



A LED Perspective on markets and market failure

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Presentation Outline

- Section 1: Building a market for LED expertise
 - Brief background on the project
 - Developing a market for LED Practice in South Africa
- Section 2: M4P, Market failure and LED
 - A LED perspective on markets, M4P and market failure
 - Beyond markets: network and hierarchies
 - Considerations for LED and M4P
 - Market failure in territories



Introduction

- What is LED?
 - an ongoing process by which key stakeholders and institutions from all spheres of society, the public and private sector as well as civil society, work jointly to create a unique advantage for the locality and its firms, tackle market failures, remove bureaucratic obstacles for local businesses and strengthen the competitiveness of local firms.
- GTZ LED Project
 - Started 4 years ago as a Business Development Services and Local Economic Development project (BDS/LED)
- 4 Main areas of work
 - Policy advice on LED
 - Development and introduction of instruments/methods
 - Capacity building and support
 - Dissemination of learning and knowledge



Developing a market for LED practice

- Some of the constraints that must be overcome for LED to take place
 - High staff turnover and capacity constraints in local government
 - LED is knowledge intensive and dynamic
 - LED is a crosscutting topic that covers many specialised fields
 - (e.g. Agriculture, Small Enterprises, Tourism, Private Sector Development etc)
 - Lack of understanding of the role of the private sector and civil society in LED
 - Highly fragmented business landscape
 - Mixed and often conflicting messages from different government departments



Developing a market for LED practitioners

Supply side	Develop a pool of experts that covers many of the main technical requirements of LED Capacity building on methods, instruments and processes Joint product development	More than 70 experts trained, 20 use methods frequently, 10 can replace GTZ LED expertise
Demand side	Capacity building programme aimed at public officials and private sector associations (with InWEnt)	More than 250 decision makers trained
Institutional	Capacity building and joint programmes (DBSA, IDC, Other Donors, Provinces)	
Government	Policy support, research and information sharing. Joint product/programme development	
Supported the formalisation of the LED Practitioners Network of South Africa		



Examples of five types of market failure and their possible consequence

Asymmetric information	Information about toxics in fresh fruit Firms don't use business services	Customers don't buy fruit if they suspect use of toxics Firms are not competitive
External effects	Chronic shortages of skilled staff, Difficulties of retaining trained staff	Underinvestment in skills development
Indivisibility	Size of a container that needs to be filled by manufacturer	Small producers cannot connect to market due to lack of scale
Public goods	Availability of costly and complicated testing equipment	Producers cannot test and certify their produce
Natural monopoly	Telecommunication in thinly populated rural areas	High price of telecom service, perhaps no access at all



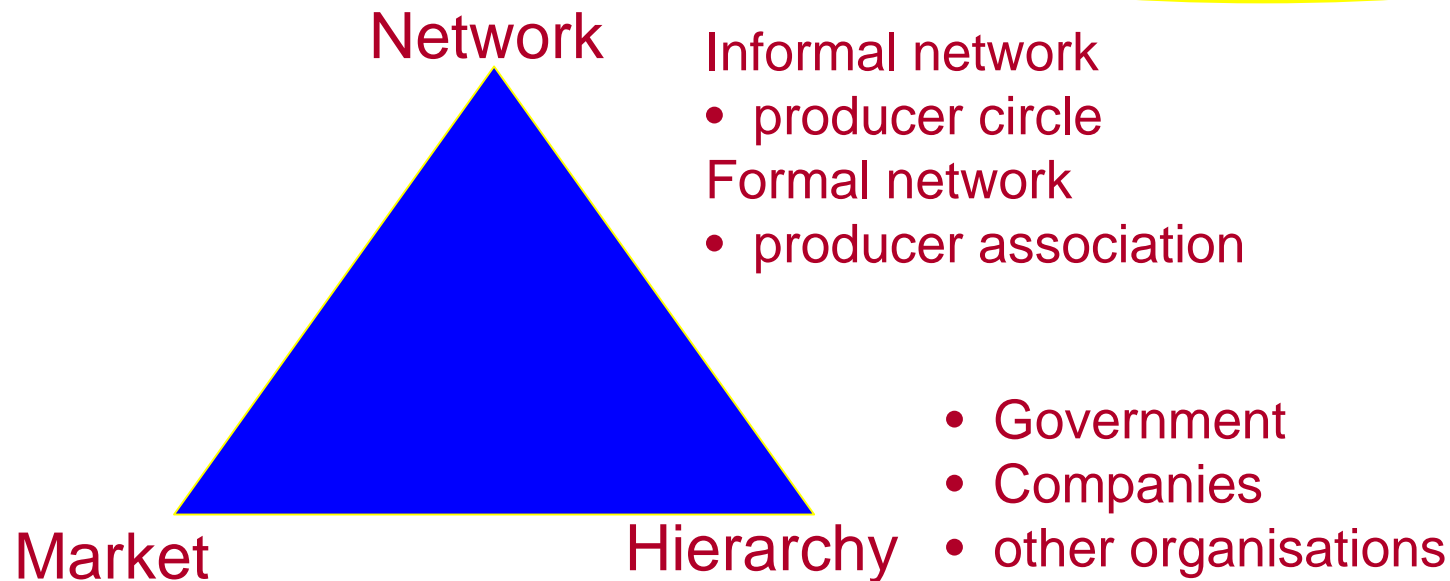
A LED perspective on markets and market failure in LED

- Market failure (and economics) is abstract or unknown of at a local level
- Markets are often seen as physical and not ‘virtual’
- Market failure confused with “Marketing failure”
 - and then used as a justification for direct support or interference
- Fragmentation and duplication persists because of very high coordination costs
- Focus on the poor, unemployed and disadvantaged as “producers”, not as “consumers” or “employees”
- “Competitiveness” and “markets” are hardly used in discussion
- Emphasis on strategy as a plan, not on strategy as a perspective or position
 - Mintzberg’s 5Ps: Plan, Ploy, Pattern, Position, (Shared) Perspective,



Beyond markets: What else is there, apart from markets, to organise the allocation of resources?

Powell (1990): Networks are not just something in between market and hierarchy



Coase (1937): Why are there companies, and not just markets? Because of transaction costs.



Considerations for M4P and LED

1/2

- **Build social capital by taking local business and local government along in the process**
 - In facilitated processes that allow stakeholders to explore their options, environment, markets and institutions
 - Facilitate process where stakeholders identify and respond to most common market, network and hierarchy failures

- **De-mystify markets**
 - Capacity building at a local level on topics like economics, competitiveness and markets
 - Value chains /clusters and sectors focus makes it easier to understand different market mechanisms
 - Get the discussion past supply and demand issues to the supporting environment and institutions
 - Markets + Networks + Hierarchies



Considerations for M4P and LED

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- **Promote competitiveness**

- Of the private sector (innovation, organisation, process)
- Of the public sector (enabling environment, red tape, governance)

- **Intervention design**

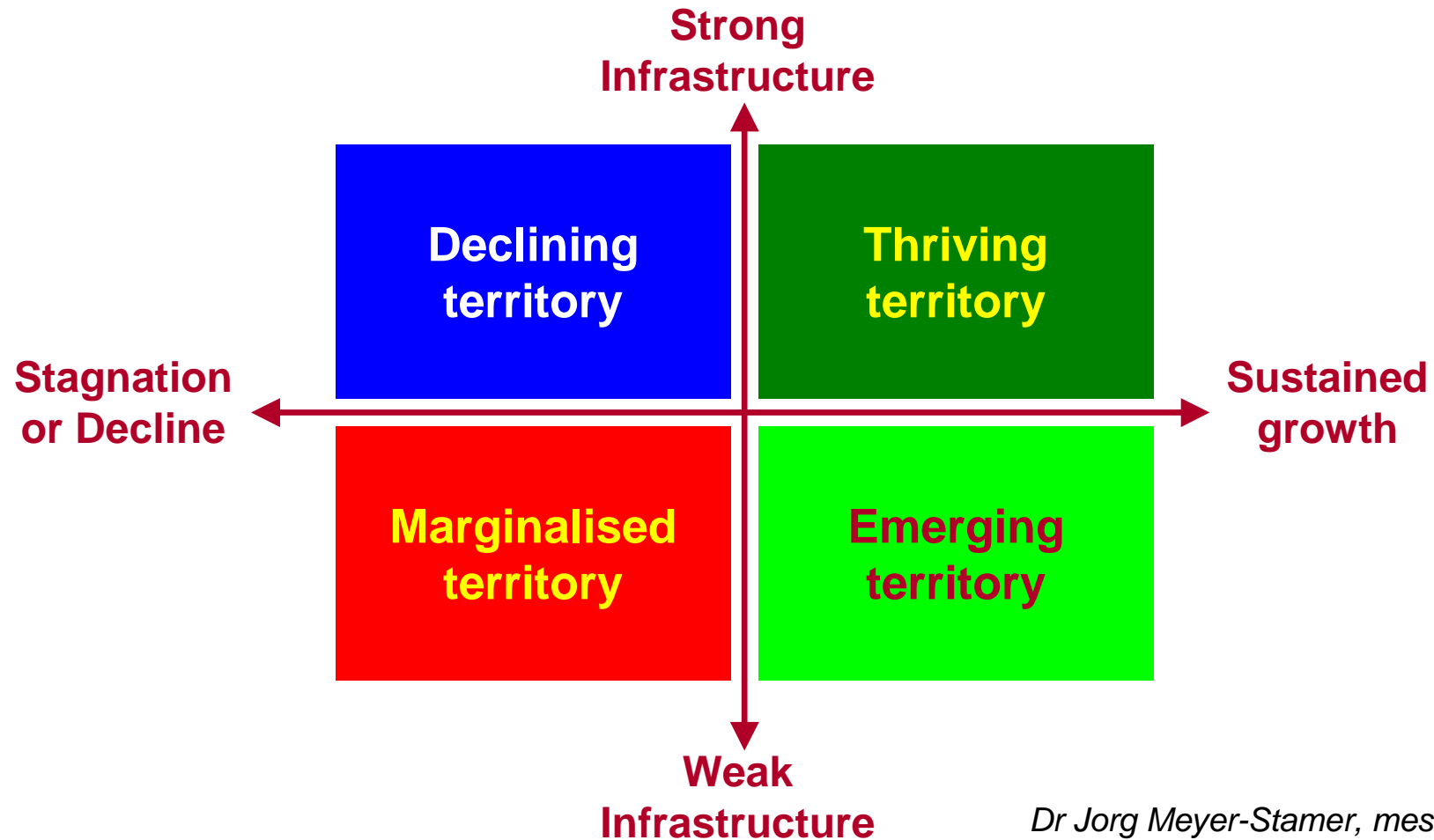
- Make Market Analysis mandatory in decision-making (not to be confused with market research)
- Design intervention that address root cause of market failure, not symptoms
- Remember that markets take time to evolve and grow
- Strategies must be exclusive, not inclusive

- **Not only about markets**

- Also remember hierarchies and networks

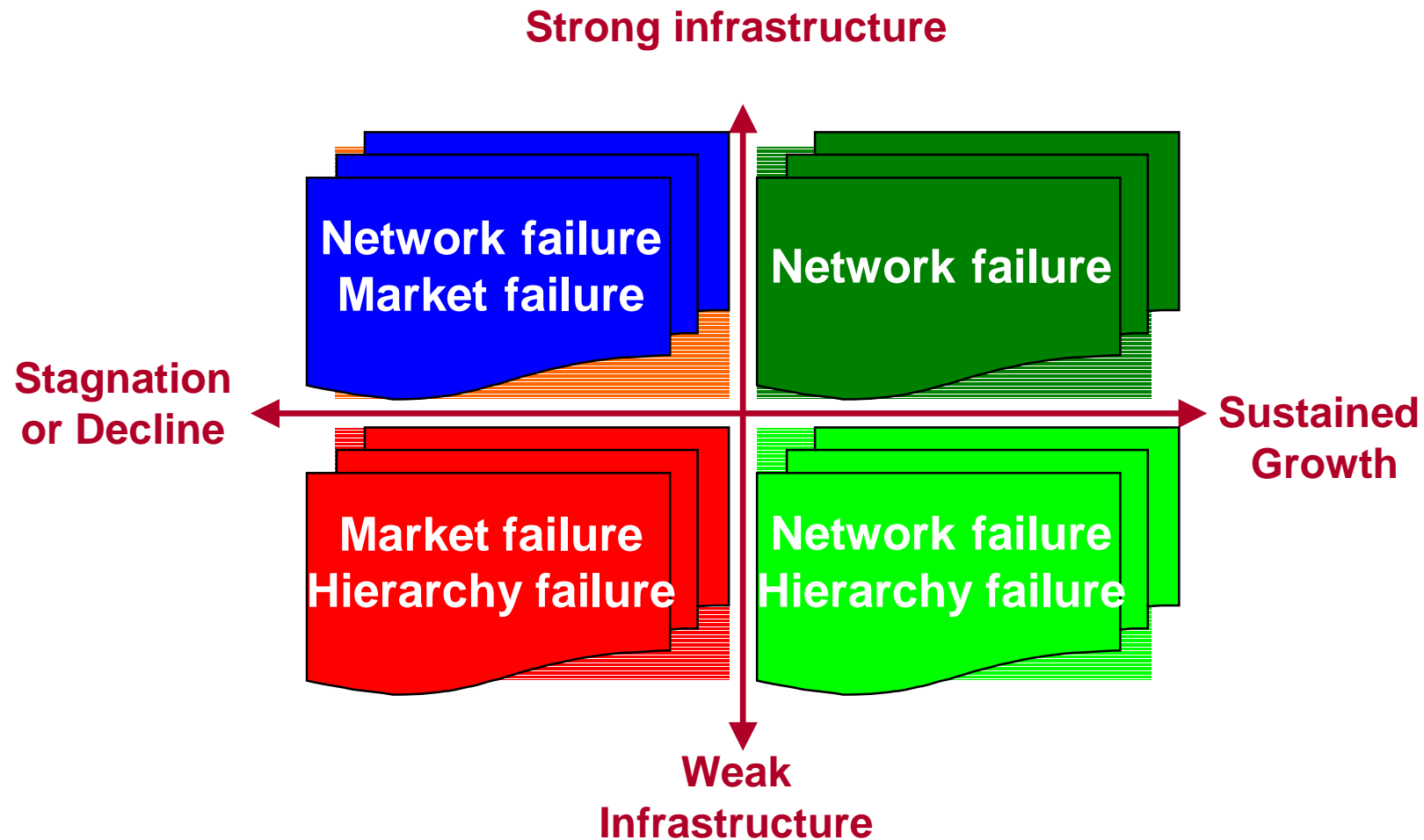


A simplified typology of territorial economies





Predominant failures at a local level





Thank you

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