The role of the ILO in implementing local economic development strategies in a globalized world

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Executive summary

In the last few years, the ILO has given itself the mandate of securing decent work. However, economic globalization is making decent work a rarer and rarer commodity. Globalization is associated with the growing chasm between those individuals, firms, and territories that have the capacity to compete in open markets, and those that lack the skills or the potential to do so. The implications are increasing social division and exclusion, as well as greater territorial polarization.

This paper deals with how territorial polarization can be limited in the face of globalization and discusses the role of an international organization, such as the ILO, in tackling polarization and strengthening the capacity of individuals and firms in lagging areas of the world to withstand competition and create meaningful employment opportunities.

It is argued that traditional development policies have largely failed to secure the conditions necessary for sustainable development and employment generation. Their reliance on infrastructure investment and the attraction of foreign investment has not been enough to embed economic activity in those areas where the policies were operationalized.

Acknowledging this, recent territorial development strategies have tended to focus more on what are known as "endogenous" factors: the local economic fabric, human resources and institutional setting. One of the consequences of this change in approach is the introduction of novel development strategies – grouped under the rubric of local economic development – in which endogenous and institutional factors are integrated within a comprehensive development framework with activities to support infrastructure and foreign direct investment. In doing so, the intention is to create the right environment in which the economic potential of every space can be fulfilled. The overall objective is to make economic activity within a territory dependent on the economic and social conditions of the place, rather than vice-versa.

The implementation of local economic development strategies has been accompanied by an evolution in available development management methods and tools. Together with the OECD, the ILO has been among the first international organizations to grasp recent theoretical changes and to adopt novel development methods. The Organization has a strong record in the provision of business development services, in responding to crisis and reconstruction situations, in supporting SMEs, in the financing of development schemes, in the diffusion and assimilation of technology, in the creation of local economic development agencies and in the building of local capacities. In fact, the ILO as an Organization covers the whole range of development actions that can be included under the local economic development umbrella.

In discussing the role of the ILO, however, it should be remembered that in recent years, a series of external and internal problems have impacted on the long-term efficiency of interventions to promote economic development and decent work. Donor pressure to achieve rapid and tangible results has pushed departments within the ILO to implement programmes in isolation of other complementary activities. Such time constraints make interdepartmental coordination more a token than a standard practice. The lack of coordination then does little to ensure that territories are able to maximise their development potential.

To reduce and ultimately eliminate the incidence of these problems, the ILO is taking steps towards the adoption of a more holistic and coordinated approach to development. Strategies are now being designed which are tailored to specific local contexts. This

requires greater internal coordination among ILO departments, but, even more importantly, the coordination of all programmes taking place in the same country or region. It also implies more coherent targeting of donor funds and programmes and their merger into comprehensive development strategies. The recent creation of the Policy Integration Department, and of a Decent Work Team within it, has been an important milestone in this process.

Overall, the wide-ranging rethinking and revamping of current ILO activities along the lines of a more comprehensive and territorial approach is likely to insure that the ILO's local economic development expertise and potential is put to the best use. It will also be the key to the long-term success of the Organization in generating decent work.

Contents

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1. Introduction

The ILO, as many other international organizations, has been profoundly affected by global changes in recent years. Although the fundamental aims of promoting employment, social justice and equality remain at the core of its mandate, changes in the global context mean that the ILO is having to rethink the manner in which it attempts to achieve its goals. This reflective and restructuring process has coincided with, and was accelerated by, the appointment of Juan Somavia as Director General of the ILO. In fact, since 1999 the ILO has assumed a new "primary goal" for the period of global transition: "securing decent work for women and men everywhere" (ILO, 1999: 1).

This new "primary goal" complements and reinforces the traditional goals of promoting social justice and equality and is to be achieved through four strategic objectives that include: standards and fundamental principles and rights at work; employment; social protection; and, social dialogue, with gender and development as cross-cutting priority themes (ILO, 1999). Decent work basically implies the generation of employment opportunities, but not just any type of employment. The jobs created must be of a "decent" or "adequate" quality, meaning that employment should be subject to certain standards and regulations, which in turn will prevent the exploitation and/or mistreatment of workers.

Although this goal looks deceptively simple, achieving "decent work" in a globalized world in which firms and spaces face competition not just from neighbouring firms, localities, and regions, but also from economic actors located outside the traditional realm of the region and the nation-state, may prove rather elusive. As a result of the increased mobility of capital, workers, goods, and services, globalization is changing the rules by which economies have been governed during much of the post-war era. Even the most remote spaces are now exposed to competition in the global market-place. As a result, economic and social actors across the world are restructuring their production and consumption habits.

Globalization offers new opportunities and challenges. But while many firms and areas have grasped the opportunities of the new global environment and are reaping the benefits, in the majority less-developed areas, the opening of national economies is exposing local economic structures with little or no capacity to compete. The main consequence in lagging areas is the demise of inefficient and low-tech production structures, which in turn generates unemployment. In other cases – even where jobs are maintained or new ones are generated to service the global economy – working conditions may be of a lower quality than before. In fact, it is almost inevitable that the free play of market forces around the world will lead to less employment or employment of a lower quality in less competitive regions. Either way, both impacts are at odds with the ILO's goal of securing decent work.

Aware of the challenges that globalization is posing to many territories, the ILO has launched a series of programmes aimed at generating employment and employment of a "decent" quality, with a special emphasis on the developing world. The question this paper will try to address is to what extent these policies are likely to achieve their goal of generating the sustainable economic dynamism that would guarantee the genesis of "decent work", not just in the short-term, but also in the medium and long-terms.

The paper is divided into a further four sections. The second section describes the impact globalization is having on local economies around the world, while the third looks at the need for new development strategies in a changing world economic environment, placing special emphasis on the links between local economic development (LED) strategies with the ILO's decent work mandate, and the potential of LED as a general framework to generate sustainable quality employment. The fourth section summarizes the array of development programmes used by the ILO to promote sustainable development and decent work and identifies the main shortcomings of the ILO's approach. Finally, the conclusions attempt to formulate a role for the ILO in LED, with an emphasis on the competitive advantage of the ILO.

2. The impact of globalization on local economies across the world

Although some commentators claim that the recent wave of globalization is not really new (Williamson, 1997), the increase in the level of interaction among national economies over the last two decades of the twentieth century is unprecedented. Since the late 1980s, world trade has expanded significantly and foreign direct investment (FDI) has increased fivefold (IMF, 2000), with the largest percentage of world trade and FDI taking place between developed countries. Having said this, the greatest relative expansion in trade and FDI has occurred in the developing world due to the opening up of borders and the switch from economic strategies based import substitution or central planning to relatively liberal free-market systems. The liberalization of national economies has often been accompanied by macroeconomic stability packages aimed at, among other things, curbing inflation and reducing fiscal deficits and debt.

Recent developments are reflected in a large body of research in economics, which both from a theoretical and an empirical perspective, has underlined the economic benefits of open economies. Empirically based research, for example by Sachs and Warner (1995 and 1997), tends to confirm the supposedly superior economic performance of countries with open borders. Coe, Helpman, and Hoffmeister (1997) also determine the existence of a strong relationship between the degree of openness of a country and its economic growth, as a result of their capacity to reap the benefits from an increased mobility of capital and technology. [1] The work of Grossman and Helpman (1991), Coe and Helpman (1995), or Frankel and Romer (1999) has emphasized the greater capacity of open economies to benefit from technological spillovers and transfers. The restructuring and productivity effects of liberalization and regional integration have also been highlighted (e.g. Kang and Johansson, 2000).

The combination of economic liberalization with macroeconomic stability packages has had some positive results. The most spectacular effect is the reduction of inflation from double or triple digit figures to single digit figures in most countries of the world. Capital flows to more open countries have expanded rapidly. Export growth has also flourished and economic growth has tended to become less volatile than in the 1980s.

On the flip side, liberalization has not been accompanied (with relatively few exceptions such as China, India, or Ireland) by high economic growth prospects in the long term, or by high employment growth. In a number of Latin American countries, for example, growth during the 1990s was even lower than in the "lost decade" of the 1980s. The Asian crisis represented a serious dent in the performance of South East Asian economies and most African countries have failed to capitalize on economic changes. In addition, economic liberalization and macroeconomic stability measures are not without risk. The Tequila effect of 1995 in Mexico, the Asian crisis of 1997 or the current Argentine and Turkish crises highlight the macroeconomic vulnerability of countries whose production fabric is often unable to cope with rapid restructuring. Such countries

[1] This dominant trend has, however, recently been challenged by a series of scholars, led by Dani Rodrik (2000), who have questioned the beneficial effects of trade for economic growth.

are usually unable to face competition from higher technology goods produced in developed countries, or cheaper products from other developing economies.

Globalization and economic liberalization is contributing to an increase in social and territorial inequalities within many of the countries that have liberalized their economies. From a social perspective, symptoms include increasing social inequality, and ultimately social exclusion (Dowling, 1999). Increases in productivity and growth – whenever they happen – are more related than ever to technological progress. The introduction of new production plants or of new agricultural methods of production is generating greater productivity and efficiency, but frequently at the expense of employment. This jobless growth is contributing to the exclusion of large numbers of unskilled workers and to the expansion of the informal economy, both in the developed and in the developing worlds (Schneider and Enste, 2000). As a consequence, the new economy that is emerging from the process of globalization is characterized by greater social polarization. The divide between the highly educated and stable wage earners and an increasing underclass of precarious workers and workers in the informal economy seems to be growing at a greater pace than ever (Esping-Andersen, 1999: 10).

From a territorial point of view, only a limited number of spaces seem to be reaping the benefits of opportunities in the global market-place. In general, successful regions tend to be those that have something to offer to markets beyond the traditional realm of the local and regional spheres. The winning regions can be divided into three categories:

(a) Large metropolitan regions: Large urban agglomerations in both the developed and the developing worlds are becoming concentrations of high value added service activities. Business, financial, real estate, and insurance services are clustering more than ever in large urban regions, as are the headquarters of corporations (Taylor and Walker, 2001). The economies of agglomeration derived from such concentration of production factors are attracting research and development and design activities to global metropolises. FDI is also flowing to large metropolitan areas. Mexico City and the surrounding state of Mexico have received more than 60 per cent of all FDI in Mexico between 1994 and 2000; Madrid has also attracted more than 60 per cent of all FDI flowing into Spain in the same period.

    However, as mentioned earlier, the dynamism of large urban areas does not mean that all its inhabitants have benefited in a similar way. A majority of the large urban agglomerations around the globe suffer from the emergence of a dual economy, in which wealth and high productivity jobs coexist with economic and social deprivation, a growing informal sector, and low paid, precarious jobs in the service sector.

(b) Intermediate industrial regions: The second group of territories that seem to be profiting from the greater mobility of production factors are the intermediate industrial regions. Such areas often offer labour cost advantages with respect to core areas, with human capital and accessibility advantages with respect to peripheral areas, making them attractive locations for new industrial investment. Mountain states and provinces in the United States and Canada are attracting large investments from industries that are fleeing the congested eastern and great lake areas of North America. Numerous intermediate European regions in central Italy or southern Germany and France are witnessing a similar trend.

    From a global point of view, the most advanced regions in the developing world can also be considered as intermediate industrial regions. This is the case of the Mexican states bordering the United States, of São Paulo and the southern states of Brazil, of Maharashtra in India, but, above all, of the coastal provinces of China. The combination of low wages with a relatively skilled labour force and accessibility to markets has made them primary targets for industrial investment. Much of today's mass production is concentrated in these areas.

(c) Tourist regions: Among the regions in the developing world that have managed to find their market niche in a globalized economy are the tourist regions. Places like Cancún in Mexico or Bali in Indonesia have thrived thanks to their capacity to attract large number of tourists from all over the world. Others, without reaching a similar success, have built up a healthy and relatively successful tourist industry.

However, the dynamic areas in a globalized world tend to be the exceptions rather than the rule. More often than not, regions and localities struggle to adapt their economic fabric to the new conditions. Globalization has made economic activity more footloose. The competitive advantage that certain territories enjoyed in the past as a result of unique factor endowments or their proximity to raw materials is becoming less important. Improvements in technology and information technology are delocalizing industrial and agricultural production. A lower degree of delocalization is occurring in services, although the fate of market services is often linked to the dynamism of economic activity in other sectors. As a consequence, traditional industrial regions, agricultural areas and regions without a clear comparative advantage are finding it difficult to conquer new markets and their companies are often losing market share in their own traditional markets as a result of the opening of national economies to competition.

Basic and mass production industrial companies that had survived and often thrived in conditions of monopoly or oligopoly under fragmented national markets are in many cases crumbling under the pressures of competition. Traditional agricultural regions have seen their markets invaded by cheaper agricultural produce from more technologically advanced regions, and areas with a strong agricultural potential have to deal with an imperfect and relatively closed world food market.

The outcome of recent economic processes is greater economic and social polarization at world level. Whereas some national economies such as those in South East Asia, China, or Ireland have prospered under the new conditions, most African and many South Asian economies are becoming increasingly detached from world economic circuits. GDP per capita in numerous African countries is lower in real terms than what it was three decades ago. The outcome in Latin America has been mixed. Mexico – despite periodic crises – has profited from its integration in the North American Free Trade Association (NAFTA). Chile has also fared relatively well. In contrast, Ecuador, Venezuela and now Argentina have experienced dismal economic performances.

The world's economic polarization is being reproduced within countries. Different regional capacities to adapt to new economic contexts are leading to a greater concentration of economic activity and wealth in a few regions in each country and to increasing economic divergence within countries. As a result, internal economic imbalances are growing both in high and in low and middle-income countries. Table 1 presents the evolution of the variance of the natural logarithm of regional GDP per capita in selected developed and developing countries of the world between 1980 and 2000 or the latest year with available regional information. Several features need to be highlighted from the table. The first one is the difference in the dimension of internal disparities between developed and developing countries.

In 2000 internal economic disparities in Brazil, India, or Mexico, were twice the size of internal disparities in Spain and three times those in France or the United States. Secondly, all countries included in the sample, except for Brazil, have seen internal economic imbalances grow since 1980. However, whereas greater economic polarization took place in the United States, France, and Germany in the 1980s, the greatest progress in economic imbalances in the lower income countries has taken place during the 1990s.

Between 1990 and 2000, the variance of the log of regional GDP per capita has grown by 1.3 per cent in Brazil, 3 per cent in Italy, 11.6 per cent in Spain, 13.7 per cent in Mexico and almost 17 per cent in India (table 1).

Table 1. Variance of the log of regional GDP per capita in different countries of the world, 1980-2000

	1980	1990	% change 1980-90	2000	% change 1990-2000
Developed countries					
United States	0.136	0.152	11.38	0.148[a]	-2.35
France	0.137	0.150	9.12	0.143[b]	-4.28
Germany[c]	0.184	0.188	2.47	0.186[b]	-1.12
Italy	0.265	0.269	1.48	0.277[b]	3.03
Spain	0.207	0.199	-3.87	0.222[b]	11.59
Developing countries					
Brazil	0.588	0.488	-17.15	0.494[b]	1.33
India	0.352	0.377	7.09	0.441[b]	16.96
Mexico	0.388	0.383	-1.45	0.435	13.71

[a] 1999; [b] 1998; [c] Former West Germany only.
Source: Own elaboration with various data sources.

Internal polarization has often coincided with the opening of a country's economy. In the 1970s and early 1980s, Mexico was a good example of a country in which internal economic disparities were reduced. However, the opening of the country's borders to trade from 1985 onwards led to an increasing concentration of economic activity in Mexico City and the states along the border with the United States (Sánchez-Reaza and Rodríguez-Pose, 2002). Similarly, the increase in internal regional disparities in Brazil has coincided with the progressive opening of the country's economy since the early 1990s (Azzoni, 2001).

The combination of increasing social and territorial inequality and the greater concentration of high value added territorial activity in core regions and a few peripheral areas is leaving numerous – and many of the poorest – areas of the world in a very precarious situation. The opening of borders to trade – and consequently to greater competition – is triggering processes of economic restructuring in which improvements in technology and information technology are leading to employment substitution in formal sectors (especially in industry). Low-skilled and less-educated workers become less employable or are forced into low value added jobs in the service sector or the informal sector. In addition, the opening of borders to trade is exposing less competitive sectors and forcing competition on prices.

The overall consequence of these trends is a shift from territorial convergence to divergence and the increasing exclusion of low-skilled workers from the labour force. In addition, the emergence of dual economies in many relatively successful parts of the world is reducing the security of those holding decent jobs. Precarious forms of employment that are at odds with the ILO's primary goal of achieving "decent work" are thus the main forms of employment growth in many areas of the world. The inadequate skills of many workers and the limited capacity of companies and regions to offer products and services to increasingly globalized markets is contributing to the rapid growth of the informal sector and of atypical employment, such as temporary work, part-time work, self-employment, and homeworking. People and regions are thus pushed into a downward spiral in which they have become increasingly dependent on economic activities over which they have little or no control.

3. The need for alternative development strategies

What are the options for the people, firms, and regions that are left out in the global economy? What can be done in order to reverse the current downward spiral and contribute to the generation of more jobs, but particularly jobs of the adequate quality? Any solutions must include strategies that redress the weaknesses limiting the economic potential of individuals, firms, and territories across the world. This means making individuals, firms, and societies more aware of (and more capable of responding to) the challenges presented by the new economic conditions. An increased capacity to respond to global challenges necessarily implies endowing individuals, firms, and territories with the factors that will allow them to place their skills, products, or services in the global market-place and to compete with others.

There is no simple and universal way to tackle the challenges posed by globalization. Individuals, firms, and territories, because of their different nature, have to adopt different economic and social strategies. Given the scope of this paper, I will focus exclusively on the options open to territories. However, even at the territorial level, there is also no unique strategy that can be applied to any area or region, regardless of the local context. Past experience has shown that the mere reproduction of development policies in different contexts has more often than not had little or no impact on the generation of sustainable development and long-term employment.

Traditional top-down policies aimed at achieving economic development have tended to be cut by the same cloth. These have normally consisted in supply-led policies, focused either on infrastructure strengthening or on attracting industries and foreign direct investment. The logic behind this approach was the idea that poor accessibility, or the absence of firms that could dynamize the local industrial tissue and generate technological transfers, was at the root of the problems of many lagging areas.

Development and employment creation policies have thus until recently been usually structured along two axes. The first axis related to the infrastructural endowment. The supposedly high returns of infrastructural investment identified by some researchers (e.g. Aschauer, 1989) contributed to fuelling the belief that improving accessibility was the solution for lagging areas. Development and employment policies were thus articulated around the building of motorways, aqueducts, pipelines, telephone lines, and other investments in infrastructure. However, strong investment in infrastructure has not always yielded the results expected. One of the most spectacular cases of failure of this kind of supply-led approach has been the Italian Mezzogiorno, where, despite more than 40 years of strong infrastructure investment by the Italian State, the income gap between the north and the south of the country remains at the same level as the early post-war years (Trigilia, 1992).

On a wider scale, recent studies have also questioned the effectiveness of investment in infrastructure as a sustainable development strategy. Research by Martin (1999) and Vanhoudt, et al. (2000) at the European level has unveiled constant or negative economic returns to investment in infrastructure.

The second axis revolved around top-down policies targeted at the industrial sector. The attraction of large firms to areas with a weak industrial fabric, in combination with other development policies, has been in a few cases – as in the case of a host of South East Asian countries – a key in the economic take-off (Storper, 1997). But the failures outnumber the success stories. Once again the case of the Italian Mezzogiorno springs to mind. The establishment during the 1960s and 1970s of shipyards, refineries, car plants, and chemical plants in areas of the south of Italy with a relatively weak endogenous industrial tissue did not create the level of industrialization required in the south of the country (Viesti, 2000). Companies that were lured from the north by government-sponsored incentive packages failed to generate industrial linkages and networks that could have delivered sustainable economic growth and employment generation.

One reason could be related to inadequate local economic and institutional settings, which presented a barrier to the creation of networks of local suppliers around the "imported" large firm, which was the main aim of the policy (Trigilia, 1992). As a consequence, most of these large industrial complexes remained detached from their local environments, as "cathedrals in the desert", whose principle suppliers and customers were located elsewhere rather than locally or in nearby areas (Lipietz, 1980). After the demise of the incentive packages, loss-making firms – the large majority of the so-called "cathedrals in the desert" – were left to die in situ or moved back to the north.

Industrialization policies in other areas of the world have also failed to deliver expected results. Many of the firms located in less developed cities and regions in France or Spain, following Perroux's (1957) development pole theory, have not triggered the expected dynamic and innovative effect which was supposed to be at the root of sustainable development (Cuadrado Roura, 1994). Similar results have been achieved in most Latin American countries that followed until the mid-1980s or the beginning of the 1990s import substitution industrialization policies.

Protecting national markets as a way of fostering the emergence of local consumption and, to a lesser extent, intermediate and capital goods industries, led to the creation of a relatively large industrial base in countries such as Mexico, Brazil, Argentina or Chile (see Hernández Laos, 1985; Cano, 1993). However, the presence of captive markets, monopolistic and oligopolistic practices, and over-extended protectionist policies made most of the industrial base of these countries inefficient according to world standards. Consumers ended up bearing most of the cost, paying higher prices for products that were of lower quality than those available on international markets (Love, 1994; Cárdenas, 1996). The opening of borders to competition in Latin America has exposed the weaknesses of the industrial base of Latin American countries and led to the crumbling of industries and to a loss of numerous industrial jobs (Rodríguez-Pose and Tomaney, 1999; Dussel Peters, 2000).

There are multiple and variable reasons for the failure of traditional development policies. Some of them are external to the design and implementation of the policies. In some areas, a weak or deficient human resource base became the main barrier for successful development. In others, obsolete local economic structures have jeopardized policy efforts. Inadequate social and institutional contexts are also suggested as possible reasons for the poor performance of traditional development policies (North, 1991; Rodríguez-Pose, 1999).

As important, if not more important than external factors, are issues connected to the design and implementation of the development policies. First among these internal factors is the internal imbalance of most traditional development policies. The logic behind most policies was to concentrate on what was perceived to be the most important development bottleneck with the aim that, once the problem solved, sustainable development would follow. If the main development bottleneck of an area was perceived to be poor accessibility, heavy investment in transport and communications infrastructure would solve the accessibility problem and, as a consequence, generate internal economic dynamism and bring much needed foreign investment.

Similarly, it was perceived that the weakness of local industrial tissues could be addressed by luring large firms to the locality or region, which would create direct and indirect jobs, generate technology transfers and spillovers and trigger entrepreneurship. However, the outcome of unbalanced development policies has generally been disappointing. Heavy investment in infrastructure, with little or no emphasis on other development factors such as support services to local firms, the strengthening of local human resources, or the diffusion and assimilation of technology, has often provoked greater imperfections in accessibility to markets. Local firms, as a result of their lower level of competitiveness, have struggled to gain ground in outside markets, whereas more competitive external firms have benefited most from greater access within lagging areas, gaining a larger share of those markets and driving many local firms out of business as a result (see figure 1). Frequent reliance on inward investment has yielded similar results. Instead of dynamizing their environment, and triggering multiplier effects, large industrial complexes brought from other locations have in many cases only been tempted by incentives and subsidies and have tended to foster a greater dependency on external economic actors (see figure 1) (Rodríguez-Pose and Arbix, 2001).

The second internal factor behind the failure of traditional development policies is the tendency to replicate policies in different areas of the world, regardless of the local economic, social, political, and institutional conditions. Policies considered to be successful in specific cases were implemented almost without change in different contexts. National planning and development offices, as well as international organizations, were the main culprits behind the recurrence of the so-called “best practices”. Yet, diverse economic, social, and institutional conditions in different local environments mediated the effectiveness of best practices and in most cases led to the failure of policies that had proved successful elsewhere. In addition, the reliance on top-down imported policies alienated the local population, which had little or no say in the economic vision of their territories (Vázquez Barquero, 1999).

The failure of traditional top-down policies, together with the challenges generated by globalization, has provoked a serious rethinking of the validity of ongoing development approaches by practitioners and scholars. The result of this rethinking over the last decade and a half is the emergence of a series of innovative bottom-up development policies, which are grouped under the rubric of local economic development (LED) (Stöhr, 1990; Amin, 2000). Although the change from top-down and centralized policies to a bottom-up LED approach has neither been established overnight, nor is it based on a clearly defined theoretical model, this model of tailor-made approaches to the development of territories has progressively been gaining ground as the foundation for new development strategies.

What is LED? There are many definitions of local economic development. Yet, the lack of a clearly defined theoretical model, and the fact the main sources of inspiration of LED strategies are experience and imitation, has prevented the emergence of a widely accepted definition. Therefore, LED strategies tend to resort to the basic features of the approach to specify their content.

White and Gasser (2001) 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. All four characteristics are included in the definition of LED used by the ILO’s Local Economic Development Programme, which considers LED “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" (ILO, 2002).

The main differences between LED and traditional top-down approaches are summarized in table 2 and relate to five domains. 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. Vertical coordination entails the synchronization of local, regional, national, and supranational or international institutions. Horizontal coordination comprises local public and private actors concerned with development issues (table 2).

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. Closely related to the sectoral approach of most traditional development policies is the development of large industrial projects that were expected to promote additional economic activity and generate the networks and value chains needed in order to achieve sustainable development. The problems of this type of practice were mentioned earlier and have pushed LED practitioners to identify and use the economic development potential of each area and to stimulate the progressive adjustment of the local economic system to changing economic conditions (table 2).

Finally 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.

According to Vázquez Barquero (1999), LED strategies are usually structured around a threefold scheme which covers the development of economic *hardware*, *software*, and *orgware*. The development of *hardware* involves many factors common to traditional development policies, such as the provision of basic infrastructure, including the setting up of transport and communication networks, industrial space, and the infrastructure for the development of human capital (including education, health, and cultural facilities).

The development of *software* implies the design and implementation of comprehensive local development strategies. Based on the diagnosis of the comparative advantages and of the resource bottlenecks of each space, the local stakeholders – frequently with the participation of outside external experts – define and set up a comprehensive strategy to fulfil that potential. These strategies are usually articulated around 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 (figure 1). The basic aim is to create a comprehensive and balanced local development strategy that will root or embed economic activity to a territory.

Table 2. 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, *milieu*)
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: Own elaboration.

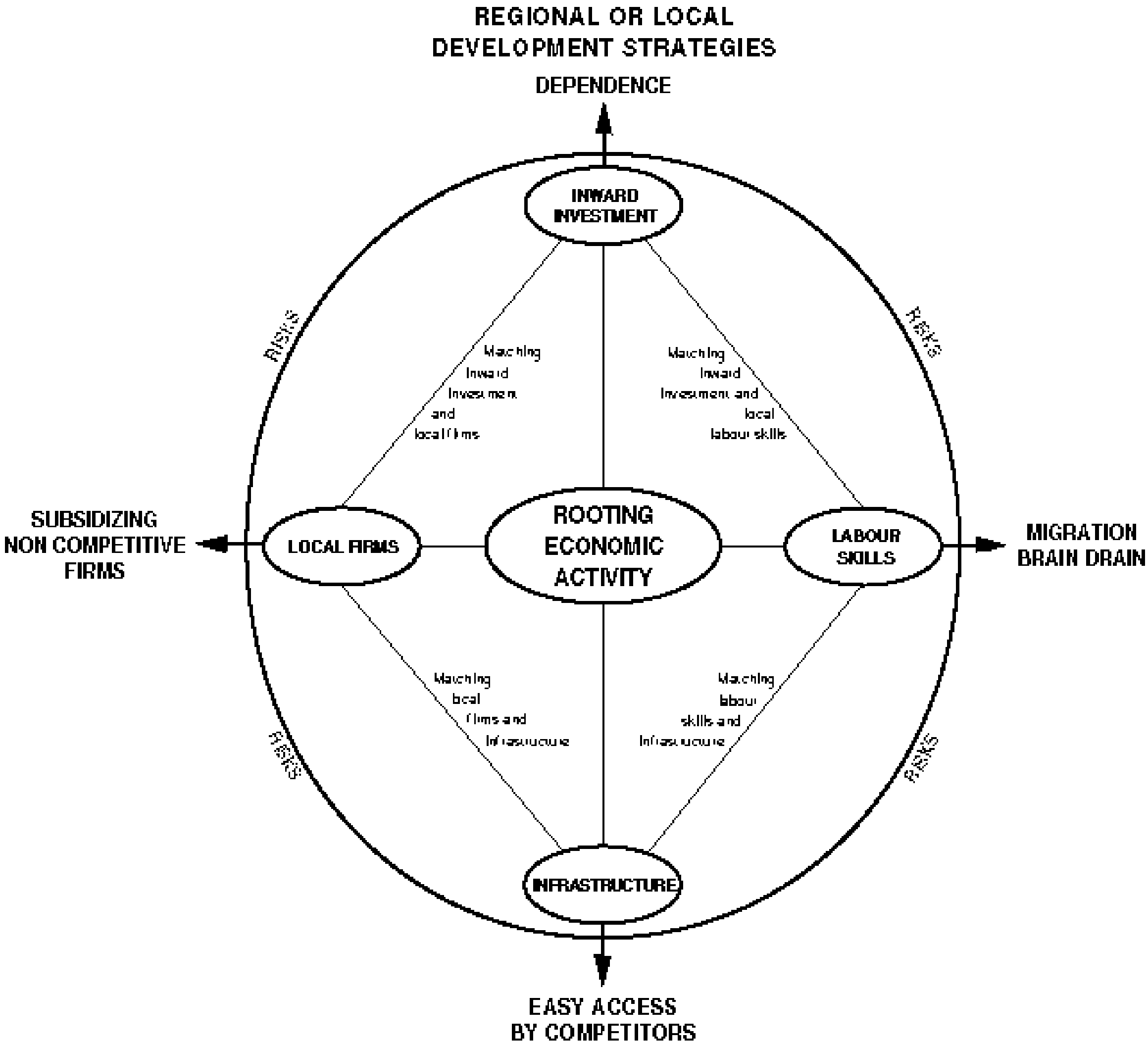
From this point of view, the intervention in any of the axes is included in a global strategic framework with the aim of rooting economic activity to a certain area and fulfilling the economic potential of every territory. This means establishing a comprehensive and balanced strategy in which any activities to attract inward investment are matched by similar and coordinated measures aimed at strengthening the local economic fabric, local infrastructure and human resources. Similarly, the improvements in labour skills have to be coordinated and synchronized with efforts to boost local firms, to improve infrastructure, and to attract inward resources (figure 1) and so on. This can only be achieved by the systematic involvement of local economic, social, and political actors in the planning and development process and by a careful analysis of the economic potential of the area.

The risks of failing to correctly identify local competitive advantages and structural bottlenecks are numerous. Excessive emphasis, for example, on the attraction of inward investment is likely to enhance the dependence of an area on external economic actors. Similarly, improving education and skills levels, without improving the competitiveness of local industries or attracting foreign resources may result in a mismatch between the labour force skills level and demand within the local economy, generating dissatisfaction and possibly brain drain of the highest qualified personnel.

The successful design and implementation of a balanced local development strategy can contribute to the generation of sustainable development and jobs. And moreover, 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, in the medium and long-run, than they would have been if the genesis of employment was exclusively left to local firms with little or no competitive advantage (Rodríguez-Pose, 1999).

Finally, any LED strategy also entails the development of what Vázquez Barquero (1999) calls *orgware*. This refers to the improvement of the organizational and institutional capacity to design, implement, and monitor the whole development strategy. 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. Local empowerment contributes to the development of civil society and also promotes the formation of the networks and partnerships that are at the base of processes of economic and social progress. It has to be borne in mind, however, that 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.

Figure 1. The bases and the risks of LED strategies



Overall, there are numerous advantages related to the adoption of local economic development strategies in a globalized world in comparison to traditional development programmes. And these advantages are close to the “primary goal” and the mandates of the ILO. The advantages can be divided into social and economic advantages. The social advantages include:

(a) LED strategies empower local societies and generate local dialogue. People living in areas of the world that have until recently had little say or control over the economic activity taking place in their territory, begin to adopt a more proactive stance with regard to their own future.

(b) LED strategies help to make local institutions more transparent and accountable and contribute to the development of the local civil society.

From an economic point of view, the advantages of the approach are as, if not more, significant:

(c) LED strategies, because they seek to embed economic activity in a territory and make economic activity dependent on the specific economic conditions and comparative advantages of that place, generate sustainable employment in firms more capable to withstand changes in the global economic environment.

(d) Local economic development strategies, as a result of the involvement of local stakeholders and of the rooting of economic activity in a territory, also contribute to a general improvement in the quality of jobs. That is to the genesis of sustainable "decent work".

However, it has to be borne in mind that there are also disadvantages and risks associated with LED policies. The amount of time involved is one drawback. The development of local coalitions and the coordination of local stakeholders amongst themselves and with other institutional actors requires an enormous organizational effort and consumes a considerable amount of time even before the development process can begin. And even when the key local institutions are strengthened, there is no guarantee of short-term – or even medium and long-term – success.

There is also the risk of being unable to identify, design, or implement the most adequate development strategy. The mere involvement of local authors is no guarantee of the selection of adequate and technically correct strategies in every space. In some cases, it may even result in the adoption of unbalanced development strategies, whose capacity to incite medium-term sustainable development is questionable. Public desire for "miracle cures" and/or rapid results, often in combination with the presence of populist politicians, may lead to the adoption of short-term highly visible policies and to the neglect of more balanced strategies, whose long-term impact may have a less immediate appeal to large sections of the public.

4. LED strategies and the ILO

The recent blossoming of LED strategies across the world has been accompanied by the increasing reliance on relatively new development tools and methods. Gone are the days when development projects and programmes were exclusively based on infrastructure or on the attraction of large firms. The new development tools in a globalized world combine traditional investments in hardware with a series of actions aimed at boosting the economic potential of every space and at promoting endogenous development.

First and foremost, these relatively novel tools consist of a host of measures directed at developing small and medium sized enterprises. These include property approaches (managed workspace, incubators, themed workspace – science, technology, and medical parks), business support and innovation services, the promotion of human resources, and access to capital (grants, loans, equity). Frequently the measures aimed at the promotion of local SMEs are accompanied by programmes and policies aimed at capacity building and empowerment, by strategies for inclusion, or by measures for integrating employment and economic development policy, such as intermediate labour market projects, job links, or support services.

Financial initiatives are also playing an important role. Community financial initiatives, credit unions, local exchange trading systems, micro credit, and social investment are some of the channels that guarantee local entrepreneurs access to capital. Territorial employment pacts or contracts or area-based partnerships, together with setting of benchmarks in local development, are commonly used to encourage partnerships.

Policies to encourage enterprise innovations, as well as policies targeted at the attraction of FDI in relevant sectors, are also commonly used. Finally greater emphasis has also been placed on the evaluation and monitoring local economic development. Measuring progress in achieving objectives, the compilation of indicators, evaluation frameworks, ex ante, interim and ex post evaluation and participative evaluation are some of the recurrent forms of monitoring development.

The ILO has been one of the first international organizations to realize the importance and the potential of the shift in the development paradigm. Many departments and units within the ILO already implement the majority of the development methods and tools described above. The InFocus Programme on Boosting Employment through Small Enterprise Development has numerous programmes covering a whole array of business services to SMEs around the world, as well as other development actions aimed at improving the policy environment and the market opportunities. The units concerned with social finance or providing entrepreneurs access to capital have also been particularly active. The InFocus Programme on Skills, Knowledge and Employability deals with the need to strengthen human resources. The Social Finance Programme provides a wide range of financial interventions, ranging from migrant workers' remittances to savings and credit associations, debt bondage and a wide array of micro-finance operations.

The Cooperative Branch, through its Local Economic Development Programme, designs and implements local development programmes. Units in the Social Protection Department have developed territorialized worker protection schemes, such as micro-insurance services, for workers in the informal sector. The InFocus Programme on Crisis Response and Reconstruction deals with the creation and/or reinstatement of local economic and institutional development capacities in areas that have recently come out of conflict and natural disasters. And programmes such as the Universitas Programme focus on innovative ways of supporting governments and training institutions towards the generation of decent work.

In contrast with other international organizations, the structure of the ILO facilitates the elaboration of comprehensive LED strategies. However, the ILO has also been besieged in the past by some of the same problems that limit the effectiveness of development activities implemented by many international organizations. Some of these factors fall completely outside the control of the ILO. These external factors relate to the difficult contexts in which the ILO is operating. Generating employment, fostering entrepreneurship, creating successful business support programmes, or implementing micro finance schemes is undoubtedly more complicated in Central America, Angola, Mozambique, Cambodia, Bangladesh, or Bosnia-Herzegovina than in many developed countries.

In areas where the InFocus Programme on Crisis Response and Reconstruction operates, the total or partial destruction of the economic and social fabric means that many of the foundations upon which long-term development strategies are based are completely absent. In this context, the relief, rehabilitation, and reconstruction strategy used by the InFocus programme is appropriate and necessary, but needs to be complemented by sustained development efforts to trigger longer term economic dynamism. Interventions in more stable political and social contexts in the developing world also face numerous challenges. Trying to insert spaces that have been relatively isolated into the global market economy presents serious economic, social, institutional and cultural problems that could undermine the effectiveness of even the best development strategy.

A number of internal issues have also undermined the medium and long-term impact of development programmes. The following subsections present these internal factors and the actions undertaken by the ILO to overcome them:

(a) **The traditional lack of coordination between different departments**: A recurrent internal factor which limits the impact of the development efforts is the lack of coordination among different departments executing programmes in any particular area of the world. Within large organizations, cooperation and coordination among departments often seems to take place on an ad hoc basis and is more the result of personal contacts than any institutional strategy. The ILO is attempting to address this problem by encouraging greater collaboration and pooling of expertise across departments and units. The traditional fragmentation of the ILO is being overcome though the establishment of joint goals and the creation of departments, such as the Policy Integration Department and of a Decent Work Team within it, with a territorial rather than the standard sectoral approach to development.

(b) **The emphasis on obtaining short term and visible results**: A second internal factor that limits the impact of development interventions is **short-termism** and **visibility seeking**. International organizations increasingly rely on external funding in order to fulfil their goals. Contributions from national foreign or overseas development departments and agencies and, to a lesser extent, from private foundations now provide the bulk of funding for numerous programmes. The reliance on donor funds is not negative and has contributed to maintaining resource levels for development across the world. But excessive reliance on donor funds often feeds into the abovementioned problem of lack of coordination, creating strategies based on short-term result seeking that are at odds with the medium and long-term nature of sustainable development.

Different national development agencies and private foundations and donors have different agendas and priorities that condition the nature and objectives of the programmes for which the funds are donated. Some governments donate funds for improving the working conditions of women, others for the prevention of child work, or infrastructure works or the improvement of entrepreneurship. Given these diverse goals and the sectoral logic that has conventionally inspired the internal division of labour within international organizations, donor funds tend to be secured by, or allocated to, specific departments.

The need to deliver results also steers development activities to those sections of any development strategy that can be achieved in the shortest period of time or have a greater visibility. This generally entails the neglect of other essential parts of the development strategy. The building of infrastructure, the prevention of child labour, or the provision of credit for small and medium-sized enterprises – just to mention some of the most visible measures – are essential steps in order to achieve sustainable development. However, such interventions do not guarantee that the conditions which led to the existence of child labour or to the absence of an adequate infrastructure in the first place will be superseded in the medium and long-term. The consequence of the search for visibility is thus the implementation of partial and unbalanced strategies, raising the risks of leaving many areas of the local economy exposed and thus of a reversal to the original situation in the medium and long-run.

The ILO has been addressing this problem by actively working with donors in order to commit funds on a longer term basis and by effectively pooling different donor funds into comprehensive territorial development strategies.

(c) **A tendency to replicate successful programmes, regardless of the diversity of local contexts**: Another consequence of the need to keep donors happy is the tendency to replicate successful programmes in diverse local, regional, or national contexts. Although there is consensus among researchers and practitioners on the need to avoid the duplication of programmes in different geographical contexts, time and resource constraints are forcing governments and organizations to do just that in the field. In recent years, the ILO has sought to adapt its development programmes to local contexts, by devoting an increasing amount of resources to key principles in LED such as gaining a thorough knowledge of local conditions, sensitizing local actors and promoting their involvement through the creation of local fora or of similar forms of active involvement of the local population. In this sense, the ILO, through its expertise and the active involvement of local actors, has been tailoring programmes successfully tested in different territorial environments to local economic, social, and institutional conditions.

(d) **Excessive reliance on "fashionable" development programmes, to the detriment of less flamboyant but essential ones**: The need to respond to the swings in public opinion has often led in the past to emphasis on programmes that are popular among politicians, practitioners, and scholars. Whether it is microfinance, networking and subcontracting, business incubators or capacity building – to mention a few – there has been a tendency among technical staff of international organizations to favour programmes in areas that seem to be fashionable in policy or academic circles. Many of these measures make a substantial contribution to redressing some of the most important development bottlenecks, but alone they are not sufficient to sustain a development strategy. The ILO is making a conscious effort to include these programmes in the framework of comprehensive development strategies in which less fashionable but essential interventions are implemented alongside more fashionable and trendy ones.

(e) **Lack of continuity of actions**: Achieving economic development is a medium and long-term endeavour, especially in those areas where many of the factors that trigger greater entrepreneurship and competitiveness are lacking. Given the short length of many development programmes undertaken by most international organizations, it can only be hoped that the measures put in place are well targeted and sufficient to trigger the necessary development processes. Unfortunately, this is unlikely to be always the case. Several factors push in that direction. First, the time constraints limit the capacity of the technical support teams to make a thorough diagnosis of the development problems of the area where the programme is taking place.

The fact that many programmes are fundamentally tailored to donor's needs is another factor that plays against the long-term success of the programmes. And the uncertainty over the continuation actions or of their substitution by additional development programmes raises further doubts about the sustainability of the results achieved. Having a relatively limited timeframe does not necessarily mean that the programmes undertaken are a waste of resources. But it raises doubts about their long-term impact.

By pooling donor funds, inserting actions into medium and long-term development programmes and adopting proper monitoring procedures, the ILO is trying to overcome the problem of the lack of continuity of actions. The progressive introduction of comprehensive local economic development programmes and of an increasingly rigorous evaluation process will result in a more efficient use of the resources allocated to promote development and decent work.

In spite of the difficult conditions in which the ILO sometimes carries out its development programmes, the creation of a framework for comprehensive territorial development strategies is opening new paths and bringing hope to areas whose development potential until now has been relatively small. However there is still a need go beyond the current status quo.

The ILO needs to engage more with donors and local communities on issues such as funding and the need to adopt a medium and long-term vision, rather than to rely on short-term accountable results. Only in this way will an adequate and accurate diagnosis of local development bottlenecks, the involvement of local economic and social actors, and the complete adaptation of programmes developed elsewhere to local conditions become essential elements in the development strategy and not just expensive and time-consuming luxuries, as they were not too long ago.

5. Conclusions: Towards a greater ILO role in promoting LED

The ILO has a clear comparative advantage with respect to other international organizations in the field of promoting local economic development strategies. Whereas other international organizations can often follow a much more rigid approach to development, the ILO already possesses the skills and the capacity to design and implement development strategies that enable territories to cope better with the challenges posed by globalization and to generate more jobs of a decent quality. However, and in spite of the effort by the Organization to place development and the creation of sustainable good quality jobs at the heart of its objectives, there is still a need to see development as a multifaceted and multisectoral phenomenon. This requires a greater pooling of the Organization's technical expertise and the proactive involvement of local actors in formulating structured responses to the challenges of globalization.

Recent changes within the ILO represent a significant step forward. The short-term impact of development programmes is in most cases positive. The formation of microfinance schemes in Cambodia or Bangladesh, the contracting out of public services to the private sector in Dar es Salaam and in Latin American cities or the creation of Local Economic Development Agencies in Mozambique or in Central America are examples of successful programmes that have contributed to the generation of local jobs in a relatively short time-period.

Progress has also been made in achieving medium and long-term results. Interventions to improve entrepreneurial skills, provide business services and support, guarantee access to adequate technology and infrastructure and secure a favourable institutional and bureaucratic environment have been substantial. As a result, the chances of local firms making it past the immediate start-up phase have improved, even in conditions of greater competition from more dynamic outside firms. The moves towards the generation of clusters or networks in areas where the basic infrastructural, technical, skills, and institutional conditions have traditionally been absent, also point in the same direction. And measures aimed at improving the institutional environment and developing local civil society are likely to leave a long-lasting trace.

In brief, the increasing development by the ILO of comprehensive territorial development programmes is likely to make many of the territories less vulnerable to outside economic forces and more reliant on its own economic potential.

But what can the ILO do in order to further improve the long and medium-term impact of its development effort? As mentioned earlier, many positive changes have already taken place, but the ILO needs to make sure that the proper incentives for greater coordination and dialogue across departments and units become clearly inserted in the structure and culture of the Organization. If the right incentives are introduced and embedded in the management culture of the Organization, the medium and long-term returns of development programmes in terms of generating sustainable decent work are likely to increase dramatically.

There is also a need to further encourage the adoption of more territorial, instead of sectoral, approaches. Such a shift should lead to greater internal coordination among ILO departments, but, even more importantly, the coordination of all programmes taking place in the same country or region. The pooling and directing of donor funds to a certain number of localities, regions or countries that have been identified as target areas is a key step in this direction. In the long-run, greater institutional efforts to fully achieve a comprehensive and balanced approach to development will be needed. This may involve coordination between those units in charge of conducting in-depth analyses of development problems with those in charge of building bridges with local communities and those in charge of the technical support in the implementation of programmes.

The recent creation of the Policy Integration Department and of its sub-unit, the Decent Work Team, with their territorial and holistic approach constitutes what could be the embryo of a thorough institutional rethinking of the ILO's role in development and in the genesis of permanent decent jobs. But a more wide-ranging rethinking and revamping of current ILO activities along the lines of a more comprehensive and territorial approach is still needed in order to ensure the long-term success of the Organization in an era when market forces across the world seem to be pushing in an opposite direction.

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