



# **Local development: towards a new protagonism of cities and regions**



**CAF**





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## *Prologue*

### **L. Enrique García**

Executive President of CAF

The evidence on territorial development patterns in Latin America shows there are significant disparities in levels of production, income and welfare within countries. On the other hand, there are cases in which territories and city-regions have been very successful in promoting productivity within firms and industries and improving citizens' quality of life.

Generally, this success owes more to factors that are susceptible to control by the population and its authorities and less to exogenous factors such as climate, natural resources, and the proximity to navigable waterways, among others. In particular, we see that efforts at the local level have centered more on improving workforce quality (accumulation of human capital), attracting investment into firms and industries through the development of productive chains and/or clusters and strengthening the development of public policies and institutions. Besides providing social and economic infrastructure, these efforts also facilitate the exchange of ideas, citizen participation and transparency in collective decision-making.

This latest release of the Report on Economics and Development seeks to contribute to the understanding of these patterns of local and regional development and to identify public policy options that, together with strong participation from governments and subnational institutions in their design and implementation, allow for the compatibilization of economic growth and balanced development across territories and throughout economies. The Report highlights the role that local and regional governments play in shaping these institutions and policies. Their proximity to stakeholders in the productive process and families that directly benefit from public services allows them to obtain information and the capacity to create consensus, which enables more effective public decision-making. It also strengthens the response of stakeholders from the private sector. The intensification of the decentralization process over the past twenty years in Latin America has expanded the space in which subnational governments can forge these types of local and regional development strategies.

The analysis presented throughout this publication suggest that a successful local development strategy should be comprehensive, that is, it should act upon all of the determinants of development and at the same time base itself on the territory. Thus, subnational governments play a key role in its design and implementation. This role goes beyond the formally mandated powers of spending, taxation and regulation emerging from the decentralization process. Ultimately, what makes a city or region more or less competitive is the prevalence of "soft" institutions, consisting of popular assemblies, neighborhood associations, business chambers, learning and cultural centers, among others, through which different stakeholders may interact, express demands and share information within an atmosphere of cooperation and trust. At the local level, the possibility of creating this institutional fabric is favored by the physical proximity of the diverse interests. These institutions enable a more efficient public decision-making process that can successfully respond to both the risks and the opportunities that are generated by technological change and national and international economic trends.



With the sixth edition of this Report on Economics and Development, CAF hopes to contribute to the debate on the role of subnational governments (alongside other local actors) in the economic development of Latin America. Reducing income gaps and other variables that affect quality of life require the sourcing of goods and services, both public and private, whose production technology involves the use of local resources, such as human capital and institutions, which cannot easily be provided by the central government. This proves the fundamental role that territorial stakeholders play.

We at CAF hope that this latest contribution will be helpful in building the yearned for economic and social development of our nations.



## *Recognition*

The preparation of this report is responsibility of the Vice-presidency of Development Strategies and Public Policies, under the general direction of Leonardo Villar and coordinated by Pablo Sanguinetti.

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# Development in the territory: promoting local initiatives



## *Development in the territory: promoting local initiatives*

### **Introduction**

A noticeable stylized fact of economic development in Latin America since the middle of the last century is that the region has not been able to reduce its per capita income gap with respect to the developed world. Over the past twenty years, as a response to this challenge, the region's nations have undertaken various policies aimed at strengthening their participation in global trade and investment flows. Initiatives of subcontinental and regional integration have also complemented these policies of global liberalization. The effect of these policies on growth and national development has been widely analyzed, as relatively successful cases exist alongside others whose results have fallen short of expectations (Edwards, 2007; Rodrik, 2003; Rodrik and Rodriguez, 2001; Cárdenas *et al.*, 2000).

In any event, beyond the aggregate results of each country, it is clear that the process of globalization and integration with international markets has consequences over the development of regions within nations. In this new context of liberalization and international integration, economic activity becomes more dynamic, and in turn, the determinants that shape the competitiveness of each region or locality also become increasingly mutable. For example, technological progress can cause the decline of a region with a strong pattern of concentration in a single industry; commercial liberalization can make proximity to a large domestic consumer market less relevant in determining the location of new firms and, in contrast, can favor locations with better access to international markets; the promotion of foreign direct investment (FDI) can add value to the exploitation of natural resources located in specific places; etc. In other words, international economic dynamics imply that comparative advantages enjoyed by certain territories in the past are becoming less important, while others—previously not considered—emerge.

So, why should the territorial or spatial dimension of development or growth processes be a cause for concern? It is to be expected that any policy, technological change or new circumstance in the world

economy would generate regional winners and losers (as well as sectoral winners and losers). From the perspective of a nation's aggregate welfare, the important thing is that in net terms the change is positive and that there is always a way to compensate the affected localities and still have a net gain. In this sense, expecting the aggregate economic dynamic to be "neutral," from a spatial point of view, could be an unrealistic or perhaps mistaken objective, limiting the adoption of policies or initiatives that promote economic growth.

Notwithstanding these arguments, the analysis of the territorial consequences of national and international policies and trends are very relevant for several reasons. First, in practice, such transfers or compensatory policies are rarely implemented. Therefore, from the perspective of the "political economy" of reforms, it is very important to know which regions or locations benefit or lose, as well as the magnitude of such impacts. This is important especially if disparities in the distribution of economic activity and regional production also affect access to basic services (i.e. education and health) that fundamentally determine the future possibilities of families' human development. In this case, territorial disparities can translate into significant and persistent disparities in income and quality of life across the population.

Secondly, from the standpoint of public policies, it is important to consider that the final effects of technological change and globalization on regions and localities will depend on how these shocks are mediated through a series of markets (products and factors) that can be subject to market failures or coordination problems, reducing gains or magnifying losses. In other words, these movements in the economic opportunities of territories are not only determined by external factors but their ultimate consequences on employment opportunities and household welfare will also depend on institutional aspects, public policies and private initiatives that can moderate negative effects and/or enhance opportunities.

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In this context, the object of this report is to highlight the role that local governments and regional governments play in shaping these institutions and policies in favor of the development of their territories. Proximity to the actors of the production process and to the families that directly benefit from local public services allows access to information and the capacity to generate agreements and consensus that can render the decision making process more efficient and strengthen the response of local private sectors. In this sense, the intensification of the decentralization processes that has occurred in Latin America in the last twenty years has expanded the space of subnational governments in forging these types of local and regional development strategies.

The evidence on territorial development patterns demonstrates the existence of significant disparities in production, income and welfare levels within countries. With the exception of certain basic welfare indicators (such as illiteracy or infant mortality), these gaps do not appear to be declining over time. On the other hand, there are cases of territories and city-regions that have been very successful in increasing the productivity of their firms and industries as well as their citizens' quality of life. In general, this success has been associated less with factors exogenous to the location or region (climate, natural resources, proximity to navigable rivers, etc), while other, endogenous, factors have been more relevant. In particular, an effort can be seen at the local level to improve the quality of the workforce and the education of the population (accumulation of human capital), in order to attract firm and industry investment through the development of clusters and/or productive chains, all of which is strengthened by the development of institutions and public policies that not only provide economic and social infrastructure but also facilitate the exchange of ideas, civic participation and transparency in collective decision making.

The analysis presented throughout this publication suggests that a successful local development strategy should be comprehensive, that is, it should act upon all of the determinants of development and at the same time base itself on the territory. Thus, subnational governments play a key role in its design and management. Such a role is not necessarily limited to formal powers of spending, taxa-

tion and regulation as determined by the decentralizing regime, although of course it may influence some of the results. In that sense, the management of local development involves, on the one hand, promoting the quantitative and qualitative analysis of the present and future potential of a locality or region. This diagnostic should analyze the opportunities and threats that emerge from the external context both nationally and internationally. A second step is to raise awareness of these opportunities and threats by both public and private stakeholders that act within the territory (including the highest levels of government). Third, stakeholders should agree on objectives, actions and initiatives, which should be reflected in mid- and long-term strategic plans. Finally, initiatives should be developed and executed and the results evaluated. As can be seen, this whole process of managing local development requires strong leadership and the ability of different members of the community to interact with one another.

The goal of this chapter is to provide motivation for the analysis developed throughout the book and summarize its main points and conclusions. To that end, it first documents the evidence on the magnitude and dynamics of economic development disparities within countries. These disparities may relate to the levels of production and per capita income between regions and localities. Nevertheless, as mentioned before, differences in quality of life indicators between localities is the most relevant issue from the perspective of the population's welfare. There is abundant empirical evidence demonstrating that quality of life does not only depend on household incomes (IADB, 2008). Other variables, associated with access to certain basic services such as health and education, and the physical and cultural characteristics of where households live and carry out their activities (i.e. security) are also very important.

Secondly, it presents a simple conceptual framework that will allow the identification of possible factors determining the evolution of income and quality of life differentials within countries, with the goal of understanding the determinants of local development sources and the policies that promote them. As will be seen, such a conceptual framework emphasizes that the differences in local development patterns are mainly explained by the complex

interactions between three fundamental determinants of local economic growth: economies of agglomeration and specialization; migration and human capital; and institutions. Within this last determinant, the concept of “soft or informal institutions” stands out, referring to different types of interaction among economic actors, the networks they form, cultural factors, attitudes towards risk, managerial and entrepreneurial capacity, and local leadership, among others, which from the local level can influence firm localization decisions, migratory choices of the work force, and the ability of the local community to adapt to surrounding changes.

This introductory analysis of the factors that determine local development serves as a motivation for the rest of the report. The first part (chapters 2-5) analyzes with more detail each of the factors and offers evidence for the case of Latin America. The second part (chapters 6-8) explores the implications of initiatives directed towards improving productive development and the quality of life in regions and localities, and the role played (through design, implementation, etc.) by city and departmental governments and private actors.

The rest of the chapter is organized as follows: the second section presents evidence on the magnitude and dynamics of the disparities in per capita income and other welfare indicators at the subnational level for various Latin American countries. This opens the discussion for the third section, which formally presents a conceptual framework that rests on three main pillars: economies of agglomeration and specialization, human capital and institutions. Finally, the fourth section describes the structure of the rest of the report and summarizes the main conclusions of the different chapters.

### **Evidence on disparities in production, income and quality of life in subnational territories**

To what extent has the development process in Latin America over the last few decades been marked by the rise of significant territorial disparities in economic activity and welfare? This section

seeks to answer this question and, thus, motivate the analysis of the possible determinants.

### **Production and income disparities at the subnational level**

It is a documented empirical fact that the growth of national per capita income is accompanied by a process of concentration of economic activity within the territory (World Bank, 2009; ECLAC, 2009). In fact, one of the first stages in the development process is the migration from rural areas towards cities, which implies a growing degree of urbanization. In Latin America, this urbanization process is already well established in many countries, often exhibiting a high degree of concentration in a small number of cities (see Table 1.1). In this sense, in the majority of countries with a high degree of urbanization, the most important city accounts for close to or above 30% of the total urban population.

This pattern of concentration of population in a limited number of regions is correlated with an observed concentration in the generation of employment and economic activity. Figure 1.1 (see p. 17) shows maps with the share of GDP (the darker the shade the greater the share) and of total population (the larger the circle the greater the share in total population) in eight selected countries in Latin America<sup>1</sup>. Clearly, the economic geography of these nations does not exhibit much territorial homogeneity. Within the same country, scarcely populated regions with limited shares of total wealth coexist with regions that produce over 40% of the goods and services of the total economy and where between a third and a half of the nation’s inhabitants are concentrated. This is the case, for example, of The Province of Buenos Aires in Argentina, with 43% of national GDP and 41% of the population, or the Metropolitan Region of Santiago in Chile with 46% and 41% of GDP and population, respectively. Something similar occurs in Peru, where the Lima region represents 50% of the production of goods and services and 30% of total inhabitants.

As can be seen in Figure 1.1 (see p. 17), there is a certain degree of spatial correlation in these indicators

<sup>1</sup> Detailed information by country and territorial body is presented in this chapter’s appendix.

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Table 1.1 Urban concentration in selected countries of Latin America (1990 and 2006)

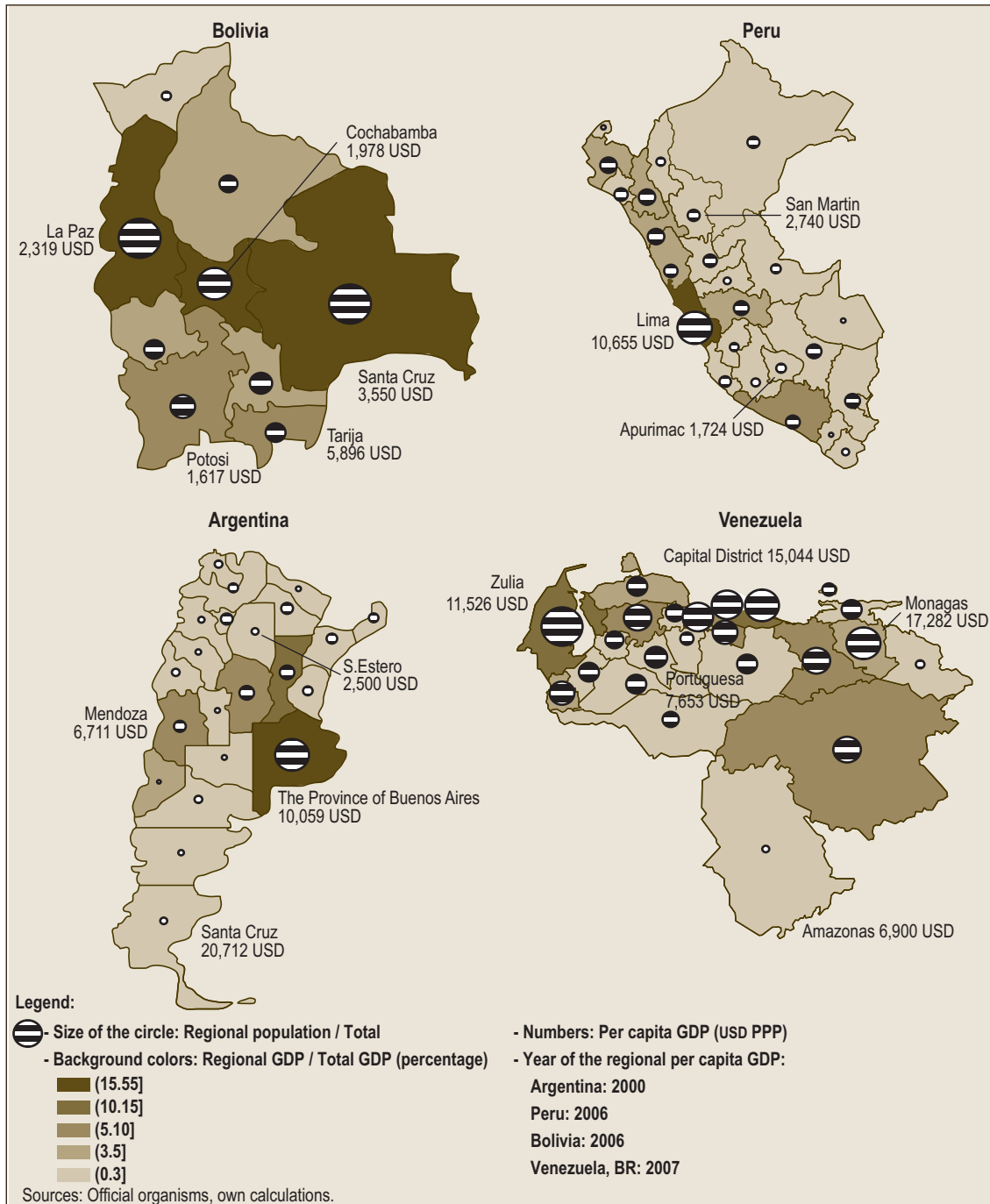
Countries	Urban population (millions)		Urban population / total population (percentage)		Population in the largest city <sup>a/</sup>	
	1990	2006	1990	2006	1990	2005
Argentina	28.3	35.3	87.0	90.0	37.0	36.0
Bolivia	3.7	6.0	56.0	65.0	29.0	26.0
Brazil	111.8	160.3	75.0	85.0	13.0	12.0
Chile	11.0	14.4	83.0	88.0	42.0	40.0
Colombia	24.0	33.3	69.0	73.0	20.0	24.0
Costa Rica	1.6	2.7	21.0	62.0	47.0	46.0
Ecuador	5.7	8.4	55.0	63.0	28.0	29.0
El Salvador	2.5	4.1	49.0	60.0	39.0	38.0
Guatemala	3.7	6.2	41.0	48.0	22.0	16.0
Haiti	2.1	3.7	30.0	39.0	54.0	59.0
Honduras	2.0	3.3	40.0	47.0	29.0	29.0
Jamaica	1.2	1.4	49.0	53.0	n.a.	n.a.
Mexico	60.3	79.5	73.0	76.0	25.0	25.0
Nicaragua	2.2	3.3	53.0	59.0	33.0	36.0
Panama	1.3	2.4	54.0	72.0	65.0	53.0
Paraguay	2.1	3.6	49.0	59.0	45.0	54.0
Peru	15.0	20.1	69.0	73.0	39.0	36.0
Trinidad & Tobago	0.1	0.2	9.0	13.0	100.0	100.0
Uruguay	2.8	3.1	89.0	92.0	46.0	42.0
Venezuela, BR	16.6	25.3	84.0	94.0	17.0	12.0
<b>a/ Percentage of the total urban population.</b>						
<b>n.a.: Not available.</b>						
Source: World Bank (2009).						

of concentration; for example, in the case of Brazil and Peru the concentration of economic activity and population occurs, respectively on the Atlantic and Pacific coasts. In Colombia, it occurs in the departments of Cundinamarca, Antioquia and others in the center and north of the country. This suggests that there are geographic factors (climate, geological and soil characteristics, access to navigable rivers, etc) that explain a territory's better or worse luck in terms of relative development. In any event, it is also clear that with all exogenous conditions being equal, certain territories demonstrate much more development than others do, which suggests that the actions of other types of "endogenous" factors (human capital, institutions, etc.) are also important in explaining subnational development.

It is interesting to analyze whether these disparities in the economic size of regions and localities

are correlated with income and welfare indicators of the populations located within the different regions. Figure 1.1 (see p. 17) also shows regional per capita GDP (in dollars corrected for purchasing power parity) for some of the territorial entities in the different countries. Large differences can be seen, for example, in the case of Argentina where average per capita GDP corresponding to the province of Buenos Aires (close to 10,000 dollars in the year 2000) is four times higher than that of Santiago del Estero (2,500 dollars in the same year), one of the poorest provinces located in the northwest of the country. The same relationship occurs in Brazil between the states of São Paulo (approximately 13,700 dollars in 2005) and Maranhao (3,200 dollars), located in northeastern Brazil. In Peru, the Lima region (approximately 10,600 dollars in 2005), on the Pacific coast, has a per capita GDP more than five times higher than





Continues

that of Apurimac (almost 1,700 dollars) in the mountainous southern zone<sup>2</sup>.

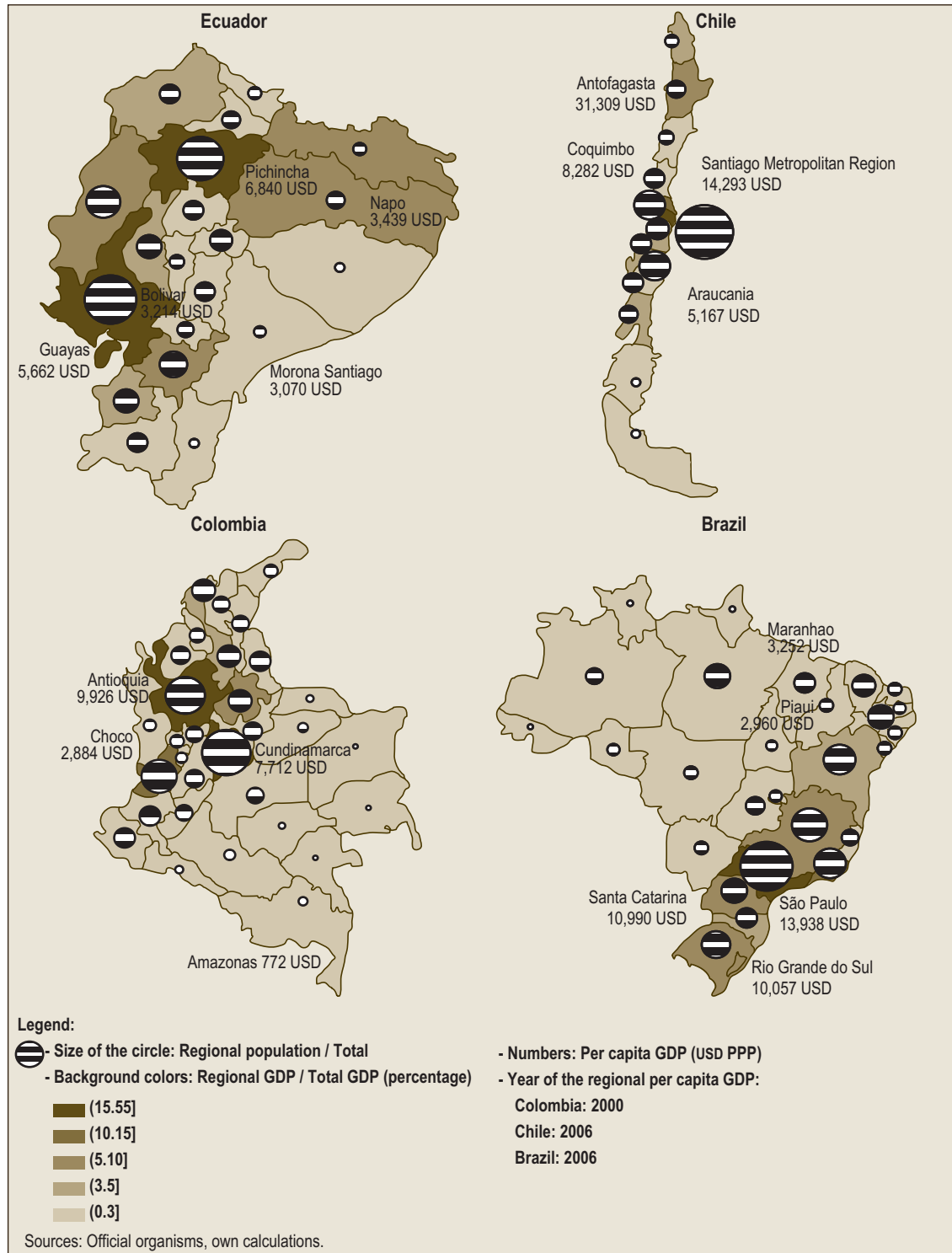
One issue that has attracted the attention of researchers working on regional development issues is whether these differences in per capita

<sup>2</sup> Using microdata (household surveys and censuses), Acemoglu and Dell (2009) demonstrate that there are significant disparities in income levels within countries on the American continent. The authors find that on average the differences between municipalities are double those between countries when the United States is excluded. A second result that illustrates both the role of human capital and institutional factors in regional disparities is that about half of the estimated differences in income between localities (and countries) can be explained by differences in human capital (education) among regions. The other half is due to residual factors in which institutions and local public policies (provision of public goods, etc.) could play an important role.

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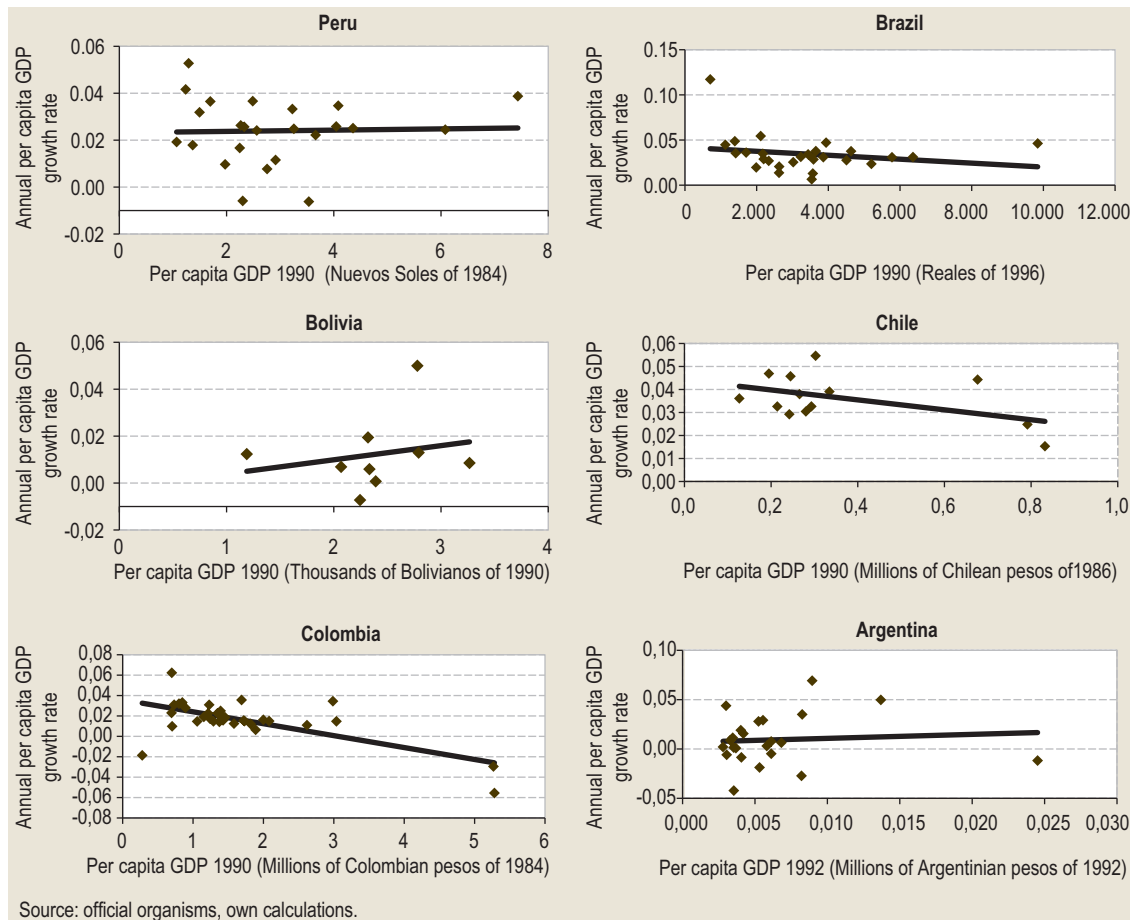
Continuation

**Figure 1.1**  
Regional disparities  
in the size of  
subnational economies  
in selected countries  
of Latin America



output levels have decreased or magnified over time. This debate does not yield definite results, and as we shall see later, the evidence varies by country as well as by the type of indicator used to measure the evolution of territorial inequality. One well-analyzed hypothesis investigates whether there has been a

convergence process in which regions that were initially the poorest have grown at a higher rate than richer areas. This process would be facilitated by the free flow of capital and other productive factors within countries together with the fact that regions share, in principle, the same institutional and political



**Figure 1.2**  
Regional per capita  
GDP convergence in  
constant prices for  
selected countries of  
Latin America  
(1990-2006)

framework. As will be seen ahead, this type of convergence is consistent with the neoclassical view on growth where decreasing capital returns insure that investment incentives will be greater in poorer rather than richer regions<sup>3</sup>. Figure 1.2 examines this hypothesis in a simple manner, graphing the relationship between regional growth rates (province, state and department) and per capita GDP in the first year

for six selected countries. The conclusion that emerges is that in some economies (Colombia, Brazil and Chile) there is evidence that a moderate process of (beta type) convergence has occurred while in others (Argentina, Bolivia, and Peru) this evidence is more difficult to find<sup>4,5</sup>. As will be analyzed in more detail in the third section, these results can be explained by the fact that poor regions lack factors

<sup>3</sup> This type of convergence analysis is referred to in the literature as "beta type convergence" (Barro and Sala-i-Martin, 1999). There are other alternative ways of evaluating the dynamics of regional income or per capita GDP disparities. Two other commonly used indicators are the Theil and Gini indices. It is important to underline that results, in terms of whether dispersion or inequality levels rise or fall, can change depending on the methodology or index used (see footnote 4). The difference in results is due to the fact that while the "beta convergence" method basically compares the average rate of growth among regions, the other indicators use much more information on regional per capita GDP distribution to evaluate the inequality dynamics.

<sup>4</sup> As mentioned in the previous footnote, results can change depending on which indicator is used to evaluate the dynamics of inequality. For example, while in Figure 1.2 the relationship between growth and initial income suggests evidence of a certain convergence process in the case of Brazil and Chile, the Theil and Gini indicator (which are not shown) suggest a rise in dispersion. On the other hand, according to Figure 1.2 in Peru there is no evidence of convergence while the Gini and Theil calculations suggest a reduction in inequality in per capita GDP among departments.

<sup>5</sup> Numerous works have researched the behavior of income and regional GDP in Latin America. For example, Blyde (2005) shows that in Mercosur countries, with the exception of Brazil, disparities have increased. Pineda (2005) shows a clear reduction in disparities within Andean nations. Baron and Meisel (2003) discover that disparities at the departmental level grew in the 1990-2000 period in Colombia, while in Chile, Anriquez and Fuentes (2001) uncover evidence of a strong convergence of income within regions of that nation between 1960 and 1992; similar evidence arises from an OECD study (2009). Finally, in the case of Mexico, Esquivel finds that the state GDP convergence process has slowed significantly in the last two decades, confirming that integration with the United States through the free trade agreement has not lead to a reduction in regional disparities.

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complementary to physical capital (such as human capital, public infrastructure, etc.) or, alternatively, by the presence of economies of scale and agglomeration that generate increasing returns in physical capital, which in turn lead to the concentration of production in advanced regions. In any case, this also suggests that subnational governments can play a significant role in the strengthening of these aspects related to the allocation of factors complementary to private productive investment (including the development of clusters to benefit economies of agglomeration) with the goal of making their territories more attractive to firms and industries.

### Welfare disparities at the subnational level

The debate on regional and local development has shifted focus towards a more general concern for quality of life issues. Traditional growth models offer a partial or perhaps intermediate indicator of development. For a better perspective on development, new measurements are required, that focus more generally on quality of life, instead of focusing only on employment and income. In this sense, it is widely recognized that well being is a multidimensional concept and that measuring it solely based on income does not successfully capture many of the relevant factors (BID, 2008). As a result, when evaluating regional disparities, it is important to consider other types of variables aside from per capita output.

Table 1.2 shows that for the last two census years of the countries considered, three indicators that can be used to measure quality of life associated with access to certain basic health and education services, namely life expectancy, illiteracy and infant mortality. As can be seen, at the national level all of the indicators experienced improvement.

Notwithstanding progress in the national average, it is also useful to evaluate disparities in the behavior of these indicators at the subnational level. Figure 1.3 (see p. 22) maps the territorial values (by province,

state or department) of these variables for six of the eight countries previously considered<sup>6</sup>. While the first impression that emerges is that of greater homogeneity in the spatial distribution of these indicators (in comparison with the indicators of economic concentration and GDP per capita of Figure 1.1, see p. 17), when specific comparisons are made important contrasts appear. For example, in the state of Alagoas in northeastern Brazil, almost a third of the population (30.4%) is illiterate according to the 2005 census, compared to only 5% of those in the southern state of Santa Catarina. In Maranhao, the infant mortality rate (85 for every 1000) is four times higher compared to that of São Paulo (20 for every 1,000). In the case of Bolivia, life expectancy in Potosi is almost 10 years shorter than those of the states of Santa Cruz or Tarija. Figure 1.3 (see p. 22) shows that these types of disparities are present in other countries as well.

The information described above seems to suggest a certain correlation between the disparities observed in income or regional per capita GDP and quality of life variables. Table 1.3 (see p. 23) shows the correlation coefficients calculated for each country, using the observations from the subnational entities<sup>7</sup>. Interestingly, almost all of the correlations are significant at 5% level and the sign suggests that states with larger incomes also tend to be the ones with better welfare indicators (less illiteracy and infant mortality as well as higher life expectancy.)

This evidence is worrying because if disparities observed in the level of per capita GDP and of economic activity across regions are reproduced in the indicators of welfare and access to basic services, then the place or region of birth may continue to determine future living standards. In that sense it may be, for example, that people born in poor regions will face difficulties in accessing better jobs or higher levels of education (access to university education), even when migrating to other states or more developed areas, for the simple fact of having been poorly educated in their original state<sup>8</sup>.

<sup>6</sup> Ecuador was not included due to the unavailability of regional data on welfare indicators. In the case of the Bolivarian Republic of Venezuela, information on infant mortality was not available. See details of the values for each variable by territorial entity and by country in the tables presented in the appendix.

<sup>7</sup> The last two census years of each country were used to calculate the correlations.

<sup>8</sup> The census data for various countries reflect this type of phenomenon. For example, it can be seen that in Argentina, Brazil and Colombia people born in poor provinces have, on average, less years of schooling than those from richer states (for example, six years in Santiago del Estero in Argentina versus ten years in the Autonomous City of Buenos Aires or eight years in the Province of Buenos Aires; Alagoas in Brazil with an average of four years of schooling versus seven in Sao Paulo; an average of four years of schooling in Guajira, Colombia, compared to seven in Bogota.)

**Table 1.2 National mean of welfare indicators according to census data in selected countries of Latin America**

Country	Variable	National mean	
		1991	2001
Argentina	<b>Censal years</b>		
	Life expectancy (years)	71.9	73.8
	Illiteracy rate (percentage)	3.9	2.8
	Child mortality rate (per thousand born alive)	24.7	16.3
Bolivia	<b>Censal years</b>	<b>1992</b>	<b>2001</b>
	Life expectancy (years)	59.3	61.4
	Illiteracy rate (percentage)	20.1	13.3
	Child mortality rate (per thousand born alive)	75.0	66.0
Brazil	<b>Censal years</b>	<b>1997</b>	<b>2005</b>
	Life expectancy (years)	69.5	72.2
	Illiteracy rate (percentage)	15.0	11.3
	Child mortality rate (per thousand born alive)	35.2	21.2
Chile	<b>Censal years</b>	<b>1992</b>	<b>2003</b>
	Life expectancy (years)	74.3	77.7
	Illiteracy rate (percentage)	6.0	4.2
	Child mortality rate (per thousand born alive)	14.1	8.0
Colombia	<b>Censal years</b>	<b>1991</b>	<b>2001</b>
	Life expectancy (years)	69.3	72.6
	Illiteracy rate (percentage)	13.5	7.6
	Child mortality rate (per thousand born alive)	32.5	24.4
Ecuador	<b>Censal years</b>	<b>1990</b>	<b>2001</b>
	Life expectancy (years)	68.9	73.8
	Illiteracy rate (percentage)	11.7	9.0
	Child mortality rate (per thousand born alive)	50.0	27.0
Peru	<b>Censal years</b>	<b>1993</b>	<b>2007</b>
	Life expectancy (years)	68.3	71.2
	Illiteracy rate (percentage)	12.8	7.1
	Child mortality rate (per thousand born alive)	45.0	32.0
Venezuela, BR	<b>Censal years</b>	<b>1990</b>	<b>2001</b>
	Life expectancy (years)	71.2	72.5
	Illiteracy rate (percentage)	9.1	6.4
	Child mortality rate (per thousand born alive)	25.8	17.6

Source: official organisms, own calculations.

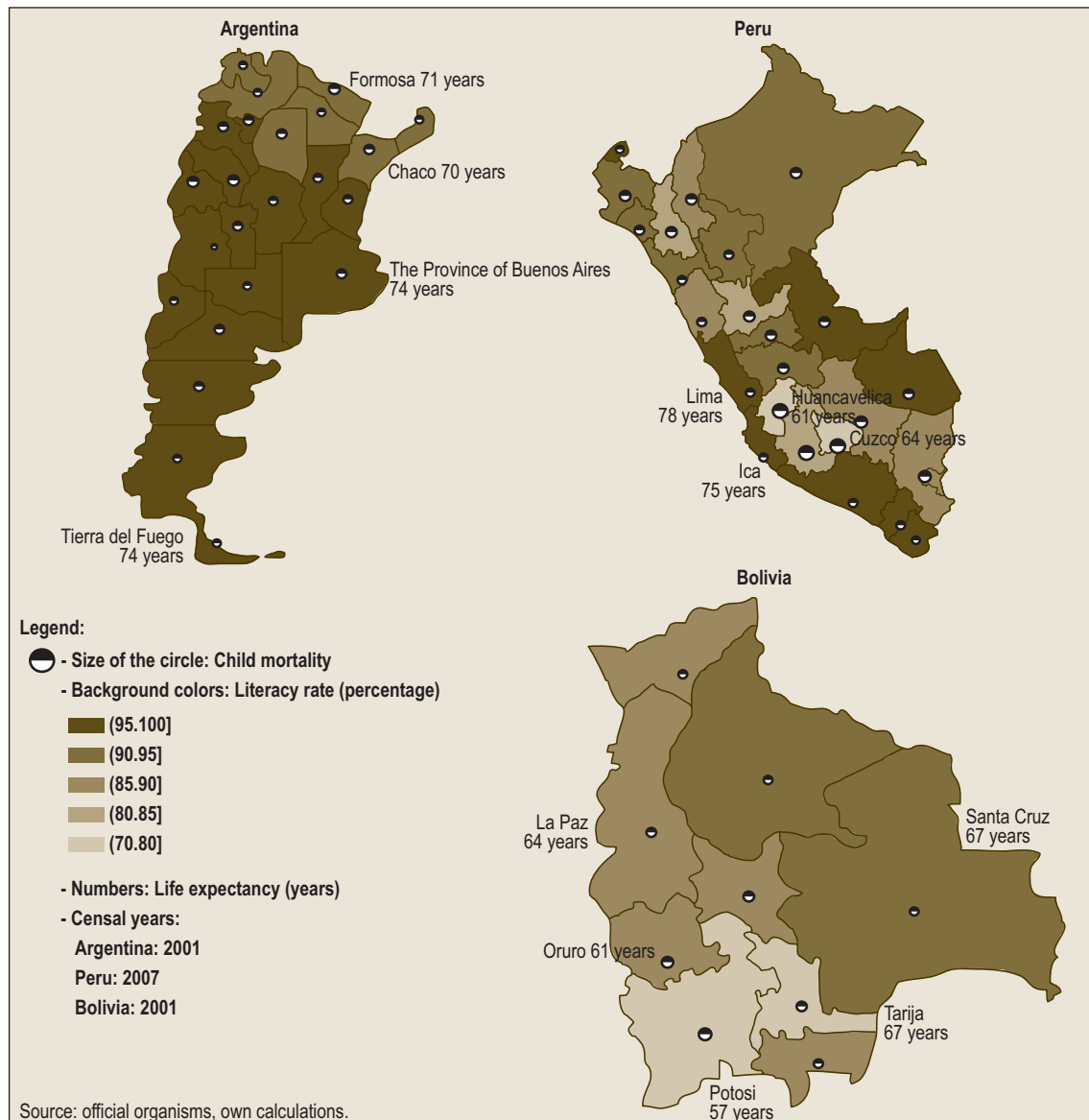
The previous evidence suggests that important disparities exist in quality of life and welfare levels between territorial entities. One aspect that could be interesting to evaluate is whether there is any indication that these differences tend to decline over time, suggesting some degree of convergence.

Figures 1.4, 1.5 and 1.6 (see p. 25, 26 and 27, respectively) shows the relationship between the relative change (growth with respect to the national average) in the welfare variables by region (the vertical axis) and the initial level (the horizontal axis)<sup>9</sup>. Results for illiteracy, infant mortality and

<sup>9</sup> The relative change indicator was calculated using the following indicator:  $dr(x_i) = (x_i^2 - x_i^1) / (\bar{x}^2 - \bar{x}^1)$  where  $x$  is any of the variables under examination  $\bar{x}$  represents the national average, the subscript  $i$  indicates the entity and the superscript indicates the year. The indicator, therefore, measures the change in the variable in each entity with respect to the change in the national average. If  $dr(x_i)$  is larger (less) than one, in this entity the variable experienced a greater (lesser) change than the nation as a whole. Given that all of the variables of development improved on a national level in all of the countries, a coefficient greater than 1 indicates that this variable improved in this state more than the rest of the country. The  $dr$  are measures of relative growth rates and reflect how much of the state's improvement can be attributed to a growth process that has a dynamic that is more specific to the region, independent of the aggregate behavior of the corresponding variable.

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**Figure 1.3**  
Spatial distribution  
of welfare indicators in  
selected countries  
of Latin America



Continues

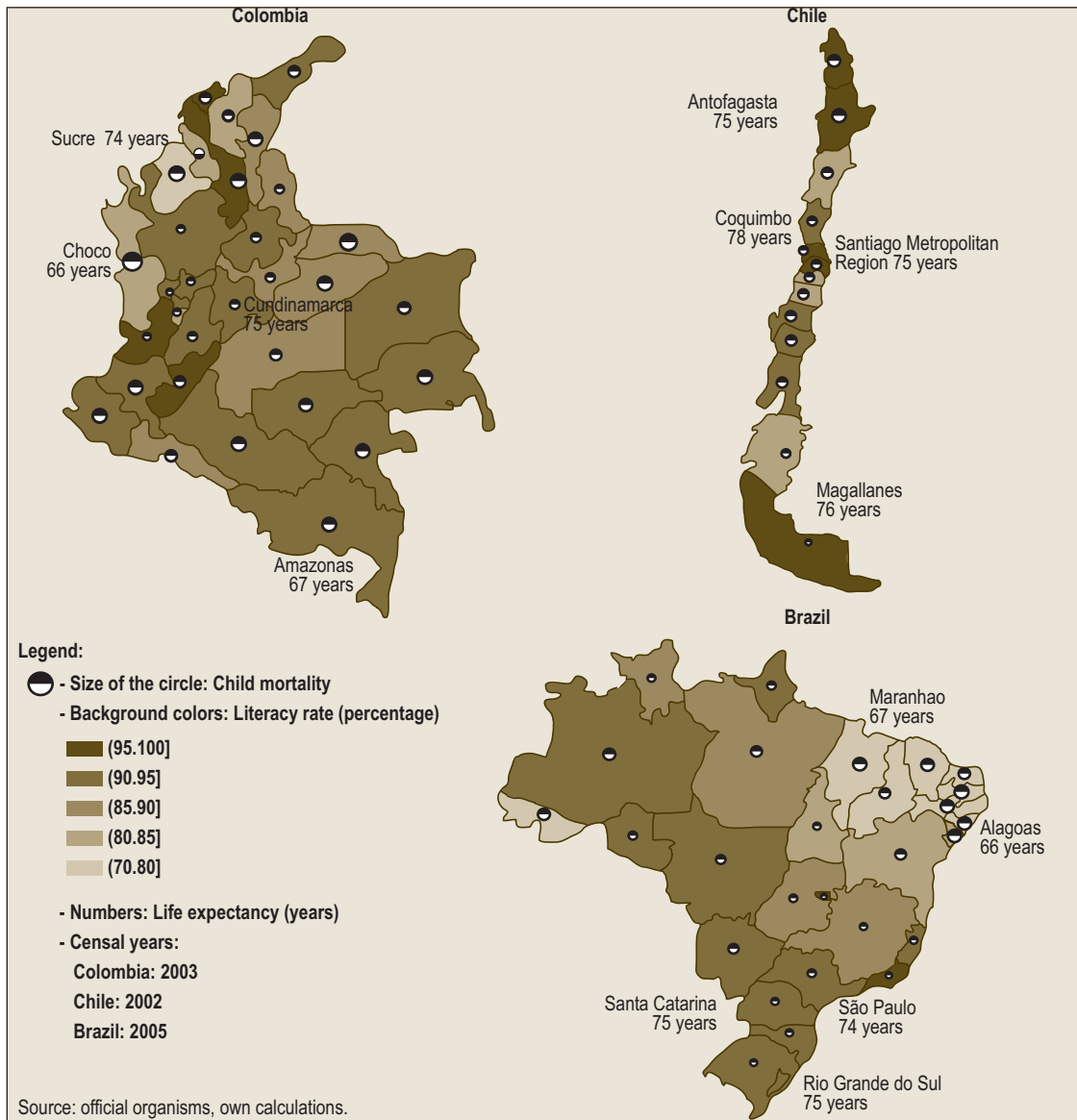
life expectancy rates are described. In all cases, a greater value of the relative change indicator signifies that the state or province has improved (illiteracy and infant mortality have declined and life expectancy has risen) with respect to the national average. As can be seen, in most cases, the slopes suggest that the poorest regions –those that exhibit the worst indicators of initial quality of life– are those that have improved the most with respect to the reduction of illiteracy and infant mortality rates and an increase in life expectancy.

The previous results, which suggest a process of convergence in basic welfare variables, might not necessarily transfer to other quality of life indicators.

In part, the improvements in illiteracy, infant mortality or even life expectancy reflect the broader use of very standardized technologies (for example, vaccination campaigns in the case of infant mortality), where the national government can play a decisive role in their promotion and application. This standardization does not require much adaptation to the local reality in order for said technologies to have the desired effect and achieve a satisfactory impact.

The case could be different for other non-basic services where the production technology requires greater use of local inputs to improve quality and access. For example, in the case of secondary education, quality improvement may require deci-

Continuation



**Figure 1.3**  
Spatial distribution  
of welfare indicators in  
selected countries  
of Latin America

**Table 1.3 Correlation between per capita GDP and development variables for countries of the sample**

Country	Illiteracy per capita GDP	Child mortality per capita GDP	Life expectancy per capita GDP
Argentina	-0.5488*	-0.4497*	0.1770
Bolivia	-0.7005*	-0.6161*	0.6425*
Brazil	-0.7058*	-0.5930*	0.7092*
Chile	-0.6267*	-0.3537	-0.2700
Colombia	-0.7238*	-0.1811	0.2263
Peru	-0.5617*	-0.6091*	0.6362*

\* Indicates that the correlation is significant at the 5% level.

Source: censal information, own calculations.

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sions to adapt a part of the contents and programs to the local reality, the training of school boards and professors, and the construction of appropriate buildings and establishments given the territory's geography and climate. In the case of poor regions and jurisdictions with management problems, subnational governments cannot carry out these activities efficiently. At the same time, national intervention is not necessarily an adequate substitute, given the need to adapt these policies and investments to local demands and characteristics. In these circumstances, it is to be expected that a convergence process will not appear in indicators of quality of public services and other welfare indicators that take into account access to services whose production technologies are more complex (less standardized) and require greater use of local inputs and management.

Figures 1.7 and 1.8 (see p. 27 and 28 respectively) present evidence consistent with this hypothesis. Figure 1.7 illustrates, for the case of the Bolivarian Republic of Venezuela, the evolution of two alternative indicators (coefficient of variation and range)<sup>10</sup> of the differences in state averages of standardized math tests that students take at the end of secondary school and which serve as a parameter for university admission<sup>11</sup>. Assuming that the result of this exam captures, in part, the quality of education provided in each subnational jurisdiction, it can be concluded that existing disparities do not tend to decline. On the contrary, the evolution of the variation coefficient shows an increase of more than 100% over almost 20 years (Figure 1.7, see p. 27). Nor is there evidence of "beta type convergence"; as Figure 1.8 (see p. 28) demonstrates, the states where average student grades were initially lower do not show any tendency to improve at higher rates than those that initially performed better<sup>12</sup>.

From the analysis of the evidence presented in this section, it is possible to conclude that the existence

of disparities in economic activity and in wealth generation within nations is a characteristic of Latin America. These differences have translated, in part, into disparities in quality of life and basic welfare (health and education) between localities. Despite the fact that some of these welfare disparities have exhibited a tendency to decline over time, this does not always occur when it is related to non-basic services (i.e. quality of secondary education) where the production technologies are more complex and require local inputs and management to improve access to and quality of services. This is true not only for services that directly affect families' quality of life but also for those associated with productive activity (infrastructure, innovation, etc.). Subnational governments can therefore perform an essential role in the promotion of local and regional development. The challenge, however, is to analyze which factors determine adequate local management and allow for the reduction of differentials in production, income and quality of life within countries. An initial effort in the identification of these factors and their interaction will be developed next. This discussion will serve to support the structure of the rest of this report.

### **The three main sources of regional and local development: human capital, economies of agglomeration and specialization, and institutions<sup>13</sup>**

A conceptual framework that attempts to capture in simple form the factors that explain disparities in subnational development should begin by indicating the possible differences in the allocation of factors between regions and localities, beginning with those that are fixed to the territory such as the presence of natural resources, climate and other geographic elements that determine access and connectivity with other regions and localities (for example, proximity to navigable rivers). While these factors are very relevant to the determination

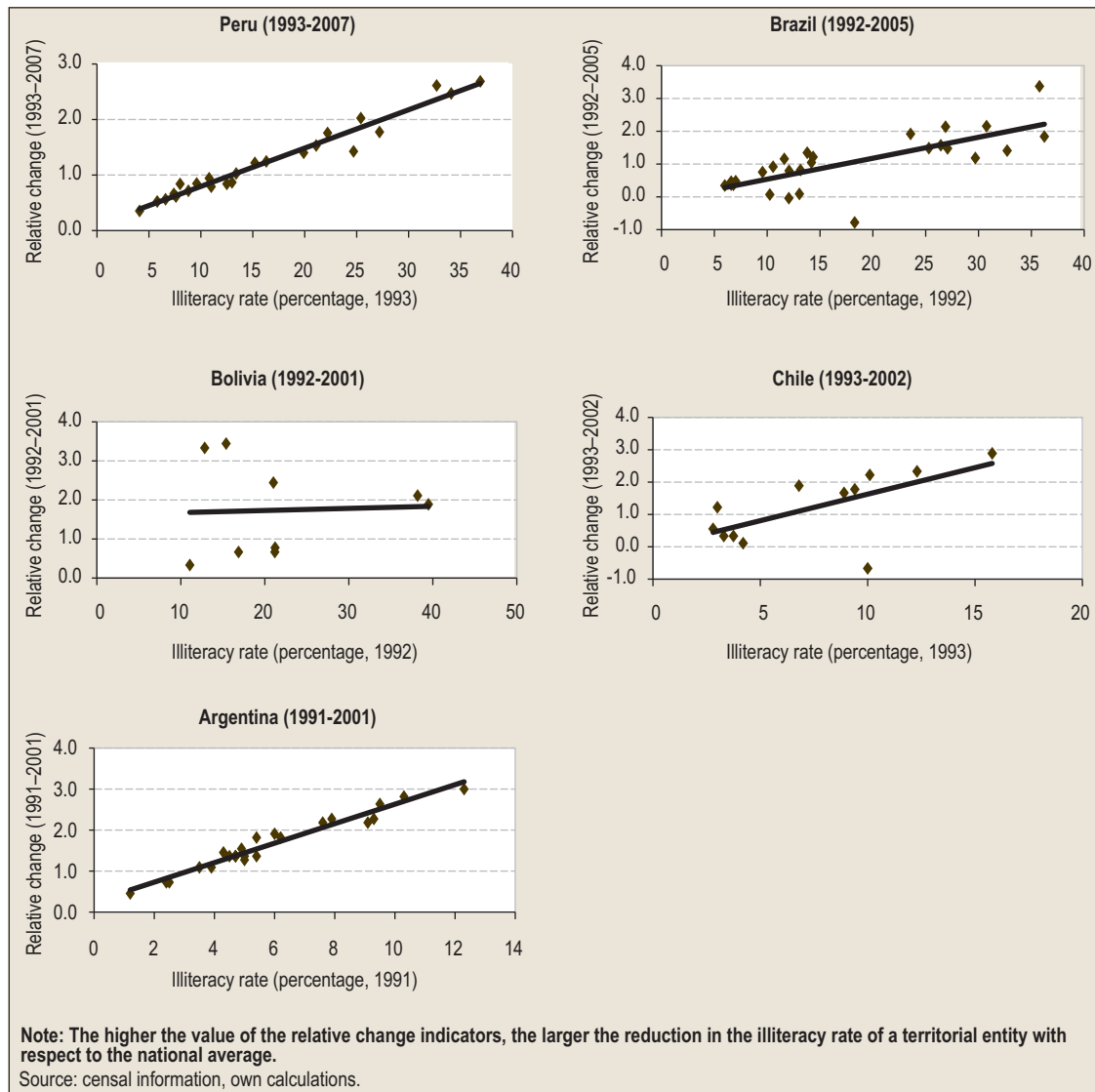
<sup>10</sup> The coefficient of variation is defined as the standard deviation divided by the average value, while the range is the difference between the highest and lowest value.

<sup>11</sup> Strictly speaking, the grade averages by state are calculated as the average for each state of the residuals between the actual value and the estimated value for each student from a regression where students' grades are related to variables such as age, sex and education of the student's family (mother and father) and a *dummy* that controls for public and private school. This way, the calculation of each territorial entity's average is not influenced by changes over time in the composition and the socioeconomic level of students that access the secondary level or by modifications in the combination between public and private school that students choose within each jurisdiction.

<sup>12</sup> Evidence similar to that described for BR Venezuela is also found in Argentina. In that sense, Galiani *et al.* (2008) show that secondary students from provinces with high indices of poverty and poor-quality public management perform badly on standardized tests.

<sup>13</sup> This section is partly based on Storper (2009).





**Figure 1.4**  
Regional convergence  
in indicators of quality  
of life in selected  
countries of Latin  
América

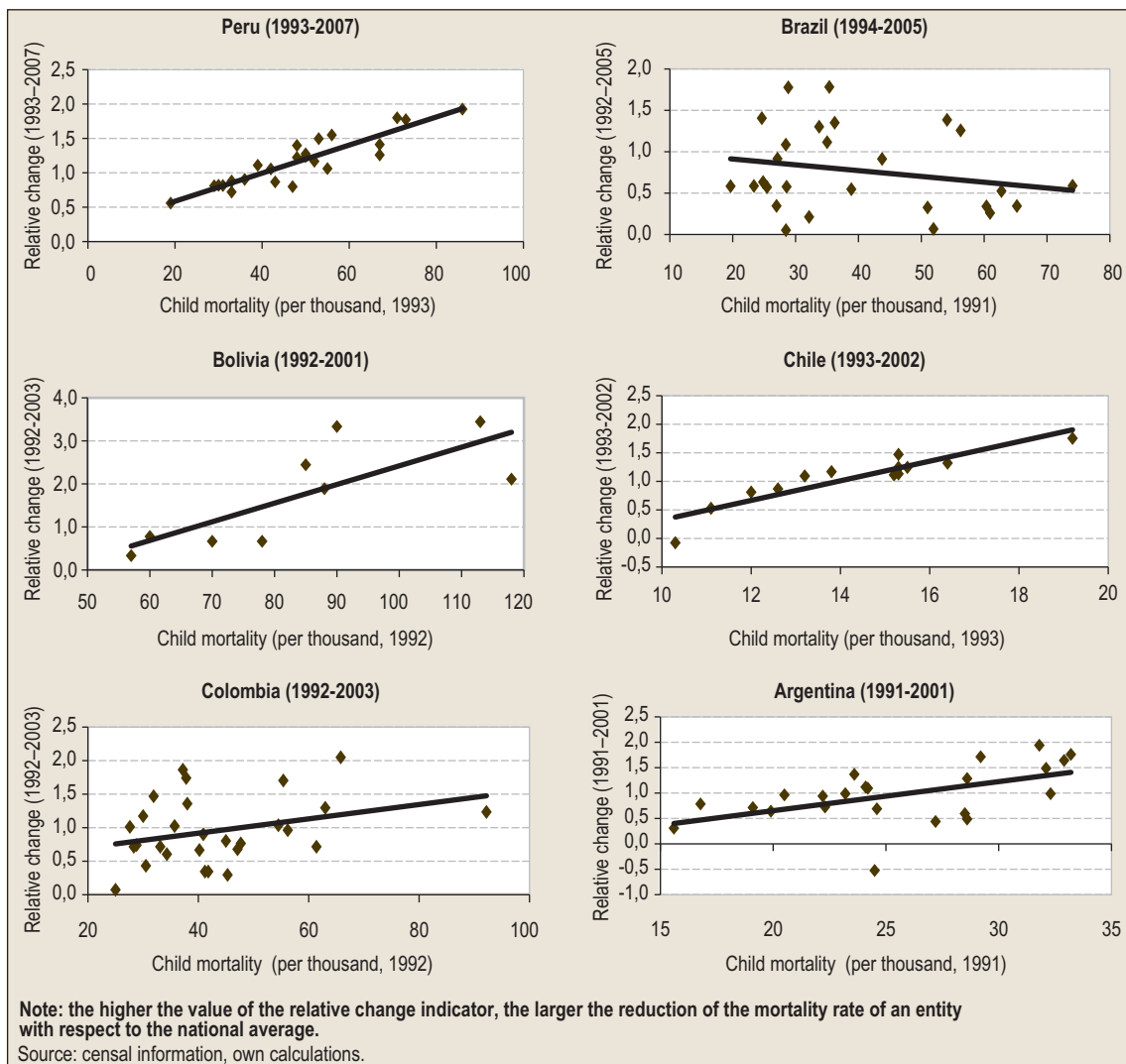
of wealth, they are not variables that can be accumulated via household savings or business investment decisions, or even stimulated by public policies. This reduces their importance in explaining regional disparities, especially when the emphasis is on policies that can be implemented by subnational levels of government to promote local development.

This leads to the consideration of factors that can be modified by decisions from the local communities themselves (endogenously accumulated) and that have a fundamental impact on long-term development. In this sense, the theory of economic growth has emphasized the role of the accumulation of knowledge in enabling other production factors (such as work and physical capital) to become more productive. A good part of this knowledge is incor-

porated in the labor force, which can have different levels of education and skill. From the standpoint of a locality or region, human capital can be accumulated through educational policies or training programs for the region's already existing workforce, or through migratory flows, which are usually more intense within nations and between localities than at the international level. The accumulation of human capital could be subject to gains through external effects, given that knowledge can be recombined and reused in many different ways; this tends to have an increasingly positive effect on productivity (Romer, 1990).

The application of the concept of human capital to regions, together with the possible existence of externalities, has led researchers, such as Lucas

**Figure 1.5**  
Regional convergence  
in indicators of child  
mortality in selected  
countries of Latin  
América

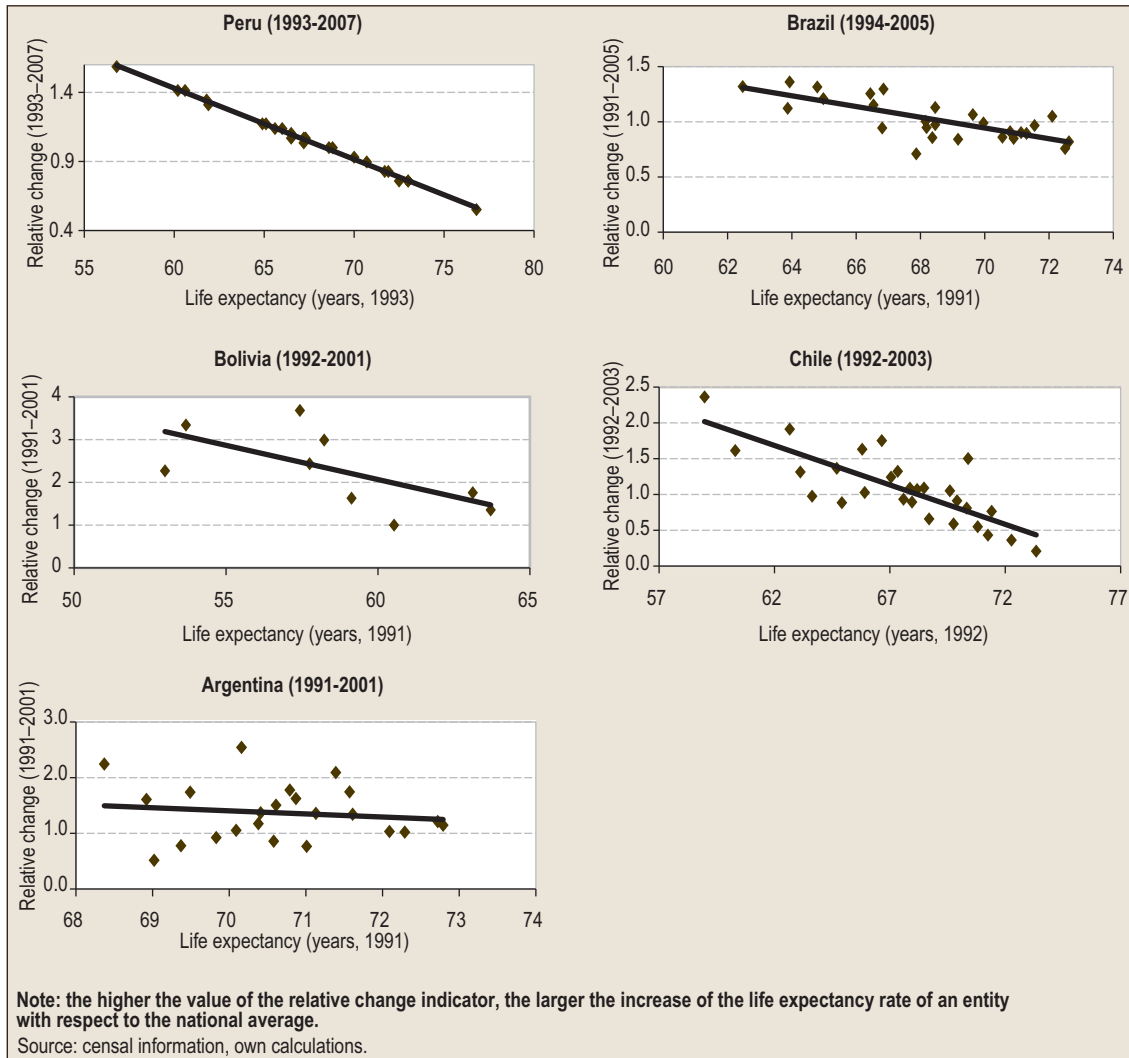


(1988), to declare that highly qualified people tend to concentrate to be close to other highly qualified people, since this increases their productivity. This process of “knowledge spillover” produced in urban contexts has given rise to the notion of “creative cities” and “amenities-based” cities (Florida, 2002: Glaeser *et al.*, 2001). What is interesting about this approach is that it deals with cases of local and regional economic development driven by human capital. In the framework of creative cities, specialization emerges due to the attraction (hence the migratory component in the determination of the level of human capital of a locality) of creative workers whose main characteristic is, in general, that of possessing a high level of education.

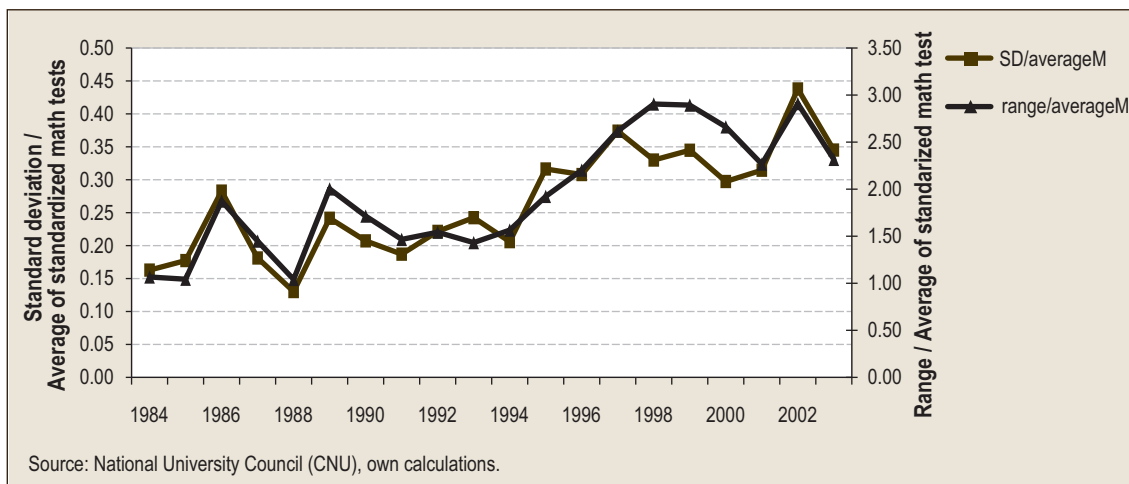
A second determinant of regional and local development is related to economies of agglomeration and

specialization that drive firm localization decisions. These localization decisions determine investment flows and the accumulation of physical capital in localities, which in turn expands production and regional income. Clearly, given the high mobility (ex ante, before being invested) of capital, these investments do not depend on savings or resources available in the region or locality per se, but rather on investment flows available to the whole country, which include funds from third countries.

To determine how firms make their localization and investment decisions, a first, very traditional (also known as neoclassical) approach is to assume diminishing returns on capital, which entails that in regions and localities with a low occurrence of already installed capital the return on new investments will be higher than in more developed



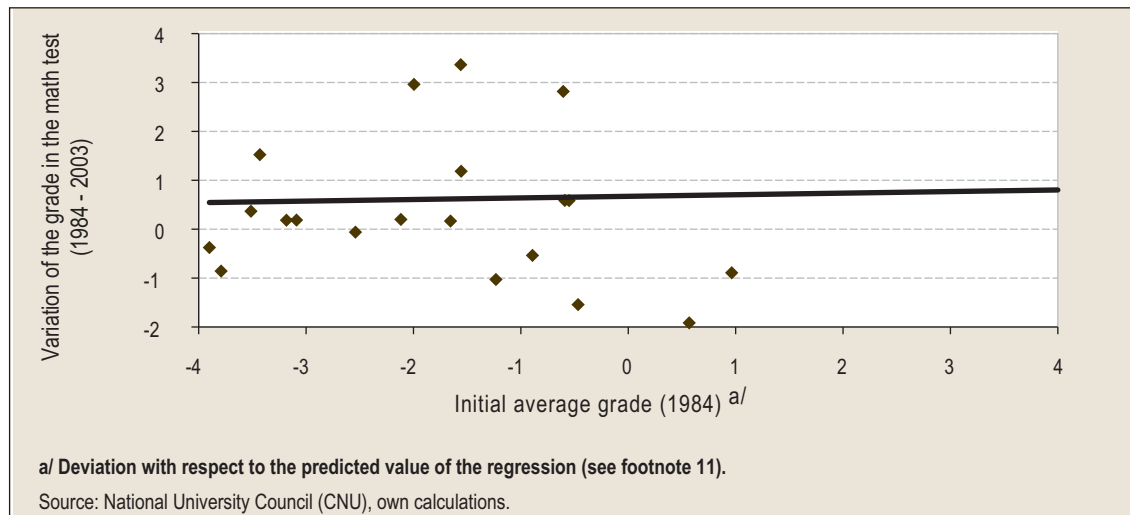
**Figure 1.6**  
 Regional convergence in indicators of life expectancy in selected countries of Latin América



**Figure 1.7**  
 Evolution of the disparities of the average grades by state in the math test (secondary education) in Venezuela, BR. (1984-2003)

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**Figure 1.8**  
Convergence of the  
quality of education by  
state in Venezuela, BR



regions; this is due to the simple fact that in the former there will be more opportunities to expand the production of certain products due to there being less competition and less demand coverage for certain products and services. As can be seen, this type of reasoning suggests that convergence should occur between regions and localities, with those most behind growing more rapidly (more firms will locate there and invest) compared with those that are initially more developed. As was noted earlier, this is not exactly reflected in the evidence of subnational regional development analyzed for a sample of Latin American countries. On the contrary, a certain tendency towards the concentration of production and income in some regions is observed.

To explain this pattern of spatial concentration of production and employment, as well as the apparent lack of convergence in subnational per capita income levels, one must abandon the neoclassical assumption of diminishing capital returns and assume that, within a certain range, there may be benefits from the agglomeration or concentration of production within the territory. This is precisely what the approach known as the “new economic geography” (Krugman, 1991) postulates. Under this approach, the decision of firms to geographically concentrate their production and locate themselves near other firms of the same or related sectors is based on the existence of economies of scale (internal to the firm and to the industry), on the minimization of transportation and trade costs in supplying various markets of different sizes, and

on localized technological externalities (Duranton and Puga, 2004; Rosenthal and Strange, 2001).

Because of the benefits of economies of scale and the minimization of transport costs, firms have an incentive to concentrate production in a few locations close to other firms and/or centers of consumption. If these agglomeration economies occur mainly within firms and industries, the concentration of economic activity leads to a regional productive specialization in a limited number of sectors. However, if there are also economies of agglomeration and intersectoral externalities, territorial concentration can give rise to a certain diversification in the patterns of production. In either case, spatial concentration of production is associated with increases in productivity and income in the territories where production is located.

It is clear then how this approach leads to the opposite conclusion of the neoclassical approach. As a result of economies of agglomeration, the regions that receive the most investment are those that already have a certain minimum number of established firms and a certain level of production and income. So, in addition to weakening the argument for convergence, this approach suggests that regional development as well as the localization and concentration of production may be subject to a coordination problem among firms (or of “multiple equilibria”) where all localities are equally appealing; the “only” requisite is that a large number of firms and investments jointly decide to locate within the same territory.

Finally, institutions are a third determinant to local economic development, not only affecting ex post productivity of existing factors and employees in the production of goods and services within a locality, but also the ex ante incentives that determine their accumulation (dynamics) and their localization (Rodrik *et al.*, 2004; cf. Glaeser *et al.*, 2004; Acemoglu *et al.*, 2004). “Institutions” can be thought of as a wide array of elements that address both the way in which the formal rules of public institutions affect economic activity (regulations, taxes, provision of public goods and infrastructure, etc.) as well as other, more informal mechanisms through which government agencies and private sector groups and individuals operate reciprocally to shape the economy’s rules and resources (North, 2005)<sup>14</sup>.

In the local and regional context, a key aspect of the formal institutional structure is the degree of decentralization and the size of the territorial units that are responsible for deciding public policies. This affects the cost structure of providing local public goods (educational services, infrastructure, etc.) and can lead to a trade-off between, on the one hand, higher profits due to greater proximity between management and beneficiaries (through better focus on local needs and greater control) and, on the other, higher costs due to not taking advantage of economies of scale and/or lack of capabilities.

Beyond the formal rules and policies that determine the degree of decentralization, there is evidence that the informal institutions that determine the degree of society’s participation in public decisions, the capacity for public-private cooperation as well as local trust and leadership, are crucial to capturing arising opportunities. Successful cities are characterized by having institutions that allow them to overcome problems such as rent-seeking activities by interest groups or unfair competition. Rodrik

(2007) shows that institutional arguments can help explain why some regions capture certain activities and why these regions achieve better transitions in their development processes<sup>15</sup>. In fact, there are examples of cases in which a potentially lucrative activity is not exploited due to the lack of an adequate institutional environment, weakening attitudes towards risk, entrepreneurial capacity, stakeholder networks and other “non-tradable” or “contextual” dimensions of collective action within a region (Mokyr, 1990; North, 2005).

However, it is appropriate to acknowledge that there is significant interaction and interdependence among the three factors previously identified as determinants of regional development (Storper, 2009). On the one hand, it is conceivable that the human capital of a region depends, in principle, on the population located in that region and its level of education. This, in turn, is affected by local educational policies (quantity and quality) of workforce training and knowledge and innovation promotion. Therefore, the institutions that define these policies affect human capital accumulation in that region; but at the same time, the agglomeration and specialization of production can affect the stock of human capital of a particular city-region. In that sense, the productive structure of a city shapes the incentives for the migration of labor and the accumulation of skills and human resources in the region. By concentrating in one city, firms with similar labor demands (within the same sector) can generate synergies and joint actions on issues related to workforce education and training in certain area, which, in turn, can attract labor from other regions and localities.

On the other hand, gains or economies of agglomeration are also affected by the level of human capital that the locality possesses. In fact, there is a two-way

<sup>14</sup> Acemoglu and Dell (2009) suggest that these institutional aspects may explain, to a considerable extent, the differences in income among regions (see note 2). On the other hand, Dell (2008) and Acemoglu (2008) provide more direct evidence on the different institutional factors and regional development of Latin American countries. Dell (2008) analyzes the case of labor systems (“la mita”) during the colonial period in Peru and Bolivia, while Acemoglu does the same so examining the local political system in Colombian regions during the nineteenth century.

<sup>15</sup> Silicon Valley, to the south of San Francisco, USA, is a classic example. At the end of the 1950s, when the semiconductor industry was consolidated in the US, there were various regions possessing factors necessary for its production. Since the industry was new, there were not yet any established production chains nor vertical and horizontal links among businesses, so there was a “window” of opportunity for the region that could be exploited. It has been argued that several agents of the University of Stanford were key to the development of the region’s semiconductor industrial park, and this “institutional entrepreneurship” was responsible for Silicon Valley taking advantage of the opportunity, over other regions such as Boston and Phoenix. On the other hand, the current de facto institutionalism in Silicon Valley reflects the process of specialization: the developed capital risk finance sector and the abundance of law firms specializing in laws of technology are examples of this.

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interaction between agglomeration and human capital, where on the one hand, according to the models of economic geography, "jobs come first and people later." Nevertheless, there is also the argument that the skills composition of the workforce drives the evolution of specialization of a metropolitan economy, i.e. "jobs come after people" (Muth, 1971). In fact, it is argued that city-regions are able to attract skilled workers due to certain kinds of amenities, and that the agglomeration of production and specialization follows (Glaeser, 2007, Florida, 2002).

One can also argue that the spatial agglomeration of productive activity is the result of institutions that, in the long term, choose to encourage certain activities over others. Thus, institutions may "capture" or refuse favorable opportunities, in the first instance by enabling the economy to adjust to changing external circumstances and in the second, by blocking its adaptation (Rodrik *et al.*, 2004).

Finally, organizational performance and the quality of local public policies will also depend on human capital and the process of agglomeration and product specialization. In particular, institutions (both formal and informal) can be affected by changes in human capital as well as by specialization in a particular locality. For example, if there is considerable immigration and immigrants are politically active, this could change the expressed preferences in policy decisions that affect the areas that influence regional development (for example, education, training, infrastructure, business rules, fiscal policy, among others). Likewise, if economic specialization changes, then firms that "leave" a region will have weaker voices, while firms associated with newer or stronger sectors will likely have more influence on the decisions that affect regional development (Cox, 1993, Moltoch, 1976).

The conceptual framework presented up to here offers a guide to identifying the fundamental factors that affect regional and local development as well as the existing degree of interdependence among them. In this framework, the interplay of economies of agglomeration, human capital flows and local institutional capacity is responsible for the growth path followed by the regions.

In accordance with this framework, understanding this phenomenon requires an in-depth analysis of

each of the elements to later use them as a basis for defining local actions, with the aim of strengthening the productivity of firms and industries and of improving households' quality of life. The remainder of this publication is organized precisely according to this logic, as will be seen in the second section.

#### **Main message and structure of the report**

As was mentioned in this chapter's introduction, the main message of this report is that regional and local governments can play a very active role in the design and implementation of economic development policies, within a framework of strong interaction and cooperation with the private productive sector and other representatives of the community.

This policy conclusion emerges from an analysis that describes how the forces of productive agglomeration and specialization, together with the accumulation of human capital and institutional factors, explain the differences in levels of economic activity and welfare between regions and localities. Human capital and institutions are particularly important when the production of goods and services (both private and public) depends on relatively complex production technologies that require the use of local public inputs (i.e. transportation infrastructure, mid-term planning; ability to coordinate initiatives with the private sector; etc.).

The message that emerges from this analysis is that the interaction of these forces is a complex process with a strong degree of interdependence. A particular production structure affects both the incentives for labor migration and the accumulation of skills and human resources in regions; additionally it shapes, to a certain extent, local institutions. This notwithstanding, subnational governments can improve – through a variety of interventions – the skills and productivity of the workforce in their territories; this, in turn, can affect the ability to create new institutions, improving the public decision making process and the degree of cooperation with the private sector. At the same time, there is also room for the local public sector to promote institutional improvements that encourage human capital accumulation and productivity improvements, fostering a climate of trust and public-private cooperation.

The conceptual framework of the determinants of local development presented above suggests that a successful strategy must be comprehensive, in other words, it must act on all determinants and, at the same time, be based on the territory. In this sense, local governments fulfill a key role in the design and management of such a strategy. This role is not necessarily limited to formal powers in matters of expenditures, taxes and regulations as determined by the decentralization regime, although of course this can influence some of the results. Local development is not achieved by maximizing discretionality to manage policies (something that is hard for subnational governments to attain) but rather by being able to agree on these policies and initiatives and oversee that they are implemented by the relevant actors.

Ultimately, what makes a town or region more or less competitive is the presence of “soft institutions,” made up of citizen assemblies, neighborhood and business associations, research and cultural centers, among others, that facilitate the interaction between different interest groups, enables the expression of demands and the release of information, and generates cooperation and trust building. At the local level, the possibility of generating this institutional fabric is favored by the physical proximity of the various actors. The existence of this institutionalism allows for a much more efficient process of public decision and one that is able to respond successfully to both the threats and opportunities generated by technological change and trends in the national and international economy.

This book develops these themes over the course of seven additional chapters divided in two parts. The first part (chapters 2-5) discusses in detail the analysis of local development determinants according to the previously discussed conceptual framework: economies of agglomeration and specialization (chapter 2), human capital and migration (chapter 3) and institutional aspects (chapters 4 and 5). The second part concentrates on studying the implications of this analysis for the design and implementation of interventions that promote local productive development (chapter 6) and household quality of life (chapters 7 and 8). A brief summary of the contents and main lessons of each of the chapters follows.

Chapter 2 analyzes the forces of agglomeration and productive specialization and how these determine the specific territorial concentration of economic activity, especially that of industry. The chapter will also analyze to what extent this tendency towards productive concentration can be related to processes of trade liberalization and integration. The chapter shows that trade barriers are an important determinant of localization and concentration of economic activities and, therefore, of spatial disparities. The reduction of trade barriers, however, can lead to both increases and reductions in regional disparities, depending on the interaction of the forces of agglomeration and dispersion and their impact on access to different regional markets. Moreover, the complementarities between economic activities and backwards and forwards linkages can lead to the persistence of patterns of economic concentration and slow the response of disparities to changes in trade barriers. Faced with the effects of liberalization, in small and peripheral regions there is a clear need to accompany trade barrier reduction policies with policies designed to improve conditions for economic activity. Infrastructure investment, for example, and the reduction of transportation costs (which for many countries in the region represent a greater barrier to trade than tariffs) can represent a major influence on patterns of concentration and agglomeration.

Chapter 3 analyzes the phenomenon of local human capital accumulation; considering in particular, job training policies and local education as well as internal migrations, which should be seen, in part, as responses to regional disparities. Migration is considered as motivated, to a large degree, by productive conditions and quality of life throughout the territory. To the extent that workers seek better working conditions, differences in productivity generate movements of people that consequently impact productivity and living conditions, not just of migrants but also of non-migrants. There are opportunities for interventions to improve aggregate productivity through a more efficient distribution of resources, specifically through the reduction of barriers to internal migrations at the aggregate level. Likewise, at the local level, there are various policies that governments can undertake to make their territories more attractive for human capital, improving in turn the local productive potential and fostering virtuous cycles of attraction and produc-

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tivity. These initiatives should be complemented with basic systems of urban planning and regulation allowing for the orderly growth of cities so as to accommodate migratory flows, offering adequate access to services, personal security and quality housing for the development of a dignified city life for both new and established residents.

Chapter 4 begins with an analysis of the institutional issues surrounding the decentralization regime, which, in part, determines the possibility of regions and localities to respond to the challenges inherent to the local development process. Decentralization allows local governments to play a greater role in the provision of certain services, set taxes for their financing and decide on a series of regulations (for example, urban land use, environmental questions, etc.) that affect both household welfare and the efficiency of productive activities in the territory and, subsequently, levels of income and socioeconomic development. The decentralization of services may result in efficiency gains to the extent that it entails closer proximity of those responsible for management with the communities most directly benefited. This allows for better focalization, greater transparency and increased control. However, these incentives towards improving local management- by authorities as well as local communities- are intensified when local services are financed, to some extent, with taxes and tariffs charged in the same localities and regions.

On the other hand, decentralization can imply productive efficiency losses when there is excessive fragmentation of the territory into very small political-administrative units relative to the optimal scale of the services that are decentralized, especially those subject to scale and network economies (for example, the collection and treatment of solid wastes, water and sanitation, and public transportation, among others). In these cases, in addition to the possibility of centralizing services within intermediate levels of government (for example, provinces or departments), one should not discard possibility of inter-municipal cooperation. These types of cooperative arrangements, which can be implemented through municipal associations or metropolitan authorities, are still in their early stages in Latin America, although the few examples that do exist (such as in the case of Spain in Europe) demonstrate that results can be positive.

Chapter 5 examines the institutional factors beyond the level of existing political and fiscal decentralization. The main argument is that decentralization- both institutional and fiscal- is not sufficient, although necessary, to ensure improvements in the provision of public goods and services. The direct election of regional and local authorities is, no doubt, an institutional reform aimed at improving accountability, enabling political representatives to better interpret citizen preferences. Encouraging fiscal reforms aimed at improving the capacity of localities to finance themselves through their own taxes is also an essential reform to provide the public goods and services demanded by the community. However, local management depends on additional factors that are difficult to achieve, such as a relationship of trust between politicians and society, an increase in the level of community collaboration, the existence of political leadership and the building of permanent managerial capacity by local government. The combination of these elements is the central axis that ensures local governance in the context of profound institutional and fiscal reforms such as those experienced by the region.

The existence of these “soft or informal institutions”, referring to the forms of interaction among economic actors, the networks they form, cultural factors, attitudes toward risk, managerial and entrepreneurial capacity, and local leadership, among others, are factors that affect local development, influencing firms’ localization decisions, the work force’s migratory decisions and the ability of local actors to adapt to changes in their surroundings.

The previous analysis of the determinants of local development and regional disparities allows us to address the study of policies, strategies and concrete interventions that have been carried out in different locations. In that sense, chapter 6 emphasizes strategies focused on productive development. It presents an example of the implementation of a strategy that adopts elements from the conceptual framework developed in previous chapters and that, as such, is clearly distinguished from approaches that are more traditional. The case studies analyzed are those of the cities of Rafaela (Argentina), Medellin (Colombia) and Jalisco (Mexico). The most important characteristic of these initiatives is that they are based on public policies centered on



the territory as a unit of action. In addition to this, this type of public policy requires a major investment in the generation of institutional capacities that facilitate participation and dialogue with the different economic and social players, in order to guarantee mid- and long-term implementation of the reached agreements. This implies the mobilization of local resources that share a long-term vision planning processes that are both locally owned and managed.

Notwithstanding the advantages of this type of approach in fostering local productive development, it is important to note that it is not without risks. The success of these initiatives depends on a complex combination of factors. The implemented strategy will highlight socioeconomic development depending not only on the prevailing local, national and international context, but also on the effectiveness of the previous analysis to adequately identify opportunities offered in the region. While the bottom up approach is not a panacea, the increase in successful cases demonstrates that it is capable of generating greater sustainability and adaptability to the changing economic conditions than the traditional approaches. Regardless of whether the regions are small or large, traditionally more urban or more rural, with strong or weak institutions, several cases show that local financial and institutional capacities can ensure sustainable development and create quality jobs. Adapting development strategies to local conditions, while promoting both formal and informal institutional capacity building, may be the best way of improving the economic conditions of regions and localities.

Chapter 7 discusses how well-planned interventions can help to enhance household quality of life by improving urban space. Several surveys, including those developed especially for this report, demonstrate that access to and the quality of certain goods and local services such as water, sanitation, public transport, and safety, among others, are major factors in determining individuals' satisfaction with their standard of living and welfare. This suggests that cities and towns play a significant role in determining household quality of life through the provision of these services. The chapter analyzes various successful interventions within these dimensions and highlights that these occurred within the context of comprehensive and holistic

planning, and were not limited to isolated and unrelated policies. In that sense, strategic planning processes are a useful tool to organize the provision of public goods and services, promoting comprehensive interventions focused on the territory. The common thread to these positive strategic planning experiences at the local level is a long-term agreement between local governments, the private sector and civil society, reflecting the lessons previously presented: good local management is the combination of different elements that include not only institutional capacities but also the participation of different economic players in the public sphere and a sense of belonging within the community.

The chapter argues that a particular area where strategic planning can offer positive results is that of transportation and public transit. In effect, the complexity of the problem requires an integrated approach that coordinates infrastructure, technological innovations, services planning, and the regulation of and competition between providers. Despite the fact that the problem of transportation is common to the majority of cities within the region, it is important to recognize that there are no universal solutions and all measures must be adapted to local conditions.

Finally, chapter 8 discusses in greater detail local interventions related to the problem of crime. In the last few years, according to surveys, crime has become one of the most important factors affecting household quality of life in Latin American cities. Increasingly, citizen insecurity is seen as a local problem that requires attention, organization and resources to be administered at a level much closer to the population's territory than before. There are good reasons for this change in approach. First, recognition of the multiple dimensions of the problem, from traditional elements of prevention and punishment to those linked to the family environment of children, work and school opportunities for youths and the rehabilitation of prisoners demonstrate that what is needed is an integral approach that effectively incorporates a wide gamut of information that may differ by localities. Second, it is to be expected that mechanisms to hold authorities accountable are more effective at the local level in relation to public safety, which, in addition to other related dimensions, such as street lighting or maintenance of public spaces, have generated positive

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results thanks to the processes of decentralization within the region. Finally, the need to innovate and adjust the political response to changes in local conditions requires that decision making on regular interventions or immediate actions occurs close to where the events happen.

Local regional governments will probably continue to play an increasingly more important role in the management of citizen security, and it is clear that local authorities can do a lot to improve safety conditions in their territories. Based on a detailed diagnosis of the security conditions as well as socioeconomic and demographic characteristics of the population, it is possible to implement comprehensive interventions that target this problem effectively. This is what the evidence on police interventions suggests in areas of high-risk, community support and neighborhood networks, and of support to families to reduce domestic violence, among others. It is likely that with the leadership of local governments, citizen security can achieve a higher priority level than that which the national political dynamic is able to attribute it.

As a final reflection of this report's introductory chapter, it can be concluded that local governments play a very important role in the articulation of policies and initiatives that improve productivity and the quality of life in subnational spaces. The reduction of income gaps and other variables that affect quality of life requires the production of both public and private goods and services whose technology demands the use of local inputs, such as human capital or institutions, which cannot be easily provided from the central government. The proximity between actors within the productive process and with families that benefit directly from the local public services enables local governments to obtain information and generate agreements and consensus that can make the public decision making process much more efficient and strengthen the response of the involved private sector. Throughout this book different tools and instruments are analyzed that can fuel local development initiatives based on these characteristics.

# Appendix

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Appendix A: Indicators of welfare, income and regional population concentration in selected countries of Latin America

Country	Region	Child mortality (per thousand)	Life expectancy (years)	Literacy rate (percentage)	Regional population		Regional GDP <sup>a/</sup>	Per capita GDP (USD PPP)
					Average 2004-2006	2006		
<b>Brazil</b>								
			Census 2005					
Acre		29.48	70.81	78.86	0.36	0.21		4,949.00
Alagoas		32.15	65.95	70.74	1.64	0.66		3,629.00
Amapa		22.86	69.75	92.77	0.32	0.21		6,004.00
Amazonas		24.46	71.03	93.30	1.75	1.59		8,313.00
Bahia		29.17	71.44	81.22	7.50	4.13		4,864.00
Ceara		27.54	69.58	77.41	4.40	1.92		3,961.00
Federal District		13.63	74.87	95.32	1.27	3.73		26,424.00
Espirito Santo		15.61	73.14	91.31	1.85	2.17		10,708.00
Goias		18.17	72.82	89.78	3.05	2.41		7,001.00
Maranhão		32.73	66.83	77.00	3.31	1.17		3,252.00
Mato Grosso		19.64	72.57	90.26	1.52	1.70		8,679.00
Mato Grosso do Sul		21.29	73.19	90.94	1.23	1.04		7,448.00
Minas Gerais		18.64	74.10	89.95	10.44	9.06		7,750.00
Para		24.48	71.39	87.29	3.79	1.84		4,386.00
Paraiba		33.97	68.26	74.79	1.95	0.80		3,870.00
Parana		14.55	73.51	92.92	5.57	5.98		9,247.00
Pernambuco		32.15	67.52	79.53	4.57	2.31		4,588.00
Piaui		28.74	68.17	72.63	1.63	0.52		2,960.00
Rio de Janeiro		16.01	72.44	95.16	8.35	11.54		12,436.00
Rio Grande do Norte		33.62	69.75	78.53	1.63	0.84		4,746.00
Rio Grande do Sul		15.16	74.50	94.79	5.89	6.80		10,057.00
Rondonia		21.13	70.63	90.02	0.84	0.58		5,897.00
Roraima		18.10	69.30	87.80	0.21	0.15		6,377.00
Santa Catarina		12.59	74.78	94.83	3.19	3.96		10,990.00
São Paulo		13.50	73.66	94.59	21.96	33.64		13,738.00
Sergipe		32.18	70.27	80.33	1.07	0.63		5,313.00
Tocantins		23.21	70.69	83.70	0.71	0.42		5,067.00

	Census 2003			Average 2004-2006			2006		
Amazonas	46.00	66.79	93.70	0.68	0.07	721.55			
Antioquia	22.50	71.20	94.20	13.21	15.60	9,263.69			
Arauca	55.60	67.47	87.80	0.54	0.56	7,422.31			
Atlántico	24.40	73.94	95.10	5.03	4.51	6,856.68			
Bogotá	n.a.	n.a.	n.a.	15.90	22.38	10,939.13			
Bolívar	42.90	73.47	97.50	4.37	3.91	6,755.77			
Boyacá	27.40	72.93	87.80	2.92	2.40	6,422.93			
Caldas	20.00	71.72	92.50	2.25	2.12	7,238.42			
Caquetá	49.20	66.86	92.70	0.98	0.65	5,474.48			
Casanare	39.00	67.85	89.00	0.69	1.68	18,018.25			
Cauca	52.50	69.22	90.70	2.95	1.74	4,648.93			
Cesar	41.50	71.16	90.00	2.10	1.92	7,016.07			
Chocó	82.20	65.50	83.20	1.06	0.39	2,884.30			
Córdoba	38.40	72.68	79.90	3.41	2.26	5,012.89			
Cundinamarca	20.50	75.36	93.90	5.30	5.26	7,711.78			
Guainía	46.00	66.79	93.70	0.04	0.03	6,040.41			
Guaviare	46.00	66.79	93.70	0.13	0.18	11,442.14			
Huila	33.60	71.71	95.50	2.35	1.77	5,715.23			
La Guajira	41.60	72.45	94.20	1.58	1.35	6,767.63			
Magdalena	34.80	72.63	83.60	2.67	1.65	4,866.59			
Meta	38.50	69.31	85.50	1.82	1.83	7,696.23			
Nariño	48.40	72.09	92.50	3.58	1.89	4,181.73			
Norte de Santander	27.30	70.88	88.40	2.89	1.74	4,686.35			
Putumayo	41.60	68.99	88.20	0.72	0.48	6,438.39			
Quindío	22.10	71.47	88.60	1.24	0.88	5,733.18			
Risaralda	23.70	70.68	93.70	2.09	1.76	6,696.98			
San Andrés y Providencia	n.a.	n.a.	n.a.	0.16	0.28	13,461.37			
Santander	22.80	73.08	92.80	4.55	6.07	10,379.81			
Sucre	29.40	74.03	83.00	1.79	0.81	3,505.09			
Tolima	27.00	70.92	91.70	3.17	2.45	6,087.52			
Valle del Cauca	19.40	71.72	95.50	9.67	11.19	9,070.65			
Vaupés	46.00	66.79	93.70	0.05	0.05	7,740.25			
Vichada	46.00	66.79	93.70	0.10	0.11	7,342.78			
<b>a/ As a percentage of the national GDP.</b>									
<b>b/ Gross value added.</b>									
<b>n.a.: not available</b>									
Source: official organisms. own calculations.									

Continues

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Continuation

Table A.1

Country	Region	Child mortality (per thousand)	Life expectancy (years)	Literacy rate (percentage)	Regional population <sup>a/</sup> Average 2004-2006	Regional GDP <sup>a/</sup> 2006	Per capita GDP (USD PPP) 2006
Peru	Amazonas	41.00	69.30	88.04	1.66	0.66	2,492.00
	Ancash	34.00	71.50	87.58	4.25	4.02	5,739.00
	Apurimac	53.00	65.70	78.32	1.79	0.49	1,724.00
	Arequipa	26.00	74.30	95.87	4.21	5.62	8,387.00
	Ayacucho	53.00	65.70	82.10	2.15	0.94	2,828.00
	Cajamarca	37.00	70.40	82.86	5.71	3.35	3,501.00
	Cusco	58.00	64.30	86.07	4.62	2.56	3,583.00
	Huancavelica	68.00	61.40	79.89	1.73	0.97	3,482.00
	Huanuco	43.00	68.50	83.38	3.12	1.11	2,163.00
	Ica	23.00	75.20	97.16	2.66	2.69	6,485.00
	Junin	38.00	70.20	92.42	4.75	3.35	4,468.00
	La Libertad	26.00	74.10	91.92	5.79	4.63	5,267.00
	Lambayeque	29.00	73.30	93.48	4.25	2.76	4,082.00
	Lima	16.00	78.40	97.90	29.99	50.62	10,655.00
	Loreto	44.00	68.30	94.54	3.49	2.12	3,709.00
	Madre de Dios	38.00	70.30	96.76	0.40	0.40	6,191.00
	Moquegua	25.00	74.70	95.26	0.62	1.67	16,255.00
	Pasco	40.00	69.70	91.71	1.05	1.21	7,242.00
	Piura	40.00	69.60	90.76	6.31	4.12	4,168.00
	Puno	57.00	64.70	87.76	4.85	2.31	2,941.00
San Martin	34.00	71.70	92.26	2.91	1.28	2,740.00	
Tacna	24.00	75.00	96.34	1.17	1.49	7,716.00	
Tumbes	31.00	72.70	96.59	0.80	0.50	3,809.00	
Ucayali	42.00	68.90	95.20	1.74	1.15	4,160.00	
		Census 2001			Average 2004-2006		2006
Bolivia	Chuquisaca	71.00	62.89	73.03	6.91	4.90	2,377.00
	Cochabamba	72.00	62.57	85.47	18.47	16.95	1,978.00
	El Beni	60.00	65.20	91.12	4.35	3.61	2,530.00
	La Paz	64.00	62.64	88.61	28.14	23.68	2,319.00
	Oruro	82.00	60.73	89.39	4.44	4.96	3,124.00
	Pando	63.00	64.54	89.63	0.79	0.94	3,313.00
	Potosi	99.00	57.78	71.58	8.61	5.04	1,617.00
	Santa Cruz	54.00	66.57	92.74	23.29	30.12	3,550.00
	Tanja	53.00	66.83	85.90	5.01	9.80	5,896.00

	Census 2001			Average 2005-2007		2000
Buenos Aires	15.00	73.99	98.30	41.26	43.15	10,059.00
Catamarca	15.50	73.38	96.80	1.02	0.84	8,439.00
Chaco	24.00	69.97	91.00	2.89	0.80	4,013.00
Chubut	13.10	72.16	96.50	1.25	2.58	15,915.00
City of Buenos Aires	9.00	75.00	98.00	n.d.	n.d.	36,473.00
Cordoba	16.20	74.90	97.70	9.16	8.47	9,939.00
Corrientes	23.50	72.03	92.80	2.76	1.58	4,440.00
Entre Rios	14.90	74.08	96.60	3.43	2.84	6,951.00
Formosa	28.90	70.80	93.20	1.45	0.62	2,736.00
Jujuy	18.40	72.50	94.60	1.83	0.98	3,914.00
La Pampa	12.40	74.78	97.00	0.90	0.83	12,345.00
La Rioja	23.50	72.54	97.30	0.89	0.54	10,336.00
Mendoza	12.10	74.95	96.40	4.71	6.09	6,711.00
Misiones	19.60	72.69	93.30	2.88	1.58	6,521.00
Neuquen	13.00	75.24	96.10	1.46	5.20	17,729.00
Rio Negro	14.70	73.86	95.80	1.66	1.84	10,221.00
Salta	19.10	71.88	94.80	3.24	2.03	5,084.00
San Juan	18.80	73.63	96.80	1.86	1.49	6,489.00
San Luis	17.80	74.06	96.80	1.14	0.99	16,596.00
Santa Cruz	14.50	72.93	98.40	0.60	2.52	20,712.00
Santa Fe	14.30	74.17	97.30	8.96	10.70	10,448.00
Santiago del Estero	14.80	71.53	93.40	2.36	1.03	2,518.00
Tierra del Fuego	10.10	74.84	99.30	0.32	1.00	18,490.00
Tucuman	24.50	72.42	96.10	3.99	2.30	5,001.00
<b>a/ As a percentage of the national GDP.</b>						
<b>b/ Gross value added.</b>						
<b>n.a.: not available</b>						
Source: official organisms. own calculations.						

Continues

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Continuation

Table A.1

Country	Region	Child mortality (per thousand)	Life expectancy (years)	Literacy rate (percentage)	Regional population <sup>a/</sup>		Per capita GDP (USD PPP)
					Average 2004-2006	Regional GDP <sup>a/</sup>	
			Census 2002				2006
	Aisen	7.60	76.88	89.50	0.63	0.58	11,580.00
	Antofagasta	9.30	75.33	98.10	3.45	8.63	31,309.00
	Araucania	9.90	76.19	92.60	5.92	2.38	5,167.00
	Atacama	9.30	77.51	89.80	1.72	2.17	16,404.00
	Bio-Bio	8.90	76.19	94.90	12.54	8.80	8,875.00
	Coquimbo	9.40	78.43	91.90	4.25	2.82	8,282.00
	O'Higgins	8.00	76.70	89.40	5.35	4.93	11,327.00
	Los Lagos	8.70	75.89	92.20	4.99	4.44	11,156.00
	Magallanes Antartica Chilena	10.70	76.00	96.60	0.99	1.90	24,544.00
	Maule	7.50	76.15	86.80	6.16	4.53	9,385.00
	RMS	7.70	78.00	97.00	41.63	46.28	14,293.00
	Tarapaca	8.30	77.14	97.70	1.78	3.89	27,094.00
	Valparaiso	7.40	77.22	95.90	10.59	8.64	10,474.00
			Census 2001		Average 2005-2007		2007
	Capital District	n.a.	74.38	97.70	8.96	10.55	15,043.56
	Miranda	n.a.	73.84	96.70	10.41	12.64	14,369.37
	Monagas	n.a.	70.76	93.20	3.09	3.90	17,281.83
	Aragua	n.a.	73.36	96.50	6.08	5.97	11,073.75
	Falcon	n.a.	71.64	92.70	3.27	3.77	13,876.46
	Anzoategui	n.a.	71.90	94.60	5.38	6.18	13,845.95
	Carabobo	n.a.	72.01	96.20	8.11	9.47	12,122.60
	Nueva Esparta	n.a.	73.61	95.30	1.59	1.30	9,985.34
	Bolivar	n.a.	72.16	95.30	5.56	5.31	9,406.49
	Zulia	n.a.	71.08	91.80	13.14	14.38	11,526.50
	Tachira	n.a.	69.98	93.10	4.27	4.08	10,398.96
	Lara	n.a.	72.60	91.90	6.53	5.12	8,999.70
	Merida	n.a.	71.12	90.70	3.06	2.30	8,569.09
	Guarico	n.a.	71.23	89.80	2.70	1.99	8,373.51

Venezuela. BR



Barinas	n.a.	68.71	89.20	2.73	2.09	9,543.69
Cojedes	n.a.	68.49	91.50	1.09	0.88	9,338.04
Sucre	n.a.	69.90	89.40	3.34	2.33	8,313.63
Trujillo	n.a.	69.73	88.10	2.58	1.78	8,736.00
Yaracuy	n.a.	69.87	90.90	2.16	1.71	8,632.94
Portuguesa	n.a.	70.44	88.80	3.17	2.19	7,653.37
Apure	n.a.	68.73	87.10	1.71	1.38	8,608.31
Delta Amacuro	n.a.	64.86	93.00	0.55	0.35	7,780.77
Amazonas	n.a.	65.70	93.40	0.51	0.33	6,899.92
<b>Census 2001</b>						
Azuay	n.a.	n.a.	n.a.	5.00	5.05	6,737.61
Bolivar	n.a.	n.a.	n.a.	1.35	0.66	3,214.34
Cañar	n.a.	n.a.	n.a.	1.68	1.29	5,130.52
Carchi	n.a.	n.a.	n.a.	1.23	0.85	4,583.38
Cotopaxi	n.a.	n.a.	n.a.	2.94	2.36	5,293.34
Chimborazo	n.a.	n.a.	n.a.	3.29	1.72	3,487.03
El Oro	n.a.	n.a.	n.a.	4.47	3.58	5,337.05
Esmeralda	n.a.	n.a.	n.a.	3.23	1.12	6,200.29
Guayas	n.a.	n.a.	n.a.	26.88	22.79	5,662.24
Imbabura	n.a.	n.a.	n.a.	2.92	1.93	4,404.20
Loja	n.a.	n.a.	n.a.	3.24	1.97	4,016.15
Los Rios	n.a.	n.a.	n.a.	5.47	3.74	4,466.34
Manabi	n.a.	n.a.	n.a.	9.75	6.54	4,472.38
Morona Santiago	n.a.	n.a.	n.a.	0.97	0.45	3,070.13
Napo	n.a.	n.a.	n.a.	0.70	0.36	3,439.12
Pastaza	n.a.	n.a.	n.a.	0.55	2.21	24,326.35
Pichincha	n.a.	n.a.	n.a.	19.86	20.37	6,839.66
Tungurahua	n.a.	n.a.	n.a.	3.69	2.93	5,234.20
Zamora Chinchipe	n.a.	n.a.	n.a.	0.64	0.41	4,316.15
Galapagos	n.a.	n.a.	n.a.	0.17	0.51	20,533.10
Sucumbios	n.a.	n.a.	n.a.	1.18	8.28	46,680.48
Orellana	n.a.	n.a.	n.a.	0.80	10.86	94,311.69
<b>Ecuador</b>						
a/ As a percentage of the national GDP.						
b/ Gross value added.						
n.a.: not available						
Source: official organisms. own calculations.						



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