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LA APARICIÓN Y LA SIGNIFICANCIA DE LAS ESTRATEGIAS DE DESARROLLO LOCAL

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RESUMEN

Este trabajo examina hasta qué punto las estrategias locales y regionales de desarrollo económico (LED, por sus siglas en inglés) se están convirtiendo en un complemento necesario y viable de las estrategias de desarrollo tradicionales en un mundo que ha cambiado radicalmente por los procesos paralelos de globalización económica, la aparición de actores políticos nacionales y los cambios en la gobernanza territorial. A través de 5 ejemplos de América Latina de México, Colombia y Argentina, el estudio identifica los conceptos claves, valores centrales, y principios que inspiran este enfoque al desarrollo. Además, analiza los principales factores que facilitan y limitan el éxito o fracaso de este tipo de estrategias y las características que contribuyen a generar un entorno propicio para este tipo de estrategias. La principal conclusión es que las estrategias locales de desarrollo económico pueden ser un complemento válido a las estrategias *top-down* tradicionales a favor del desarrollo sostenible. Asimismo, en muchos casos, éstas pueden generar una mayor eficiencia económica al movilizar recursos que de otra manera no hubieran sido utilizados, además de propiciar importantes beneficios sociales al promover la participación y sostenibilidad en territorios donde las condiciones institucionales están lejos de lo ideal.

Palabras clave: estrategias de desarrollo locales, desarrollo económico, América Latina

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ABSTRACT

This paper examines to what extent local and regional economic development strategies (LED) are becoming a necessary and viable complement to traditional development strategies in a world that has been radically changed by the parallel processes of economic globalization and by the emergence of subnational political actors and changes in territorial governance. Drawing on five Latin American examples from Mexico, Colombia, and Argentina, the paper identifies the key concepts, core values, and principles that inspire this approach to development. It also looks at the key constraining and facilitating factors that contribute to the success or failure of this type of strategies and at the characteristics that contribute to generate an enabling environment for this type of approach. The main conclusion is that local economic development strategies, while no panacea, may be a valid complement to traditional top-down strategies in order to deliver sustainable development and it many cases may deliver greater economic efficiency by mobilizing resources that otherwise may have remained untapped and a large number of social benefits, by promoting voice, participation, and sustainability across territories where institutional conditions have been far from ideal.

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Keywords: local economic development strategies, economic development, Latin America

On the emergence and significance of local economic development strategies

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The emergence and significance of local economic development strategies

Abstract: This paper examines to what extent local and regional economic development strategies (LED) are becoming a necessary and viable complement to traditional development strategies in a world that has been radically changed by the parallel processes of economic globalization and by the emergence of subnational political actors and changes in territorial governance. Drawing on five Latin American examples from Mexico, Colombia, and Argentina, the paper identifies the key concepts, core values, and principles that inspire this approach to development. It also looks at the key constraining and facilitating factors that contribute to the success or failure of this type of strategies and at the characteristics that contribute to generate an enabling environment for this type of approach. The main conclusion is that local economic development strategies, while no panacea, may be a valid complement to traditional top-down strategies in order to deliver sustainable development and it many cases may deliver greater economic efficiency by mobilizing resources that otherwise may have remained untapped and a large number of social benefits, by promoting voice, participation, and sustainability across territories where institutional conditions have been far from ideal.

1. Introduction

The process of globalisation is affecting the distribution of economic activity and reshaping territorial structures across the world. One of the most important consequences of globalization is the emergence of a new territorial structure; a structure where existing territorial links are being altered, leading to the formation of a more heterogeneous and complex socio-political and economic landscape. Traditional national top-down development strategies are struggling to cope in this new environment. Amid dwindling results, they seem more and more inadequate for tackling development problems. Hence a need for an alternative or a complement to traditional development strategies has become more evident and local economic development strategies (LED) are increasingly regarded as a valid and viable way to overcome the development problems of territories around the world, regardless of their level of development or institutional conditions.

In this background paper to the RED2010 report we aim to provide the motives and a framework behind the emergence and significance of local and regional economic development strategies and of the enabling factors that determine their potential effectiveness in diverse geographical, socio-economic and institutional contexts.

In particular, the paper will first examine why local and regional economic development strategies have become a necessary, viable, and complementary alternative to traditional development strategies. It will specifically emphasize how the parallel processes of globalization and changes in governance have resulted in a rise in territorial disequilibria which have rendered traditional development strategies less effective and require the implementation of complementary and/or alternative approaches to development, more focused on the local and regional dimension. The paper will then identify the key concepts, the core values, and the principles that articulate any local and regional development approach and highlight the main economic and social advantages of the approach.

The paper will also dwell on the importance of local, regional, and national actors within the process of local and regional economic development and on the main factors constraining and facilitating the design and implementation of local and regional development strategies, with the aim of identifying the characteristics that generate an enabling environment for the success of any development strategy at the local and regional level.

In order to illustrate how local and regional economic development strategies work in the real world, the paper will include a series of brief case studies of successful local strategies implemented in Latin America. These cases will focus both on the actors, organizations, and institutions that contributed to make these strategies successful, as well as on the intrinsic characteristics and the process of implementation of the strategy.

2. Globalisation, rising inequalities and the growing importance of place

Rather than reducing the importance of place, globalisation has made localities more important for economic growth and prosperity. Space is becoming increasingly ‘slippery’, in the sense that capital, goods, people, and ideas travel more easily (Markusen, 1996; Friedman, 2005). In this context, the unique aspects of a locality and the ability to create and strengthen a comparative advantage are becoming more and more important. By successfully rooting economic activity in the local social and economic fabric, territories have the potential to become a source of vitality and strength within the national economy (Storper, 1997). However, if a locality fails to engage with the challenges posed by globalisation, it runs the risk of being marginalised.

The next sections will discuss the main effects of globalisation and the opportunities and threats they pose to territories. We will start by examining the direct effects of the increased mobility of goods, capital, and labour on local economies. After this we will turn our attention to two related trends; the trend towards the decentralisation of governance and the increase in interpersonal and spatial inequality.

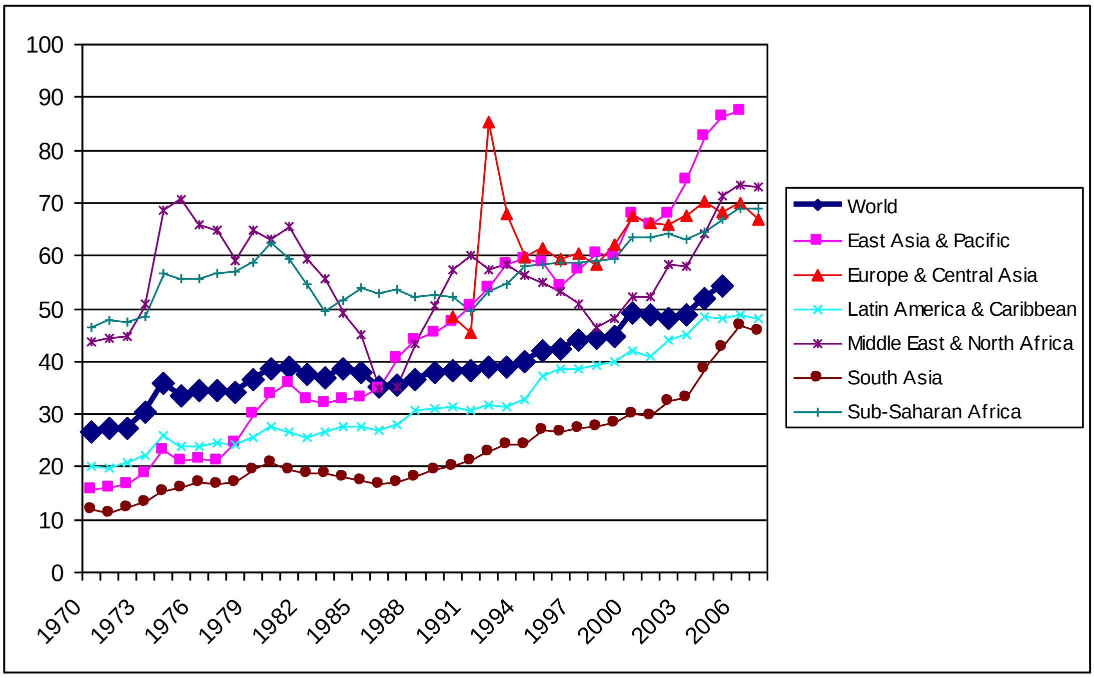
2.1. The increasing interconnectedness of the world

Globalisation has increased the mobility of goods, capital, and labour. These developments pose both opportunities and threats to localities seeking to advance the working and living conditions in their territory. Though they are interrelated, we will discuss these three trends and their impacts independently.

Goods

Trade liberalisation and the decline in transportation costs have dramatically increased international trade. Since 1970 world trade has been multiplied by a factor of ten in real terms and, as a percentage of GDP, world trade has risen from a mere 27 per cent of global GDP to more than 55 per cent in 2006. Although most cross-border trade still takes place among developed nations, the trend is increasingly affecting all parts of the world, with East Asia and the Pacific, Latin America, and South Asia as the regions of the world witnessing the greatest expansion in trade (Figure 1).

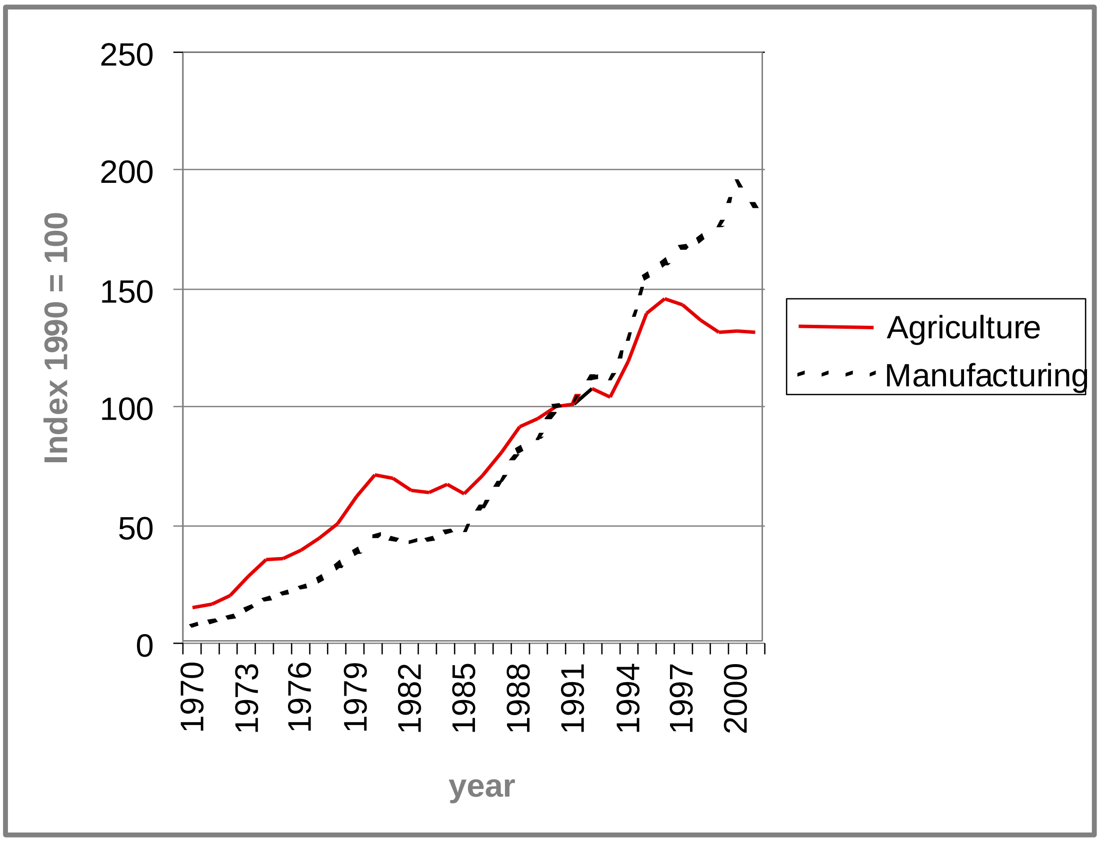
Figure 1. Exports of goods and services (percentage of GDP) 1970-2007



Source: World Bank Development Indicators, 2009

Globalisation has not only increased the volume but also the nature of international trade. Firstly, the kind of goods that are being traded has changed. The rapid expansion of manufacturing trade in the last decades has in many cases occurred at the expense of trade in agricultural goods. As a result the proportion of agricultural goods in the composition of trade has fallen. The increase in trade may therefore favour the, often urban, areas hosting manufacturing industry over the more rural areas specialising in agriculture. Until 2000, the decline in prices of primary commodities relative to manufacturing goods since the 1970s and the related deterioration in the terms of trade reinforced this trend (Aksoy, 2005) (Figure 2). More recently, the sharp rise in food and raw material prices have challenged this dynamic.

Figure 2. Evolution of trade in agriculture and manufacturing since 1970



Source: World Trade Organization

In addition to this sectoral shift, the type of product that is traded has changed from end products to intermediate goods. This trend can be linked to the general tendency to outsource parts of the production of a good to other firms. In the context of trade liberalisation and falling transportation costs, outsourcing parts of the production process to firms or subsidiaries located in other countries is becoming increasingly popular. As a result goods may cross borders several times during the production process, creating global production networks.

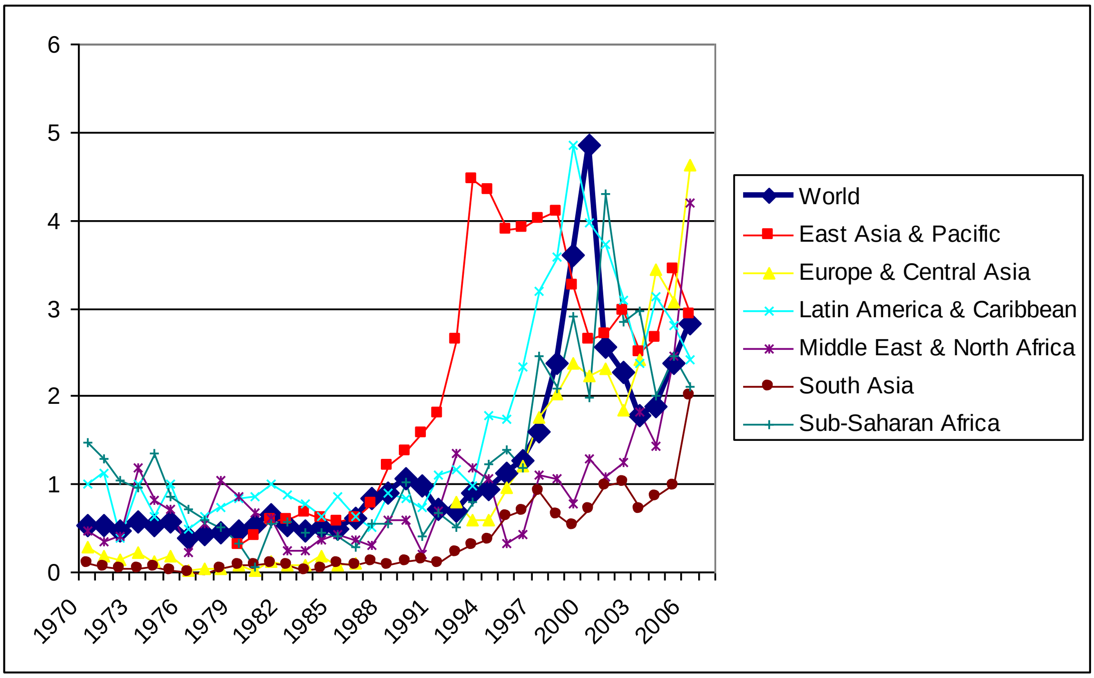
The slicing up of the value chain (Krugman, 1995) is leading to international vertical specialisation. Although important exceptions exist, this has generally resulted in a stronger concentration of the higher value-added, skill and capital-intensive tasks in high income areas. The relatively low value-added, labour-intensive parts of the production process are then outsourced to low and middle-income territories. Although these activities may be seen as relatively low-skilled in high income countries, they are often relatively skilled-labour intensive in the low and middle income context (Feenstra and Hanson, 2003). As a result, trade can increase the demand for skilled labour and skills premiums in high and low income areas alike.

Taken together, these trends offer both opportunities and threats to localities in low and middle-income countries. The increase in trade makes it possible for territories in countries with relatively small economies to serve larger markets and capitalise on their competitive advantage more fully. On the other hand, the drop in transportation costs and trade barriers also reduced the protection enjoyed by the more vulnerable sectors and enterprises and people employed within them. Localities therefore need to find a way to engage with the increased openness to trade that will allow them to benefit from these developments.

Capital

Not only trade, but also investment has become increasingly footloose. Foreign Direct Investment (FDI), which accounted for a mere 0.5 per cent of global GDP in 1970, now represents almost 3 per cent, almost six times as much in less than forty years (Figure 3). The biggest rise in FDI took place from 1990 onwards, with East Asia as the main driver of the process, followed shortly afterwards by Latin America and the Caribbean (Figure 3). Again this trend is not universal. In large areas of Sub-Saharan Africa and South Asia, formal aid still far outweighs FDI as a source of external finance. In the higher income countries in Asia and Latin America, by contrast, FDI often accounts for 70 to 80 per cent of total capital inflow (OECD, 2002). This reflects both geographical differences and the general finding that FDI inflows and stocks tend to be lower in poorer areas, especially if incidences of absolute poverty are relatively high.

Figure 3. FDI as a percentage of GDP trends 1970-2007.



Source: World Bank Development Indicators, 2009

As foreign aid has tended to stagnate over recent decades, FDI is usually seen as a welcome new source of capital. In addition, such direct investments add know-how and technology as well as channels for marketing products internationally to the local economy (De Mello 1997). FDI therefore has an important role to play in disseminating best-practices and technological advantages developed in high income areas to low and middle income countries.

In search of these benefits, many countries have opened up their markets to foreign investors and are actively trying to attract FDI. However, the effects of FDI differ from territory to territory. In some cases, it is feared that foreign investment is ‘crowding out’ domestic investment, in the sense that it pre-empts investment by local entrepreneurs or displaces existing domestic producers. The empirical evidence of this is mixed (Nunnenkamp, 2004).

In some territories, FDI is indeed crowding out local investments. As a result these localities often become excessively dependent on a foreign firm. In addition, FDI is thought to contribute less to a local economy than domestic investments, as profits tend to return to the host country, rather than being reinvested in the locality.

In other areas, FDI is found to have the opposite effect. Rather than inhibiting domestic investment and growth, it is helping to sustain and grow existing local businesses and leading to new downstream or upstream investments. On the one hand, this is linked to the capacities of local firms to create productive forward and backward linkages with the foreign investor. On the other, it is related to the government's ability to attract foreign investments that complement rather than displace local firms.

Under the right circumstances, FDI can play a role in the creating productive employment, stimulating local entrepreneurship, and upgrading the skills of local workers and firms alike. However, without explicit efforts to embed FDI in the local economic fabric, especially poorer territories might find it hard to derive economic benefits from FDI, even if they manage to attract it. The main challenge for territories is thus creating an environment in which FDI can have a beneficial effect.

Especially in low income countries, a second source of external finance that is growing in importance are remittances. In recent times, official workers' remittances to low and middle income countries have far outweighed official development assistance and private non-FDI flows. Based on the official recorded data, the total value of remittances received by low and middle income countries were estimated at 167 billion US dollars (World Bank, 2006). This represents a 73 per cent rise from 2001. Actual flows are substantially higher than these formal measures indicate, as many types of formal remittances go unrecorded and informal flows continue to be important. In addition, non-pecuniary assets, such as tools, medical supplies, gift, and food are not accounted for.

Remittances are especially important to poverty alleviation as they represent a relatively stable source of finance. Remittances are less affected by the economic cycle in the recipient country than other forms of investment. They do not increase during economic booms and decrease during downturns to the same extent as FDI and other private capital flows. Especially remittances used for household consumption, rather than investment, tend to increase when conditions in the recipient country take a turn for the worse. In times of crisis or general economic hardship, migrants send home more money in order to allow their families to meet their basic needs (Chimhowu et al., 2005).

On the other hand, remittances could also undermine sustainable economic growth and employment creation in a territory. The bulk of remittances tend to be spent on household consumption, rather than productive investment. As a result, remittances can create a reliance on inflows of money from abroad, to the detriment of the development of productive local activities. This can in turn lead to high unemployment, income inequality, and a loss of productivity in the local economy (Chimhowu et al., 2005).

Empirical evidence shows that the effect of remittances on the local economy depends very much on the characteristics of the locality. In general, remittances are more likely to lead to productive investment and new firm creation in urban areas or rural territories that have managed to establish links with urban markets or develop a strong comparative advantage in agriculture (Taylor et al., 1996). In other words, the effect of remittances on the local economy depends on whether the territory offers local residents viable investment opportunities and access to markets.

People

In addition to goods and capital, people have also become increasingly mobile. As a result of lower transportation costs and better infrastructure, both internal and international migration has risen significantly in recent decades.

In terms of percentage of the global population, international migrants are still very much a minority. In 2005, the migrant stock was estimated at close to 190 million, or 3 per cent of the global population (United Nations Population Division, 2005). However, if we look beyond the migrant stock, to measures such as inflows of working-age immigrants as a percentage of new additions to the working-age population, it is clear that migration is becoming increasingly important. This trend has notable effects on recipient and sending countries alike.

For the, mainly high income, countries that are net recipients of migrants, migration offers an opportunity to fill gaps in the labour market and deal with the problems associated with an ageing populations. On the other hand, large scale migration from low and middle income countries is often feared to have a negative effect on the employment opportunities and wages of the native population. Although little evidence is found of such an effect overall, this may be the case in sectors that have a large migrant workforce, i.e. low skilled service and manufacturing sectors (Borjas, 2003). Regardless of the true economic effects of migration, rising migrant flows have been accompanied by increases in xenophobia in many western societies. In response to such pressures, the main destination countries have considerably tightened general immigration rules. Simultaneously, policies are put in place to attract individuals with specific skills that are needed in the local labour market (Beine et al., 2001).

In contrast to high-income countries, many low and middle income countries are experiencing net out migration of their nationals. Given the changes in the migration policies of many high income countries, legal economic migrants are now increasingly high skilled (Docquier et al., 2007). Especially in regions that are relatively far from the main destination countries, such as Sub Saharan Africa, low skilled emigration as a percentage of low-skilled workers is very limited. If we look at emigration rates amongst those with tertiary education as a percentage of total tertiary-educated people, this picture changes dramatically. With an average of 15 per cent, Sub-Saharan Africa faces the highest rate of emigration as a percentage of tertiary-educated people. Other low and medium income areas have seen a similar trend, with the increases in the percentage of skilled people in the emigrant population outweighing the increase in skills in the population as a whole (Docquier and Marfouk, 2004).

This trend towards high skilled out migration – known as ‘brain drain’ – can have detrimental effects for the source country. Especially outward migration amongst key workers, such as healthcare professionals and teachers, can create important skill gaps. On the other hand, the prospect of migration does offer workers in a poor country, where returns to human capital are relatively low, greater incentives to gain more skills. If we assume that not all workers who gain such skills emigrate, or that some of those who emigrated return to their home country at some point, migration prospects may raise rather than lower educational attainment in developing countries (Beine et al., 2001). In addition, as we have seen in the previous section, international migration can contribute towards poverty alleviation and socio-economic development through remittances.

Even though international migration is increasing, migration between regions and localities within a country is still far more prevalent. One expression of this type of migration is the rapid growth of urban populations to the detriment of rural areas. Although natural population increases and reclassification of areas as urban zones account for a large part of the rapid increase in the urban population, migration from rural to more urbanised areas plays a significant role too. Apart from rural-urban migration, rural-rural migration is still occurring in low and middle income countries.

Both rural-urban and rural-rural migration can benefit individuals and households in numerous ways (Lucas, 1997). Most importantly, migration can enhance employment opportunities, by giving individuals access to more vibrant and promising labour markets. In many cases, migrants also shift from one sector or activity to another, giving them opportunities to acquire new skills and engage in more productive and higher income activities. In addition, the spread of family income over differ kinds of economic activities has an important risk-spreading effect.

However, migration does not always have such positive effects. Areas experiencing net out and net inward migration both face important social and economic problems. Territories of out migration often face the problems associated with an increased dependency ratio. As young adults emigrate in search of a better future, they leave behind the children and the elderly. This decrease of the working age population poses a real development challenge to areas of net out migration.

Net receiving areas, on the other hand, will face another set of problems. Overcrowding of both the labour market and the physical infrastructure can pose real development issues. In devising policies to deal with these issues, local authorities need to balance the concerns of migrants with those of existing residents.

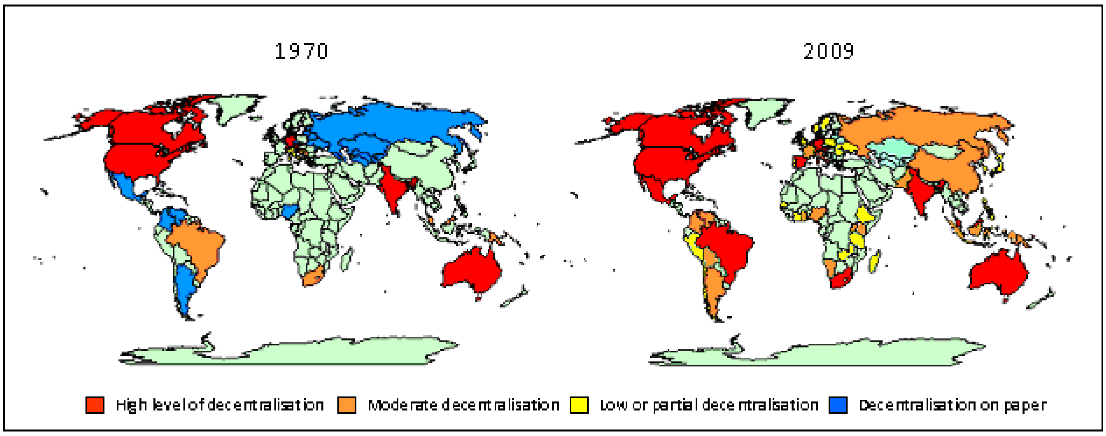
To deal with the challenges posed by internal and international migration, territories will have to devise active strategies to provide their populations with productive employment opportunities and decent living conditions.

2.2. Decentralisation of governance

Together with the increasing rise in the mobility of goods, capital, and people, globalisation has been associated with another important change, that of the decentralisation of governance. The move towards decentralisation, or the transfer of power and resources to regional or local of government, has been evident since the

1970s. Although most pronounced in high income countries, low and middle income countries are also becoming progressively more decentralised. In the early 1990s, sixty-three out of seventy-five low and middle income countries with a population in excess of five million were already actively pursuing decentralisation policies (World Bank, 1992). Since then, the trend towards regional devolution and decentralisation has only accelerated. As Figure 4 shows, this has led to some considerable changes.

Figure 4. Decentralisation: The state of the world in the 1970s vs. 2009



Source: Own elaboration

The decentralisation drive has been most pronounced in Europe and Latin America. Changes across Asia – and especially in countries such as China, India, Indonesia, Korea, and the Philippines – have also been noticeable (Figure 4). Although centralized and unitary states are still the norm in terms of numbers, in terms of population, more and more of us are now living in a decentralised context. Federal India and the increasingly decentralised China already represent 2/5 of the world's population. In addition, predominantly decentralised areas such as the EU, the US, Indonesia, Brazil, and Mexico account for more than 1/5 as well.

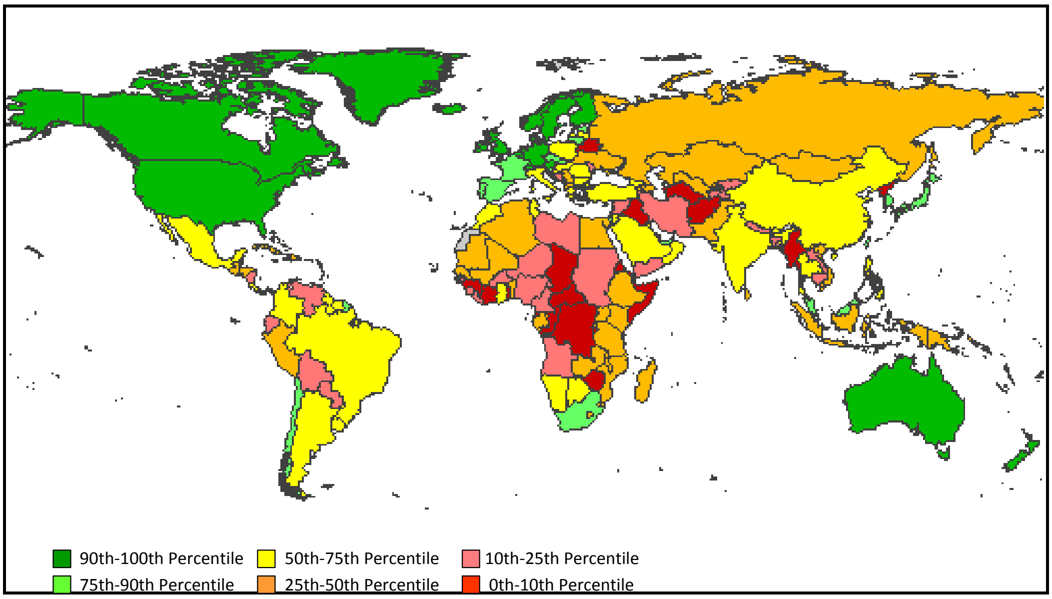
Decentralisation can have a number of benefits (Martinez-Vazquez and McNab, 2003). By bringing government closer to the people, decentralization can enhance the transparency, responsiveness and accountability of government. The simple and directly relevant nature of especially the local policy agenda can encourage groups that were previously less active in the democratic process to participate.

In addition, decentralisation can lead to innovation in the way the government provides public goods and services. By transferring resources and responsibilities to the local level, public spending can be adapted to local preferences. If a new method proves to be effective in one context, it can also be applied in other areas. Therefore decentralisation can improve both the allocation of public funds and the efficiency with which they are used.

However, the ability of decentralised systems to deliver these benefits has been far from universal. In many cases, regional and local governments still lack the de facto powers to make a real difference to the lives of people in their territory. Where substantial powers are decentralised, these are often not accompanied by adequate resources. In addition, regional and local governments are often the first to feel the pinch when economic crises affect the national budget.

Where sufficient powers and resources are available, capacity constraints at the local or regional often form an obstacle to the successful formulation and implementation of policies. As Figure 5 shows, low and middle income countries generally perform less well than high income countries in terms of the quality of policy formulation and implementation. These capacity constraints tend to increase as we move from the national to the regional and the local scale. These capacity constraints can limit the benefits decentralisation.

Figure 5. Government effectiveness 2009



Source: Kaufmann et. al. 2008 (Map generated by Governance Matters 2008 website)

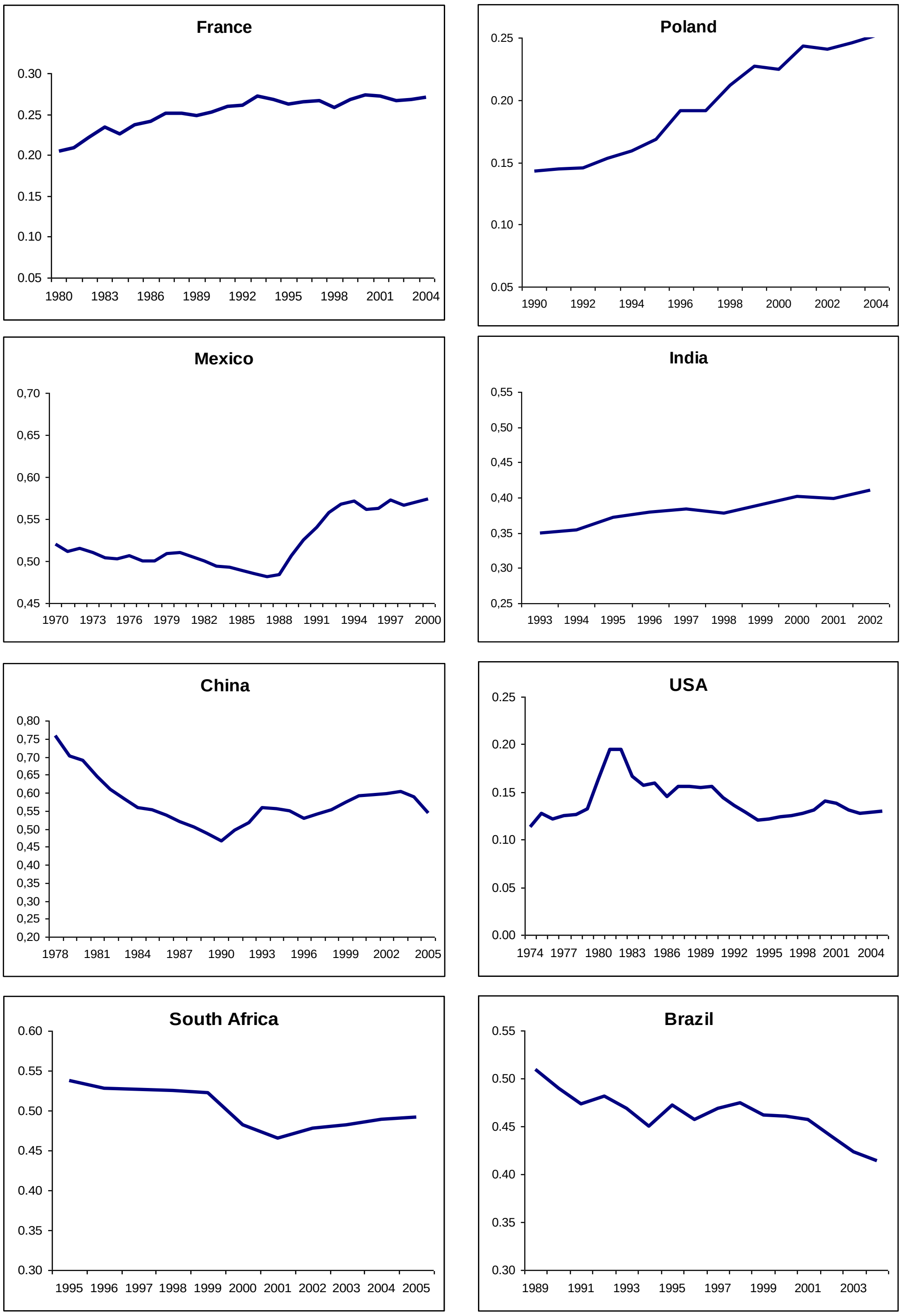
On top of this, decentralised systems have not always succeeded in increasing the involvement of previously excluded groups, and in particular the poor (Crook, 2003). The desire of national elites to create and sustain their power base plays an important role in creating systems of decentralisation that reinforce vested interests and existing patterns of patronage. As a result, the allocation of resources may not represent the preferences of all groups in society equally, diminishing the pro-poor effects of decentralisation.

Decentralisation offers territories real opportunities to shape their future and deal with the challenges of globalisation in a productive way. However, the design of the decentralised system and way powers and resources are managed locally will have implications for the effects of decentralisation. National, regional, and local actors alike have an important role to play in making the system work better. By providing adequately funded mandates and increasing accountability at every level, national governments can create an environment that is conducive to success. By ensuring that wages levels are competitive and improving the training of regional and local governments, the capacity of civil servants, and with it the effects of decentralisation, can be further improved.

2.3. Rising inequalities

The combination of the process of globalization – and specifically the opening of countries to trade – with the decentralization of governance processes has coincided with a rise in inter-personal and inter-territorial inequalities. Although the evolution of inequalities across the world is still the subject of heated debates, there is increasing consensus that both inter-personal (Wade, 2004) and inter-territorial inequalities (Rodriguez-Pose and Gill, 2004) are increasing. The general trend has been for a moderate rise in inequalities. Most countries around the world for which subnational data are available fall into this category. Places like central and Eastern Europe have witnessed a very rapid increase of inequalities, as has been the case in countries like Sweden or Ireland. In a small number of countries – such as the US, Canada, or South Africa – regional inequalities have remained stable, while the number of countries observing a decline in regional inequalities can be counted with the fingers of one hand (Brazil seems to be the only case in Latin America over the last two decades). Figure 6 presents the evolution of regional disparities in a number of selected countries across the world, highlighting the general trend towards rising inequalities.

Figure 6. Rising within country inequalities in selected countries, weighted by population



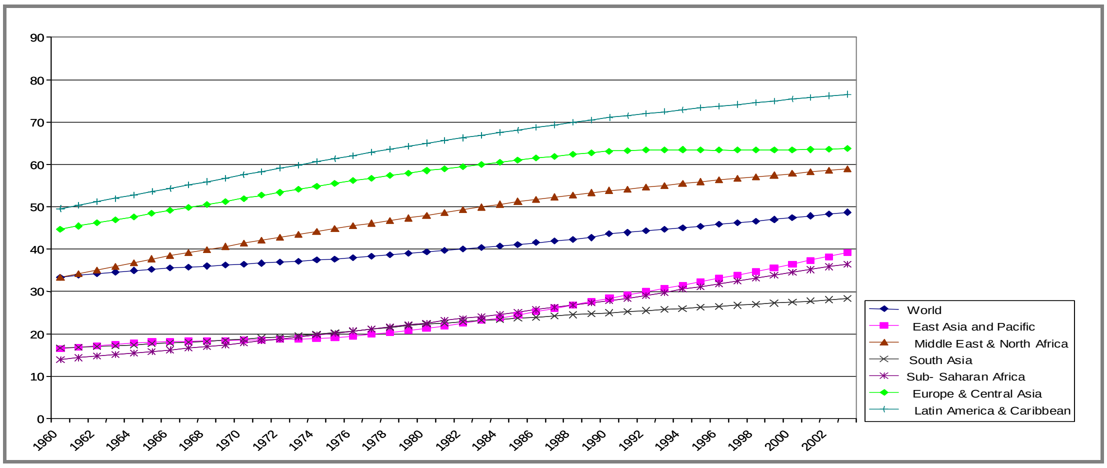
Source: Own elaboration with National Statistical Institutes data.

The dimension and evolution of inequalities, however, tend to differ according to income level. The dimension of inter-personal inequalities and regional disparities within countries is, in general, considerably larger in low and middle income countries than in the high income areas of the world. In addition, inequalities have also been rising faster in low- and middle-income countries than in wealthier countries. This trend can be linked to a number of interrelated changes in the way people live their lives.

Urbanisation, rural livelihoods and poverty

Cities across the world have been thriving, with the fastest urban growth in recent years taking place in low- and middle-income countries. Now-a-days more than 50% of the world's population lives in cities. The size of the urban population ranges from below 30% of the total in South Asia to close to 80% in Latin America and the Caribbean (Figure 7).

Figure 7. Urbanization trends across different parts of the world.



Source: from World Development Indicators (World Bank)

The pace of urbanisation varies significantly across regions of the world. It has been slowest in the heavily urbanized Europe and Central Asia region and fastest in East Asia and the Pacific and Sub-Saharan Africa.

In many areas, the process of urbanization has also been associated with an increase in wealth. The emergence of cities as centres of economic activity and trade, with their diversity, their agglomeration of firms, and their relatively more skilled individuals is regarded as a guarantee of greater economic dynamism (Duranton and Puga, 2000, Henderson and Wang, 2005, Venables, 2005). From this perspective, the trend seems to be the higher the percentage of urban population, the higher the GDP of a country. However, this economic growth has in many cases not been accompanied by a similar decrease in inequality or poverty.

Particularly in low and middle income countries, towns and cities have struggled to accommodate rapidly growing populations. In many cases, the basic infrastructure and services are incapable of dealing with the new demands. Accommodation is in short supply, leading to an increase in informal settlements with poor living conditions and high incidences of crime and violence. Due to rapid development and overcrowding, the general physical environment in many urban areas is also deteriorating markedly. As a result the urban poor often face a lack of suitable shelter, basic infrastructure and general security alongside material deprivation. In addition, the poor often lack access to formal employment opportunities, basic education, and health and financial services. As a result they benefit little from the economic advantages urbanisation can bring (Rakodi et al., 2002).

Urbanisation has also done little to decrease poverty levels in rural areas. Rural poverty levels still trail well above urban levels in most countries and this is especially true for the poorest areas of the world. Despite urbanisation, over three-quarters of the poor still live in rural areas in most low and middle income countries (FAO, 2006). In addition the extent of poverty, both in terms of GDP per capita and access to basic services, tends to be greater in rural areas. Providing opportunities for productive employment and decent work to rural populations is thus crucial to pro-poor growth.

Agriculture has a key role to play in this process. Recent developments in regions that have experienced broad based agricultural modernisation have proven that this can be a fruitful strategy in combating poverty. These lessons are reinforced by the experiences in areas that have failed to make this transition. For instance in most of Sub Saharan Africa the failure to promote productivity growth in the agricultural sector been accompanied by high levels of rural poverty and food shortages (Christiaensen and Demery, 2007).

In addition, empirical evidence shows that growth in the agricultural sector not only reduces rural poverty, but has a positive effect in urban poverty as well. Especially since urban growth often fails to benefit the poor and does little to alleviate rural poverty (Sharma, 2007), this stresses once more the developmental importance of agricultural modernisation.

As this section has shown, urbanisation poses a series of complex challenges to urban and rural areas alike. Though some of the initiatives to deal with these issues will need to come from regional, national or international actors, localities can influence their own futures by taking pro-active action to promote pro-poor growth.

In urban areas, this could for example consist of improving the opportunities of voice, especially for the poor, and taking positive steps to improve the living and working conditions of the poor. In rural areas, local cooperation and knowledge-sharing can increase productivity and create risk-spreading opportunities. Examples of this would be simple changes to production process, the creation of storage facilities and the formation of co-operations.

Unemployment, informality and labour standards

Globalisation has not only affected the distribution of economic activity and people across space, but also the distribution of wealth and employment opportunities across people. The increased interconnectedness of the world and the related rise in international trade and investment can change the characteristics of the local labour market in important ways. This section will first look at changes in the availability of work, before turning to the quality of the jobs on offer.

Despite strong GDP growth and a rise in the number of people working, there has been no significant reduction in either the global unemployment level or the levels of poverty amongst those who are in work over the last decade (ILO, 2007). In addition, employment in the informal economy has increased rapidly in many low and middle income countries. In high income countries, this trend is mirrored by an increase in atypical forms of employment, such as part-time and temporary work.

The degree to which globalisation plays a role in these trends is debatable. On the one hand, the liberalisation of trade and investment can lead to job losses in previously protected sectors. Global competition can push local firms out of the market and encourage surviving firms to cut costs by relying on informal arrangements without minimum wages or standards. In addition, the increased macro-economic fluctuations associated with more open markets can increase the rate of job separation and the related risk of unemployment and poverty.

On the other hand, globalization can also lead to new opportunities, especially for those formerly employed in the informal economy. By potentially diverting production activities from high wage areas to low and middle income countries, it can create new opportunities in the formal economy, both in terms of wage employment and opportunities for self-employment.

The effects of globalisation on actual employment opportunities will thus differ by context, sector, and employment status. In general, case evidence suggests that workers in formerly protected sectors loose out from liberalisation, both in terms of wages and working conditions (Rama, 2003). In many cases ‘good jobs’ were lost and replaced by low wage, temporary positions in these sectors. Although the impact of globalisation is less direct, public sector workers seem to have been affected in a similar way. Increased openness has in many countries been accompanied by significant downsizing in state-owned enterprises and government agencies. Again, jobs with attractive working conditions, in particular for women, were lost.

On the other hand, globalisation has also lead to important job creation. Most visibly this has occurred through FDI and the growth of export-oriented sectors. In terms of working conditions and wages, the quality of these new jobs varies. Nonetheless, this type of job creation can play an important role in offering new opportunities to groups that were previously marginalised in the formal labour market. There is for instance some evidence that increases in net inflows in trade and FDI can have a narrowing effect on the gender gap in low-skilled professions (Oostendorp, 2004). Despite the relatively low wages and poorer working conditions, the jobs created in export-oriented firms offer women an opportunity to escape from informal employment or home-based work.

There are some fears that increased openness to trade and FDI may increase incidences of child labour. Intense international competition, coupled with a focus on unskilled labour, could provide firms in low and middle income countries with incentives to use child labour in order to push down wages (Palley, 2005). However, there are reasons to believe that globalisation can lower the incidences of child labour. Trade liberalisation and the related creation of unskilled jobs are likely to push up the rate of return to low-skilled labour. As a result, more unskilled parents may be able to offer keeping their children out of work for longer. In addition, the sectoral shift toward higher skilled, more capital-intensive sectors found in some successful cases of liberalisation will also make child labour less attractive (Neumayer and De Soysa, 2005).

As the above discussion shows, the expected impacts of globalisation on job opportunities and labour standards are mixed. Real opportunities to promote new high quality work exist, but the potential drawbacks in terms of the quality of jobs cannot be ignored. Actors, ranging from national, regional, and local governments to international organisations, NGOs, and trade unions, all have a role to play in ensuring that the possible benefits to local job markets materialise, while the risks are mitigated as much as possible.

3. The rise of a new territorial structure

The combination of globalization, decentralization, and rising inequalities are leaving an important territorial imprint with which many nation-states are struggling to cope. This new, more heterogeneous and fragmented territorial structure is characterized by the emergence of three types of spaces with very different development needs and often within the same national framework.

The key spaces in this three-tier structure are:

a) **Primate cities:** Large urban agglomerations that have not only managed to attract massive rural-urban migration, but also a greater concentration of economic activity. This is mainly because of their greater accessibility, their larger economies of scale, scope, and agglomeration, their greater presence of skilled labour and markets, and, their better capacity to compete in open markets. These growing urban conurbations – in many cases becoming true megalopoli – attract large numbers of rural and small-town workers seeking to improve their personal conditions. However, as mentioned earlier, the other side of the coin in these cities are serious problems of poverty and social exclusion, as well as violence and the rise of large slums.

b) **Intermediate city-regions:** Medium-sized cities, outside the direct area of influence of the primate city, that often articulate large rural hinterlands. These cities are generally growing (especially in the developing world) and attracting population from rural areas. But, given their size and frequent endowment deficiencies, they frequently struggle to find market niches and become competitive. In the developing world, many of these intermediate city regions are often becoming increasingly dependent on international aid.

c) **Rural areas:** Generally remote, with poor accessibility, and with weaker endowments in human resources and firms, the problems of rural areas differ significantly from those of urban areas. Across the developing world, many of the problems of rural areas are exacerbated by global restrictions to trade in agriculture and by the greater volatility in the price of agricultural produce and raw materials

This emerging more heterogeneous and complex territorial structure is undermining the ability of the nation-state to manage national economies. The needs of large urbanized areas and primate cities – with their incentives to compete in a more globalized arena – vary with respect to those of intermediate city-regions and to those of remote rural areas. This makes one-size-fits-all policies increasingly inadequate to tackle development problems rendering traditional top-down, supply-side development policies, which are often based on the promotion of industrial sectors or on improving accessibility, less and less efficient.

Traditional development policies have normally been cut from the same cloth in different parts of the world. These were normally supply-side strategies, based on a sectoral rather than a territorial dimension. Decision-making was mainly top-down, with mixed or bottom-up approaches virtually ignored and with a tendency to rely on financial support, incentives, and subsidies as key elements of the strategy. Frequently, these policies relied on the imitation of successful development strategies applied in very different contexts (Storper, 1997).

Most strategies were based on two axes. On the one hand, the development of transport infrastructure. Infrastructure has frequently been perceived as the panacea for economic development. Solving the accessibility problem of remote areas or addressing congestion in core ones has traditionally been popular with politicians and the public at large and generally regarded to yield high returns to investment. Development policies thus often relied almost exclusively on the provision of roads, railways, sanitation, and water, at the expense of other policy areas that required intervention. While the provision of these public goods is necessary to trigger development, it is not sufficient when other development bottlenecks are not addressed. Hence, many of these policies have not delivered the expected returns. One such example has been the case of the Italian Mezzogiorno, where a strategy based on infrastructure and the attraction of inward investment did not manage to cut the development gap between the Mezzogiorno in the South of the country and the rest of Italy.

On the other hand, many policies have aimed at promoting industrialization and attraction of inward investment. Industrialization strategies and the attraction of large firms to territories with a weak industrial fabric have been as popular a strategy as infrastructure investment. However, setting up or importing firms to areas where few or no synergies with the local economy can be established may create a situation is which many of these industries remain detached from the local environment, yielding little or no direct benefit to the local population and often relying on subsidies or incentives to remain active. The Italian Mezzogiorno or, more recently, the strategies applied to try to develop the regions of the former East Germany, represent two cases where this sort of policies have not yielded the expected results.

The desire to attract foreign investment has also in many cases derived in locational tournaments, where different governments try to outbid each other to attract multinational companies, generally with pernicious effects for the local economy, as was the case of the attraction of car manufacturers to Brazil in the 1990s. After the lost decade of the 1980s, the economic opening of Brazil at the beginning of the 1990s and greater macroeconomic stability made the country an attractive destination for FDI, especially in the automobile sector. Almost overnight, Brazil became in the mid-1990s the second most important recipient of FDI in the developing world. With levels of car ownership of one vehicle per nine inhabitants, Brazil represented a huge potential market for car manufacturers. However, the setting up of large car plants in the country triggered a bidding war (known in Brazil as the ‘fiscal war’) involving cities and states trying to lure the European, American, and Asian multinationals to their respective territories. This unrestrained territorial competition represented a pure waste of resources for the states engaged in them and for Brazil as a whole, as it deviated a significant proportion of the already scarce public funds to subsidizing multinational companies already interested in the Brazilian market. Moreover, the 'fiscal wars' contributed to jeopardize Brazilian macro-economic stability, and became a huge source of conflict among state and municipal governments (Rodríguez-Pose and Arbix, 2001).

Hence, traditional top-down, supply-side development policies have been, and are still, popular because of their simplicity and popularity, but tend to be unbalanced, only relevant to the formal sector, and ultimately incapable of delivering sustainable development and decent work. In addition, these policies are struggling to cope with the more heterogeneous economic reality emerging from globalization and, in some cases may be even contributing to enhance economic agglomeration and regional inequalities (Roberts, 1993).

4. Local and regional economic development (LED) as a complement and an alternative

The general failure of traditional top-down, supply-side development strategies to deliver sustainable development demonstrates that there is no simple and universal way to tackle the challenges posed by globalization. They also show that there is no unique general solution to the development problems of every area or region, regardless of the local context.

This failure of traditional strategies in an increasingly globalized context has triggered a thorough rethinking of how development problems can be addressed. As a result, a series of tailor-made approaches for the development of sub-national areas has emerged. These approaches, generally grouped under the name of local and regional development or local economic development (LED), highlight the advantages of focusing on the territorial, rather than on the sectoral dimension, and of integrating different development axes in one strategy. They also put a greater emphasis on governance structures and institutions in order to achieve greater sustainability and generate not just work, but quality work.

In short, LED champions a development approach aimed at increasing local economic potential and sustainable employment through giving local governments the tools to devise locally tailored strategies in cooperation with local, regional, and international stakeholders and actors. It has surfaced as a complementary development strategy that could potentially offer opportunities for growth to all areas.

In low and middle-income countries, LED has gradually been introduced for similar reasons. The changes in the national and international economic environment, combined with the persistence of problems of slow economic growth and poverty in many areas, fostered a reconsideration of top-down strategies. Globalization and the effective inability of many central states to intervene at the local level have created a need for more locally based initiatives (Nel, 2001).

Although interest in the LED approach has been spreading rapidly, it often remains unclear what is meant by the concept and how it differs from other development approaches. In the following sections we a) give a definition of LED; b) clarify the local and regional in LED; c) explain how it differs and complements traditional development approaches; d) contrast LED with community development approaches; and e) identify what constitutes success in LED.

4.1 Defining LED

There is not one standard definition of what LED is, but local economic development approaches tend to have the following characteristics:

1) It is a territorial-based approach that aims to empower stakeholders to shape the future of the place they live in. Although other actors are and indeed need to be involved as well in order for LED to be successful, it is a locally owned approach that is, to a large extent, shaped and implemented by local actors.

2) LED is a participatory approach to development. A wide range of local stakeholders work alongside regional and national governments and international organizations in an effort to realise a locality's full economic potential. Through this focus on participation, LED creates incentives and opportunities for partnership between local private and public sector stakeholders as well as other societal and political groups.

4) LED does not ignore or reject globalisation, but rather focuses on new social and economic opportunities that local, national and international markets may provide for its people and enterprises. This focus enables the formulation and implementation of locally tailored development strategies that make better use of and building on existing local resources and competitive advantages.

5) The LED approach ultimately aims to create sustainable economic development. Through the involvement of a range of stakeholders, it aims to find solutions that will combine the goal of economic development and employment creation with the objective of poverty reduction and maintaining and increasing the quality of locally available jobs.

As these characteristics show, LED presents a number of core values that are not necessarily found in other development approaches. The approach seeks to promote a truly inclusive policy process, valuing the opinions of a wide range of local stakeholders and promoting equality among them. It encourages the creation of new opportunities for voice and social dialogue, both in the shape of formal processes, such as elections, and more informal local meeting and forums. Such inclusive processes are crucial sustainable, pro-poor development and the creation of decent employment opportunities.

The LED process itself is malleable and highly context-specific. Therefore it is not possible to divide it into clearly distinguishable, chronological steps or phases. Nonetheless, a successful LED process will usually contain six stages: a) territorial diagnosis; b) sensitising of stakeholders; c) promotion of a local forum; d) design of a strategy; e) implementation; and f) evaluation and monitoring. In reality, these phases tend to be blurred and will feed into each other. For instance, problems in defining a strategy may lead to a return to the diagnosis phase in order to gather further information that can inform the strategy formation process.

4.2 What is local in LED?

LED is a territorial approach to development. This begs the question of which territorial scale the local in local economic development is referring to. Unfortunately there is no general answer to this question. The geographical dimension and population size of the 'ideal' policy territory will differ from context to context and policy to policy. Defining the concept of local too rigorously would therefore hinder the flexibility that is inherent to the LED approach.

There is a trade-off between coordination and economic potential in choosing the size of the territorial unit at which the LED approach will be implemented (Gasser et al., 2004). In other words, the size of the locality will influence both the ease with which joint decisions and broad participation can be achieved and the degree to which effective and efficient policies can be developed and implemented.

As a rule, defining narrowly-bounded territories has three key advantages. First, within smaller localities, the local stakeholders will generally have a stronger and more comprehensive knowledge of the local conditions, problems, and needs. Second, reaching a consensus on the goals of LED and the actions that need to be taken will tend to be easier in smaller areas, where the number of stakeholders is lower and their preferences tend to be more similar. As territories become larger, the increase in the number of stakeholders and the greater diversity of interests may make it difficult to reach an agreement. Finally, when territories are not too large, it will, in general, be easier to coordinate and oversee the implementation of the LED strategy.

Choosing a larger territorial unit, on the other hand, may have a number of advantages too. Firstly, larger territories may be able to take advantage of economies of scale that are not available to their smaller counterparts, making them more efficient at implementing LED strategies. Secondly, larger territories will tend to have a stronger ability to lobby the central government. This may put them in a better position to secure resources and defend the interests of the locality in the national arena. Finally, bigger areas will be better able to engage in international competition with territories or cities in other countries.

Apart from these more theoretical considerations, the existing governmental structure plays an important role. The territorial scale chosen will generally correspond to the division prevalent in the pre-existing governmental structure, since local governments are very well positioned to champion the LED approach locally and guide the formulation and implementation process. However, it is important to remain aware that this geographical scale does not necessarily correspond to the functional economic area in terms of regional commuting, shopping, and supply chain patterns. Therefore coordination of activities between localities remains crucial if administrative units are chosen as the main scale of delivery for LED.

4.3 What is different about LED?

Having roughly defined what LED is and which territorial scale it refers to, the remainder of this section will seek to clarify its distinctive properties by contrasting the approach with two other common development approaches, namely top-down and community development approaches.

There are three main differences between top-down development approaches and strategically-planned LED (Rodríguez-Pose, 2002).

1. ***Level of intervention***: Traditionally, development strategies have been largely top-down strategies devised by the central government. Central officials decide where to intervene and in what way with little or no input from local actors. In contrast, LED seeks to give localities the tools to promote development from below. It is based on the idea that national institutions are often too remote to respond to the rapid changes local and regional needs effectively. Local institutions can be much more flexible and are better positioned to interact with other local economic and social actors. This allows the formulation of strategies which are better tailored towards local needs.

2. ***Locus of development***: top down approaches to development tend to adopt a sectoral focus; they attempt to increase growth and employment through devising policies aimed at promoting industrial sectors that are seen to increase economic dynamism. LED, on the other hand, takes a territorial approach, focusing on the

development of a region or locality rather than an industrial sector. From this perspective, economic development and employment is achieved through a thorough diagnosis of local economic, social and institutional conditions and through the formulation of a tailored strategy aimed at allowing each territory to reach its economic potential.

3. ***Type of instruments***: top down approaches often focus on the development of large industrial projects, in the hope that such project will generate additional economic activity in the area. In this approach, infrastructural investments and financial incentives are often the preferred instruments for attracting firms to a given locality. LED, on the other hand, sees development as related primarily to the ability of the locality to exploit and build on its comparative advantages and local economic potential. It therefore tends to rely more on improving the basic local conditions for development and reducing the dependence of the local economy on one or a limited number of local employers. To achieve these goals a variety of instruments, including business support systems, educational programmes, and micro finance, will usually need to be used in tandem with more traditional instruments.

Due to its focus on bottom-up, participatory development and the tendency to combine social and economic roles, LED is often confused with community development approaches that seek to move away from top-down, economic growth focused development strategies. Although LED shares some of the same methods and goals as such community development approaches, it is important to distinguish between the two.

Community development strategies can be regarded as fundamentally pro-poor strategies which are essentially about achieving social rather than economic goals. They address important problems, but tend to concentrate on short-term survival and on the alleviation of social problems, leaving many of the economic issues that lie at the basis of underdevelopment virtually untouched. The initiators of community development projects are generally agents from outside the locality, such as NGO's, international donor agencies, national governments, or international organizations. Rarely are community development strategies initiated within the community itself, with local governments, and local social and economic stakeholders often taking a rather passive role in the back seat of these processes.

LED strategies, in contrast, are primarily aimed at increasing economic growth, but also share the goals of poverty alleviation or the greater inclusion of previously excluded groups in social and economic life with community development strategies. Both sets of goals are clearly compatible, but LED has the overall advantage over community development that it not only aims at alleviating poverty and encouraging a greater inclusion of previously excluded groups in social and economic life, but also at generating greater welfare for all. This is the principle that a rising tide raises all boats.

The actors involved in both sets of strategies also vary. While, as mentioned above, external actors are the key backers of community development strategies, LED necessarily emerges from and is driven by internal actors. LED is based on the formation broad coalitions of actors, including local stakeholders, international organizations and NGO's, but with local stakeholders owning and taking the leading role in the process. Local governments are essential in the formulation and implementation of the LED strategy. During all phases of the project, the initiators will seek to adopt an all-encompassing approach, involving local firms as well as residents and social and political groups.

4.4 How does the LED approach fit within the general development agenda?

Although the LED approach differs from both top down and community development strategies in important ways, it is not incompatible with them. Rather than being a substitute to existing approaches, local economic development initiatives can complement existing development efforts.

Localities do not exist in isolation. Policies formulated at the national level greatly affect the strategies open to them. Territories need to actively engage with such top down national strategies for development, in order to devise strategies that are both effective and feasible. By balancing this focus on the national framework with a strong local dimension, LED allows territories to find new ways to exploit local strengths, and minimise the negative effects of weaknesses.

Similarly, LED initiatives can build on and strengthen community development projects. The social capital and formal and informal organisation created by community development form an invaluable asset for emerging LED efforts. Through its focus on the poor and socially excluded, community development projects can lay the ground work for a more inclusive LED project that marries economic and employment goals with poverty reduction and social inclusion.

More and more international organisations have become convinced of the advantages of drawing on the LED approach, alongside other approaches, to reach development objectives. One of the first such examples was the inter-agency programme PRODERE. The programme was implemented between 1990 and 1995 as part of an international effort to consolidate the peace process in Central America. The innovative element of PRODERE was that it moved away from the traditional technical cooperation programmes of the time. Instead of intervening at the central government level, local development strategies were encouraged. This proved an effective approach to providing an immediate response to local needs, both in terms of employment creation and reconciliation and community building.

4.5 What constitutes success in LED?

The success of the LED approach depends, in part, on the process itself. Even if the initial LED effort fails, a robust and inclusive process will ensure the proper feedback mechanisms are in place and better decisions can be made in the future. Though successful LED projects can rely on a variety of institutional structures and processes, they tend to share a number of characteristics.

Successful LED is ultimately about finding local solutions to local issues by bringing together a variety of local stakeholders. Even if national or international actors initiated the process, a successful project will be locally owned and shaped by the needs and wants of local stakeholders. Through the process of planning, implementing, evaluating and adjusting the LED project, successful localities develop the capacities necessary to ensure that the approach continues to provide local firms and residents with new opportunities. If such learning does not occur, the approach stands little change of providing localities with sustainable development prospects.

Public-private partnerships form a key component of any successful LED process. Such partnerships include representatives of the government alongside for-profit companies and non-profit organisations, like chambers of commerce, employer's and worker's organisations, and civic groups. Long-term institutionalised cooperation between public and private actors is key to building the trust and understanding necessary to finding creative solutions to common problems.

In some cases public-private partnerships are institutionalised within existing institutions. In other instances, a new local forum needs to be created especially for this purpose. Regardless of the institutional form, such partnership arrangements lead to important systemic changes in the territory. By involving numerous societal groups with seemingly contradictory interests in a cooperative decision-making process, successful LED projects encourage association building and create social capital. The process of embarking on an LED initiative can thus create benefits beyond the official goals of the exercise.

The substantive goals of the LED strategy, and therefore the measures of its success, will depend on the local situation and the constellation of actors involved in the decision-making process. In some cases the approach may be heavily focused on economic goals, favouring the input of the private sector over other potential stakeholders. In other contexts, the LED project may award greater attention to the needs of previously excluded groups, such as ethnic minorities, those in informal employment, and the poor. In such cases, social objectives will tend to feature more prominently on the LED agenda (Blakely and Bradshaw, 2002).

Regardless of the local context and specific focus, local economic development projects always have an economic aspect. Successful LED encourages sustainable economic growth and the creation of decent work opportunities.

By focusing on the local economic environment and devising tailored strategies in cooperation with local actors, successful LED projects root economic activity more firmly in the territory by making it more strongly dependant on local conditions and advantages. As a result, the local economy will be better able to respond to changes in the global environment.

LED cannot only make the local labour market more resilient, but may also help increase the quality of jobs. As stressed before, successful LED projects involve a variety of local stakeholders, ranging from large firms and small and medium-sized enterprises, to local residents and civic groups. As a result, such projects are more likely to balance the needs of employers and workers alike. Decent working conditions are therefore likely to feature more prominently on the LED agenda. One major advantage of the LED approach is that it provides an opportunity to include all types of workers, from unregulated wage workers to home workers and the self-employed, in the decision-making process. This is especially important in low and middle-income countries, where the informal economy is responsible for a relatively large and growing percentage of total employment.

Informal employment has traditionally been linked to poor occupational safety and illegal and criminal activities. Recently, however, there has been a growing awareness that the informal economy actually includes several more benign forms of employment, such as home-based work and small-scale family businesses, and may indeed provide valuable employment opportunities, particularly to the poor (Xaba et al., 2002: 11-12). It light of the prevalence and importance of informal forms of employment, incorporating this sector into the LED process is crucial to its ability to create sustainable and decent work opportunities for all.

Though important, a focus on high quality employment alone is not sufficient for successful LED. A truly well-balanced development approach integrates all three components of sustainable development, i.e. economic development, social development, and environmental protection. It is important to remember that these three pillars of development are ultimately interdependent and mutually reinforcing. A strategy that ignores any of these elements will in the long run not be able to produce sustainable livelihoods and adequate work opportunities.

5. The environment and the process of LED

5.1 An enabling environment for LED

The likelihood of LED making a valuable contribution to creating sustainable and decent livelihoods within a locality is influenced by local, regional, national, and international factors alike. This is true at every stage of the process, from creating a local forum, to gathering data, formulating and implementing a strategy, and evaluating and monitoring the efforts.

As discussed, a successful LED process includes a wide range of stakeholders in the decision-making process. Especially in conflict-prone areas, creating social dialogue may be a complex task, which requires specialist training and strong institutional structures. National governments, NGOs, and international organisations can all play a role in facilitating this process by creating the right incentive structures, helping localities to acquire the necessary skills, and providing technical assistance where needed.

Once a functioning local forum is created, it needs to posses the necessary powers, resources, and skills to be able to formulate and implement an LED strategy that can truly address local issues. By decentralising powers and resources and helping localities acquire the necessary skills to effectively use those powers, national governments can greatly facilitate this process. In addition, higher levels of government can assist local actors to acquire the data they need in order to formulate a successful strategy. In the absence of such government action, international actors and NGOs can often help to fill the gaps.

Finally, in order for an LED strategy to develop and evolve, local stakeholders need to have the ability to monitor and evaluate projects adequately. This requires both local capacity and the creation of appropriate institutions for monitoring and evaluation from above. Again regional, national, and international actors can all potentially play a role in this process.

In other words, every phase of the LED process is influenced by local capacities as well as national and, at times, international factors. This section will discuss the influence of the wider environment on the likelihood of success.

Two key elements in the viability and success of LED strategies are the national and the international environment.

5.2 The international environment

The international environment can play are role in LED process in two primary ways. First, international markets, trade, and investments can shape the opportunities and threats faced by localities. Secondly, NGOs and international organisations may play a role in the LED process in terms of initiating and (co-)financing a project as well as providing technical assistance and training.

Let us start by briefly considering the effect of the international environment on the opportunities and threats faced by a locality. The extent to which globalisation and the related changes in trade, investment, and production will affect a territory depends on the position of the locality within the global economy. A territory that competes mainly on a national or regional scale will only be indirectly influenced by these trends through the effects they have on the economy of other territories within the country. A territory that is able to compete with localities in other countries, by contrast, will be much more directly affected.

In both cases, local actors will need to take care to consider developments in all relevant areas when they devise an LED strategy for the territory. LED projects that ignore relevant trends outside the locality run the risk of developing strategies that do not materialise on potential opportunities or fail to address important threats. On the other hand, unrealistic expectations regarding the ability of a locality to become a national or international player can lead to unnecessary data gathering and overly ambitious development strategies.

Aside from the influence of international markets, trade, and investment on the development opportunities open to a locality, the international environment can also influence LED projects through the involvement of international actors like NGOs and international organisations. Especially in the absence of government decentralisation, such actors are often crucial in supplying local communities with the impetus, expertise and resources necessary to initiate a successful LED project. Through providing technical expertise, practical training, and support in building the needed institutional capacities, they can play an important facilitating role.

The involvement of international organisations aids the spread of the LED approach to areas countries where national policies are not conducive to the approach. In addition, these organisations have an important role to play in filling local capacity gaps. However, localities that start a LED project on the basis of short-term external support, whether international or domestic, will need to work hard to internalise the process and find alternative sources of finance in order to ensure the long-term sustainability of the project. We will talk about this in more detail in the section on the local environment.

5.3 The national environment

National policies also have an important role to play in promoting economic growth and employment. However, most of the policy options open to national governments have an impact on overall economic growth. Though they can improve the general development prospects within the country, they do not address the problems of specific territories (Blakely and Bradshaw, 2002: 39). Where national development policies do target a specific region or locality, they are often focused on improving infrastructure or diverting economic activity away from one area in favour of another. Often such policies do not match local capacities very well and as a result territories have failed to use them to their full advantage (Rodríguez-Pose, 2002).

By providing localities with the powers and the resources to develop targeted projects at a smaller scale, national governments can help communities to exploit potential competitive advantages and increase local employment opportunities in a more fruitful and sustainable way. However, this does not mean that the national environment no longer plays a role in a territory's development. Both the quality of governance and the economic situation in a country will have an impact upon how the LED approach can be used and implemented.

It is now widely accepted that the quality of governance has an important effect on the development prospects of a country as a whole and the territories within it. The traditions and institutions by which authority is exercised profoundly affect citizens and private actors alike (Kaufmann et al., 2008). The way in which a government is selected for instance determines who has an input in the decision-making process and how public resources are allocated across social groups. The capacity of government actors to formulate and implement sound policies in turn influences both the quality of public goods and services and the degree to which the regulatory environment facilitates or hinders private sector development. Likewise, the political stability of a regime, the incidences of violence in a polity, and the enforcement of the rule of law affect both the security and rights of citizens and the attractiveness of a market for domestic and foreign investors.

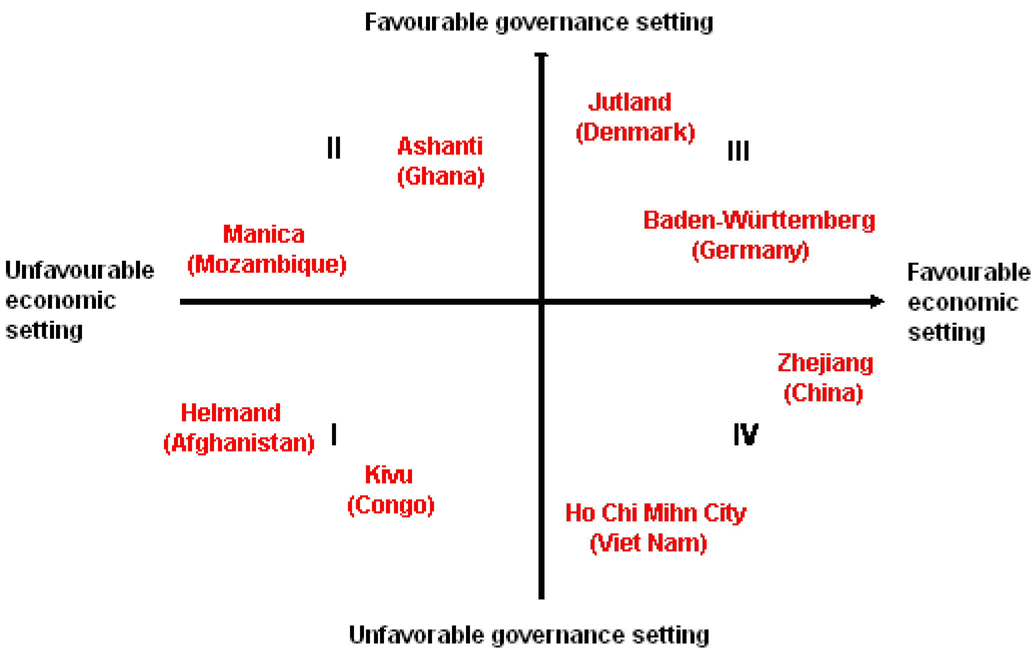
In addition to the governance setting, the economic environment within which a locality needs to shape its future also influences the development opportunities open to them. Here too national governments have an important role to play in providing localities with the opportunities and incentives to pursue productive and sustainable development strategies (Sinha et al., 2001). At the most basic level, key macro-economic variables, like inflation, exchange rates, interest rates and the extent of government borrowing, shape the development prospects open to a territory. Central government actions influence these variables and thereby shape the risks in doing business, the cost of capital and the attractiveness of the national market for domestic and foreign investors alike. In addition, economic policies like deregulation, privatisation, and trade and capital market liberalisation can create both opportunities and threats for localities. Through taxes, tariffs, and penalties, and subsidies, central government can further influence these opportunities and threats and provide more favourable conditions for some economic activities than others.

Although a favourable setting in terms of economics and governance clearly enhances both the opportunities and the resources available to territories, it is not a prerequisite for successful LED. In fact, local economic development can even provide a pathway to sustainable and quality employment, community reconciliation and increased equality for territories in post crisis situations.

Hence, the economic and governance environment shapes the type of LED project that is feasible, rather than the applicability of the approach in general. In a favourable governance setting, the local government may for instance be in an excellent position to champion the LED initiative and take a leading role in the process. Where governance is poor, the constitution of a new body is usually needed in order to provide a neutral and reliable forum for dialogue between local stakeholders. Where the economic setting is favourable, LED can focus on exploiting the available opportunities to foster economic growth and job creation. As the economic situation deteriorates and the opportunities for productive growth diminish, the focus may shift towards finding ways to minimise the negative effects this has on the territory. The LED strategies developed in these areas are likely to have a stronger focus on combating poverty and inequality.

Taken together, these features create 4 basic types of LED environments and related strategies (Figure 8).

Figure 8. LED in different settings



Firstly, some areas are plagued by poor governance and an unfavourable economic setting. We mostly find this combination of factors in post crisis situations. Natural catastrophes, armed conflicts, political and economic transitions, or financial downturns generally leave localities and regions, such as Helmand in Afghanistan or Northern and Southern Kivu in the Democratic Republic of Congo, facing a number of challenges. These can range from a lack of institutions, political instability, poor social dialogue, and lingering tensions to destroyed physical and productive infrastructure, lack of domestic and foreign investments, and weak local market demand. In these cases, the LED process can firstly play a role in rebuilding community relationships and fostering cooperation by creating new and inclusive fora for discussion. The resulting strategies often include a mix of policies that address both the immediate short-term need, such as food, water, shelter, sanitation, and more long term goals like the provision of education and health services and sustainable private sector development.

Where the economic setting is poor, but governance is better developed, such as in Manica Province in Mozambique or in Ashanti in Ghana (Figure 8), the emphasis on a mix of short and long term goals may be very similar. However, the stronger institutional setting and less volatile social situation may make it easier to build trust and create a willingness to cooperate amongst local stakeholders. Where local governments are seen as trustworthy and capable by different groups in society, they may play an important role in giving credibility to the project and encouraging wider participation. Nonetheless, the active involvement of other actors remains crucial to the success of the policy. Even in the context of strong governance, LED needs to remains a locally-owned territorial development approach that includes a range of stakeholders on an equal footing, rather than an inclusive local planning exercise.

Territories that face relatively favourable economic conditions have a wider variety of strategies available to them. This may be the case of many regional and localities in emerging countries, and mainly in Asia, such as Zhejiang province in China or Ho Chi Mihn City in Viet Nam. Depending on the local context, poverty and inequality may still feature high on the agenda. However, the more favourable conditions provide opportunities to create decent and sustainable work in the immediate future. Localities will need to find a way to identify these opportunities and use local strengths in order to embed such economic activities in the local economy. In some case, local governments may have the capacity to drive this process alongside other local actors and stakeholders. Especially in the context of a decentralisation of powers and resources, capable local governments can provide LED projects with a sustainable source of finance and the power to truly affect the social and economic reality within a territory.

Even if the local government capacities are more limited, local actors in economically vibrant settings can still successfully build on local strengths in order to capitalise on economic opportunities. Given the weaknesses in the governance system, this process is more likely to be truly inclusive and ultimately successful if a new structure for discussion and coordination is created. An example of this would be the creation of a Local Economic Development Agency (LEDA), with its own legal structure and functional autonomy.

The autonomy of LEDAs and the private nature of their management allow them to operate independently from local governments and streamlined both the strategy formation and implementation phases of the LED process. By incorporating a mix of public, private, and civic actors, they are able to both respond to the needs of society at large and foster the necessary political, institutional, and programmatic links with national, regional, and local governments (Catenacci, 2000).

In some cases, the lack of government capacity can be seen as a blessing in disguise, as the creation of a new body provides communities with an opportunity to level the playing field and create a more inclusive process.

Finally, when both the governance and economic settings are favourable – as in the cases of Jutland or Baden-Württemberg (Figure 8) – the conditions for the implementation and ultimate success of local economic development strategies are maximized.

Overall, the role of governance and institutions is crucial. “Markets are not free floating phenomena described in neo-classical theory”, but they are “social constructs made and reproduced through frameworks of socially constructed institutions and conventions” (Pike et al. 2006, p 91). Correcting for market failures requires collective institutions “for instance to underpin investment in public goods, new generic technologies, or patient capital markets for smaller firms” (p 92). However, while it may be accepted that collective informal and formal institutions thickness is important in development strategies and there is little known about what improving institutional quality means on the ground for those localities diagnosed with institutional inefficiency. For example, Easterly and Levine (1997) found that geography exerted a significant effect on the quality of institutions. Additionally, there is a lack of consensus as to whether institutions may be a natural outcome of development, or a prerequisite. It is much easier to attribute success of regions to adequate institutions than to prescribe a formula to least favoured regions as to how they can develop their institutions to foster growth. Thus, there may be relatively little a government can do in correcting for a deficiency.

Furthermore, lagging regions diagnosed with insufficient institutions will suffer opportunity costs in order to ‘create institutions’. This may not be the best use of funds for a lagging region with potential challenges in other aspects of development such as infrastructure and human capacity. A development plan in an institutionally deficient region should focus on their strengths and move forward with the growth strategy, while at the same time using the strategy in order to encourage capacity building and the improvement of institutions.

There are also other factors influencing a countries development trajectory. Adequate local institutions in lagging regions may not be sufficient to counter powerful forces of agglomeration in economically thriving regions and attract investment in the lagging regions. Institutional development is a slow process and other factors, such as investment and human capital can determine the evolution of institutional design. Adequate institutions may not be sufficient to bring investment to the region. For example China has yet to adopt formal private property rights but enjoys major investments as the world's fastest growing economy over the past two decades, while Russia has a private property rights regime in place but investment remains low (Rodrik, 2000).

Thus, prioritizing institutional quality as a prerequisite for a development strategy may have important implications for growth because little is know about how to build institutions, opportunity costs are also associated with institutional building, and other factors may be more influential for growth. In the end capacity and institution building should come hand in hand with the strategy, with development strategies including a capacity building dimension and the emerging improved institutions revitalising the strategy in a dynamic virtuous cycle of development.

5. 4. The local setting and the likelihood of success

As we have seen, the national and international roles shape the LED process in important ways. LED is however primarily a locally owned and managed development process. Though local actors need to take account of the wider environment and coordinate actions with other local, regional, and national actors, they are ultimately responsible for formulating and implementing the LED strategy. In doing so, they set the goals of the exercise and greatly influence the likelihood of its success.

Just as success in LED is a multifaceted concept, so are the local factors that increase the likelihood of its success. The local economic development process itself, the resulting strategy and the attention paid to sustainability all play a role in making the LED approach work for a territory or locality. Although a simple recipe for success does not exist, this section will discuss these features of the LED approach in turn, in order to uncover some best practices and common pitfalls.

The LED process

One of the main challenges of LED in any context is to devise a functioning local forum that is able to guide and reinforce the effort at every stage of its development. The goal is to include a variety of local stakeholders in the process whilst keeping the project workable. This often means that a trade-off needs to be made between improving representation and inclusiveness, on the one hand, and creating a forum that is small and cohesive enough to be able to reach agreements on the other. The right balance between these two elements will differ from locality to locality. A possible way of dealing with this issue is to include a wide variety of stakeholders in parts of the process, such as data gathering and initial consultations, while limiting the ongoing local forum to a more select group of representatives.

Within a local forum, one or two individuals frequently assume a leading role. A strong local leader, whether this is a representative of the chamber of commerce, a member of a workers association, or a local government official, can have a beneficial impact on the process. By championing the approach with other stakeholders, mobilising participation, and encouraging the continuation of the effort after the initial impetus, he or she can carry the project and help to ensure its sustainability in the face of a changing national and regional policy environment. On the other hand, if a stakeholder assumes such a leadership role there is a risk that he or she will favour the interest of some stakeholders over other. In addition, the project can become too reliant on the efforts of one person, leading to a crisis when this person is no longer involved. Therefore other stakeholders will need to continue to be actively involved and the institutional process should safeguard the interests of all.

In many cases, local stakeholders will need to acquire the capacity to engage with the LED process in a productive way. Especially in the case of previously excluded groups, association building is often the first step that needs to be taken in order to become a formal discussion partner in the forum. Together the stakeholders will also need to acquire the skills and capabilities needed to be able to understand the local economy, help devise a suitable development strategy and play a part in the implementation and evaluation of these efforts. Though outside help may be available to deal with specific aspects of the LED project, it is important that local actors are able to drive and sustain the effort. Capacity-building is therefore often a vital part of creating a successful and sustainable LED process.

Understanding the local situation and devising a balanced strategy

Developing a thorough understanding of the local economy is a crucial prerequisite to formulating a LED strategy that is capable of delivering real opportunities for growth and development. However, the depth and breath of such evaluations will vary from locality to locality, depending on the development level and the available time, resources, and technical capabilities. A balance has to be struck between the need to acquire the necessary data about the local situation and the importance of maintaining the momentum and reserving adequate resources for the substantive parts of the project.

Even if time and resources are scarce, some data on the local economic structure, endowments, and institutions will need to be collected. In terms of the economic structure, basic information about the size of the economy, the sectoral make-up and the number and type of firms within the territory is essential. Endowments in terms of transport infrastructure, access to utilities and land quality and availability are also likely to be relevant in most contexts. In addition, the size and quality of the local labour force will need to be taken into account when developing a strategy to increase employment opportunities. Finally the existing formal and informal institutions that enable or hinder economic activity will be relevant (Cities Alliance, 2007). This local information needs to be complemented by data covering the wider context in which the locality is trying to carve out a future for itself. As noted before, the relevant scale will depend on the localities ability to compete at a regional, national, or international scale.

Using existing municipal, regional, and national statistics is one of the most cost effective ways of gathering data. However, such sources often do not provide adequate information about the local environment. In such cases, tapping into the local expertise of the stakeholders involved in the process can be a relatively low cost way of gathering data and informal insights. Such participatory data collection techniques have the added benefit of drawing stakeholders into the LED process from a very early stage and keeping them involved throughout the process. Where the resources and analytical expertise is available, participatory methods could be supplemented with more formal surveys into general matters, like the household characteristics and industrial structure in the locality, or more specific issues, such as the size and nature of the informal economy in the area.

Once a reasonable amount of data is available, it needs to be adequately analysed in order to discover general patterns and possible development opportunities. Depending on the locally available expertise and resources, as well as the amount and quality of the available data, the tools used in such analysis can be more or less complicated. Which technique is most appropriate will also depend on the target audience. Some techniques are easily understandable and therefore useful in communicating findings to a mixed audience, while others require more specialised knowledge. In addition, some strategic frameworks start from the perspective of private sector interests and needs while others have a more general development focus. Some of the most commonly used techniques, include SWOT analysis and Porter’s Diamond (Porter, 1998).

Once the necessary information is gathered and analysed, a local development strategy can be devised. Successful LED strategies generally balance long and short term goals. In a local vision statement, the stakeholders define the kind of environment that they ultimately aim to create within the territory. Such a long term vision can be a helpful tool in order to maintain a degree of coherence in the development policies that are designed and implemented over time. However, in order to fulfil this function, the vision needs to be realistic. Utopian ideals that may never be achieved are not useful in guiding policy.

Alongside these long term goals, successful LED strategies also include an action plan for the immediate future. By defining a set of more tangible, shorter term LED activities, alongside a set of concrete objectives and measurable targets, such plans capitalise on the created momentum and provide the local forum with an immediate focus. In addition, quick wins are often important to convince local stakeholders of the benefits of the approach and encourage wider participation.

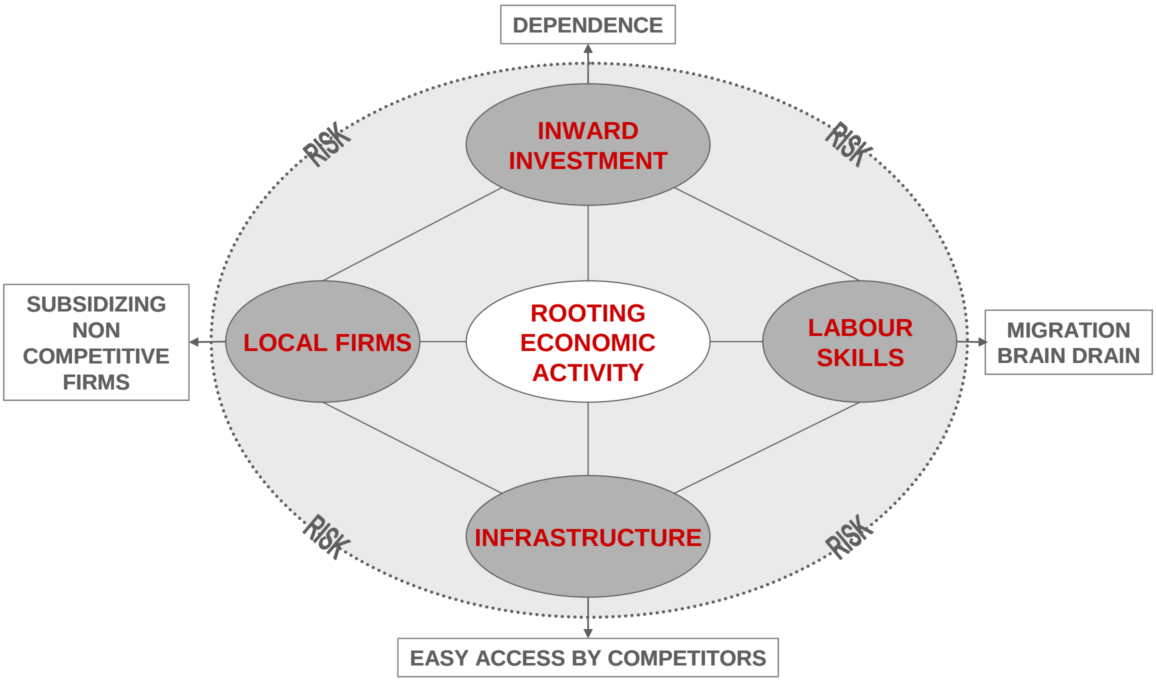
Although every LED strategy will be locally tailored and unique, four types of policies are most commonly used (Rodríguez-Pose, 2002: 9):

1. Local firms: policies that aim to improve the competitiveness of local firms.

2. Inward Investment: policies aimed at attracting new inward investment.
3. Labour skills: programmes and projects aimed at developing local human capital and skill-pool in the local economy.
4. Infrastructure: activities that aim to upgrade the local infrastructure

Intervention does not necessarily need to occur in all four axes, but a project aimed at one of the four areas is unlikely to have the desired effect if it is not matched by sufficient capability in the other three (Figure 9).

Figure 9. The bases and risk of LED strategies



Source: Rodriguez-Pose (2002)

For example, upgrading local infrastructure will not necessarily lead to economic development and employment if the local economic fabric is weak. Quite on the contrary, if local human capital and labour skills are low and firms within the locality are not competitive in a broader market, improving infrastructure may only provide easy access to outside competitors rather than development opportunities for local firm.

In this context, focusing mainly on attracting inward investment would also not produce the desired results. If skilled labour is scarce and local firms are not competitive, such policies are likely to either fail or only create low-skilled, low-paid employment and greater dependency on external economic actors. However, if local firms are capable of producing quality inputs and the population has the appropriate skills, a strategy aimed at attracting inward investment can generate higher quality employment and additional opportunities for local firms.

Similar arguments can be made for policies that focus on either of the other axes in an environment that suffers from weaknesses in other sectors. Developing labour skills can lead to migration and brain drain, if skilled jobs are not available locally. Likewise, embarking on policies to increase the competitiveness of local firms may only lead to subsidising uncompetitive firms, if the local economy does not provide an environment that is conducive to growth (Figure 9).

If certain local features that enable a successful implementation are lacking, this does not mean an instrument cannot be used. However for the policy to have the desired effect, it will need to balance these development axes with efforts to boost the remaining factors to a level that will allow the local economy to take full advantage of any development policy.

In addition to the importance of a balanced and integrated approach to local development, the likelihood of success is also greatly enhanced if LED projects take due account of the need for strong coordination among actors. The reasons for this need for greater coordination are three-fold. First, given that, within the framework of LED strategies, decision-making is taking place within smaller territorial units, a vertical co-ordination of all the institutional actors involved in the development process is required (Vázquez Barquero, 2003). Vertical coordination entails the synchronization of the development efforts of local, regional, national, and supranational institutions, as clashes among policies set up at different territorial levels may undermine the potential benefits of local policies. Multilevel processes of governance have thus assumed greater importance (Hooghe and Marks, 2001).

Second, the more participatory nature of LED development strategies – often rooted in voluntary co-operation – requires horizontal coordination between the pubic and the private sectors, amongst all actors in the local civil society, and of these with the local public institutions (Wheeler, 2002; Vázquez Barquero, 2003). Such horizontal coordination has resulted in increasing attempts to develop ‘good governance’ practices, which aim at setting-up the conditions for greater public-private-civil society interaction in the decision-making process, creating a more flexible multi-agency framework (Raco, 1999; Turok, 2000; Frisken and Norris, 2001; Hamilton 2004). In this ‘good governance’ environment, local governments interact with trade unions, employers’ and entrepreneurs’ associations, chambers of commerce, voluntary and non-governmental organizations, civic groups, and other organizations, in order to create a complex system of governance, embedded in functional and socially constructed networks of reciprocity and interdependence (Storper, 1997; Grabher, 2002). 'Good governance' also contributes to the empowerment of the local society, by allowing and encouraging it to have a greater say in its own future. Empowering local societies cannot however be considered as its main or only goal, but as a means to improving the decision-making process for policy-making (Savitch and Vogel, 2000).

Finally, there is an additional requirement for a second type of horizontal coordination that involves different types of authorities. This implies coordinating the strategies of different administrative units, by creating stable links across local jurisdictions. Although these forms of coordination have grown apace with the ascent of LED strategies, they are difficult to achieve, especially in areas where municipal or local identities are strong and local governments and citizens fear a possible domination by neighbours.

As a whole, the levels of coordination required for successful LED strategies have made LED synonymous with complex governance systems (Scott, 2001: 821; Brenner, 2003: 297). Such complex governance systems involve "new forms of city–suburban cooperation, regional coordination, region wide spatial planning and metropolitan institutional organisation" (Brenner, 2003: 297). They also have many advantages, including the involvement of local interests, enhanced interaction among different stakeholders, and an empowerment of local civic groups and of the population in general, and co-operational spillovers into other policy areas. However, the bottom-line is that such level of coordination is difficult to achieve and costly to maintain, with LED coalitions unfortunately frequently short-lived and breaking-up over conflicts of interest.

Creating a sustainable LED approach

Although short term results are important to build momentum, the ultimate goal of the LED approach is to create a territorially-based development project that is sustainable in the long run.

As discussed earlier, the sustainability of the approach rests in part on the creation of a robust LED process and strong local ownership. In addition, territories will need to think about how to continue to finance the LED effort. In the context of strong decentralisation, local governments will benefit from a steady stream of income through grants or the power to raise revenues and capital themselves. In such instances, the financial means to sustain the LED effort over time may be more readily available. Where the LED project is based on a fixed term effort by a national or regional government, international organisation, or NGO, territories will need to find alternative ways to finance the effort after the original source of funding runs out. Strategies used here range from lobbying governments, NGOs, or international organisations for additional funding to creating partnerships with private entities.

Sustainability is not just about keeping the LED process going, but also about creating sustainable outcomes. In order to reach the goals of creating sustainable development and work opportunities for all, collective action is needed from the local to the global level. LED has the potential to play a valuable role in this process.

Through its focus on cooperation between governments, workers' and employers' organisations, and other civil stakeholders, the LED approach is uniquely positioned to balance social and environmental issues with the need to create employment and foster economic growth. In order to take advantage of this potential, local stakeholders have to be aware of these interrelated pillars of development and make an effort to ensure that environmental and social protection are treated as integral parts of the economic development process. By balancing economic, social, and environmental needs, successful LED projects can help to create green and decent job opportunities that may bear fruits for generations to come.

6. Local and regional economic development: successful Latin American cases

The emergence or localities and regions as new centres for decision-making in the realm of economic development has given rise to a series of examples across the world of good practices, but also to a raft of not so successful cases. LED strategies have increasingly taken grip in different parts of the world and are starting to bear fruit. Latin America is no exception. Globalization, rapid decentralisation, and the emergence of new forms of governance across Latin America have generated a myriad of approaches to development, often departing from the traditional top-down approaches of two to three decades ago. In order to illustrate this, we will present a series of case studies that were selected on the basis on the innovativeness and diversity of their approaches to local development. The initial identification of cases for consideration was the result of existing knowledge and contacts and of primary research in the literature on local economic development. These cases are Medellín in Colombia, Rafaela in Argentina, and Jalisco in Mexico, which can be regarded as prime examples of how local government dynamism and the emergence of new governance structures have contributed to new development strategies that have contributed to foster deep socio-economic transformation across regions and cities in the Continent.

6.1. Medellín

Context

Medellín is the capital city of the Department of Antioquía and has a population of 2.35 million, making it the second largest city in Colombia. It is a major industrial centre representing the second largest city in the country in economic terms. The process of decentralisation in Colombia, which has empowered regional and local administrations and, in particular, local mayors, has allowed for the emergence of new and innovative local forms of governance which have been at the heart of development initiatives across many parts of the country. Medellín is at the forefront of this process. The first strategic plan for the city – 'Strategic Plan for the Metropolitan area of Medellín' – was developed with technical and financial assistance from the Iberia-American Centre for Strategic Urban Development (CIDEU) – a network of cities in Latin America, Spain, and Portugal operating with the financial support from the national governments of the cities involved – in 1995.

Key actors in the development process

The local economy assessment and strategy formulation in Medellín was initially executed and coordinated by the Sub-department of "Prospective of the City" under the political leadership of the mayor and the city council. Prospective of the City, which reports to the Planning Department, has had relatively free rein in order to decide the nature and number of studies going into the assessment, most of which are carried out by external consultants and organisations, and has been responsible for drafting the strategy. Private sector organisations such as the Chamber of Construction Industries in Colombia (CAMACOL), the Chamber of Commerce in Medellín, the National Association of Entrepreneurs (ANDI) have played an important role in the assessment of the local economy. These organisations have produced over the last few years periodical and specific studies on different aspects of the economy which feed into both specific analyses and general monitoring.

The basic development policy strategy has been based on two main outputs. Since the mid-1990s a Development Plan has been created every four years for the duration of the municipal government and mayor. This has been a broad plan comprising a range of socio-economic issues, including governance, social inclusion, and local economic development. However in recent times the local administration has started to regard this as insufficient and too short term to be the only output of the strategic planning process. In particular, there has been a problem with continuity in financing projects needed for longer term under the current development plan framework. Hence, the city of Medellín is currently working on reviving the 'Strategic Plan for the Metropolitan area of Medellín'. This plan was developed for the first time in 1995 with financial and technical support from the CIDEU and is generally seen as positive in terms of content and of the process to develop it. It takes a 20 year view of development in a broad range of socio-economic topics.

However, the plan was for various reasons not followed up or monitored. The reasons included an initial lack of political commitment. The election of a new mayor and municipal government in 1996 led to a loss of interest in taking the plan forward. In addition, the city suffered from an initial lack of local capacity. In contrast to what can be expected from a true LED strategy, the 1995 plan was developed with much help from external consultants. Once the consultants left a vacuum of expertise was created and locals could, at the time, not step in in order to monitor and follow up on the initial strategy.

The failure of the 1995 plan to deliver did, however, not bring Medellín's zest for change and development to and end. The 1995 plan was followed by the new 'Strategic Plan for the Metropolitan area of Medellín', first implemented for the period 2004-2007 and then revised for 2008-2011. Like its predecessor, the new strategic plan is comprehensive, covering a broad range of social and economic topics and is a long-term strategic planning tool with some of the activities planned for until 2020.

In contrast to the previous plan, the recent Development Plans have involved widespread local consultation through citizens' fora, workshops and, more recently, extensive use of the internet for consultation and feedback. All this information was processed and strategic priorities were decided, with the mayor and the secretaries of the various departments with the support of their in-house experts making these decisions. Some of these decisions involved revising the previous plan in order to identify key elements of the plan seen to be important for the sake of continuity.

Ten axes were identified as the key areas of intervention for socioeconomic development. These include art and culture, economic development, high quality of education, social inclusion, safety and coexistence, social urbanism, internationalization, finance and transparency, citizen participation, and strategic planning. In all these axes, the Development Plans have emphasised a philosophy of 'good practices' (or 'buenas prácticas'), which are built on a series of anti-corruption principles for public management to which each public official in the city has to pledge. These principles include the careful management of public funds, including transparency, sustainable planning, non political interference on the daily activity of civil servants, and preaching by example. In addition, the principles are aimed at fostering greater trust, honesty, passion, sensitivity, solidarity, and the matching between individual and collective interests.

Parallel to the assessment directly linked to the formulation of the Strategic Plan, there is an ongoing process of monitoring and analysis of the economy. Various studies and components go into this assessment. In general, however, few of the studies are made by in-house experts. Instead, Medellín puts much emphasis on using existing sources of information in the evaluation and monitoring of the economy. For example, the city leverages periodical reports by such organisations as the CAMACOL and the Chamber of Commerce in Medellín. Examples of this are the reports by the Chamber of Commerce in relation to the Decency programme. Another key monitoring tool in the local economy assessment is an annual household survey.

This was originally designed to monitor the progress in relation to the Development Plan of 2004. Data from this survey is used to construct the Quality of Life Index against which progress is tracked.

Decentralisation has also allowed for greater leeway in the local economy assessment. The local government has transformed this process in to a largely analytical process with strong stakeholder participation at the later stages of the process. In the experience of the City of Medellín, involving stakeholders in an early stage was considered not to be particularly effective. However, in a clear indication of the role of new governance structures, Medellín believes that it is important that all participatory exercises should be directly linked to project and programme formulation, as general communiqués and visions produced by conferences and public meetings can easily be ignored by politicians.

There are two main channels for stakeholder participation. The first one is the City Congress which is directly linked to the formulation of the Plan. (The City Congress has been conducted annually since 2004, but has previously not been linked directly to strategy or policy formulation). Here the strategic direction of the new strategic plan and the results of the 12 studies are presented to representatives of private sector groups, community and civil society organisations, trade unions, and NGOs. Subsequently, working groups with representation from relevant organisations are organised for each of the topics for which the studies serve as inputs. The purpose of the City Congress and working tables is twofold. Firstly, it creates a sense of ownership of the strategy among the organisations who are involved in project implementation and who are affected by it. Secondly, the projects that the working groups will propose serve as an important input in the strategy development process. The City has also established a Citizen's Pact aimed at encouraging the appropriation by local citizens of what is public and at the sustainable development of the city in areas such as education, coexistence, social, economic and physical planning, and security.

The other channel for stakeholder involvement is the annual participatory budget process, where citizens participate directly. Approximately 7 per cent of the municipal budget is decided through participatory budgeting. This budget is then distributed to the different neighbourhoods, where neighbourhood assemblies decide the type of projects they want. All residents are welcome to attend these assemblies. Decision-makers feel that organising citizen participation process this way makes the design of the actual end-projects better adjusted to local needs, while at the same time allows for a cohesive overall strategic development.

The key strengths of this decentralised planning and assessment process are the following:

- The strong involvement of stakeholders: Residents are encouraged to participate in the annual participatory budget sessions for each neighbourhood in which approximately 7 percent of the municipal budget is decided.
- Depoliticising the planning process: By implementing a basis for monitoring of the progress of the development plan as well as assessing the needs of the population (i.e. the quality of life index).
- Greater political will by the local government to dedicate resources and efforts into the strategic planning process.

- Local capacity building: There is an increased emphasis on building local capacity than was the case with the development of the 1995 Strategic Plan, which is aiding to institutionalize and strengthen the local economy assessment and strategy formulation process. For example, the technical planning staff of the city undergoes training in the use of scenario planning and econometric forecasting methods.

All these factors put together have crystallised in what is called the ‘Medellín Model’ (or ‘Modelo Medellín’), a model that aims to transform the city through participatory planning and the building of mutual trust and respect between all stakeholders involved in the process. The local government is also trying to diffuse the model, through the creation of the ‘Medellín Laboratory’ (or ‘Laboratorio Medellín’), a centre for sharing good governance practices across Latin America.

Key indicators

The development strategy of Medellín is grounded in a thorough collection of data in order to monitor and evaluate the local economy. These data concentrate on economic structure, human resources, and institutions. The City of Medellín draws on numerous sources for information and data when planning the economy. Part of the data is collected systematically by the municipality and its agencies as part of the assessment and monitoring of the economy of the city. For example, since 2004, an annual survey of more than 20,000 households has been carried out among the population to get information and data on a host of socio-economic issues, including income generation, housing, health, and education.

In addition, the Medellín administration can access a host of other data which are not collected systematically as part of the local assessment or planning process. DANE, the national bureau of statistics, has a database containing data on a host of topics including regional GDP, sectoral composition of the economy, informal and formal sector employment, and regional exports and imports. The quantity and quality of these data are comparable to those of developed countries.

As shrewd use of this data and capitalizing on the information advantage of the local authorities and stakeholders has led to the formation of specific programmes aimed at addressing key development bottlenecks that would have been possibly overlooked if the strategy had been conducted at the national level. These include:

a) ***The Decency programme – business community against corruption:*** Local corruption has for a long time been regarded as a key bottleneck for the development of business activity. From the perspective of Medellín, national programmes aimed at tackling corruption were considered fundamentally ineffective for improving conditions at the local level. The new governance structure for development has taken advantage of the decentralization process in order to create a programme more attuned to the characteristics of local corruption. The Decency programme, as it is known, was started in 1999, with the support of the Corona Foundation, the central government, the Colombian Centre for Corporate Responsibility, and the Colombian Confederation of Chambers of Commerce. The programme aims at promoting an ethical culture in public procurement processes. As part of the programme a study into the procurement culture was carried out based on a business survey performed every 2 years since 2000 in numerous cities in Colombia. Approximately 100 firms from Medellín are surveyed each time. In the survey, firms are asked to rate the degree of transparency, corruption, and anti-competitive behaviour in relation to public procurement processes; to rate the effectiveness of current anti-corruption measures; and to rate the efficiency and trustworthiness of different public agencies.

b**) *Project for creating a city-based GDP*:** This project aims at developing a GDP rate for Medellín and is carried out by the Economic Development Department of the University of Antioquía at the request of the City of Medellín. The fact that GDP rates are only developed on a regional level in Colombia has always been problematic for planning at the city level. While it has been possible to compute GDP rates for the city on an annual basis, from 2007 GDP rates for Medellín are being produced on a quarterly basis. While initially the University of Antioquía was in charge of producing this data, the project includes a training dimension that will allow technical planning staff at the municipality to generate the GDP rate in the medium term.

c) ***Socio-economic household survey*:** Another important bottleneck for development was the lack of clear information on a raft of issues related to city-dwellers. In order to overcome this problem, the University of Antioquía was commissioned to carry out a survey among around 20,000 households on an annual basis since 2004. The survey is used to collect information on a wide range of socio-economic data on the household in order to construct a Quality of Life Index. The Quality of Life Index is not only a powerful analytical tool used in for the diagnosis of the planning process, but is also key to measure the impact of local government policies and to identify geographical areas at which policies to combat social exclusions should be targeted.

The questionnaire was designed by the Planning Department and the University of Antioquía based on a similar survey carried out by the City of Medellín in 2001. The questionnaire includes questions on the size and quality of the residence, access to public infrastructure and services, electric appliances and vehicles, and extensive data on the household, including demographics, occupation, educational level, and health.

Tools and frameworks

Medellín uses a relatively limited range of tools and frameworks in the assessment. This is because Medellín considers that it has too little resources and in-house capacity to carry out an extensive range of studies and analyses in-house. Thus the technical planning staff uses few data analysis tools, beyond sector-share and time-series analysis. One of the few data analysis tools mentioned was cluster mapping which was seen as one of the most important tools in the strategy development, as it identified priority sectors. Generally, however, Medellín prefers to focus their capacity building resources on training staff in utilising select sophisticated data analysis tools and strategic frameworks. Since 2005 they have been using scenario planning in combination with econometric forecasting with funding from CIDEU. In relation to the current strategic plan 4 qualitative scenarios were developed for each of the 12 scenarios using a scenario matrix, which were then quantified using computer simulation software. The sessions were facilitated by staff from an external consultancy, but from 2007 the scenario planning sessions has been facilitated and executed by in-house technical staff from Prospective of the City who are currently undergoing training Medellín also plans to train its staff to be able to calculate GDP on a city-level, which is currently done by consultants from the University of

Antioquia. Creating a GDP on a city-level is considered one of the key priorities of the current administration, and as such the composite indicator is considered to be a very important tool.

Data collection tools have been used for two purposes. First, data collection tools have been used where data on the level of the city has been considered as too aggregate to be able to identify geographical areas where the need for project and policies are the greatest. This is the case for the annual household survey which is carried out among more than 20,000 households in the city. This aims at identifying areas with a high level of poverty and deprivation, and target project finance accordingly. Secondly, survey data are used in policy-areas for which there is no data on a national or sub-national level. A prime example of this is the bi-annual firm survey of corruption and anti-competitive behaviour in public procurement processes in a range of cities in Colombia. As governance has been a key concern for Medellín, this survey is an important data collection tool.

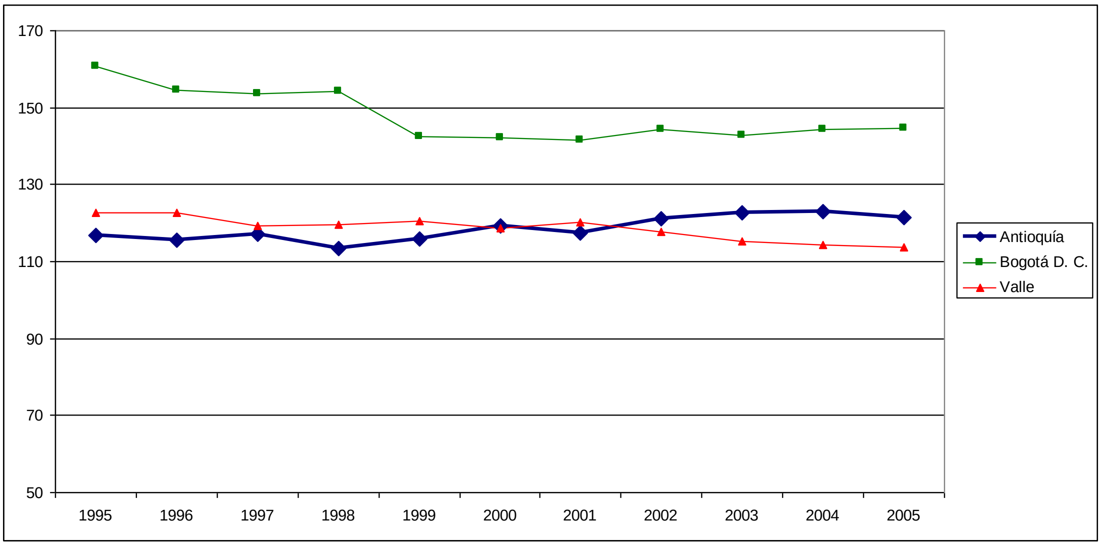
The changing socioeconomic trajectory of Medellín

It is still relatively early to say whether this raft of measures associated with the development strategy implemented in Medellín will transform the city. It is also difficult to discern to what extent any transformation seen in the city is the result of the system of participatory planning or of other broader factors, linked to national or even international transformations. However, the greater dynamism that decentralization has awarded the local civil society, in general, and the local government, in particular, has allowed to contribute address important bottlenecks and has empowered local stakeholders to take a more hands-on approach on the future of their city. The results are starting to emerge and, although, as said earlier, it may be difficult to attribute all of them to the process of strategic development and planning initiated by the city, there is no doubt that the strategy will have played a part in the turnaround of the socioeconomic fortunes of the city and region.

Up to the turn of the century, Medellín was synonymous of violence and economic decline. The image of the city had been tarnished by drug wars and levels of violence that were amongst the highest in the world. This had had an important knock-on effect on the economy of the city, which had witnessed a decline over the previous decades. Over the last decade all this has become a thing of the past, with Medellín experiencing a radical transformation in just a few years, both from an economic and a social perspective.

From an economic perspective, the Department of Antioquía has seen the highest growth among the main urban departments in Colombia. Since 1995, Medellín has been the star economic performer among the three largest urban areas in Colombia, overtaking Cali and the Valle Department and catching up rapidly with Bogotá. Its GDP per head relative to that of the rest of the country has risen from levels of 116 in 1995 to 122 in 2005, while that of Bogotá has declined from 161 to 145 and that of Cali and the Valle Department from 123 to 114 (Figure 10).

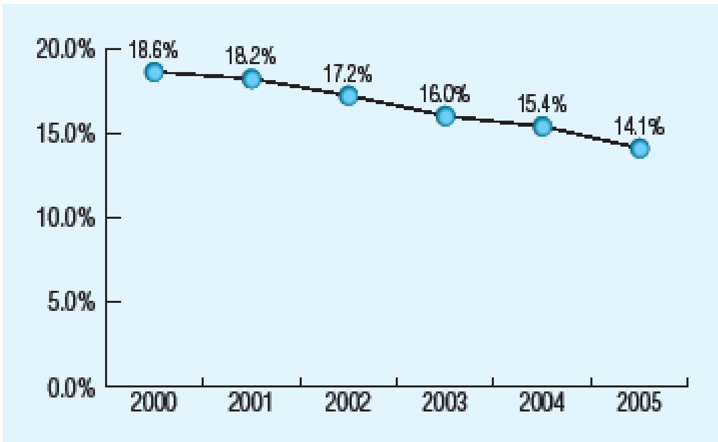
Figure 10. Economic trajectory of the three largest urban Departments in Colombia.



Source: Own elaboration with DANE data.

Unemployment rates have also declined significantly, from levels of close to 19% in 2000 to 14% in 2005 and have stabilised since then (Figure 11).

Figure 11. Unemployment rates in the city of Medellín



Source: DANE.

And inflation rates, which had reached levels of 87% at the turn of the century, have come down dramatically to levels of 7.7% in 2007.

Successive plans have strived for this economic growth to be inclusive. Different initiatives included in the Development Plans, such as Cultura E – aimed at promoting the emergence of new companies, especially in disadvantaged areas of the city – or the Bank of Opportunities, aimed at providing easy access to credit to those individuals and firms that faced difficulties in the commercial banking system (nearly 30,000 credits given during the life of the programme), have contributed to encourage the emergence of firms and the development of skills in areas of the city that were hitherto limited by economic and social barriers. Other measures are more specifically targeted at social inclusion, including the encouragement of corporate social responsibility, and the generation of popular schools for sport. Education bottlenecks at all levels have also been addressed in successive plans, with special emphasis being put in improving the quality of local schools, facilitating access to higher education, and generating social inclusion and greater equality at the start of the school life, through the 'Buen Comienzo' Plan.

But perhaps the most spectacular changes have been on the safety rather than on the socio-economic realm and particularly in the area of tackling the violence problems that had besieged the city. The reduction in violent crimes since 1991 and, in particular, since 2002 has been spectacular. Whereas in 1991 Medellín could have been considered as arguably the most violent city in the world, in 2007 the rate of violent deaths per 100,000 inhabitants stood at 27, making it a relative safe city by Latin American standards (with a rate substantially lower than that of Caracas, Mexico City or Rio de Janeiro) and with a lower violent rate than Detroit (47.1) or Baltimore (43.2) (Alcaldía de Medellín, 2008) (Figure 12). Most of this decline in violence has been the result of the crackdown on violent crime by the national government during the 1990s and early 2000s, but successive Development Plans have put enormous emphasis on issues of safety and violence which may have contributed to the continuing decline in crimes rates, especially in those observed during the last few years. More specifically the plans have set up channels for better interaction between the policy, the judiciary, and the local community and have targeted crime prevention through community involvement and participation. Among the projects implemented, there has been specific focus on areas such as weapons amnesties, the development of a communitarian police, the involvement with vulnerable youths, drug prevention programmes, as well as improvements in security equipment and peace and reconciliation initiatives. All in all, this has created a greater presence of community surveillance in the streets of Medellín, leading – according to claims by the municipality (http://www.laboratoriomedellin.com/) – to significant improvements in security and in the quality of life within the city.

Figure 12. Evolution of violent deaths in the city of Medellín

Source: Alcaldía de Medellín (2008).

Tackling this important bottleneck has contributed to restore the image of the city and has had a clear impact on the development of not only economic activity, but also on the emergence of what by all means is a vibrant and dynamic civil society.

6.2. Rafaela

Context

Rafaela, situated in the Argentinean Province of Santa Fé, represents a very different example from Medellín. With a population of approximately 80,000, it is 27.5 times smaller than Medellín and it is only the third largest city in the province. However, the drive of the local government and the local civil society has made it widely regarded as the most dynamic local economy in the province of Santa Fé and as a leader in political dynamism and strategic planning. It represents a successful case of how decentralization has allowed a municipal government – with little technical or financial assistance from international organizations – to become a leader in strategic planning at the local level.

Key actors in the development process

The key actors in the local economy assessment and the strategic planning process in Rafaela include both local and provincial government and local stakeholders, primarily the local business sector. At a municipal level, there are two public authorities which are of particular importance. The Secretary of Economic Development Programs (SPE) is responsible for the coordination of the overall planning process. The SPE was created in 1991 to promote LED by strengthening local firms – in particular small and medium enterprises (SMEs) – as a response to their vulnerability to structural and technological changes. It was aimed at creating a favourable environment for cooperation between public and private institutions and actors related to economic development. The SPE is also responsible for the overall coordination of the planning process and for implementing the different development projects. The SPE also organises the stakeholder consultation process and dialogue with the private sector. The second key institution – the Institute for Training and Studies for Local Development (ICEDeL) – carries out the studies in relation to the competitiveness assessment and also collects statistics. The ICEDeL was created in 1997 with the remit of providing information to support decision-making, undertaking training for municipal staff in areas such as project management, and contributing to the management of city development programmes. The strengthening of the local civil society through training leaders of trade unions and other organisations in skills relevant to organisational development (e.g. negotiation skills) is also among its objectives. It is staffed by a technical team of less than 10 people and a team of external experts who are contracted for specific projects. Two other key local actors have been the Centre for Enterprise Development (CDE) and the Centre for Industry and Production (CCIP). The CDE was created in 1997 by six business organisations and the municipality with funding from the Inter-American Development Bank and offers technical assistance to businesses in areas such as product development, labour skill enhancement, and analyses of competitors. The organisation also contributes with studies relating to the competitiveness of the city which feed into to the strategic planning process. The CCIP is an older private sector institution created in 1932 by a group of local merchants. The role of the organisation is to represent the interests of the city's industry and commerce. This organisation is the focal point of stakeholder and business participation. Numerous business organisations are represented on its board and among its members.

Either through some of the bodies mentioned above or directly, the business community has been involved in the strategic planning process from the beginning, especially in economic policy formulation, planning and competitiveness assessments. The involvement also included carrying out studies which directly or indirectly fed into the development of strategies and participating in commissions and committees on specific policies and projects and a great deal of informal and implicit dialogue.

The provincial government's role has primarily been that of a facilitator of the planning process at the municipal level. A prime example of this is the programme 'Productive Municipalities' initiated in the mid 1990s by the Minister of Production in Santa Fé. This programme was based on the experience of Rafaela and seeks to identify and satisfy needs for training and capacity building at a local level in relation to LED strategy building.

The local and regional development assessment and strategic planning process in Rafaela can be traced back to the early 1990s, when under a new political leadership the municipal government started engaging in economic policy discussion and formulation with support from the private sector. Up until then the municipal government had primarily been concerned with public service delivery and the execution of public works.

The strategic planning process in Rafaela has not followed a standardised process. There is no set frequency for the launching of strategic plans – the last one was launched in 1996. The strategic plan of 1996 set a longer-term strategic framework for policy development for the following ten years. It is not yet certain when and whether a new plan is to be created. Currently, policy is created on a project-by-project basis.

The process of assessing and monitoring the local economy is a combination of fixed and more sporadic components. Since 1993, Rafaela has been producing an annual report on the results of the socio-economic survey carried out among households in the city. This report provides a general overview of the population, such as outreach and satisfaction with public services, health, education levels, and demographics. In particular, it focuses on local labour markets and rates of economic activity. This is seen as the key monitoring tool in that it not only captures household data which can be compared to national trends, but also gives some indirect information on the local industry.

As for the more irregular component, there is no set approach for the execution of studies feeding into the planning process. The focus of local government planning efforts and hence the themes for which assessments need to be made are set through discussions with the business community and institutions in fields relevant to the business community, such as universities and technical schools. The studies feeding into the assessment are generally made by ICEDeL, but in some cases are led by or also involve the business organisations, though they in these cases are not made specifically for the purpose of developing economic policies. In addition, there is also a great deal of informal and implicit dialogue and cooperation between private enterprise and local government.

Generally, economic policy is geared towards and driven by the needs of the local industry, as articulated through the various organisations representing them. These discussions take place in meetings, workshops, and seminars organised by the secretary of the SPE from the municipality and also by local business organisations. These events are frequent and are organised in relation to general economic and business development topics or in relation to specific projects.

The strengths of this decentralised strategic planning process include:

- A strong political leadership displayed by the government which has been essential in refocusing the role of government from public service provision to strategic planning from the early 1990s onwards;
- The cooperation between government and business community and the way in which both parts have displayed a deep commitment and seriousness to the strategic planning process;
- The continuity of data collection and analysis which has been strengthened and underpinned by the fact that the municipal government has been creating institutions to support it in its planning efforts, namely ICEDeL and SPE;
- The officials and civil servants in SPE and ICEDeL who are not just well-trained, but also pro-active and resourceful, making effective use of whatever information and resources they have.

However, as with any decentralized strategic planning process, strategic planning in Rafaela has been affected by a series of problems. First, in the last few years, there has been a discontinuity of the strategic planning processes and no plan has been produced since the plan in 1996. There has also been some a lack of coordination with the strategic planning process carried out in areas surrounding the municipality, creating some problems in those fields of development that expand beyond the borders of the city. An additional problem has been that, although the data collection is of a high-standard, these data have not always been used to the full when designing interventions and policies. This is partly a result of lack of discussion concerning how the data could be better used in the process of designing policies. In addition, despite the active participation of the private sector in the strategic development process, there are still gaps in the knowledge about how the sector works and about its trajectory, which have not been completely solved, due to problems with data gathering.

Key indicators

The data collection in Rafaela is particularly strong in the area of human capital and employment, for which it collects data on an annual basis. A key emphasis has been put on collecting data on economic structure. The main source of data on the economy of Rafaela is ICEDeL, which collects data through two main survey tools. Since 1993 the institution has carried out an annual socio-economic survey among 700 households and more than 2000 individuals. This survey generates extensive data in the fields of demographics and education, labour market participation (including underemployment, informal employment), housing and asset endowment of the household, and the use of, satisfaction with, and access to public services and transport. In addition, there is also a set of questions which varies and are included to analyse certain aspects.

In 2000 and in 2006 industrial censuses of all the companies officially registered – approximately 400 firms – were carried out. The municipality of Rafaela aims to carry out this census every 5-6 years and/or in relation to specific economic events. For example, the last census was undertaken partly to see the medium-term effects of the economic crises of 2001-2002 on the local firms. One issue with the census is that – as most censuses – it does not cover the informal sector, but this sector is regarded by local officials to be relatively small. The census design is based on the format adapted in the 1996 survey of economic activity carried out by the provincial government of Santa Fe on a sample of over 4,000 firms. However, certain questions may be included for specific analytical purposes, requested by municipal departments or private enterprise. The decision to include these questions is finally of ICEDeL.

The census is carried out in two rounds. First, interviews are conducted with the managers of the firms by university graduates with knowledge of business administration and economic development. Then the firm fills in a questionnaire containing some basic, unambiguous data (sales, sector etc). The resulting data base is extensive, accurate and detailed in numerous fields: a) basic firm characteristics: sector based on ISIC, age, legal status; b) human resources: number of employees and their educational attainment, training of employees provided by employer, perceived areas where more training is required; c) market: exports, clients and competitors, perceived position in the market, perceived challenges in the market; d) production and innovation: source inputs, cooperation with other firms, perceived obstacles to increased innovation; e) use of and access to financial services and IT: source of finance for investments realised, use of internet to sell merchandise; and finally f) association: membership of business organisations

There is also strong emphasis on the collection of qualitative information through the establishment of a constant dialogue with the business community. Data from the Provincial and Federal Bureau of Statistics, conversely, is not much used as these data are measured on the level of a department, a geographical unit which is smaller than a province, but larger than a municipality. However, province and national level data is used as a base of comparison. Hence great care is taken to ensure that the data collected is consistent and comparable with national definitions.

Data considered to be very important include:

a) Data relating to the competitiveness of industries particularly internationally (profitability of local businesses, business sales in new markets (particularly international markets), the position of key local firms and industries in the world market)
b) Employment data, in particular the rate of economically active people, are important in defining clear policy goals and in monitoring the economy and the impact of policies
c) Educational and skill data for the population (number of students by type of study, number of people receiving post-education training by type of course) and data on the human capital needs of the local firms (what type of skills does the industry need, what type of skilled workers do they have most trouble

finding) are important data so that the municipality can focus its policy efforts within the educational sector more accurately.

The greatest challenge for Rafaela in terms of data collection is getting more appropriate data on the private sector on a more frequent basis, preferably on a quarterly basis. Currently, some key data takes too long to produce. By the time they receive the data, it is almost too late to act.

Tools and frameworks

The tools used in the case of Rafaela rely predominantly on descriptive statistics and a range of statistical methods of intermediate complexity. A general difficulty encountered in terms of data analysis is that the city and consequently the number of businesses is often too small to be able to carry out more sophisticated and detailed data analysis.

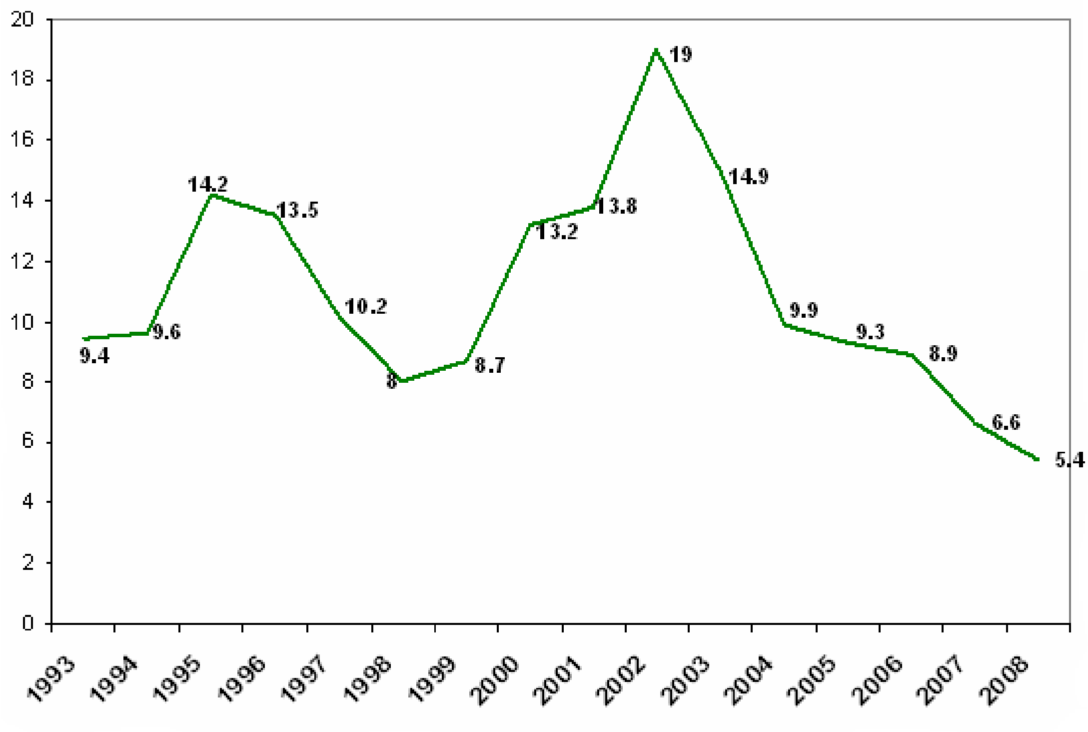
Rafaela has plans to develop more sophisticated econometric modelling such as forecast models, scenario planning, futures and simulation models using advanced software, so that the municipality can better determine the potential impact of specific economic policies and be better prepared to create strategies to deal with the rapid population increase the city is experiencing. However, this has yet to be realised given that the level of resources required, not only in terms of financial resources, but also in terms of human resources is, at least for the moment, prohibitive.

The changing socioeconomic trajectory of Rafaela

As in the case of Medellín, Rafaela has also experienced a trajectory that is significantly better than that of the average of its country, Argentina. Once again, it is difficult to discern to what extent the socioeconomic performance of the city is related to the implementation of the development strategy or to other factors. Nevertheless, local officials are keen to stress that the development strategy has played a non-negligible role in the process of socioeconomic development in the city.

The positive evolution can be seen in virtually every economic indicator. Rafaela has a higher level of activity than the rest of Argentina (48.4% in the city vs. 45.9% in the country as a whole in 2008), a higher level of employment (45.8% vs. 42.2%), and a notoriously lower rate of unemployment (5.4% vs. 8% in 2008). At 8% of the total, the level of underemployment in the city is also lower than the national average (8.8%). Of particular interest is the evolution of unemployment, which has gone down from levels of 19% at the time of the Argentinean crisis in 2002 to 5.4% in 2008 (Figure 13).

Figure 13. Evolution of unemployment in Rafaela (1993-2008)

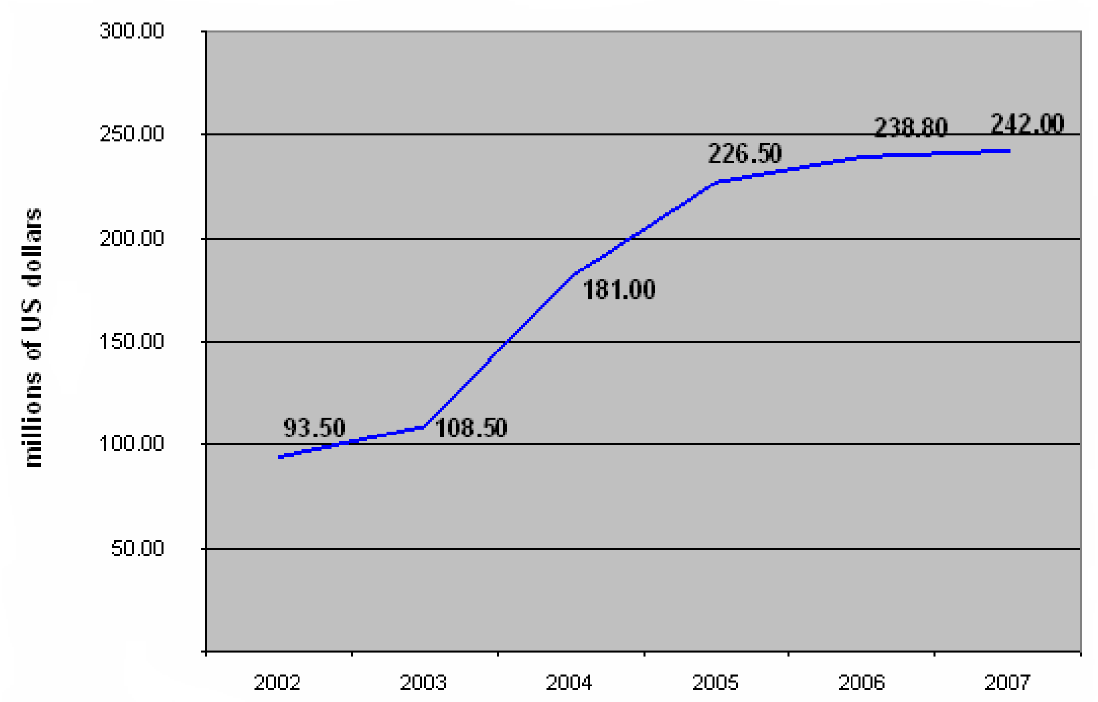


Source: Municipality of Rafaela (2009)

The comparison of the 2000 and the 2006 industrial censuses also gives a clear indication of the economic dynamism of the city. In this short period, and in spite of the Argentinean crisis taking place right the middle, the number of industrial establishments rose by more than 15% and this rise has contributed to a greater diversification of the economic fabric of the city. Business grew by 91.5% with this growth taking place across the board, regardless of the size of firms and of the type of ownership (plcs or family firms).

Much of the economic expansion has come from exports. Exports between 2000 and 2007 increased by more than 127%, with the bulk of the growth taking place in the autoparts and agrofood sectors (Figure 14).

Figure 14. Evolution of exports (2002-2007)



Source: Municipality of Rafaela (2009)

The dynamism of local firms has resulted in the emergence of considerable economic benefits that have been generally reinvested by local firms. In 2006 the industrial census found that two thirds of local firms had reinvested its benefits. In addition, the growth of firms was also a consequence and a cause of significant product and process innovation, with 80% of firms having introduced some sort of innovation between 2000 and 2006.

6.3. Jalisco

Context

Jalisco represents an interesting case of a Mexican state that has managed, through the implementation of integrated and sustainable local and regional development policies, to redress in a relatively short period of time what was becoming a process of long-term economic decline triggered by the lack of competitiveness in a more open economy of many of the industrial sectors which made the economic base of the state.

Jalisco is a state of 6,300,000 inhabitants located on the Pacific coast of Mexico. With four million people living in its metropolitan area, Guadalajara, the capital of Jalisco, is the second largest city in the country and has for long been one of its three major manufacturing centres. Guadalajara's and Jalisco's industrial base took off in the 1930s, coinciding with the implementation by the Mexican government of a policy of import substitution industrialisation which lasted from the 1930s until the mid-1980s. This policy, aimed at reducing Mexico's foreign dependence on manufacturing products, transformed Mexico into the second largest industrial economy in Latin America, behind Brazil. Mexican industry became fundamentally concentrated around three urban poles: Mexico City in the centre of the country, Monterrey in the north, and Guadalajara in the west. With a diversified manufacturing economy centred around textiles, but also based on sectors such as food, tobacco, and beverages, fabricated metal products, chemicals, and rubber and plastics, the economy of Jalisco prospered under much of the import substitution industrialization period. However, the longer-than-required period of economic protection generated industries that could benefit from captive markets, but had little incentive to respond to changes in market demand, innovate, apply new technology, or increase productivity. In any case, much of the industrial fabric of the state was seriously vulnerable to competition.

By the end of the 1970s Jalisco's manufacturing base was beginning to show the first signs of exhaustion, and GDP per capita in the state started to grow below the

Mexican average. Industrial decline became even more evident during the 1980s when, coinciding with the opening of the country to trade in 1985, Jalisco started to grow significantly below the national average. Jalisco's industries struggled to adapt to the challenge of greater competition, leading the state into a slow but unrelenting process of economic decline, which strongly contrasted with the economic dynamism of the Mexican states bordering the US. Since the mid-1990s, Jalisco has, however, managed to redress its process of economic decline and bring its economic performance back on a par with that of Mexico, in terms of growth GDP, employment, and investment, and not at the expense of the quality of employment. One of the main drivers of this turnaround has been an effectively designed and implemented development strategy by the State Government, built around the principle of maximizing the state's endogenous development potential.

Key actors in the development process

What explains the relative turnaround in Jalisco's economic trajectory since 1995? Mexico has undergone profound changes since the mid-1980s. From an economic perspective, the country saw the demise of its import substitution industrialization system (ISI) in place since the 1930s, which gave way to a relative opening of the economy through membership of GATT from 1985 onwards, and to regional economic integration in the North American Free Trade Agreement (NAFTA) from 1994 onwards. Economic liberalization came hand-in-hand with political change. After more than 50 years of rule by the Revolutionary Institutionalist Party (PRI in its Spanish acronym), opposition governors began to be returned to office after the election of Ernesto Ruffo in Baja California in 1989 (Shirk, 2000). The election of opposition governors often had implications for state development strategies, as members of the opposition were keen to show their capacity to deliver sound economic policies (Rodríguez and Ward, 1995; Díaz-Cayeros *et al.* 2000). In Jalisco, such an electoral change led to the approval of an ambitious development plan for the state. The election of Alberto Cárdenas Jiménez, of the National Action Party (PAN in its Spanish acronym), as Governor of Jalisco in 1995 brought about a young and dynamic team into the government. One of the priorities of the new state government was to set up a comprehensive development plan aimed not only at stemming Jalisco's economic decline, but also at addressing the serious economic problems that Mexico's 1994-95 economic crisis, known as the 'Tequila effect', had generated for the state. The plan was implemented successfully and has had a continuation in successive plans, which have included the *Plan Estatal de Desarrollo* 2001-2007 and, more recently, the approval in November 2007 of the *Plan Estatal de Desarrollo 2030* (State Development Plan 2030).

Although the state government can be considered as the main driver of the strategy, many of the participatory principles linked to local economic development have been used in the strategic planning process. One of the key aims of successive state governments since the mid-1990s has been that of 'democratizing' and making planning more transparent (Jalisco Plan Estatal de Desarrollo, 2007). Public consultation and participation have thus become essential elements in the process, with public feedback being used in the design, implementation, and monitoring stages of the process. In particular, in the State Development Plan 2030 (2007) different systems of participation were used. These included consultation fora, *mesas de trabajo* or 'work tables' involving a broad array of social groups, workshops with industry, civil society and local government representatives, and questionnaires. The state government has also resorted to vertical coordination effectively, involving local governments and their representatives actively at different stages of the planning process.

Key elements of the strategy

The basis of the new strategy was to draw upon an indigenous approach and to build upon existing assets, by identifying key development sectors, and trying to minimise economic exposure (Woo Gómez, 2002). This implied betting on a wide range of well-established local sectors, whose competitiveness had been widely affected by the economic opening of the country (Government of the State of Jalisco, 2001: 87-88). A series of nested niche strategies, focused mainly on the support of existing sectors deemed capable of competing in a more integrated economy in the global context were created. This, however, did not imply disregarding the exogenous growth of attracting and embedding FDI.

Among the strategies aimed at traditional sectors, agriculture took an important role. In this area, the government set up schemes to reinforce and promote links between agriculture and industry, by strengthening existing production chains and trying to retain as much value-added as possible within the borders of the state (Government of the Sate of Jalisco, 2001: 125). Many of the agricultural activities that were supported were those traditional sectors that allowed for an easy transformation of produce locally, thus side-stepping some the barriers that limit trade in agricultural sectors and minimising the risk of the often strong price fluctuations of untransformed agricultural produce. These sectors included many natural medicine plants, the agave (the plant from which tequila is made), as well as green house produce mainly targeted at the US market. Sustainable development was important and there was an early emphasis on organic food and on a better management of forest resources.

On the service side, the main focus was on tourism. In addition to the promotion of the main coastal resort of the region, Puerto Vallarta, the general strategy was aimed at a different audience from that of traditional tourism in Mexico. The targets were mainly senior citizens and ecological tourists. The state thus encouraged rural tourism in haciendas and rural houses and health spas, often combined with ecotourism in inland areas, relatively isolated from the traditional tourist destinations. Other traditional sectors such as local crafts, textiles, furniture, jewellery, and shoes were also promoted. The emphasis on these sectors was on redeveloping long-established crafts, training, improving the quality of materials and outputs, and assisting exports (Government of the State of Jalisco, 2001: 131-4).

However, the bulk of the local and regional development efforts took place in industry. In contrast to the high risk strategies of trying to lure new sectors to the State through huge restructuring plans or FDI, Jalisco decided to bet on the traditional low technology sectors that made the bulk of the local industrial fabric and that were already embedded in the region. Although this made for a somewhat unglamorous strategy, it turned out to be a strategy that worked.

Overall, the SME support strategy echoed many of the indigenous development initiatives and was based around the provision of selective incentives for niche sectors, the creation of training and R&D facilities, and facilitating access to funds and financial support for entrepreneurs, frequently through venture capital funds.

Targeted human resource measures, such as the improvement of vocational training schemes or the concentration of resources for graduate and post-graduate training in selected areas, were also used. Support to the large number of local SMEs in the region took centre stage. A large network of support and research centres for SMEs – some partially financed by the private sector – was created to cater for the basic needs of SMEs and to improve production and competitiveness in the supported sectors. The main needs covered by the centres included the financial support to SMEs, the promotion of an entrepreneurial culture, quality control, improvements to the packaging of products, technological support and advice on intellectual property, and access to information. Centres for advice on mergers and acquisition and on the creation of industry associations, for the promotion of innovation, design, management and marketing, and trade, as well as for the improvement of local crafts and for the development of essential infrastructure have been set up. The Government of the State of Jalisco, through its ministry of economic promotion, is at the apex of this intricate network of support centres (Government of the State of Jalisco, 2001).

The main goal of the network of support centres has been to help local SMEs to accept and assimilate the challenges of the new economy, with a conscientious effort being made in order to promote the use of IT in firms, by helping with software or advising SMEs how to engage in e-commerce. This effort has been combined with a series of measures to reduce red tape and encourage 'electronic government'.

The fundamental focus of the local and regional industrial development strategy on SMEs, which make the vast majority of firms and the largest percentage of employment in Jalisco, has not meant that larger firms and the attraction of FDI has been overlooked. Efforts at these levels have been aimed at firms in sectors that could create links to existing networks of SMEs and thus help to embed production in the state. Steps have been taken in order to facilitate the shift from traditional maquila – assembly plants created under a scheme of tax exemption for the export of output – to what is known as second or third generation maquila, that is plants that increasingly substitute foreign inputs in the areas of technology, management, or design with local inputs. And much of the foreign direct investment the state government has sought to attract has been in sectors where production chains could be established with local firms and embedded for local and regional development. The existence of business promotion centres of the state in Mexico City and Los Angeles has helped in this respect.

On the infrastructure front, telecommunications and education infrastructure were selected as the main priorities, with new developments in transport infrastructure mainly aimed at preventing an increasing concentration of economic activity in the metropolitan region of Guadalajara and facilitating a balanced territorial development (Government of the State of Jalisco, 2001). And the cost of a strategy not based on grand infrastructure policies or on huge incentives for the attraction of FDI turned out to be relatively low, as much of the strategy implied a re-prioritisation of existing state capital expenditure to the sectors that were supported by the strategy.

In the particular case of the apparel and textile industries, the state of Jalisco targeted the strengthening of productive linkages in the Guadalajara region. This led to an adjustment by contractors of the numbers of subcontracted firms in order to homogenise the quality of garments, trying to address issues such as the duality of production between contractors (formal sector) and subcontracted firms (informal sector). The strategy also tried to tackle the problem of lack of trust and uncooperative behaviour, which were common among entrepreneurs in the sector. The presence of family members in the distribution of garments from regional firms has also been crowded out and replaced with traders and wholesalers on a larger scale. Nationally-oriented producers, comprising mostly micro and small firms, are gradually acquiring the knowledge base and financial resources to establish global brand labels and to give long-run credit contracts to chain retailers.

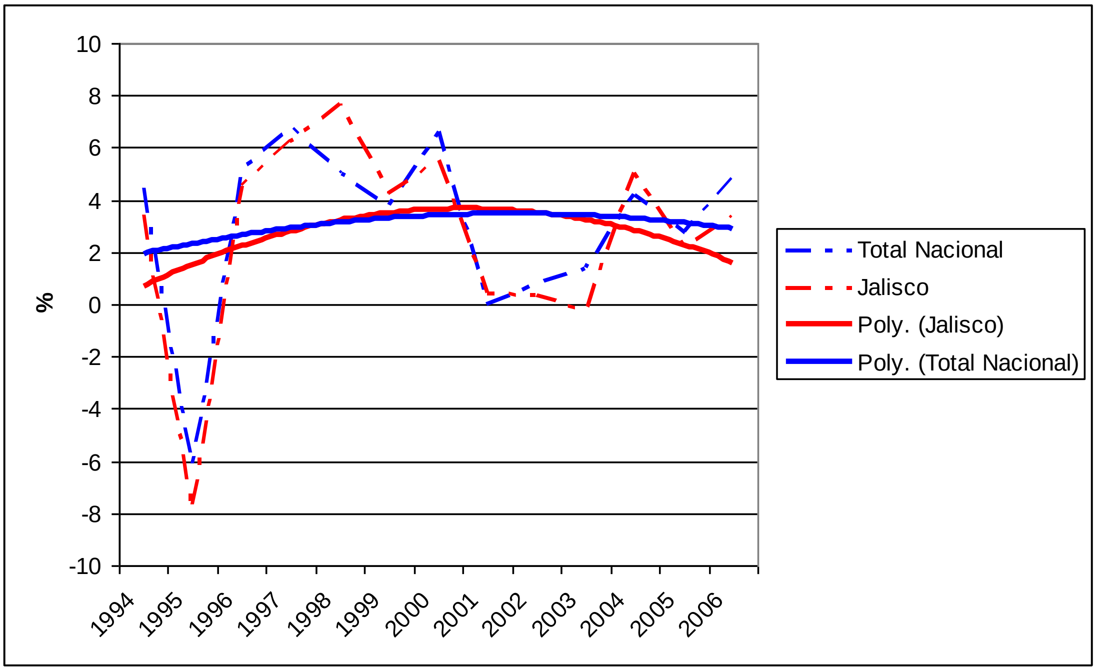
Successive state plans have continued with some of the key lines established in the original plan and have put increasing emphasis on aspects such as improving human development indicators, creating greater opportunities for all, achieving greater sustainability, tackling criminality, and improving and making government and governance more transparent and encompassing (Jalisco Plan de Desarrollo Estatal, 2007). There has been greater emphasis in coordinating the development efforts with those of neighbouring states, through the so-called ´Development programme for the Central and West region', which includes nine Mexican states, as well as promoting greater regionalization within Jalisco itself.

The changing socioeconomic trajectory of Jalisco

Although, as in the other two cases, the change in economic fortunes of the state described above cannot be solely attributed to the implementation of the local and regional development strategy, the state of Jalisco has demonstrated that designing and implementing clear and comprehensive development policies based on using and upgrading existing indigenous resources can pay off, despite only having limited resources. The results have not been spectacular, but have been incremental, but there are questions about their level of sustainability. In any case they seem to have contributed to change a process of economic decline that had lasted almost two decades into one of greater local and regional economic dynamism.

Perhaps the indicator that best reflects this turnaround has been the evolution of GDP per capita in the region in comparison to that of the rest of Mexico. After three decades of decline relative to the rest of Mexico, the last fifteen years have seen first a catch up and then relative stability in economic growth, as indicated by the polynomial lines in Figure 15. This trajectory is all the more remarkable, given the high dependence of Jalisco on industries that had been overly protected during the import substitution industrialization period and that were regarded as not particularly proficient or competitive and were expected to decline or collapse in the wake of NAFTA membership and greater regional integration. However, since the turn of the century, the performance of the region has been more sluggish, with growth trends in GDP per capita dipping below once again those of the rest of Mexico.

Figure 15. Growth trajectory in Jalisco with respect to the rest of Mexico (1993-2007).

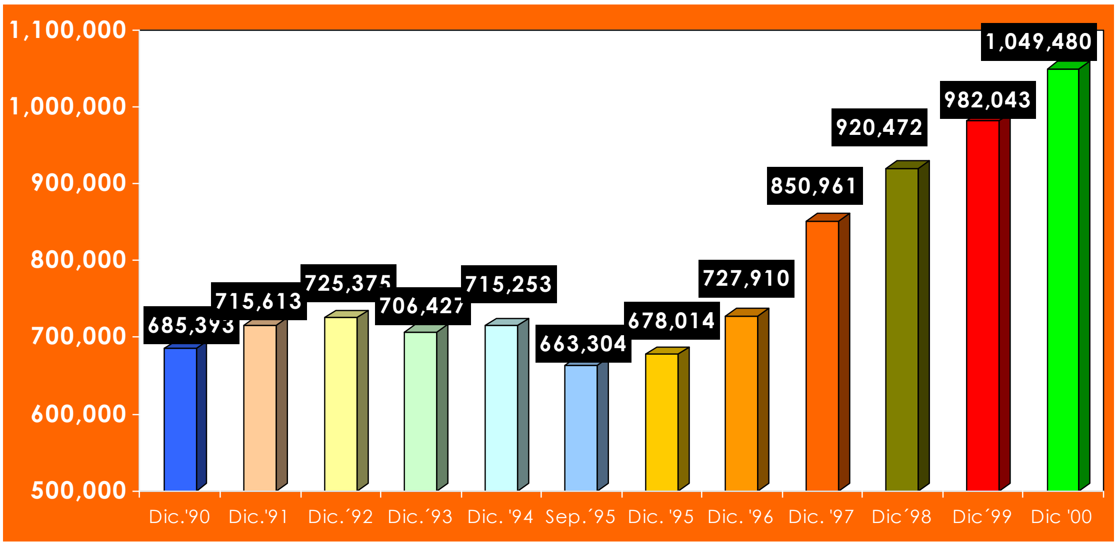


Source; Own elaboration with INEGI data

Most of this transformation took place during the early stages of the strategy, after the election of Alberto Cárdenas Jiménez as governor of the state in 1995. The implementation of the strategy contributed to generate employment, entrepreneurship, investment and exports. Although many factors – local, regional, and national – contributed to this turnaround, the coincidence with the early stages of the implementation of the strategy is striking, hinting at the existence of some relationship between both.

The transformation was greatest in the employment realm. Between 1995, at the end of the Tequila crisis and December 2000, almost 400,000 new formal jobs were generated in the state, dwarfing the pre-crisis top level of around 725,000 (Figure 16).

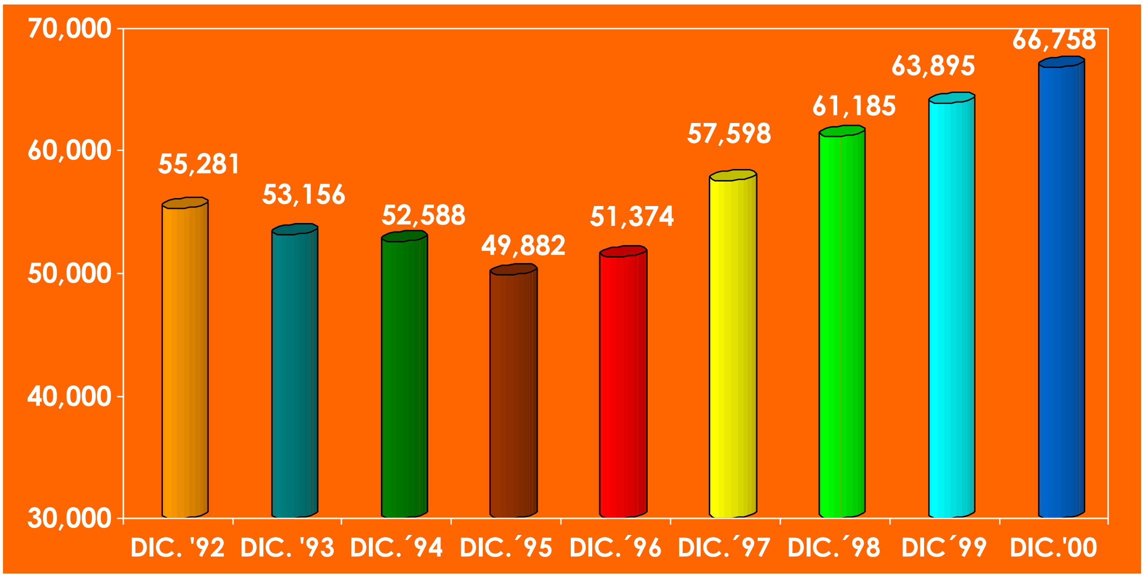
Figure 16. Evolution of formal employment in Jalisco, 1990-2000.



Source; Guillermo Woo Gómez

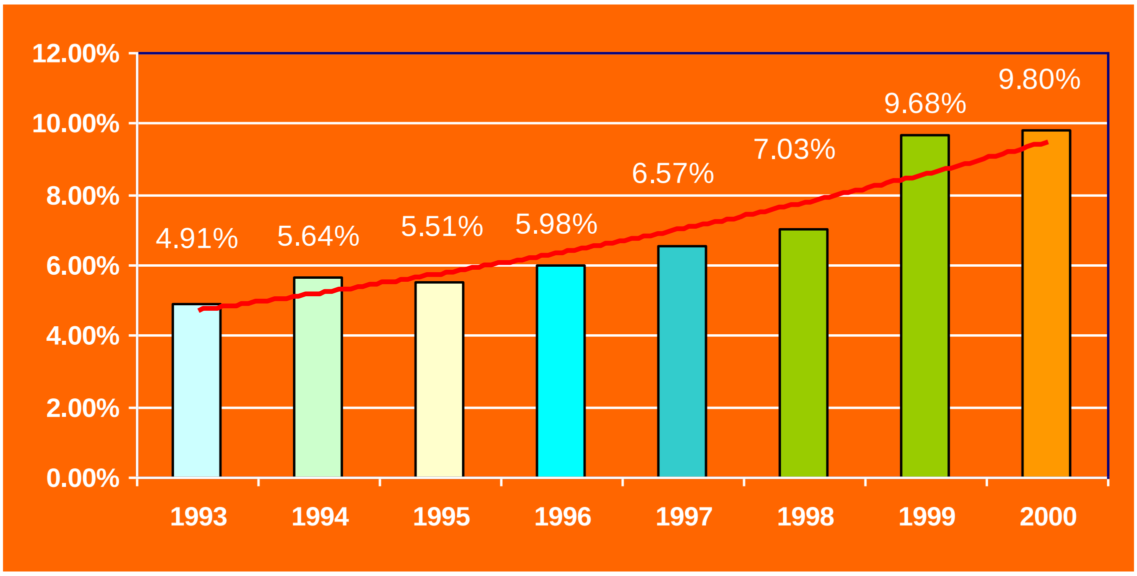
The state also succeeded in raising the number of entrepreneurs by 17,000 (Figure 17), and significantly increased the flows of investment into the state, both from other Mexican regions and from abroad. In addition, Jalisco managed to curb its declining share of Mexican exports, which was the norm during much of the 1980s and early 1990s (Figure 18).

Figure 17. Evolution of the number of registered entrepreneurs in Jalisco, 1990-2000.



Source; Guillermo Woo Gómez

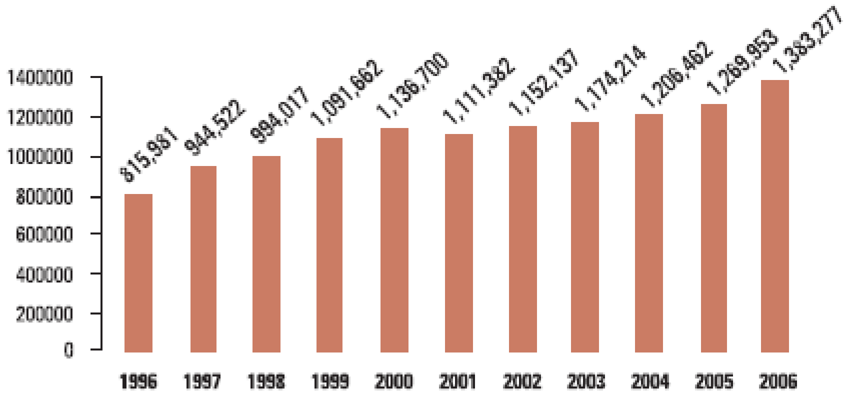
Figure 18. Evolution of the number of registered entrepreneurs in Jalisco, 1990-2000.



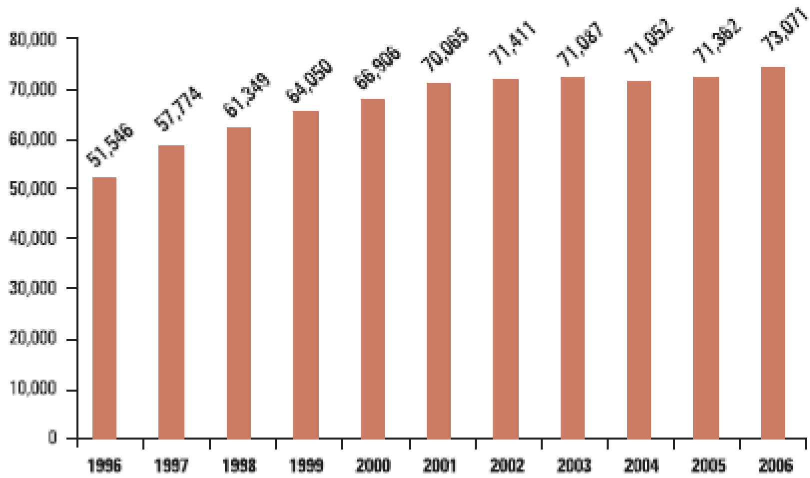
Source; Guillermo Woo Gómez

Coinciding with the 2000 crisis, the economic picture in Jalisco has been somewhat less dynamic. Employment has continued to grow. But at rates of 2.37% per annum, it was no match for the post Tequila effect dynamism (Figure 19). Nevertheless, rates of employment growth still exceeded population growth. This has, however, not been the case with the number of registered entrepreneurs, whose numbers have stalled around 70,000 since the turn of the century.

Figure 19. Evolution of employment and of the number of registered entrepreneurs in Jalisco, 1990-2000.



a) **Employment**



b) **Entrepreneurs**

Source; Jalisco, Plan Económico de Desarrollo 2030

Jalisco has started to lose ground anew in its contribution to national GDP. In contrast to the dynamism of some of the states bordering the US, since 2000, a number of industrial sectors in Jalisco have struggled to keep up the performance of the mainly export oriented manufacturing of the north of the country. As a consequence, the gap between Jalisco and some northern states, such as Nuevo León – its traditional competitor as the second economic centre of the country – Baja California, or Chihuahua has continued to widen. By contrast, Jalisco has outperformed during this period many of the southern states.

However, the local economic development strategy initiated in the mid-1990s may have contributed to maintain a certain level of competitiveness in traditional manufacturing sectors, such as the textile and apparel sector, which had prospered under the import substitution industrialization regime but were clearly too sheltered and uncompetitive to compete in open markets. Yet, against all odds – and against the dynamism of the large export oriented industrial districts of La Laguna in the states of Durango and Coahuila and of the same sector in Aguascalientes – the textile and apparel sectors in Jalisco has remained in business, despite the relatively small size of the firms in it and its traditional specialization in women's apparel.

7. Conclusions

The aim of this background paper has been to show that, in a world in continuous change, where traditional top-down development policies seem to be less adept at delivering sustainable development, local and regional initiatives may prove to be a valid complement for socio-economic development. More than fifty years of national development policies have not managed to address the key territorial development problems. In many cases, they may have contributed to exacerbate them and to render some territories more dependent on national assistance and solutions. Development problems are today as prevalent, if not more, than a few decades ago.

In this context, bottom-up initiatives, such as local economic development strategies are emerging as way to tackle development problems that is more participatory and, in many ways, more democratic. The fact that LED strategies are locally initiated and managed – albeit often with the technical and financial support of external bodies, organisations, and institutions – has important social advantages as it empowers local populations, those precisely who stand to benefit the most from the design and implementation of an adequate policy. But the economic advantages are also on a par. Local and regional initiatives mobilize economic potential that otherwise would have remained untapped and contribute to make a fuller use of existing economic potential than traditional top-down policies.

Yet, this sort of approach is not without risks. The success of this type of initiatives is conditional on national and international conditions, on the local institutional context, and on how well the development strategy applied is capable of adequately diagnosing the local economic potential and the opportunities and threats that the national and international environment offers. Whether this type of strategies deliver on their promise of sustainable socioeconomic development will thus depend on a complex combination of factors, some of which like strictly within the realm of the area where the policy is being implemented, while others lie beyond its borders. But while bottom-up, participatory local and regional economic development approaches may not be the panacea for development, an increasing number of cases are showing that they may lead to a greater adaptability and sustainability in changing economic conditions. The Latin American cases presented in this paper are testimony of this. Whether we are talking of relatively large (Jalisco or Medellín) or small territories

(Rafaela), of traditionally more urban (Guadalajara and Medellín) or more rural environments (Rafaela), of regions with stronger or weaker institutional and governance settings (virtually all the cases studied), the cases presented have shown that local economic and institutional capacity can flourish from the bottom-up and provide solutions that guarantee sustainable economic growth, quality employment, and a socioeconomic turnaround in contexts that, a priori, may not be the best for these initiatives to take hold and in changing global circumstances. They also highlight that there is no single route or 'one size fits all' solutions to achieve sustainable development. Adapting development strategies to local institutional conditions, while at the same time promoting local capacity building with the strategy may be the way to deliver greater and more sustainable development to territories that until recently were considered to be either declining, basket cases, or too small or isolated to figure in national development priorities.

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