditure.

Local public expenditure should focus first on rehabilitating existing public capital stock. This can and should be done with local skills (small firms and even informal sector operators). Priority must go to infrastructure that increases the fluidity of local exchanges and helps local

business people take initiatives: maintenance of markets and bus stations, links between urban and rural markets, creation of peri-urban activity zones, crafts centres, etc.

This local public expenditure could be financed by a combination of the maximum amount of local resources in cash **and in kind**, with public resources from the central government and development aid. Household and small firms would thus receive from public expenditure the necessary income to pay local taxes, indeed to pay three to five times what they pay now.

The Highly Indebted Poor Country (HIPC) debt reduction initiative produces an appreciable quantity of resources for the State, enough to prime the pump of this virtuous circle. But a significant share of these resources needs to be allocated to this internal process of reviving small town-based regions, rather than being dispersed as could happen with PRSP process.

What is true for mid-sized towns, the subject of the ECOLOC programme, is also true for the major towns (economic and political capitals), although the poverty reduction issue is different in the latter case. The ECOLOC approach demonstrates that one key to improving the living conditions of disadvantaged groups is social and geographical mobility. The people who settle on the edges of capitals should have access to the town's services and labour market at an affordable cost. Similarly, the residents of these towns must be able to count on the immediate vicinity for basic goods such as building materials, fuel, fruit and vegetables.

4.2. Fitting information systems to needs

All societies produce the information systems they need. One challenge at present is to meet the new needs that have arisen from decentralisation. This reform requires a radical reshaping of information systems dating from a time when the central administration had a virtual monopoly of development management. Many of these highly centralised systems broke down during the crisis years of 1980-90. Occasional centralised attempts at reconstruction have been largely unsuccessful.

Starting from the local level has the double advantage of revealing the failings of existing information systems and providing an opportunity to reconstruct new ones that respond to the challenges all the actors face. High-quality information widely shared is an essential condition for improving governance and living standards for individuals and economic operators.

African institutions such as Afristat, national statistical services and major international institutions such as the World Bank could use the ECOLOC method to examine more closely local or regional economic accounts.