

2. THE DIMENSIONS OF LOCAL ECONOMIC DEVELOPMENT

Although it might seem paradoxical, the phase of globalisation, world integration and the removal of economic borders which we are witnessing today has become a suitable context for local development projects to be promoted and strengthened. According to Enríquez,¹¹ the recuperation of local identity is acting as a social defence mechanism which is coming into play in different regions. According to this author, it is therefore no coincidence that certain local development initiatives are trying to revive interest in development strategies that were practically abandoned in the 1980s.

It should be clear that the concept of development is being re-structured. After the Second World War and the fragmentation of the political map, there was a recognized need to reconstruct or repair the 'world order' that had been broken. Two models of reconstruction emerged, the Western or capitalist, and the Eastern or socialist. However, these two systems did not cover all the countries in the world; many nations remained outside this classification and they made up a marginal sector in the world system which was called the Third World.¹²

Unlike the other two systems, in the Third World there was never a will to reconstruct or repair a particular 'order'. Instead, the word 'development' was used, as in '(...) *one part of the world should be reconstructed and the other should be developed*'¹³, and at that time it meant taking a route that would lead to an industrialised society.

This situation led to a degree of confrontation between concepts that were purely economic on one side and concepts that were strictly social on the other, and there was debate about which of the two represented genuine development.

11 Enríquez, Alberto, 'El Desarrollo Regional/Local', in *Hacia una delimitación conceptual del desarrollo regional / local*, FUNDE, El Salvador.

12 Arocena, José, *El desarrollo local: un desafío contemporáneo*, CLAEH, UCUDAL, Nueva Sociedad, 1st edition, Venezuela, 1995.

13 Arocena, José, *op. cit.*

According to the definitions on the economists' side, a country could be considered developed to the extent that it achieved economic growth, and no thought was given to the social costs of that growth. The second vision was intrinsically social, it came about in opposition to the first, and the main idea was that all economic growth represents a threat to social conditions.

In recent years, the attempt to harmonise these two ideas has in recent years come to the understanding that it would be unrealistic and utopian to consider development based only on social aspects, and the same applies to development considered exclusively from the economic point of view. Although efficacy and efficiency in the economic ambit increase the social product, they do not necessarily raise the level of satisfaction of collective basic needs.¹⁴ Gago's understanding is that '*Development is a process of global structural change (economic, political, social, cultural and environmental) which tends to improve the quality of life of all members of society in that they attain more complete satisfaction of their collective basic necessities.*'¹⁵ Furthermore, he says that all policies for promoting development have to take into account the socio-regional realities where they are applied. These realities condition the decisions to be taken and also the strategies and tactics to be used.

When we talk about local development we understand it to be a process in which a local society, maintaining its own identity and its land, generates and strengthens its cultural, social and economic dynamics, and facilitates the inter-connection of each of these sub-systems thus achieving greater intervention and control between them.¹⁶ To carry this process forward, it is vital that the agents, sectors and forces which interact within the limits of a certain region should participate. Those agents should have a common project which combines generating economic growth, equity, social and cultural change, ecological sustainability, the gender focus, quality, and spatial and territorial equilibrium, so as to raise the quality of life and welfare of the population.¹⁷

The term 'local economic development (LED) strategies' is applied to a variety of instruments which, unlike the tradition of centralist development policies, are aimed at strengthening the comparative advantages that there are in certain places. To do this, the strategies are built around what are known as 'endog-

14 Pérez, Fernando, *Los efectos del proceso de integración en la frontera Uruguay-Brasil. Oportunidades y limitantes para los departamentos fronterizos*, Regional Development Programme (RDP), Red de Organizaciones Comunitarias y Sociales del Mercosur, unpublished.

15 Gago, Alberto, *Planificación y Desarrollo Regional. Curso Latinoamericano de Desertificación*, Mza., November, 1993.

16 Podestá, Enrique, *Estudio de la gestión ambiental en la microregión del Rosario*, Local Development Programme of the Latin American Centre of Human Economics (CLAEH), *Local Development in Latin America* series, No. 4, Montevideo, 1999.

17 Enríquez, Alberto, *op. cit.*

enous' factors, that is to say the local economic network, the human resources of the place and the local institutional framework. The basic philosophy of these strategies is that economic activity depends on the socio-economic condition of a place rather than the other way around.

We can note that the word 'policies' has been replaced by 'strategies', and this is not just a whim. It is connected to revising those conceptions which historically identified public policies and in which the prerogative and even the monopoly of action resided in the State apparatus, which was usually the centre. On the other hand, in the new focus, public State action is linked to the initiative, resources and capacities of social and private actors, and thus the space of what used to be considered 'public' is being reconfigured. Hence the idea of 'public' comes to be understood in its most essential and original meaning, which has to do with matters of common interest, and implies that control in the 'public' sphere should involve all actors, each one making his or her own individual contribution.

In a review of the theoretical background of the local economic development focus, Vázquez Barquero¹⁸ refers to development carried out from the economy by the school of endogenous growth. This has emerged in opposition to neo-classical theories of economic growth, whose hypothesis of diminishing returns led to a recognition that, in the last analysis, the motor of economic growth was technological progress because the accumulation of capital would in the long run tend to weaken.¹⁹

In contrast to this, the theories of endogenous growth have gone a long way towards reconciling economic theory with the empirical evidence. In these theories, technological progress is taken as an endogenous variable in the model while at the same time the market power of enterprises is incorporated into processes of innovation and economic growth.

Some of the conclusions that this perspective entails have been incorporated into relatively more recent theories of endogenous development. The growth perspective and the perspective of endogenous development share the vision that productive systems consist of a group of material and non-material factors which allow local and regional economies to adopt differentiated paths towards growth in function of clear potential for development, and that therefore there is a space for regional and industrial policies. The rates of economic growth in dif-

18 Vázquez Barquero, Antonio, '¿Crecimiento endógeno o desarrollo endógeno?', *Cuadernos del CLAEH* Nos. 78-79, 2nd series, year 22, Montevideo, 1997, 1-2.

19 'The supposition of diminishing returns on capital means that in the long run the rate of growth of productivity tends to zero because investment is directed to activities that are less and less productive, and therefore the investor becomes discouraged. The neo-classical model will lead, therefore, to a stationary situation in which the variables move to a rate that is near to zero.' Vázquez Barquero, Antonio, *ibidem*.

ferent areas and therefore differences in the levels of income and production, are due to differences not only in the stocks of capital-work but also in educational levels, in the capacity to generate R&D, and definitively in the economic progress generated by public enterprises and administrations.

Consequently, economic development would be a process of growth and structural change in which the forms of organisation, the system of relations and the dynamic of learning play strategically important roles. Economic development is also characterised by its territorial dimension, not only because of the spatial effect of the organisational and technological processes involved, but also because each place or region is the result of a history in which the institutional, economic and organisational system was set up.

What is more, from the endogenous development perspective, social development is integrated into the economic dimension. The distribution of income and wealth on the one hand and economic growth on the other are not two processes which come about and are shaped in a parallel way. They acquire a common dynamic due to the fact that public and private actors take investment decisions oriented to resolving the problems that local society and companies are faced with. Therefore, the local area is a space in which the initiatives of the different sectors of organised society become real.

However, this evolution cannot hide the fact that LED focuses lack a clearly defined theoretical model. They are usually inspired in experience itself and this makes it difficult for a precise and generally-accepted definition to emerge. However, a series of efforts have been made to identify the distinctive aspects or components of this focus.

For example, White and Gasser²⁰ establish four features that characterize LED strategies: (a) they require participation and social dialogue; (b) they are based on territory; (c) they entail the mobilization of local resources and competitive advantages; (d) and they are locally owned and managed.

The Local Economic Development Programme of the ILO uses a definition which includes these four characteristics. LED is seen as “*a participatory development process that encourages partnership arrangements between the main private and public stakeholders of a defined territory, enabling the joint design and implementation of a common development strategy, by making use of the local resources and competitive advantage in a global context, with the final objective of creating decent jobs and stimulating economic activity*”.

²⁰ White, S.; Gasser, M., *Local economic development: a tool for supporting locally owned and managed development processes that foster the global promotion of decent work*, Job Creation and Enterprise Development Programme of the ILO, Geneva, 2001.

Another author who is frequently taken as an authority in the LED focus is Michael Porter, whose key work in this field is *The Competitive Advantage of Nations*.²¹ In this book, he tackles the question of why there are concentrations of successful economic activity in some districts that are relatively small and not in others. He observes that firms do not come into being independently but that their development is conditional upon a national environment which supports and cultivates competitiveness.

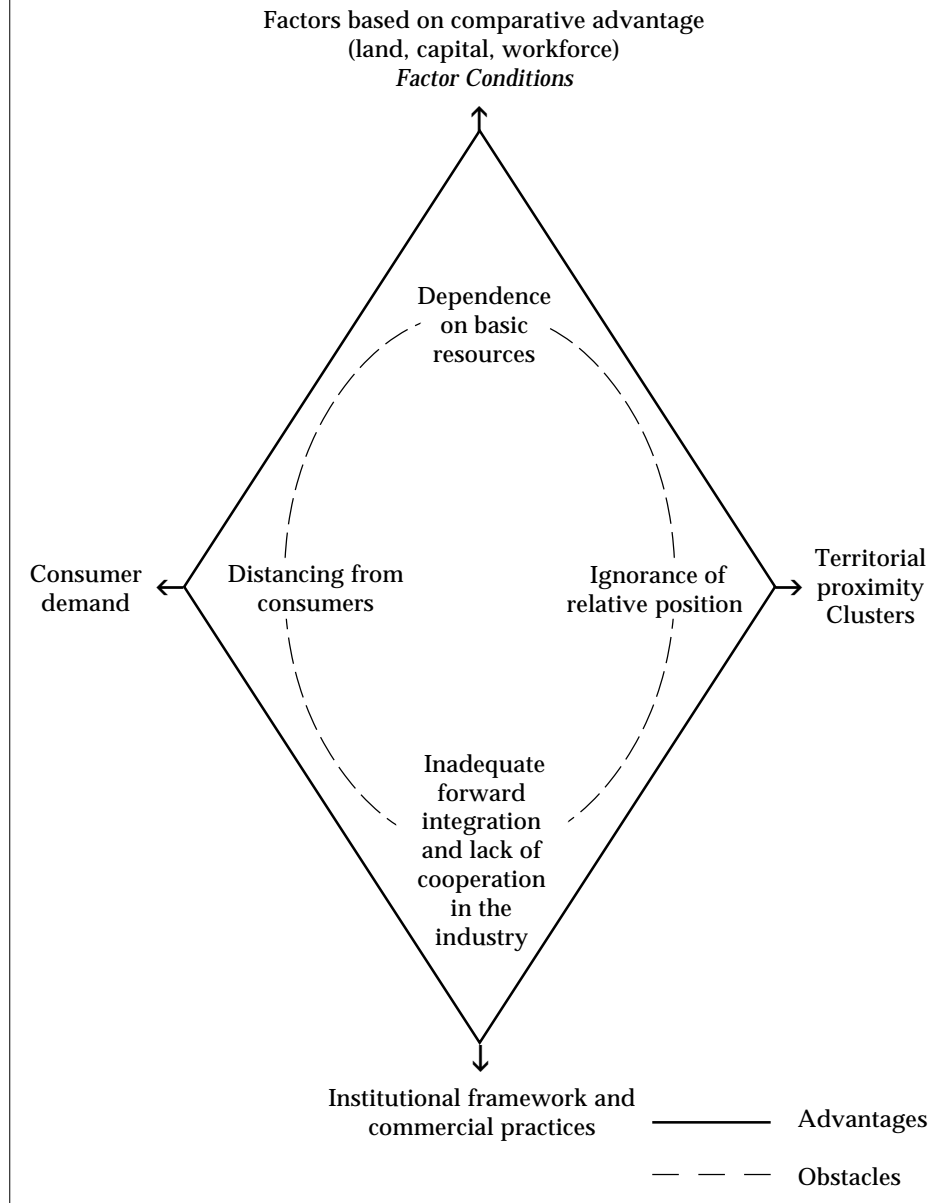
Porter identifies four interrelated factors which are of crucial importance for a nation, district or local area to attain a competitive advantage. The first of these is the basic resources or conditions that the comparative advantage is based on, in other words, land, workforce and capital. To this group of factors, which are very difficult to replicate, Porter adds a second point, which is that there should be a healthy demand from local or national consumers which tends to create conditions and cultures connected to the product or service which is generated locally or nationally. The third factor is territorial proximity and, more specifically, the creation of clusters or groups of units of production and suppliers around a particular industry or service. Finally, the fourth factor has to do with the institutional framework and trade practices which contribute to creating clear and stable rules of the game that are important both for investment and for the development of competitive advantages.

These four factors constitute what has come to be called the 'diamond' of competitive advantage in local economic development. Based on consideration of these factors, authors like Ickis²² have identified the obstacles that can occur separately and impede full realization. These obstacles would be (a) excessive dependence on the factors that generate comparative advantages, (b) the distancing of consumers (in a spatial sense, but also and more importantly in terms of communication and information), (c) ignorance of relative position in terms of the market and (d) inadequate forward integration and a lack of cooperation in the industry. The factors in competitiveness and the potential obstacles are shown in the figure on the following page.

21 Porter, Michael E., *La ventaja competitiva de las naciones*, Vergara, 1991.

22 Ickis, John C., *Cómo ganar ventaja competitiva en el desarrollo económico local*, Guatemala, 1998, published at www.ilo.org.led

The diamond of competitive advantages and their potential obstacles
(Porter/Ickis)



Rodríguez-Pose²³ has made a comparison between the features which characterise LED strategies and those of the traditional (top-down) development policies, and he has identified at least five points which involve important differences between them: “**First**, whereas in traditional top-down approaches the decision on where to implement development strategies is taken by central government planners and developers, with little or no involvement of local actors, LED practices favour the promotion of development in all territories by using the economic potential and the competitive advantage of every space. The initiative to launch the development strategy is taken locally or with strong local support. **Second**, as a result of where and how the decisions are taken, traditional policies have been generally designed, managed, and implemented by ministries or central government agencies. The involvement of local actors in LED strategies implies, in contrast, a much greater degree of vertical and horizontal coordination of all the actors involved. (...) The **third** basic difference relates to the approach to development. Traditional policies have tended to adopt a sectoral approach. The promotion of specific industrial sectors that contribute to generate economic dynamism has been one of the main objectives of these policies. LED uses a territorial approach as a means of achieving economic development. The diagnosis of the economic, social, and institutional conditions of every territory and the identification of the local economic potential are the foundations upon which any development strategy is built. (...) **Fourth** and last, both approaches are also set apart by their way of attracting economic activity. While traditional approaches have relied on financial support, incentive packages and subsidies in order to attract and maintain economic activity, LED tends to shun such activities and concentrates on the improvement of the basic conditions for the development and attraction of further economic activity.”

Lastly, according to Vázquez Barquero,²⁵ LED strategies are based on a combination of development in three distinct dimensions which he calls economic hardware, software, and orgware.

Hardware has to do with basic infrastructure, communications and transport networks for example, and also industrial space and educational, health and cultural infrastructure.

Software implies the design and implementation of comprehensive local development strategies. This includes a diagnosis of the comparative advantages and dysfunctional aspects of each space, and also the interconnection between

23 Rodríguez-Pose, Andrés, *op. cit.*, pp. 9-10.

24 Vertical coordination supposes the synchronization of local, regional, national and supra-national or international organizations. Horizontal coordination involves public and private actors concerned with matters of development, Rodríguez-Pose, Andrés, *ibidem*.

25 Vázquez Barquero, Andrés, *Desarrollo, redes y innovación: lecciones sobre desarrollo endógeno*, Pirámide, Madrid, 1999.

Main differences between traditional top-down development policies and bottom-up LED approaches

Traditional development policies	Local economic development
1. Top-down approach in which decisions about the areas where intervention is needed are taken in the centre	1. Promotion of development in all territories with the initiative often coming from below
2. Managed by the central administration	2. Decentralized, vertical cooperation between different tiers of government and horizontal cooperation between public and private bodies
3. Sectoral approach to development	3. Territorial approach to development (locality, <i>milieu</i>)
4. Development of large industrial projects to stimulate other economic activity	4. Maximizing the development potential of each area to stimulate a progressive adjustment of the local economic system to the changing economic environment
5. Financial support, incentives and subsidies as the main factor for attracting economic activity	5. Provision of key conditions for the development of economic activity

Source: Rodríguez-Pose, Andrés. *The role of the ILO in the implementing of Local Economic Development Strategies in a Globalised World*, op. cit.

four axes: the improvement of the competitiveness of local firms, the attraction of inward investment, the upgrading of human capital or labour skills, and the building of infrastructure. The basic objective here is to construct a balanced local development strategy which will help to generate sustainable development and create jobs. According to Rodríguez-Pose, by making any economic activity taking place in the territory dependent on local conditions and by managing the strategy locally, it can be inferred that the jobs created are likely to be of a better quality, than the resulting from other alternative development policies.

Orgware refers to the organizational and institutional capacity to design, implement, and monitor the whole development strategy. Rodríguez-Pose says that the development of *orgware* goes beyond a mere vertical and horizontal coordination of different levels of government and of local public and private actors and involves the empowerment of the local society, by allowing and encouraging it to have a greater say in its own future. However, although empowering local societies is a crucial element in any LED strategy, it cannot be considered as its main or only goal. It is basically a means to attain sustainable development and generate greater economic dynamism and employment.

SEBRAE in Brazil: some complementary definitions

Brazilian Micro and Small Business Support Service (SEBRAE) has a local development programme that is specially designed to support city councils in promoting holistic and sustainable local development as a vector of economic sustainability.

The programme's operation is based on municipal and/or regional diagnoses which seek to identify potential for local development in sectoral, social, economic and environmental dimensions. It tries to activate and encourage the entrepreneurial spirit, and helps individual and collective micro and small enterprises that are already in operation.

It also seeks to identify new opportunities for business and create favourable environments so that new enterprises can emerge, and this would generate employment or productive occupations. To do this it undertakes to provide coordinated support for agriculture, industry, commerce and services which include training, consultancy, orientation for credit, promoting cooperation, and developing the spirit of enterprise.

In this framework SEBRAE has developed a number of concepts which are useful to complement those dealt with in this study.

Local productive arrangements

Local productive arrangements are agglomerations of companies located in the same district that have a common productive specialisation and maintain some link, interaction, cooperation and learning from each other that operates inside the group and with other local actors such as the government, employers' associations, and credit, teaching and research institutions.

A local productive arrangement is an agglomeration of a significant number of enterprises which are all involved in the same main productive activity. For this, it is necessary to consider the dynamic of the district in which the companies are located, and to bear in mind aspects such as the number of job places, company turnover, market, growth potential and diversification.

It follows that the notion of a district is crucial for activity in function of local productive arrangements. However, the idea of a district is not confined just to its material or concrete dimensions. A district is a field of forces, a mesh or network of social relations which is projected in a particular space. In this sense the local productive arrangement is also a district in which the main dimension that holds it together is economic, although there are other dimensions as well.

Therefore local productive arrangements make up a definition or delimitation of the district (part of a municipality, a group of municipalities, river basins, valleys, mountains etc.) that has some collective identifying marks (social, cultural, economic, political, environmental or historical).

Besides, the district must maintain, or have the capacity to promote, agreements about development expectations, must be able to establish alliances and commitments to retain and put to specialised use the investment of each of the actors in the region, and must promote or be amenable to economic or social integration in the local ambit.

When stimulating local development it is essential to bear in mind that any action must allow connection to markets, sustainability by means of a pattern of organisation which is maintained over time, the promotion of an ambit that includes micro and small businesses in a market with distribution of wealth, and the raising of social capital through promotion and cooperation among the actors in the area.

It is also essential to make access to public goods such as education and health democratic, to preserve the environment, to value the local historical and cultural heritage, to get local people involved, to form alliances with other actors, to mobilise public and private resources contributed by agents of the arrangement, and to attract public or private resources complementary to those contributed by the local actors.

Productive chains

Productive chains are a collection of stages through which different inputs pass and are transformed in cycles of production, distribution and commercialisation of goods and services. They involve the division of labour in that each agent or group of agents carries out a different stage of the productive process.

Sectoral nuclei

Sectoral nuclei are firms in the same branch of activity which compete with each other in the market but still act jointly in solving common problems, and this means that micro and small firms are not isolated. Firms in this situation are in a better position to negotiate for equipment and raw materials, and they also have access to technological and market innovations in a globalised world. Normally sectoral nuclei are created within trade and industrial associations, and they function by following certain steps. They identify their problems and needs, and they share information and decision-making when it comes to training and consultancy. This is the base on which solutions are sought.

Networks of companies

The companies in different kinds of productive and innovative agglomerations can be organised in networks. These networks are born out of a systematic consolidation among firms, and they can take different forms, the main ones being the acquisition of shares, strategic alliances, and the outsourcing of some company functions.

In the last analysis, networks of firms grow out of the formal or informal grouping of autonomous firms. The aim is to carry out some activities jointly so each company can concentrate on its core business.

The advantages that these firms obtain, besides being able to specialise in their core activity, include improved productivity, reduced costs, savings in resources, access to new markets, new technologies, workforce and suppliers, increased power in negotiations in purchasing and trade situations, sharing experience and better access to information, an improvement in the reputation of the sector in that district, and better access to government institutions and programmes.

Source: Brazilian Micro and Small Business Support Service (SEBRAE).
www.sebrae.com.br

Rural Tourism in the Department of Quindío, Colombia

The department of Quindío is one of the biggest coffee producers in the Colombian economy. When international prices for this product were good, income from this source made possible a local economy based on small and medium sized rural production, and this generated considerable employment and income and made for a relatively good level of life. Besides this, thanks to producers' organisations – the Quindío Committee of Coffee Producers in association with the Colombian National Federation of Coffee Producers – surpluses were generated. These were used to finance big development programmes that not only benefited the coffee producers but also the population as a whole. Then came a big fall in international coffee prices, and this resulted in a serious socio-economic crisis that began at the end of the 1980s and was made worse by the effects of an earthquake in 1991.

However, through a complex but successful process, the department of Quindío is carrying forward an interesting transformation to agro ecotourism. This is based on converting traditional houses on coffee-producing estates into hostels, and also building a number of theme parks. This transformation has been based on (a) an excellent climate and wonderful scenery, (b) a good location in the heart of Colombia and at the crossroads of the main transport routes, (c) excellent physical infrastructure and social services, and (d) a population that is by tradition very hospitable and that has a strong cultural identity.

After something like 5 years in operation there are now 7,000 beds available for tourists on more than 400 different estates, of which 100 are rated 4 or 5 stars. At the present time, Quindío is the second most popular domestic tourist destination in Colombia after Cartagena de Indias. In short, this is an interesting case of productive reconstruction, the transformation from a traditional one-crop rural economy which was inserted in the international market to a new model of services, also rural, which are clustered together, are competitive nationally at the present time, and have good international potential.